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THE REPUBLIC OF SEYCHELLES
COMPETITIVE LOCAL INNOVATIONS FOR SMALL-SCALE AGRICULTURE PROJECT
(CLISSA)
DRAFT PROJECT DESIGN REPORT
Main Report and Annexes

East and Southern Africa Division
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 INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

THE REPUBLIC OF SEYCHELLES

COMPETITIVE LOCAL INNOVATIONS FOR SMALL-SCALE AGRICULTURE PROJECT
(CLISSA)

PROJECT DESIGN REPORT – MAIN REPORT

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CURRENCY EQUIVALENTS (August 2012)

Currency Unit	=	Seychelles Rupees (SCR)
USD 1.00	=	SCR 13.67
SCR 1.00	=	USD 0.07315

WEIGHTS AND MEASURES

1 Kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 Kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 hectare (ha)
1 hectare (ha)	=	2.47 acres (ac)

FISCAL YEAR

The fiscal year is equal to the calendar year.

**ABBREVIATIONS AND ACRONYMS**

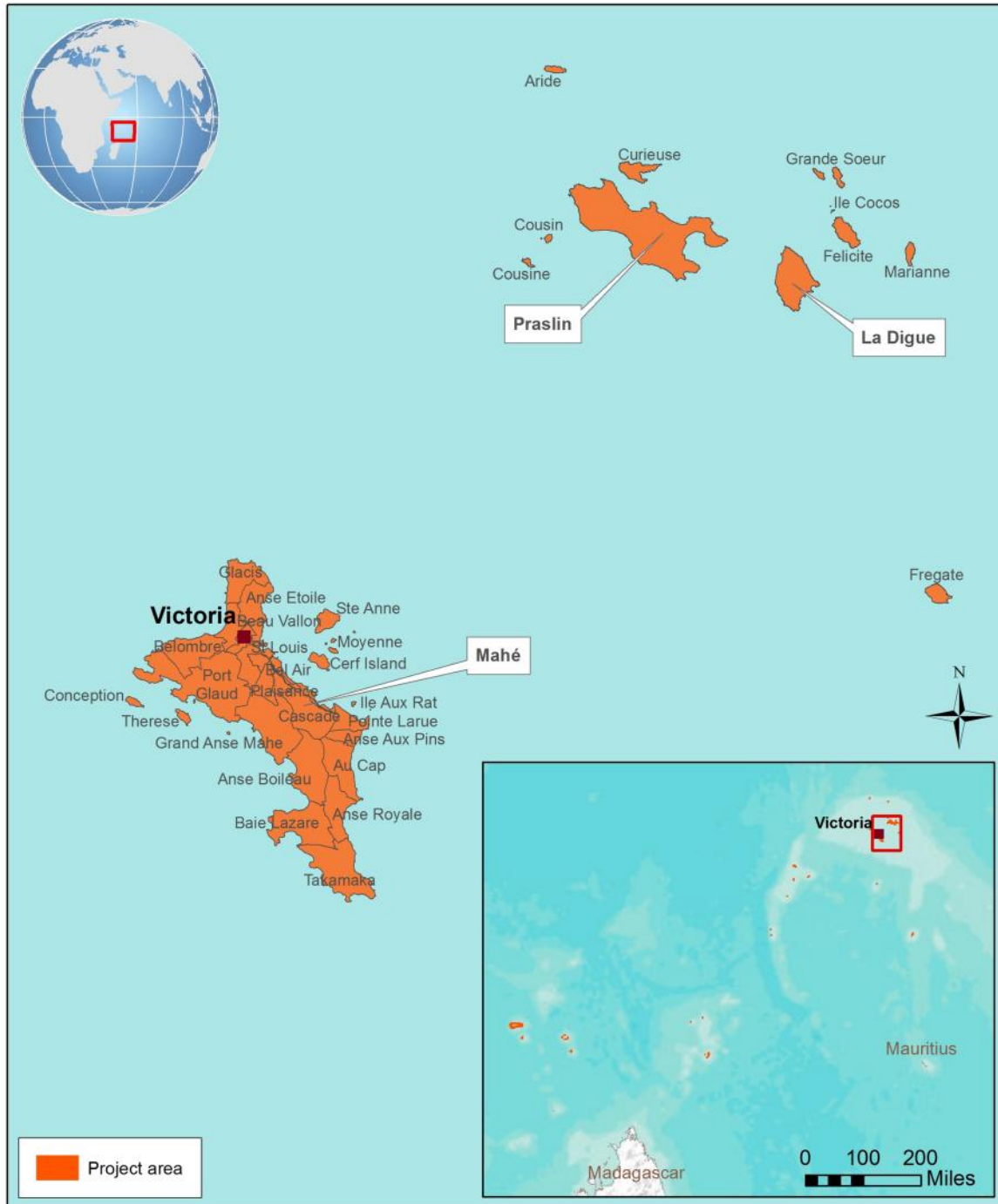
ADB	African Development Bank
BoB	Bank of Baroda, Seychelles
BoM	Bank of Maldives, Maldives
CAADP	Comprehensive Africa Agriculture Development Programme
CLISSA	Competitive Local Innovations for Small-Scale Agriculture Project
COPH	Census of Population and Housing
DBS	Development Bank of Seychelles
EEZ	Exclusive Economic Zone
ERR	Economic Rate of Return
ESRN	Environmental and Social Review Note
GC	Governing Council
GDP	Gross Domestic Product
GoS	Government of Seychelles
HDI	Human Development Index
IDC	Island Development Company
IMF	International Monetary Fund
IOC	Indian Ocean Commission
LCS	Living Conditions Survey
M&E	Monitoring and Evaluation
MNRI	Ministry of Natural Resources and Industry
MOFTI	Ministry of Finance, Trade and Investment
MTNDS	Medium Term National Development Strategy
PEFA	Public Expenditure Financial Accountability Framework
PMU	Project Management Unit
PPP	Private Public Partnerships
PSC	Project Steering Committee
QA	Quality Assurance
QE	Quality Enhancement
RIMS	Results and Impact Management System
SAA	Seychelles Agriculture Agency
SAHTC	Seychelles Agricultural and Horticultural Training Centre
SCR	Seychelles Rupees
SEnPA	Small Enterprise Promotion Agency
SeyFA	Seychelles Farmers' Association
SFA	Seychelles Fisheries Authority
SFMC	Seychelles Farmer's Marketing Cooperative
SHTA	Seychelles Hospitality and Tourism Association
SNAIP	Seychelles National Agricultural Investment Programme
SOE	Statement of Expenditures
STB	Seychelles Tourism Board
UNDP	United Nations Development Programme
VAT	Value Added Tax



Seychelles

Competitive Local Innovations for Small-Scale Agriculture Project (CLISSA)

Design report



14-01-2013



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

EXECUTIVE SUMMARY

A. Context and Rationale

1. After more than 15 years of absence, the Government of Seychelles (GoS) is seeking IFAD support to co-finance its efforts for the re-vitalization and modernization of the agriculture, livestock and fisheries sector. Responding to improved terms of trade for agricultural products, declines in food self-sufficiency and increasing under and unemployment in some areas of the island economy, agriculture and livestock have gained renewed importance in the economic development strategy of GoS. CLISSA seeks to contribute to the revival of the agricultural sector, the strengthening of small-scale artisanal fisheries and the promotion of rural micro enterprise development. Strong commitment of key stakeholders from the executing ministry to implementing agencies from the public and private sector will ensure ultimate project success.

B. Targeting and Gender

2. The target group of the Project would consist of: (a) approximately 980 farmers who are producing for the domestic market; (b) approximately 1,330 people dependent on artisanal fishing and fish handling and processing; (c) some 7,500 additional households which are involved in some form of small-scale agricultural practices and backyard gardening, in particular the households of this group that are below the poverty line.

3. CLISSA will not have a poverty focus per se but many of its beneficiaries who have self-selected themselves for participation in project activities belong to the IFAD target group. Furthermore, the Project will be oriented towards market based activities which require the participation of individuals with entrepreneurial ability and the capital to invest in small agricultural and also non-farm enterprises.

C. Objectives

4. The goal of the Project would be to contribute to sustainable pro-poor economic growth and employment and resilience to external shocks and trends. Its development objective would be to promote sustainable and environmentally-friendly agricultural and fishery practices, and to increase and diversify market access for smallholder farmers and fishers.

D. Components

Component 1: Enhancing business arrangements through capacity development of small farmers, rural micro entrepreneurs and fishers

5. The outcome of this component would be the establishment of business ventures between of small farmers and fishers and buyers. The Project will support the strengthening of small actors in agriculture, fishery and livestock in order for them to be able to better respond to the market. Activities will comprise training, communication support, studies, support to demonstration units, agricultural revival packs and facilitation. Some indicative examples of project activities in this sub-component will include:

Sub-component 1.1 – PPP and technology development.

- a. Capacity building of small farmers and fishers in technology adoption, business development and business management, quality improvement of selected products, demonstrations, trials and studies and any other training that would be identified to promote these technologies; for fishers, capacity to co-manage fisheries to provide sustainable benefits will be built; capacity building for fishers and farmers will be provided by professional public and private institutions, including SAA, SFA, SBFA and SEnPA among others. Specifically for small and

artisanal fishermen, intermediate technologies that permit growth towards semi-industrial operating levels but on a gradual and sustainable path will be encouraged;

- b. Identification of technologies packages and trials. The technologies promoted by the Project will be identified by the Technical Working Groups (see implementation arrangements below) and other pertinent stakeholders as being of significant importance to the development of the sector. These include solutions for energy efficient use of resources and for renewable energy solutions. If required, the Project would finance trials and demonstrations to assess the efficiency of new technologies and adapt them to local conditions. Technologies and interventions supported in the project will be selected as per their contributions to increasing competitiveness of small holders and their environmental friendliness. Public private partnerships will play a major role in making these activities operational, following the general private sector driven concept of CLISSA. In fisheries, fuel efficiency of boat designs and motors will be encouraged to improve financial performance of fishing operations.

2. Sub-component 1.2 – Food security and productivity development.

- a. Improving food security by promoting home and community gardens. The Census of Population and Housing of 2010 identified approximately 8,000 households that practice backyard gardening. Horticultural production on small residential plots therefore contributes to increased household food security and food expenditure reductions. Main targeted crops by the project could include extensive and intensive horticulture (green houses and hydroponic), fruits (banana and papaw), and livestock (pigs). For further details, see “Financial and economic analysis” in annex 10).
- b. Enhancing productivity at the household level through capacity development in all areas of agricultural development, including locally adapted livestock development (aviculture and pig production on suitable smallholder plots). A select group will be encouraged to expand production through improved access to small scale rural finance. Low income households that have been identified through the Poverty Reduction Survey 2012 will be given priority. The Project will develop a strategic partnership with the Social Welfare Agency and the District Administration in order to reach to these households. Where potentially productive smallholders were held back over the past years because of adverse climatic conditions and over indebtedness, tightly targeted Rescue Re-Starter Packs will be promoted through CLISSA.

Component 2: Improving Access to Agricultural and Rural Finance

6. This component will be implemented through existing banks interested in participating in the project. Credit funds would be tranching and disbursed in line with lending performance. Both banks would apply their prevailing terms and conditions without subsidizing services under the project.

7. Sub-component 2.1 – refinancing fund. This introduces an experimental credit line in the form of a refinancing facility, and specifically for term financing of agricultural, fisheries and rural micro enterprise. This sub-component would be implemented with two banks with a strategic view on agricultural revival and adequate experience in rural development financing.

8. Sub-component 2.2 – complementary support to participating banks. Through activities under this sub.-component, the necessary training and management development support will be provided in order to make the agricultural revival a viable proposition for banks in the Seychelles.

9. The pool of potential clients to be identified through demand surveys in the first project year would serve as the client base for financial services under CLISSA. The outcome of this -component would be an improved access by small farmers, artisanal fishers and rural micro and small entrepreneurs to financial services in order to (i) establish the required productive infrastructure and purchase the necessary equipment to successfully operate in the promoted business ventures; and (ii) fund investments for robust and locally appropriate technologies. A list of cutting-edge technologies will be actively promoted by the Project.

10. This component benefits from IFAD experience in other small island economies, particularly in the Maldives. Operating models for agricultural revival and fisheries investments may be shared with other small island economies in the region. Again, IFAD has the advantage of a long and successful track record in Madagascar. Following other GoS regional initiatives, Madagascar, the Comoros, La Reunion and Mauritius could become part of a regional scaling up of CLISSA's main operating models as well.

Component 3: Strategic capacity strengthening and infrastructure

11. The purpose of this component is to strengthen public sector institutions and build infrastructure to meet the requirements of promoted agricultural and fishing activities.

12. Sub-component 3.1 - Strategic capacity strengthening. Public sector institutions will be supported through human resource capacity building, equipment and limited infrastructure development, aligned to the work of other financing partners. Strategic capacity of the involved public partners would be strengthened, including a communication unit at MNRI, a postharvest unit at the Seychelles Agriculture Agency (SAA) research station, targeted support for SAA and Seychelles Fishing Authority (SFA), and assistance to the Seychelles Agriculture and Horticulture Training Centre.

13. Subcomponent 3.2 - Public and collective infrastructure. The aim of this subcomponent is to finance enabling rural infrastructure, including public investments and collective investments (irrigation/water harvesting, etc.), and which are related to activities of Component 1. Potential for parallel financing would be explored.

Component 4: Project management

14. To facilitate implementation, a Project management unit (PMU) would be embedded with the Office of the Principal Secretary in MNRI. Monitoring & Evaluation (M&E) would also be mainstreamed in the MNRI and the National Bureau of Statistics and make use, as far as possible, of existing mechanisms for generating knowledge regarding the well-being of the project's target groups. For knowledge management, a communication unit would be strengthened at the level of MNRI in order to enhance visibility of CLISSA and its knowledge management.

E. Implementation Mechanisms

15. The Ministry of Investment, Natural Resources and Industry (MNRI) will have the overall responsibility for the implementation of CLISSA. MNRI will coordinate with the Ministry of Finance, Trade and Investment (MOFTI) and other relevant Ministries and Agencies. To facilitate implementation, a Project management unit (PMU) would be embedded with the Office of the Principal Secretary in MNRI. A National Project Steering Committee (NPSC) will be established within and chaired by MNRI. Two Technical working groups (stakeholder groups and key institutions) of approximately 15 participants each would be established, one for agriculture/livestock and one for rural and microfinance. Overall guidance would be provided by these Technical working groups.

16. Component 1 will be implemented as follows. A baseline survey of micro and small enterprises already active in agriculture, fisheries and livestock will be carried out by the PMU. The establishment of a beneficiary database of eligible small farmers and



fishers will be the responsibility of the PMU. Screening of potential business ventures will be the responsibility of the two Technical Working Groups (one for farming and one fishery); A specialised service provider will carry out the following tasks: (i) conducting a gap analysis in collaboration with the potential buyers will be outsourced to a service provider; (ii) facilitate the elaboration of a strategic plan and associated capacity development requirements for each supported small farmer and fisher; (iii) implementing the training programme for these small farmers and fishers; (iv) facilitating business links with buyers that were already involved in the gap analysis. These tasks will be implemented by the service provider under the supervision of the PMU. Monitoring progress and feeding the database will be the responsibility of the PMU.

17. For component 2, Subsidiary Loan Agreements would be signed by the PMU with both banks and the remaining balances of the fund could be used to replenish a future agricultural development fund open to all interested banks in the country. Precise modalities are to be worked out at MTR. A Technical Working Group for Rural and Agricultural Finance would bring bankers, the SCU and the project together and chart the way forward as well as providing a platform for learning from each others' experiences. Above all Barclays Bank and SCU are interested to be involved in this process even though they will not be included as project lending agencies for CLISSA.

18. The Project will sign an MoU with SFA and SAA for support in the implementation of subcomponent 3.1 on the basis of an Annual Work Plan and Budget (AWPB). Institutional support will be managed directly by the PMU. Relevance of the support requested will be validated by the TWG. Subcomponent 3.2: Processes and procedures for undertaking small-infrastructure works are well-developed in the country generally involving technical supervision from the appropriate government agencies and implementation by District Administrations through transparent bidding processes.

F. Costs and Financing

19. The Project cost over 5 years, including contingencies, taxes and duties, is estimated at USD 3.6 million or the equivalent of SCR 51.38 million. The initial budget would come from an IFAD loan of USD 3 000 000. GoS financial contribution will be cover the following: (a) salaries of PMU staff; (b) taxes and duties on imported goods, as well as the Value Added Tax (VAT). The total amount of taxes and duties is estimated at 146,000 USD; (c) accommodation and utilities for the PMU. Clients and private-sector partners will be expected to contribute to the partnerships.

G. Sustainability and Exit Strategy

20. From the very outset, sustainability issues will feature prominently on the Project agenda as they will be an integral part of its strategic approach, which will focus on the fostering of technologies and the economic viability of the agricultural and fishing activities to be promoted. Implementation arrangements will ensure that the main public and private sector organisations and institutions involved will be able to continue to provide key support services to Project target groups after Project completion. Private sector orientation in the CLISSA governance bodies and technical working groups, as well as in the proposed PPP with the hotel and wider tourism sector facilitate an orderly exit and takeover of project activities by commercial stakeholders. detailed exit strategy, based on preliminary experience emerging from operations in the field and partnerships that have been developed, will be elaborated as part of the Mid-Term Review exercise.



SEYCHELLES – Competitive Local Innovations for Small-scale Agriculture Project (CLISSA) Logframe

Objective Hierarchy	Key Performance Indicators	Means of Verification	Assumptions
Goal To contribute to sustainable pro-poor economic growth and employment and resilience to external shocks and trends	<ul style="list-style-type: none"> ▪ Employment (full and part time) in agriculture, fisheries and rural micro enterprises ▪ Un-and Under-employment developments ▪ Absolute levels of contribution of GDP to agriculture 	<ul style="list-style-type: none"> - National Bureau of Statistics - Ministry of Social Affairs - Agricultural Census - Other reference surveys 	
Development Objective Promote modern and sustainable agricultural and fisheries practices to increase and diversify market access for 768 small-holder farmers, 1 330 individuals active in the artisanal fisheries sector, and all household gardeners out of a total of 7 500 who were below the poverty line in 2013	<ul style="list-style-type: none"> Separate for agriculture, fisheries, household gardeners, rural micro enterprises & all gender disaggregated <ul style="list-style-type: none"> ▪ Incremental number of people served ▪ Incremental jobs created ▪ Incremental use of financial services (loans, current acct. deposits, in future also leasing & hire purchase) 	<ul style="list-style-type: none"> - MTR and PCR surveys - Relevant GoS statistics (Min. OF Social Affairs) - Project M&E system (see below) 	<ul style="list-style-type: none"> ▪ Present high level of commitment from GoS, private sector operators and public and parastatal agencies can be sustained throughout CLISSA
Project Outcomes			
Outcome 1: small farmers, fishers and rural micro entrepreneurs have capacity to identify and service market demand	<ul style="list-style-type: none"> Separate for agriculture, fisheries, rural micro enterprises & all gender disaggregated <ul style="list-style-type: none"> • Surveys and post training evaluations to establish changes in skills and awareness of trained project beneficiaries • People trained in post-production, processing and marketing • Processing, marketing, storage facilities constructed/rehabilitated • Number of farmers, fishers, household gardeners reached • Number and effectiveness of trials (released for dissemination) • Number of equipment accessed (by gender and age) • People trained in business and entrepreneurship skills • Number of agricultural revival kits (<50) • Number of small farmers and rural micro entrepreneurs accessing credit and other financial services (deposit, current account, etc.) • Quality of loan portfolio • Evidence of mainstreaming project services and experience into general business • Amounts of refinancing through CLISSA (disbursements) 	<ul style="list-style-type: none"> - Surveys - Ex-post evaluations of trainings - PMO monitoring reports - Status and completion reports of contracted service providers - Internal and external monitoring reports - 6 monthly project progress reports to be submitted by participating banks - Internal monitoring reports - Internal and external monitoring reports - Beneficiary assessment reports - Internal monitoring reports - Internal monitoring reports 	<ul style="list-style-type: none"> ▪ The awareness raising (“Buy Seychellois”) and associated surge in demand for locally produced food will be sustained and therefore will not lead to consumers shifting preferences towards national production ▪ Adequate bank capitalization to take on external line of credit ▪ Bank-internal procedures permit scaling up and mainstreaming of CLISSA pilot products and services ▪ Farmers accept to invest in technologies through credit ▪ Parallel financing by other donors and Government of Seychelles is forthcoming ▪ Interest in PPP is sustained by all stakeholders
Outcome 2: Improved access to equitable financial services	<ul style="list-style-type: none"> Outputs: facilitation, training, communication, studies, demonstration units 		
Outputs: competitive refinancing lines for beneficiaries established on commercial and non-subsidized terms at all levels			
Outcome 3: Capacity of public service providers strengthened and technologies made available and public and small-scale collective infrastructure upgraded	<ul style="list-style-type: none"> ▪ Effectiveness: Improved performance of public service providers ▪ Effectiveness of productive infrastructure [by type] ▪ Likelihood of sustainability of productive infrastructure [by type] ▪ People trained in infrastructure management ▪ Staff of service providers trained ▪ Infrastructure by type and number 		
Outputs: Investments in equipment, institutional support, training, trails; road spot improvements, water-harvesting infrastructure, storage facilities, equipment sheds, other small infrastructure			



INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

THE REPUBLIC OF SEYCHELLES

COMPETITIVE LOCAL INNOVATIONS FOR SMALL-SCALE AGRICULTURE PROJECT

PROJECT DESIGN REPORT – MAIN REPORT

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and Rural Development Context

Macro-economic Context

1. The Republic of Seychelles is an archipelago of 43 granitic and 72 coral islands with a total land area of 455 km² over an exclusive economic zone (EEZ) covering 1.3 million km² in the Western Indian Ocean. The country has a 91,000 strong population with multi-ethnic roots. It is categorized as a middle-income country, with a Gross domestic product (GDP) per capita of USD 9,028¹. In 2010 UNDP² ranked Seychelles 52th out of 187 countries on the basis of a Human development index (HDI) of 0.773. This high HDI has been attained through sustained economic growth and continued public investment in social welfare services since its independence in 1976. Economic growth during the last 20 years has been led by tourism and industrial fisheries. Meanwhile, the growth rate of agriculture was lagging behind. In 2010, the tourist sector contributed 28.2% to GDP and fisheries 8.4%³, compared to only 1.9% for agriculture. Thus, the Seychelles main economic activities are tourism and industrial fishing, followed by small-scale manufacturing and to a much lesser extent by agriculture.

2. The small banking sector comprises seven commercial banks and two development finance institutions, including the Development Bank of Seychelles. According to recent amendments of the Financial Institutions Act, there is no difference any more between on shore and off shore banks. This has increased the choice of local clients, as some banks that only operated off shore have recently entered the domestic banking market.

3. As from 1999, growing macroeconomic imbalances, linked to financing of large capital projects, rising public indebtedness, coupled with less access to external funding and constraints in debt repayment, have led to a slowdown in economic growth. In 2003 the Government of Seychelles (GoS) embarked on a Macroeconomic Reform Programme. In addition, the country signed a standby arrangement with the International Monetary Fund (IMF) in November 2008 and started an economic liberalization program, which included floating the exchange rate, removing foreign exchange controls, cutting government spending, tightening monetary policy and removing control on imports of livestock products, overhauling the tax system, reorganizing and privatizing state enterprises, and deregulating the financial and communication sectors.

4. Seychelles imports most of its food, and at present a quarter of the population's spending is on food items. Adding to the 2009 global food crisis have since been issues of piracy with many ships currently being attacked, as well as of pressure on agriculture and livestock because of privatisation of support services, liberalisation of trade and enhanced international competition. In response of the dropping food self-sufficiency, agriculture and livestock have gained renewed importance in the economic development

¹ Central Bank of the Seychelles, 2011

² UNDP. Human Development Report. 2011

³ Central Bank of the Seychelles, 2011



strategy of GoS, a change in priorities that was emphasised in 2012 as a personal engagement by the Honourable Minister Sinon when visiting IFAD during the 35th Governing Council (GC). After nearly two decades of absence, the GoS is therefore seeking IFAD support to co-finance its efforts for the re-vitalization and modernization of the agricultural, livestock and fisheries sector.

Rural Development and Fisheries Context

5. The liberalization of imports of meat and poultry and the privatization of its public support structures led to cheap imports of broiler chicken and pork, resulting in a significant decline of domestic production and national self-sufficiency in livestock products from 2009 onwards. The transfer of key public livestock assets (abattoir, hatchery and animal feed factory) to the Seychelles Farmer's Marketing Cooperative (SFMC) failed, after which these assets were leased to the private sector. They operate currently at low capacity because of a lack of demand for their goods and services. Meanwhile commercial farmers face problems to finance and secure regular quality feed for their poultry and pork resorted to closing down their operations. Nevertheless, the pork sector has been picking up since 2009 with a current self-sufficiency rate of 48.2%. In spite of a levy on imported poultry⁴, the poultry sector on the other hand is still in a structural crisis with a national self-sufficiency rate of 27.1%.

6. Most smallholder farms have less than 1.5 hectare, are situated in the hills and are dependent on water harvesting combined with irrigation. In spite of attractive market prices and strong demand for fruit and vegetables in the domestic market, the sector has struggled to mainstream innovations, particularly state-of-the-art farm and water-management practices and technologies. This has been due partly also to lack of adequate policy support and poor access to credit for investment and contributed to making farmers vulnerable to effects of climate change and liberalisation. In addition, the sector is also characterised by the absence of specialised wholesalers. Most farmers sell directly to consumers, a few are able to sell to restaurants, and even fewer to hotels (mostly based on trusted personal relationships). Most smallholders are unable to respect standardized and expected delivery schedules, packaging, grading and maintenance of acceptable standards for food hygiene and safety, and overall quality that is required to supply the tourism sector and supermarkets, which rely therefore heavily on imports.

7. The fisheries sector comprises the industrial, semi-industrial and artisanal fisheries sub-sectors. The industrial scale purse-seine fisheries exploit the rich stocks of tuna in the EEZ of the Seychelles and account for most of the sector's contribution to national wealth, both through payments by foreign vessels for access to Seychelles waters, exports of fresh, frozen and processed tuna and employment in the provision of services for the sector. The small semi-industrial sector also contributes primarily to export. By contrast, the artisanal fisheries sub-sector focuses primarily on production for domestic consumption and provides employment for about 3,000 households. The fisheries sector has suffered due to a series of external factors in recent years: there have been episodes of fishers being kidnapped and held by pirates and fear of piracy has led to fishers limiting their activity and the range of their fishing trips; in the industrial sector, concerns over piracy have led to some tuna purse-seiners shifting their operations to the Atlantic; the costs of key inputs, particularly petrol, have risen significantly; exports of some species to the EU been limited by concerns over heavy metal levels. All of this has led to a significant rise in the price of fish on the domestic market, with prices rising by 83% between 2007 and 2011. In a country where domestic fish supply, and apparent consumption, is among the highest in the world, at 62 kg per

⁴ Levy of 5 SCR per kilo, combined with a gross sales tax of 25%.

capita per annum, these changes in prices are likely to be having a serious impact on local consumers' access to high quality animal protein in the form of fish.

B. Rationale for an IFAD Intervention

Ownership, Harmonization and Alignment

8. Government of Seychelles (GoS) is promoting the development of farming, fishing, and small-scale manufacturing in order to achieve a higher degree of food and nutrition security and to reduce its dependence on tourism and food imports. At the same time as this revival of agriculture is being conceptualized, several unrelated phenomena, piracy and climate change continue to distress the country, while agriculture is undergoing an adjustment process from protected to a liberalized sector.

9. In September 2011, Seychelles signed the Comprehensive Africa Agriculture Development Programme (CAADP) Compact⁵. This CAADP framework is aligned to the Seychelles Medium Term National Development Strategy (MTNDS) 2013-2017, the National Food Security Strategy 2008-2011 (which succeeds the Agricultural Development Strategy 2007-2011), and the Seychelles National Agricultural Investment Programme (SNAIP). The goal of the CAADP framework is to support the development and implementation of a coherent and comprehensive agricultural programme covering the major agricultural sub-sectors. CLISSA will contribute to the implementation of the CAADP framework, in particular, Pillars I and IV, and the National Agricultural Development Strategy. Project start-up in 2013 would allow aligning activities with the CAADP framework and with the MTNDS timetable.

10. The design of CLISSA is based on preliminary proposals formulated by the GoS and aligned with the national policy framework. Core issues related to the crop and livestock sub-sectors as outlined in the Agricultural Development Strategy, the National Food Security Strategy as well as the Seychelles Sustainable Development Strategy 2011-2020, emphasize the need to address issues related to the liberalisation process (the sub-optimal supply of agricultural inputs and supplies through inadequate infrastructure, cost of credit), the unprecedented loss of agricultural land to other sectors of the economy such as tourism and social housing, and the effects of climate change through extreme weather events particularly since 1997.

11. The typical granite island and marine environment makes Seychelles and its agro-ecological systems extremely vulnerable to climate change and human-induced impacts. Environmental aspects of Project design are essential.

Designing the CLISSA concept

12. The Project will work to improve the resilience and adaptability of farmers and fishers to external shocks and potentially negative trends including overexploitation of natural resources, loss and degradation of agricultural land to other sectors, fast liberalisation, enhanced international competition and imports taking place under increasingly uncertain conditions including piracy affecting the shipping industry and fisheries.

13. The agricultural, livestock and fisheries economy of Seychelles is characterized by the coexistence of large, medium, small and micro entrepreneurs and agro-industries. The demand side consists of a small local retail trade selling horticulture products and fruits and a few larger buyers (small supermarkets, restaurants and hotels). A few of these larger buyers operate through produce buyers that purchase at the farm gate.

⁵ The Seychelles CAADP is based on five pillars: Pillar 1: Protection and Sustainable Use of Agricultural Land and Infrastructure; Pillar II: Agricultural Research, Irrigation and Extension; Pillar III: Sustainable Fisheries Development; Pillar IV: Marketing and Trade of Agricultural Produce; and Pillar V: Food and Nutrition Security.



Direct marketing between producers and ultimate consumers is common. Generally, demand is atomised, small scale and presently used to purchase primarily imported goods. Where stable market linkages cannot be established between most farms on the one side and buyers on the other, this is due to lacking capacity to supply required quantities at a competitive price in a timely manner and with a quality that meets market standards. This leads to a mismatch between domestic supply and demand and often to food being imported, even if domestically produced alternatives would be available. The small size and number of actors in the agricultural sector in the Seychelles calls for an approach centred on a flexible mechanism allowing small farmers and fishers to (i) primarily respond to the domestic market but not excluding the possibility of developing options for export-led niche markets; and (ii) facilitating links between buyer and seller. This will reduce the mismatch between domestic supply and demand. An additional positive dimension of rural development is represented by the reduced degradation that is associated with keeping small farmers in the rural areas which in turn generates positive social and environmental impacts.

14. The support to small farmers and fishers will be (i) targeted to solving **only some of the main weaknesses** that characterise their economic activity and hinder the capacity to effectively respond to the market and will not attempt to improve the whole value chain; (ii) delivered quickly and efficiently; (iii) aiming at linking sellers with buyers in a systematic way; and (iv) closely monitored through a beneficiary database that enables to gauge results, outcomes and poverty impacts during implementation and allows to improve the implementation performance.

15. Where required, farmers in financial distress can be revitalized through a revival package that would facilitate ultimate re-integration into domestic financial markets and promote modern adaptive agricultural technologies - short cycle and local more resistant varieties, small scale irrigation, drip irrigation, conservation agriculture, organic agriculture, etc.).

16. In fisheries, where reliance on local fish production by the tourism industry is already higher, better use of the diversity of fish stocks available in the Seychelles would be promoted and support provided to current efforts by the Government to manage fish stocks that are more in demand and thus subjected to heavy fishing pressure (such as red snapper). Opportunities to promote better organisation among fishers and more effective fishing operations to enable them to improve their interactions with institutions, consumers and the tourism sector in particular will also be identified. Existing initiatives to certify local fisheries products as products from responsible fishing practices, such as the Seychelles Hook and Line Fishermen initiative already being implemented with the Seychelles Bureau of Standards (SBS) will be supported and expanded as appropriate.

17. Building on the on-going grant "Regional Initiative for Smallholder Agriculture Adaptation to Climate Change in the Indian Ocean Islands", the Project would focus on the development of agricultural and fishing activities for which the islands have a comparative advantage. These include, for example, fresh vegetables and fruits, organic and conservation agriculture, small ruminants and poultry (eggs) to reach self-sufficiency and to supply both domestic consumers and the tourism industry. Other commodities to be promoted, both with a view to import substitution and niche market development, could include artisanal fisheries and small-scale aquaculture.

18. Solutions proposed by CLISSA are: (a) strengthening the capacity of the small farmers and fishers to meet market standards (in terms of quality, quantity and timeliness), promoting/facilitating seller-buyers links and increasing the climate resilience content of promoted activities (subcomponent 1.1); (b) improved access to financial services through participating banks (component 2); (c) selective institutional support to public and private institutions that have a key role in the development of the promoted agricultural and fishing activities, as well as trials to identify appropriate

technologies (subcomponent 3.1); and (d) investments in enabling infrastructure (subcomponent 3.2). A precondition of all investments would be their sound economic profitability and contribution to climate-proofing agricultural and fishing practices. Availability of land being a major constraint, priority would be given to value addition, quality and intensification. Increased agricultural productivity and value addition/profitability is promoted through the project in order to interest young people, as it is a precondition for attractive revenues. The investments would be sustained through building capacities of relevant public services, encouraging private-sector participation, in particular from processors, traders and from certain segments of the tourist industry.

19. A regional collaboration dimension centred around Madagascar and covering all Small Island States in the Indian Ocean (Comoros, Mauritius, La Reunion, Seychelles plus Maldives) will benefit CLISSA. Areas of collaboration could include support to technologies such as drip irrigation (Madagascar), fisheries (Mauritius), niche value chain enhancement (Madagascar), partnership development between hotels and farmers/fishers (Seychelles and Maldives) as well as approaches for providing support to micro and small enterprises (Madagascar). Potential for scaling-up of successful initiatives will receive special attention in this enhanced collaboration framework. This important regional dimension has been piloted through some schemes of the GoS Ministry of Tourism and will receive particular attention both on the part of GoS and from IFAD as well.

II. PROJECT DESCRIPTION

A. Project Area and Target Group

Project area and population

20. The Project will be national in coverage. It will mainly intervene on the three main islands of Mahé (153 km²), Praslin (38 km²) and La Digue (10 km²), where the large majority of the population is based ("Inner Islands").

21. In 2010, Seychelles had a population⁶ of 90,945 inhabitants, living in 24,770 households. About 8,662 households (35.0%) were involved in crop production, mainly vegetables and fruits but also small quantities of root crops (cassava, sweet potato). An estimated 3,061 households (12.4%) were raising livestock, mainly chickens and pork. In addition, 3,484 households (14.1%) were involved in fisheries, of which approximately 800 for sale and 800 for household consumption.

22. Seychelles has one of the most skewed income distributions of the world.

23. According to the Census of Agriculture in 2011⁷, 768 households/farms, often mixed farms, are producing crops mainly for sale in the domestic market. In addition, around 8,000 households are involved in some backyard gardening or livestock activities.

24. The National Bureau of Statistics in collaboration with the Social Welfare Agency (ASP) and UNDP carried out the **Living Conditions Survey** (LCS) for the first time in Seychelles in 2011. The estimated poverty line is worth 13,554 Rupees (approx. USD 1,055) per adult-equivalent per year. The poverty rate is estimated at 17 percent of the population. Poverty is found higher in households led by unemployed heads, or by female or household heads with little formal education. Other categories of households especially affected by poverty are large families and fisher families. The results of the Living Conditions Survey show that although living conditions of Seychelles households

⁶ Census of Population and Housing (COPH). 2010

⁷ Bureau of Statistics. Census of Agriculture. 2012



are found to be generally acceptable, there is a hidden core of worrying poverty and destitution situations.

25. In particular, serious hints have been found about food deficient household accounting for up to one-fifth of Seychelles households. The category of basic needs most affected by shocks is food, for 54 % of households⁸.

Target group

26. The target group of the Project would consist of: (a) approximately 768 farmers who are producing for the domestic market; (b) approximately 1,330 people dependent on artisanal fishing and fish handling and processing; (c) some 7,500 additional households which are involved in some form of small-scale agricultural practices and backyard gardening, in particular the households of this group that are below the poverty line.

27. In the agriculture sector, the Project will target smallholder producers, small scale processors and marketers, and micro entrepreneurs, in particular women and youth, and youths. Young people will be targeted through the promotion of profitable small-scale production technologies (horticulture, livestock), the creation of agricultural microenterprises and jobs in the promoted agricultural and fishing activities, and infrastructure improvements. Institutional public and private stakeholders that provide services to the target group will be strengthened.

28. In the fisheries sector, the Project will target artisanal, small-scale fishers, who have been identified as among the poorest groups in Seychellois society. Ensuring their livelihood and capacity to adapt to changes is critical if they are to continue to contribute to the nation's food security.

Gender

29. Seychelles has ratified the principal conventions related to gender discrimination. The Government has reinstated the National Gender Steering Committee and a Gender Secretariat is in place within the Department of Social Services. The National Plan of Action for Social Development 2005-2015 calls for the elaboration of a National Gender Policy and a National Gender Action Plan in line with the Beijing Plan of Action.

30. The recent Living Conditions Survey, conducted by the Seychelles Bureau of Statistics with support from UNDP, highlights the relatively high levels of relative poverty among female-headed households. In targeting of the Project's interventions, this feature of Seychellois society will be born in mind and special efforts made to encourage the members of female-headed families to become engaged in project-promoted activities.

31. Strategies for pro-actively encouraging women farmers and entrepreneurs to access resources and invest in small-scale enterprises in the promoted agricultural and fishing activities will be actively explored and developed as part of project implementation.

32. Specific approaches through which gender issues may be addressed in the design and implementation of the Project could include: (i) a focus on supporting rural women's access and participation in professional organizations; (ii) adequate capacity-building in targeting of women and youth for the PMU, key service providers, and core stakeholders from the onset of the Programme; (iii) using gender-disaggregated output, outcome and impact indicators in the logical framework in order to monitor its outreach to women; (iv) encouraging and monitoring participation of women in training sessions, access to

⁸ Christophe Muller. The Living Conditions in Seychelles. UNDP. August 2012

financial services and access to start-up and recovery kits; (v) ensuring adequate representation of women in the TWGs.

Targeting Strategy

33. CLISSA uses self-targeting and direct targeting and building the capacity of poor rural people. CLISSA will also support institutional strengthening of those actors who provide services to the target group which assist in their further development. A particular focus will be placed on investments in activities that enable disadvantaged groups (including women and youth) to improve their livelihoods and seize income-generating opportunities.

34. The focus on backyard gardening should present particular opportunities for the project to support technical innovation and capacity-building among female-headed households, and large households of more than 6 members, both of which are groups identified as particularly vulnerable to poverty. Artisanal fishers, the other occupational group widely identified as subject to poverty, will be the principle target of support to the artisanal fisheries sub-sector and this support will include capacity-building to ensure that poorer members of this group are able to take proper advantage of the opportunities presented by the project.

35. At the policy level, engagement and cooperation between key government agencies, such as the Department of Social Development, commercial banks and the Seychelles Credit Union Movement, the Gender Secretariat, the Social Protection Agency and the MNRI will seek to ensure that efforts to promote agriculture and fisheries are harmonised with current social and gender policy and targeting of vulnerable groups is given priority wherever possible. Close collaboration and partnership with commercial banks will facilitate the scaling up and mainstreaming of products and services for agricultural finance, both for credit and for the entire range of bank services on both sides of the balance sheet. Enabling measures will be taken to create and sustain a policy and operational environment favourable to poverty targeting, such as inclusive policy dialogue, awareness-raising and capacity-building.

B. Development Objective

36. The **goal** of the Project would be to contribute to equitable and sustainable pro-poor agricultural and rural economic growth and employment. Its **development objective** would be to promote modern and sustainable agricultural and fishery practices, and to increase and diversify market access for smallholder farmers and fishers.

37. The five **outcomes** of the Project would be: (i) strengthened small-scale actors in agriculture, livestock and fisheries able to link with the market; (ii) clearly established business links between buyers and sellers in agriculture, livestock and fisheries; (iii) a wider stakeholder adoption of climate-resilient technologies that are ecologically and economically sound; (iv) strategic capacity of public service providers strengthened; and (v) public and collective infrastructure upgraded.

38. Project goal and outcomes would – taken together – contribute to provide the framework for a bold agricultural revival strategy of GoS, accompanied by tailored support to both fisheries and the rural micro enterprise sector.

C. Outcomes and Components

Component 1: Enhancing business arrangements through capacity development of small farmers, rural micro entrepreneurs and fishers

39. **Lessons learned and justification.** This component draws, amongst other sources, from the successful model of the IFAD PROSPERER project in Madagascar, a business development service initiative that supports both agriculture and non-agriculture activities with a flexible, highly effective and fast-implementing approach which already at mid-term allowed to demonstrate concrete impact on poverty reduction. For CLISSA, it is envisaged to adapt the PROSPERER approach to deliver support services to small-scale actors in agriculture, fishery and livestock sub-sectors. This can be considered as a partial scaling-up of the PROSPERER project to Seychelles. At the same time, “down-scaling”, adaptation and fine-tuning of the business models to suit a small island country like the Seychelles will be inspired by successful FAO experience in the Caribbean and the Pacific through the “producer–first buyer meetings” methodology (piloted as a tool to identify action areas for improving the relationship and the flow of produce, including, e.g., in the case of onions in Barbados, pineapples in Dominica, hot pepper in Belize).

40. The justification comes from (i) the demonstrated effectiveness of the PROSPERER approach which is based on the fast delivery of targeted business development and technical support to beneficiaries; and (ii) the nature of the Seychelles’ primary sector (a middle-income Small Island State characterised by limited domestic demand and development opportunities and a strong competition from imports) which requires a flexible, tailor-made intervention on small actors that covers the largest possible range of economic activities (maximising returns and minimising risks) while at the same time remaining cost-effective (maintaining transaction cost at a reasonable level by addressing only the worst bottlenecks in each economic activity).

41. Specifically for Seychelles, CLISSA recognizes the major role that also the larger and corporate private sector can play specifically in this small island economy. A key lesson learned from past development projects in the country is therefore that it is vital to correctly assess the incentives and capacity for private sector participation. This relates to the setting up of trials, demonstration units, green and sustainable value chains and communication elements in this context. Private sector interest in securing supply chains and presenting themselves as promoting the local economy are also of major interest for CLISSA.

42. **Objective and strategy.** The objective of this component is to enable small farmers, rural micro entrepreneurs and fishers, to effectively respond to market signals through targeted business development, marketing and technical support services as well as establishing links with the market, and to promote innovative technologies and green value chains. This will be accomplished in CLISSA through the flexible business model outlined above including PPP with the tourism industry.

43. **Outputs and outcome.** The main outputs of the component include (i) training on business management, marketing and technical matters delivered to small actors in agriculture, fishery and livestock; and (ii) facilitation for establishing business links between sellers and buyers. The main outcomes are that small farmers and fishers are able to respond to the market through sustainable commercial ventures operating in all three primary sub-sectors and with improved access to equitable financial services.

44. **Description.** The outcome of this component would be the establishment of robust and durable business links between small farmers and fishers and buyers. The Project will support the strengthening of small actors in agriculture, fishery and livestock in order for them to be able to better respond to the market. The main activities/process



are derived from the approach of the IFAD supported PROSPERER project and include: (i) a rapid survey of small actors already active in agriculture, fishery and livestock which are likely to positively respond to the opportunities emerging out of the CLISSA project; this survey will be conducted in close collaboration with the Social Welfare Agency and the District Administration at the beginning of the project and will allow to select the products and activities to be supported. It will build on data kept by these agencies and those generated by poverty surveys and similar studies; (ii) establishing a small farmers' and fishers' database that will include data on their initial status (sales, VA, materials and inputs and income) as well as various support received and improvements in both quantitative and qualitative terms; (iii) screening potential business ventures among the surveyed small farmers and fishers; (iv) conducting a gap analysis in collaboration with the potential buyers in terms of needs for capacity building to meet market requirements by small farmers and fishers; (v) Elaborating a business / strategic plan for each identified small farmer, micro entrepreneur and fisher in collaboration with the potential buyers; (vi) providing general business management as well as technical training based on the above-mentioned business plan; (vi) facilitating business links with buyers that were already involved in the gap analysis; and (vii) monitoring progress and feeding the database. The Technical Working Group for Rural and Agricultural Finance would assess the extent to which these trainings should be used as a prerequisite for lending in new and innovative areas of production, processing and value chain development.

45. In fisheries, an integral part of the work on strengthening linkages between fishers and buyers would also be to encourage the development of effective mechanisms for managing fisheries, particularly in the inshore waters that are most heavily exploited by artisanal fishers. Co-management between fishers and the authorities is provided for under law and opportunities to support the creation of co-management mechanisms involving fisher organisations will be explored. This will aim to build on on-going experience with the Praslin Fishermen's Association developed with support from UNDP. Opportunities to support the extension of the experience of this organisation to Mahe and La Digue will be investigated.

46. Some indicative examples of project activities to be included in the list of eligible activities for this component will include:

47. Sub-component 1.1 – PPP and technology development.

- a. Capacity building of small farmers and fishers in technology adoption, business development and business management, quality improvement of selected products, demonstrations, trials and studies and any other training that would be identified to promote these technologies; capacity building for fishers and farmers will be provided by professional public and private institutions, including SAA, SFA and SEnPA among others. In fisheries, organisational capacity will also be built and co-management capacity developed⁹;
- b. Identification of technologies packages and trials. The technologies promoted by the Project will be identified by the Technical Working Groups (see implementation arrangements below) and other pertinent stakeholders as being of significant importance to the development of the sector. If required, the Project would finance trials and demonstrations to assess the efficiency of new technologies and adapt them to local conditions. As many as possible of the technologies and interventions that will be proposed and applied in the project will be selected as per their proven climate resilience and environmental friendliness.

⁹ As part of providing organisational development support to SeyFA, it may be envisaged to develop a PPP with them, using the exercise as a learning-by-doing experience, and seeking to maximise economies of scale and efficient management of collective infrastructure.

In fisheries, technology packages will be carefully vetted by the SFA to ensure that they will not place additional pressure on fisheries resources already heavily exploited;

- c. Special focus on environmentally sustainable and climate smart technologies. These should benefit primarily small farmers and rural micro entrepreneurs and would fall under two broad groups that should be equally considered for support: (i) technologies to support renewable energies over the entire spectrum i.e., biofuel, thermo and solar energy capture and different types of hydro based solutions, (ii) technologies to improve energy efficiency at the farm or rural community level and (iii) more fuel efficient designs of craft and engine to improve the efficiency of artisanal fishing operations. The thrust would be primarily on household level solutions, but could also include mini grid systems and tail end solutions where renewable energy sources are directly linked to the main grid.
- d. Working on the “local agricultural supplies to tourism” idea that was identified in the “Seychelles Tourism Value Chain Analysis” in October 2010, as contribution to the Tourism Sustainability Label. Other ideas suggested by the Seychelles Tourist Board (STB) that might be developed would be: a demonstration farm, agro-tourism, etc.. Other ideas in agriculture would be the development of input supply or provision of services and goods to the sector (feed, fertilizer). In fisheries, where contract arrangements between fishers and private sector fish traders are already more widespread and firmly established, the Project would work to promote a dialogue between fishers, fish traders, tourism and Seychelles Fisheries Authority (SFA) to identify opportunities for diversifying fishing efforts and promoting demand for fish varieties that are currently less utilised and promoting their commercialisation and use. Linkages will be built to enhance the labelling of local fisheries products and to build on certification efforts that have already been initiated such as the Seychelles Hook and Line Fishermen certification for Responsible Fisheries. Awareness of this and other labelling schemes will be promoted in the tourist industry. This component may also support initiatives to process by-catch and would actively promote public private partnerships between larger companies and corporate and the government managed PIU and the executing Ministry MNRI.

48. Sub-component 1.2 – Food security and productivity development.

- a. Improving food security by promoting home and community gardens. The Census of Population and Housing of 2010 identified approximately 8,000 households that practice backyard gardening. Main targeted crops by the project could include extensive and intensive horticulture (green houses and hydroponic), fruits (banana & papaw), and livestock (pigs). For further details, see “Financial and economic analysis” in annex 10).
- b. Enhancing productivity at the household level will be achieved through training and other forms of capacity development. Up to 30 per cent of project beneficiaries may select to link to financial services through CLISSA. Low income households that have been identified through the Poverty Reduction Survey 2012 will be given priority. The Project will develop a strategic partnership with the Social Welfare Agency and the District Administration in order to outreach to these households.

49. **Risks.** There are two types of risks. The first one relates to improvements that are not sustainable over time due to businesses ventures that are not consolidated and are vulnerable to internal (health-related; ownership rights; access to credit) as well as external shocks (weather-related; general economic situation). This can cause the supported small farmers and fishers to “fall back” into their initial status and below,

losing the progress made under the project. In fact, even in the without project situation, there is a small group of farmers that still operate, but have been put back on account of climatic hazards and other uncertainties. Special recovery activities are aimed at this group defined as farmers and fishermen with (i) either a negative financial net worth, or (ii) suffering from insolvency because of the new rule to permit loan re scheduling only once even if climatic risks and other hazards would have justified further restructuring.

50. The second relates to the capacity of service providers to deliver the range of business support that the proposed flexible mechanism requires.

51. **Mitigating Measures:** The former risk will be mitigated by delivering a range of supports that stabilise and consolidate in particular farmers and fishermen currently under distress. These recovery funds would make up part of the business development activities of component 1.

52. Regarding the latter risk, outsourcing of private sector service providers as well as international expertise if and where required will be sought.

53. **Sustainability.** The market sustainability of the component will be ensured by the progress made by supported small farmers and fishers which hopefully will be able to be maintain successful business relations with buyers. The capacity of the project to continue providing services to potential clients (scaling-up and institutional sustainability), will be assessed at mid-term based on project outcomes and preliminary impacts.

Component 2: Improving Access to Agricultural and Rural Finance

54. **Lessons learned and justification:** In small island economies where changing population and consumption patterns open new scope for the development of agriculture and related value chains, finance has often been identified as a constraint. Interviews with all the leading banks in the country confirmed that at present, none of the financial institutions has developed any services specifically for farmers and related agro processors. Similarly, fisher folk in particular small and micro entrepreneurs outside of urban areas often lack capital to expand their existing small businesses or intensify production on the farms. The government priority of promoting agriculture in the country would therefore need to include financing, and the CLISSA project and its sectoral structure is well placed to scale up and mainstream emerging lessons from pilot experience. Experience from IFAD supported projects with the Bank of Maldives (BoM) in a comparable island economy showed quick and sustainable results in promoting a largely dormant and under-financed productive segment through loans and other financial services. In the meantime, the IFAD pilot projects and initial credit funds for demonstration purposes were fully integrated into the general business operations of the BoM.

55. **Objective and strategy.** The objective of this component is to provide the financial services required for transforming the ailing agricultural sector and removing access constraints for smaller farmers, producers, fishers and rural micro entrepreneurs to finance. Here is presently no bank that services the proposed target clientele as a preferred market segment. Building on successful IFAD experience in comparable economies, innovative agricultural and value chain financing models will be developed, piloted and then scaled up through partner banks with the sufficient size and development banking experience to scale up out of their own resources.

56. *Outputs and Outcomes.* The outcome of this sub-component would be improved access by small farmers and fishers to development financing including through banks that offer loans at slightly higher market rates because of the higher costs of mobilizing domestic deposits, but offers current account, cheque and other facilities over the same counter. The banks would finance working capital requirements of CLISSA beneficiaries out of their own resources and would be able to resort to a refinancing fund to pilot test term lending to a new productive clientele in the market. A list of cutting-edge technologies will be actively promoted by the Project.

57. The application of as yet untested and innovative types of financing such as, for example, micro-leasing (in the case of machinery and equipment with a relatively longer service life) will also be explored. By the time the project will start up, a leasing law is expected to have passed parliament and will enable domestic financial institutions to offer this service to its clients.

58. *Implementation arrangements.* For this component, and in line with the thrust of CLISSA to promote competition and thus improve services, participating banks will manage IFAD refinancing funds¹⁰. After depletion of an initial deposit that would equally (30 per cent) cover the initial 60 per cent of overall funding requirements, the balance funds would be disbursed to the bank with the superior project implementation experience (disbursement, management of loan funds, recovery record).

59. In addition to a sub component on loan funds, there are also funds for technical assistance and capacity development at the level of participating banks. These consist of loan officer trainings in smallholder agricultural finance and individual micro enterprise financing, as well as technical assistance at the level of participating banks, where required¹¹.

60. **Risks:** The main risk relates to the delivery capacity and sustained interest of the selected banks in partnering with MNRI in developing appropriate products and services to capture this largely dormant market segment of non-urban small farmers, fishers and micro entrepreneurs¹².

61. *Mitigation measures.* Taking at least two banks on board is the chief risk mitigation measure against the above. A service provider roster will be established during the first year of the project in order to address a large variety of on-the-job training. In case implementation experience shows that supporting project clients through loans is not a good option, matching grants may be a fall-back option to be explored, and, if adopted, would follow IFAD best practice in terms of beneficiary selection, grant administration, etc.

Component 3: Strategic capacity building and infrastructure

62. **Justification.** Public goods are required to accompany the activities implemented in component 1 by private actors (small farmers and fishers as well as buyers). These include training and demonstration, research, public and collective infrastructure, collective post-harvest services, communication and knowledge management.

¹⁰ Preliminary discussions have been held with the Development Bank of Seychelles (DBS) and the Bank of Baroda (BoB), Seychelles.

¹¹ In case DBS participates, such TA would include a corporate lawyer's review of the DBS Act and proposals for sequencing a transition of this Development Finance Institution into a regular commercial bank

¹² In case DBS participates, as the Due Diligence Review of DBS undertaken by IFAD indicates, quick action would be required to maintain a cash flow crisis and keeping it from becoming a crisis or solvency with the attendant capital erosion.

63. **Objective and strategy.** The objective of this component is to: (i) provide the necessary and complementary public goods that will enable the implementation of component 1; and (ii) prepare the exit strategy of the project in terms of institutional continuity. The strategy is to strengthen existing agencies and entities for delivering the required public goods.

64. **Outputs and outcome.** The main outputs of the component include communication products, post-harvest service delivery, research, training of trainers. The outcome is an established capacity in the Seychelles allowing for the strengthening of small farmers, rural micro entrepreneurs and fishers and effectively linking them to the market.

65. **Description.** The component is divided into two sub-components namely, (i) strategic capacity building; and (ii) public and collective infrastructure.

66. Sub-component 3.1: Strategic capacity building. The aim of this sub-component is to strengthen strategic capacity of selected public (and private) actors involved in the implementation of Component 1. Some pertinent activities of this sub-component will include:

- a. A communication unit would be strengthened at the level of MNRI in order to enhance visibility of CLISSA and the interventions of MNRI. This unit will also extend into SAA to help with disseminating lessons and experience of trials, including extension material that is supported by the Project.
- b. A postharvest unit would be established at the SAA research station for demonstration purposes (to accompany Component 1 activities). The unit would provide the necessary backstopping required in the promoted agricultural and fishing activities, in the field of organic farming practices, grading/storage/post-harvest handling, etc...
- c. Targeted support for quality control mechanisms, import and screening of genetic material, specialised training of trainers (ToT) and training of field staff, and other requirements for the development of the targeted agricultural and fishing activities;
- d. Assistance to the Seychelles Agriculture and Horticulture Training Centre (SAHTC) to: (a) revise the present curriculum to introduce smallholder centered and climate-resilient technologies; (b) invest in state-of-the-art demonstration equipment for horticulture and fruit production; (c) provide capacity building to the trainers.

67. Subcomponent 3.2: Public and collective infrastructure. The aim of this subcomponent is to finance enabling small scale communal rural infrastructure, related to activities of Component 1. The Seychelles are well-equipped in terms of basic infrastructure but for both small-scale agriculture and artisanal fisheries, there are some localised gaps that will be identified in close collaboration between the stakeholders in the sector. Infrastructure requirements in fisheries are likely to be more limited in view of recently finance inputs however, where appropriate and where the Technical Working Group, fisheries stakeholders and experts from the SFA identify specific, small-scale infrastructure requirements, support for the construction of these may be considered.

68. **Risks.** Collective infrastructure and equipment bring with them the issue of defining the responsibility for property, management and maintenance. If the underlying agreements between government and private actors are unclear about these points, the risk of mismanagement and deterioration is high.

69. Mitigation measures is represented by the support of a specialised business lawyer that will carefully analyse the above agreements to integrate the necessary legal

provisions that address the risk associated with the property rights and maintenance of infrastructure and equipment and the transfer of these facilities to the beneficiaries.

70. **Sustainability.** Using public and/or private existing agencies and entities for delivering public goods ensures a continuity beyond the project life. Operation and maintenance of public infrastructure will be linked to decentralised local government and municipal entities and be carried out in accordance with existing frameworks and regulations at that level. The inclusion of acceptable arrangements for the operation and maintenance of collective infrastructure and equipment will be one of the conditions for the financing of such infrastructure and equipment.

Component 4: Project management

71. The purpose of this Component is to provide effective technical, financial and contract management of the Project. This would be achieved by adopting a strategy that combines a dedicated Project Management Unit (PMU) providing management and controlling functions. The Project would finance the required equipment, studies and training of staff, and operating costs. It would also finance the establishment and operation of a Monitoring & Evaluation System, as well as Knowledge Management. The PMU could recruit specialized expertise from the outside in the form of individual specialists that work under the overall guidance of the head of the PMU. All financial and operational authority is vested in this PMU model within the ministry and not outsourced to outside agencies or service providers.

D. Lessons Learned and Adherence to IFAD Policies

72. Key lessons are learned from the implementation of projects implemented by UNDP, FAO and EU in the Seychelles during recent years. Specific lessons learned are the following: (a) a unique approach to poverty targeting in middle-income countries; (b) understanding the constraints and incentives of private sector partnerships; (c) expectations from grassroots and farmers' organizations; (d) forging market linkages; (e) access to rural finance; (f) programme management and implementation in middle income countries, in particular procurement aspects, mainstreaming PMU in existing structures, build-in flexibility in design. Details are presented in Annex 3.

73. Seychelles has a very fragile eco-system and development interventions have to be very carefully designed so as not to disrupt the natural environment. During recent years, IFAD has taken significant steps to reinforce the environmental and social performance of its projects. The most recent and significant developments in this regard are the: (i) Environmental and Social Assessment (ESA) Procedures approved in December 2009; (ii) Climate Change Strategy approved in April 2010; (iii) the ENRM Roll out plan developed in April 2011; and the (iv) ENRM Policy approved in May 2011. CLISSA was designed with reference to the guidance outlined in these documents. An Environmental and Social Review Note (ESRN) was prepared to assess the environmental impact of the project and determine its environmental classification and is available in Appendix II of Annex 12. Government, in partnership with UNDP and GEF, have been implementing already several projects in the field of environmental protection. Lessons have been taken into account.

74. **CLISSA can also benefit from lessons from IFAD's investments in the Maldives as it shares with Seychelles some of small island characteristics.** Since 1982, IFAD has financed five projects costing USD 39.3 million in the Maldives. The overall experience of these projects has been mixed. These projects have focused on



investments in infrastructure, fisheries, agriculture and provision of rural financial services most of them are featured in CLISSA. IFAD's strategy in the Maldives has been to reduce the vulnerability of households whose livelihoods depend on smallholder agriculture and fisheries. In its most recent project, IFAD's aim was to develop smallholder agriculture value chains and the Maldives fish processing sector through a market-oriented and diversified strategy which is very similar to the approach adopted by CLISSA. Specific experiences that are relevant for CLISSA include poverty targeting, community organization and cooperative formation, participation of the private sector, and access to financial services. In the Maldives, the role of the private sector is very much similar to that of Seychelles in terms of size and nature with businesses, fisheries and tourism being the predominant sectors. This sector is considered by the Government and international donor agencies as the key for economic growth and development in the country. An important lesson that the Maldives provides is that it is necessary to correctly assess the incentives that are needed for the private sector to engage with the poor and encourage them to infuse capital or other resources for the poor from the outset. Technical assistance, trust building between sellers and buyers and mutually beneficial business arrangements are some of the needs that are successful in the Maldives. The current design of CLISSA to large extent provides such incentives for the private sector to invest in agricultural value chain development.

75. Targeting in IFAD projects in the Maldives is mainly done on a self-targeting basis with a geographical focus. This strategy seems to be working well in small island states, given the limited size and homogeneity in the technical and socio-economic factors. CLISSA is adopting a similar approach for its targeting strategy.

76. Strengthening of producer groups is one of the key factors that is required to operate the business ventures that will be supported by CLISSA. The Maldivian examples suggest that collective arrangements generally work well when the benefits and costs of collective investments are well defined and ownership of the resource is clear. Furthermore, just because some community groups perform well together in some tasks, it does not mean that they want to move from group actions to joint ownership and partnership in a formally established organization. CLISSA would do well in recognising these aspects of collective actions and avoid forcing all groups to transform into formal organization except for cases where there is a clear advantage to add this element of complexity in the organizational arrangements. In recognition of that, CLISSA is being designed with considerable flexibility to enable the participation of individuals, groups, associations and private sector companies / tourist resorts without creating any artificial entities with little chance of sustainability beyond the project life.

77. Almost all IFAD projects in the Maldives have recognised the lack of access to finance as a constraint to the growth of the private sector. Fisheries and agriculture sectors are the mostly affected on that count. In the process, a long standing and reliable partner bank, the Bank of Maldives, was supported by IFAD throughout the different projects to strengthen its poverty reach and to develop products and services for special market segments that may appear less profitable at first sight, but have considerable market potential and strategic relevance for the bank. These segments include women and rural smallholders and micro enterprises. Other banks such as the Maldives Islamic Development Bank followed the Bank of Maldives in lending to the small fisher-folks.

III. PROJECT IMPLEMENTATION

A. Organizational Framework

Lead Project Agency

78. The Ministry of Investment, Natural Resources and Industry (MNRI) will have the overall responsibility for the implementation of CLISSA. MNRI will coordinate with the Ministry of Finance, Trade and Investment (MOFTI) and other relevant Ministries and Agencies.

National Project Steering Committee

79. A National Project Steering Committee (NPSC) will be established within and chaired by MNRI. The NPSC membership will include representatives from finance, tourism, environment, land and water, small business promotion, local government, health, social affairs, agriculture/livestock, fisheries, SSDD, as well as representations from the private sector (farmers' associations, business, tourism, banking and finance, marketing and trade).

80. In line with CLISSA overall philosophy of close partnership with private sector agencies at different levels, the PSC will consist of an equal number of private sector and government (including parastatals) representatives. The NPSC shall be chaired by H.E. the Minister MNRI with the majority established by the chair in case of parity of votes. The NPSC should consist of a maximum of 10 representatives.

81. The NPSC shall: (a) provide general policy directions for the Project; (b) orient the overall Project implementation strategy; (c) oversee planning, review and approve each Annual Work Plan and Budget (AWPB) prior to submission to IFAD and review implementation progress and impact. It shall also ensure appropriate and timely coordination with other initiatives that are financed by other donors and/or Government. The NPSC shall meet two times in a year and on an ad-hoc basis as and when necessary.

82. The ToR, composition and relationship with the NPMU and the Technical Working Groups shall be finalized during the Start-Up Workshop for CLISSA planned to be conducted in the final quarter of 2013.

National Project Management Unit

83. A Project management unit (PMU) would be embedded with the Office of the Principal Secretary in MNRI. The PMU will be responsible for the implementation of the day-to-day activities of the Project to ensure the timely and results-oriented delivery of services by all stakeholders, and monitoring of progress and impact. After project completion, the PMU could be integrated into MNRI to continue with the provision of support services to the agriculture and fisheries sector. The PMU would have three professionals (National Project Coordinator (NPC), programming and M&E officer and financial controller), as well as the required support staff. Government will provide office space, salaries and contribute to operational expenditures. A staff position is budgeted in the cost tables for external recruitment of a professional as part of the NPC. It is recommended that this be the programming and M&E officer who would operate under supervision of the head of the PMU.

Technical working groups

84. Three Technical working groups (stakeholder groups and key institutions) of approximately 10 participants each would be established, one for agriculture/livestock, one for rural and microfinance and one for fisheries. More than half of the participants of each of the three WG would come from non-state or parastatal institutions i.e., NGOs and private sector representatives. These working groups would advise on the planning and implementation of components 1 and 2 and sub-component 2.1. The PMU will coordinate the Technical Working Groups and for convening meetings on a regular basis (4 times per annum), and ensure that key information is circulated among participants and more widely. The Communication Unit of MNRI will sit as an observer on the Technical Working Groups to provide the linkage between the Project and the public.

85. Participation in the Technical Working Group on Agriculture would include representatives from farmers, service providers in the livestock sector, Seychelles Hospitality and Tourism Association (SHTA), the Seychelles Chamber of commerce and industry (SCCI), Local Government, SAA, SEnPA, IDC, SeyFA, DBS, an environmental NGO, as well as private entrepreneurs. In addition, other agencies identified as being of relevance depending on developments in either of the sectors would be invited to participate on an ad hoc basis.

86. The Technical Working Group for Rural and Agricultural Finance would bring bankers, the Seychelles Credit Union (SCU) and the project together and chart the way forward as well as providing a platform for learning from each others' experiences. Above all Barclays Bank and SCU are interested to be involved in this process even though they will not be included as project financial services agencies for CLISSA.

87. For the Technical Working Group on Fisheries, participation would include representatives from the Seychelles Fishing Boat Owners Association, SFA, Seychelles Hospitality and Tourism Association (SHTA), the Chamber of commerce and industry (CCI), Seychelles Centre for Marine Research and Technology – Marine Parks Authority (SCMRT-MPA), Marine Conservation Society Seychelles (MCSS), SEnPA, IDC and DBS.

88. The first session of each of the WGs would endorse a set of specific terms of references specifying duties and responsibilities and specific inputs required. These range from a priori proposals for activities for the following year AWPB to advice on draft AWPB and procurement plan upon finalization and review and advise on project related documentation such as the initial survey and the subsequent CLISSA baseline survey.

Implementation of Project Components

89. The process for implementing the component will follow key benchmarks as follows. A draft Project Implementation Manual (PIM) will be presented at the Start Up workshop for finalization during the first six months of implementation of CLISSA.

90. *Component 1: Enhancing business arrangements through capacity development of small farmers, rural micro entrepreneurs and fishers.*

91. *Kick Off Survey*: This rapid survey of small actors already active in agriculture, fishery and livestock will be carried out by the PMU in close collaboration with concerned central and district level agencies and administration. Conduct of this survey will result in the establishment of a beneficiary database of eligible small farmers, rural micro entrepreneurs. Existing data bases need to be utilized to the fullest extent to avoid duplication and unnecessary work. Finalization of this survey. will be the responsibility of the PMU. Screening of potential business ventures will be the responsibility of the two Technical Working Groups for farming and for one fisheries; For rural finance, identification, initial screening and all associated responsibilities lie directly with the



partner banks of CLISSA. A specialised service provider will carry out the following tasks: (i) conducting a gap analysis in collaboration with the potential buyers will be outsourced to a service provider; (ii) facilitate the elaboration of a business development / strategic plan for each supported small farmer, rural micro entrepreneur and fisher; (iii) implementing the training programme for these small farmers and fishers; (iv) facilitating business links with buyers that were already involved in the gap analysis. These tasks will be implemented by the service provider under the supervision of the PMU. Monitoring progress and feeding the database will be the responsibility of the PMU.

92. SAA and SFA will develop and create awareness on technology packages and investments eligible for Project support. If required, SEnPA can assist farmers, fishers and other value actors with the preparation of business plan/loan request. Extension support and specialised training would be provided by the Seychelles Agriculture Agency (SAA), the Seychelles Fisheries Agency (SFA), the Small Enterprise Promotion Agency (SEnPA), and other qualified service providers. SEnPA and other service providers could provide capacity-building support for clients with investment financing requirements.

93. The Project will assist household below the poverty line with economic empowerment activities. The Project will develop a strategic partnership with the Social Welfare Agency and the District Administration in order to reach out to these households.

94. For the organisation of trials, the Project will sign MoUs with the relevant stakeholders, including the SAA and SFA research units and the Island development company (IDC). Relevance for the promoted agricultural and fishing activities and selection of trials will be validated by the TWG.

95. Component 2: Accessing financial services. CLISSA will include a competitive and innovative feature in this component: a competitive allocation between at least two banks participating as implementation partners of CLISSA. Credit funds would be tranced and disbursed in line with respective lending performance. Participating banks would apply their prevailing terms and conditions without subsidizing services under the project. Subsidiary Loan Agreements would be signed with both banks with an initial deposit of USD 300,000 each. The balance amount of USD 400,000 would be disbursed to the bank with better project implementation performance. The Technical Working Group for Rural and Microfinance would bring bankers, the SCU and the project together and chart the way forward as well as providing a platform for learning from each others' experiences. Above all Barclays Bank and SCU are interested to be involved in this process even though they will not be included as project lending agencies for CLISSA.

96. Lending terms and conditions that both banks would apply are their standard terms and conditions for productive term financing. CLISSA on lending funds would be managed in the main balance sheet of the participating banks and not treated as a contingent liability / off balance sheet fund i.e., the credit risk would be borne by the two banks for the funds lent under CLISSA.

97. The SLA will prescribe a strict commercial pricing of loans in CLISSA with rates at all times at least 300 basis points or 3 per cent above the average costs of funds prevailing in the participating banks' previous quarter. The SLA will also indicate a maximum loan size, tentatively set at USD 6,000. Decisions on allocation of the balance amount after initial deposit will be made in PY 3, most usefully as part of the MTR.

98. A small second sub component 2.2 would finance loan officer trainings for participating banks and limited technical assistance for bank performance improvement through review of existing statutes and legal frameworks governing the proposed two partner banks.



99. Close coordination between components 1 and 2 would be safeguarded. The pool of potential clients to be identified through the start up survey in the first project year would serve as the client base for financial services under CLISSA.

100. *Component 3: Strategic capacity building and infrastructure* The Project will sign a MoU with SFA and SAA for support in the implementation of subcomponent 3.1 on the basis of an Annual Work Plan and Budget (AWPB). Institutional support will be managed directly by the PMU. Relevance of the support requested will be validated by the TWG.

101. *Subcomponent 3.2: Public and collective communal infrastructure.* Processes and procedures for undertaking small-infrastructure works are well-developed in the country generally involving technical supervision from the appropriate government agencies and implementation by District Administrations through transparent bidding processes.

Partnerships, Networks and Linkages

102. CLISSA will support the promotion and strengthening of networks and linkages between relevant initiatives and institutions to provide integrated services to address the varied needs of the target group. Of pivotal importance for CLISSA will be different types of linkages and partnerships with the private sector, where possible building on initiatives that have already been started on a pilot basis by different stakeholders. In the tourism sector, this includes the Seychelles Sustainable Tourism Label (SSTL). In 2010, the sector produced a Seychelles Tourism Value Chain Analysis with proposals to develop agricultural supplies to tourism.

103. Where relevant, the Project will take into account and build synergies with the on-going GEF Small grants programme and Biodiversity mainstreaming project (UNDP) and explore the possibilities of up-scaling some of the most successful small grants. In the domain of agro-ecological and organic farming practices, the Project will work in direct collaboration with the on-going regional IFAD grant under implementation through the Indian Ocean Commission (IOC).

104. Other key partnerships with other donors will include: (a) African Development Bank (ADB) for parallel financing of infrastructure and institutional capacity building in agriculture and fisheries, possibly also a joint follow up to the preparation of an Agricultural Sector Development Study due to be completed at the end of 2013; (b) FAO for specialized technical assistance in various fields; (c) where relevant, the Project will take into account and build synergies with the on-going GEF Small grants programme (UNDP) and explore the possibilities of up-scaling some of the most successful small grants.

105. A key feature of CLISSA will be the buildup of a regional platform for joint action of the four island economies of Madagascar, Mauritius, La Reunion and the Seychelles, an initiative conceptualized by the Seychelles Ministry of Tourism that currently markets opportunities for visitors to combine their stay in one country with other of the island destinations.

106. As experience from other regions with prevailing small island economies indicates, the potential for growing closer together regionally and exploiting synergies for mutual benefits do not stop there. In the Caribbean, member countries of the Caribbean Community (CARICOM) can have banks of one member country finance loan request from applicants from another member country, often farmers and plantation holders of economies without an agricultural development bank left.

107. Once Public Private partnerships and appropriate value chains and their financing entry points are identified, the scope for moving forward with regional initiatives in (i) development financing for term investments for agriculture and rural development, and (ii) for further promotion and regional application of eco tourism labels may be assessed.

This strategic focus of CLISSA with its innovative features should then be assessed for scaling up and future directions during the project mid-term review.

B. Planning, M&E, Learning and Knowledge Management

Planning

108. CLISSA will be implemented on the basis of an approved Annual Work Plan and Budget (AWPB) prepared for each year of the Project duration. The AWPB will derive from the overall goal and objectives of the Programme; and guided by the targets set, the lessons learned from previous years whilst taking into account the prevailing conditions in any particular year. Each year, a participatory planning process will be organised by the PMU in close collaboration with the 3 Technical Working Groups and key implementing entities (SAA, SFA, SEnPA, STB, et al.) This participatory approach will ensure strong bottom-up stakeholder participation and the development of ownership for some of the CLISSA initiatives through the private sector.

Monitoring and Evaluation

109. The M&E system, which is results based, should enable the Project to report on progress, outcomes and impacts. The system will ensure that the timing of reporting is harmonized with the Government requirements. M&E would be undertaken at three levels: regular and continuous monitoring of project activities and their immediate results (*output monitoring*); monitoring of project performance in achieving expected outcomes (*outcome monitoring*); and assessment of project contribution towards the achievement of its overall goal (*impact evaluation*), which will be undertaken closer to project completion. The system will also feed IFAD's Results and Impact Management System (RIMS) with first and second level core indicators. The Logical Framework of CLISSA will form the basis for measuring output, outcome and impact.

110. The M&E Manager will prepare: (a) an Annual Work Plan and Budget (AWPB); (b) Half-Year Progress Reports; (c) Annual Progress Reports; (d) Status Reports for Supervision Missions; (e) Ad-hoc Reports (as required); and (f) a Programme Completion Report. He will also organize the required baseline and reference surveys.

111. If possible, the collection of data for monitoring Project impacts would be mainstreamed into activities already undertaken by the National Bureau of Statistics (NBS) and opportunities for disaggregating data collected on living conditions and well-being to clearly identify the project's target group of small-scale farmers and fishers would be pursued at an early stage of project implementation. Baseline and reference information would come from following studies and censuses: (i) the Living Conditions Survey (LCS) in Seychelles (national poverty survey), organized by the National Bureau of Statistics, the Social Welfare Agency and UNDP in 2012; (ii) the National Agricultural Census that was organized in 2012 by MNRI in collaboration with FAO; (iii) the Census of Population and Housing (COPH) of 2010; (iv) the Agricultural Sector Development Study, which will be organised by Government in collaboration with African Development Bank in 2012-2013.

Learning and Knowledge Management

112. Innovation is one of the key thrusts of IFAD's programs in the Seychelles and the promotion of innovative solutions to the issues faced by the country in addressing food security, revitalization of agriculture and rural micro enterprise and associated climate change challenges

113. As outlined, there are a challenging number of new, unusual and untested thrusts and initiatives planned through CLISSA:

Public private partnerships making use of the advanced development level of some driven by profit motives and conceptualized to last far beyond the active CLISSA implementation period.

Private sector driven CLISSA Steering and Implementation: the Project Steering Committee, the crucial three technical Working Groups and concrete PPP around concrete value chain entry points provide the pillars around which the private sector driven aspects of CLISSA are built.

Agricultural revival for a middle income small island economy with a limited resource base constitutes another thrust. Operating on the revival of an entire sector is new for IFAD and its robust more than 30 years of experience internationally in this will be useful

Potential regional focus for agricultural development and collaboration. Current activities and schemes of the Ministry of Tourism can pave the way for a more encompassing regional platform built around (i) agricultural and rural ME investment financing, and (ii) promotion of green value chains and eco tourism supplied by local products.

Commercially driven term financing to innovate and revive the sector

114. The project M&E system will generate relevant “knowledge products” such as process documentation, case studies, preliminary impact assessments, and assessments of the promoted agricultural and fishing activities. These would be used to disseminate relevant lessons learned through knowledge sharing processes such as stakeholder workshops, participation in national level development partner working groups, and participating learning events that could be organised by partners. The knowledge products of the Project would be incorporated into the IFAD websites for wider publicity and also to provide feedback on lessons learned regarding business arrangement facilitation. The M&E Officer within the PMU, in close collaboration with the Communication Officer of MNRI will be responsible for undertaking knowledge management activities.

C. Financial Management, Procurement and Governance

115. The fiduciary risk of the project has been assessed and is found to be low. Details of the assessment are presented in the Annex on Financial management, appendix 1.

Financial management

116. The Project’s disbursement and specific financial management procedures will be outlined in a Letter to the Borrower (LTB) agreed between Government (MOFTI) and IFAD. The LTB will specify IFAD procedures for the mode of payment for disbursement, all thresholds, withdrawal procedures, audit procedures, opening of accounts, and procurement procedures. Financial management requirements are described in detail in the Annex and will be detailed in the Project Implementation Manual (PIM).

117. The fiduciary functions, which are mainly operational, that will be undertaken by the PMU. This will include the preparation of the annual work plan and the budget (AWBP) and the procurement plan (PP), ensuring the GOS and IFAD approval for the AWPB and the PP, requesting financing from MOFTI to implement eligible project activities, justifying such expenditure, preparation of the draft financial progress to be finalised and vetted by MOFTI, assisting audit, undertaking all procurement under direct supervision and guidance of MOFTI, preparation of the withdrawal applications (WA) for the finalization of MOFTI who will finally sign and submit to IFAD, and maintaining copies of all background information.



118. The financial management responsibility however will lie with MOFTI which includes managing the fund flow of loan resources, managing the dual currency account (which is operative in dollars and Seychelles Rupees-SCR) that will be opened at the Central Bank of Seychelles (CBS) to receive the initial deposit and replenishments, signing withdrawal applications to ensure fund disbursement to the PMU from the CBS account on the basis of actual expenditure (no impress account, which is replenishable, is maintained at the PMU or MNRI level for the project), managing counterpart funds which will be in a Counterpart Fund Account opened at the CBS.

119. Disbursements from the IFAD Dedicated Account will be made against withdrawal applications prepared by PMU and signed by MOFTI. Withdrawal applications may be accompanied by certified Statements of Expenditures (SOEs) in the case of expenditures below a specified threshold, which will be indicated in the LTB, and may be amended from time to time. SOEs will be kept at the PMU and be made available for audits and for review by supervision missions. In the case of term financing through the refinancing lines, the PMU needs to collect data on individual borrowers and their repayment status. Replenishments will be finalized according to disbursement speed, IFAD refinanced loan portfolio performance and management of the partner banks of the portfolio and wider collaboration with CLISSA.

120. Internal audit capacity is acceptable. Audit legislation and standards in Seychelles are in compliance with international standards. The accounts of the Project will be audited annually by a firm appointed by the Auditor General of the GoS. Expenses related to this audit will be borne by the Project.

Procurement

121. Overall procurement responsibility will rest with the PMU. All procurement will be authorised only against the procurement plans in approved AWPBs, specifying items to be procured, responsibility for the procurement and the appropriate procurement methodology. In the 2011 PEFA, Seychelles has been rated as well-performing in the area of procurement. Procurement will be in accordance with IFAD Guidelines for items financed by the IFAD. Details are presented in Annex 8.

Governance¹³

122. The Corruption Perception Index from Transparency International for the Republic of Seychelles is 4.8. No specific Governance and Anticorruption (GAC) strategy is included in design of CLISSA as the IFAD threshold is 3.

D. Supervision

123. Loan supervision will be carried out directly by IFAD. During the first year, a start-up workshop will be organized. Supervision missions will take place at least once per year. In addition, implementation support missions may be organized. These may focus on: (i) establishing project and fiduciary management structures; (ii) design of the M&E system, and (iii) providing support in the different innovation areas of CLISSA outlined above. The presence of a regional IFAD office in Nairobi, Kenya, as well as the IFAD office in Antananarivo, Madagascar, will be of help in guaranteeing IFAD direct supervision of the Project.

¹³ In 2008, IFAD decided to introduce specific anti-corruption measures in project for countries with a Corruption Perception Index (CPI) lower than 3 on a scale from 1 to 10 (according to *Transparency International*) (www.ifad.org/operations/pf/finance/governance.htm).

E. Risk Identification and Mitigation

124. This section focuses on the key risks i.e. those with the greatest likelihood of occurring and the highest potential impact on the achievement of development objective or the realization of each outcome and its outputs.

Table 1: Risk identification and mitigation

Risk factors	Description of risk	Rating of risk	Risk mitigation measures	Rating of residual risk
Unsustainability of improvements for small farmers and fishers	Unsustainable improvements due to businesses ventures that are not consolidated and are vulnerable to internal (health-related; ownership rights; access to credit) as well as external shocks (weather-related; general economic situation)	H	Delivering a range of supports that stabilises and consolidates the promoted business venture. These supports will include business development, marketing, access to credit, and market linkages	L
Lack of service provider capacity	Low capacity of service providers to deliver the range of business support that the proposed flexible mechanism requires	M	Outsourcing of private sector service providers as well as international expertise if and where required will be sought. A service provider roster will be established during the first year of the project in order to address a large varieties of on-the-job training	L
Ill-defined responsibilities on collective infrastructure and equipment	Ill defined responsibility for property, management and maintenance of collective infrastructure and equipment	H	Include support by a specialised business lawyer that will carefully analyse the commercial agreements	L
Quality of a facilitator for implementation of the PPP	Availability of a dynamic facilitator is essential for successful implementation of PPP and ensuring the demand driven approach.	M	Technical working groups will be put in place.	L
Willingness of farmers to modernize production systems	Willingness of farmers and artisanal fishers to participate in the promoted agricultural and fishing activities.	M	Focus on young and dynamic farmers. Linkages with private sector (PPP).	L
Competitiveness of the local livestock sector.	Long-term viability of the poultry sector is not clear at the moment. An option might be to develop niche markets	H	Concessionary credit scheme. Development of niche markets (PPP) Development of input supply (PPP) Monitoring of evolution together with GoS and other donors.	M
Cost of production in horticulture (vegetables and fruits).	Price level is currently relatively high in horticulture and agriculture.	H	Economies of scale (intensification) Technological innovation (including hydroponics, efficient irrigation, improved management). Access to financial services.	M
Inadequate access to rural financial services	Farmers cannot afford the market interest rate for investments in infrastructure and equipment.	M	Design carefully assessed efficiency and effectiveness of past experiences and propose innovative solutions. The	

			second best solution is to	
Inadequate financial strength or management commitment to CLISSA	DBS is in a transition period, still adequately capitalized but presently operating on short cash flow.	M-H	CLISSA credit funds are small in comparison with loan portfolio totals; loan officer training will reduce specific portfolio impairment risks, and the impending choice of a second partner bank stands to cushion any address risk that may occur in ST to MT future operations.	M
Reputation of SeyFA	SeyFA failed in managing the -admittedly aging-slaughterhouse and may otherwise still lack management capacity	S	SeyFA will benefit from capacity building activities in several domains including business development and infrastructure management	M

H—High S—Substantial M—Moderate L—Low

IV. PROJECT COSTS, FINANCING, BENEFITS AND SUSTAINABILITY

A. Project Costs

125. The Project cost over 5 years, including contingencies, taxes and duties, is estimated at USD 3.8 million or the equivalent of SCR 53.1 million. This is made up of USD 3.44 million (SCR 47.0 million) in base costs and USD 0.28 million in physical and price contingencies. The foreign exchange element is estimated at 2% of total cost. Table 2 presents the base costs by component, contingencies and total costs.

B. Project Financing

126. The timeframe of the Project would be five years. The initial budget would come from an IFAD loan of USD 3 000 000.

127. GoS financial contribution will be cover the following: (a) salaries of PMU staff; (b) taxes and duties on imported goods, as well as the Value Added Tax (VAT). The total amount of taxes and duties is estimated at 146,000 USD; (c) accommodation and utilities for the PMU.

TABLE 2: SUMMARY OF PROJECT COSTS

	(SCR '000)			(US\$ '000)			% Foreign Exchange	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
A. Enhancing business arrangements	20 560	-	20 560	1 504	-	1 504	-	43
B. Improving Access to Finance	14 436	-	14 436	1 056	-	1 056	-	31
C. Strategic capacity strengthening	7 888	-	7 888	577	-	577	-	17
D. Programme Management	4 058	331	4 389	297	24	321	8	9
Total Base Costs	46 941	331	47 272	3 434	24	3 458	1	100
Physical Contingencies	2 347	17	2 364	172	1	173	1	5
Price Contingencies	3 797	9	3 806	110	0	110	-	3
Total project costs	53 085	357	53 441	3 715	26	3 741	1	108

128. A Mid-term review is envisaged in the third year, which would assess opportunities for further increasing the initial budget (as of 2016, IFAD would have fresh resources of USD 3 000 000 available for Seychelles), including mobilising other

development partners and donors such as African Development Bank (ADB), Kuwait Fund, OPEC Fund for International Development (OFID), UNDP, and others, including private sector operators in the agro-business, fishing and tourism industry.

129. Clients and private-sector partners will be expected to contribute to the partnerships.

TABLE 3: FINANCING PLAN (USD '000)

	IFAD		Private Comp.		Producers		Gov't		Other Donor Amount		Total Amount		For. Exc.	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		
A. Enhancing business arrangements	1 080	66.3	120	7.4	91	5.6	90	5.5	248	15.2	1 630	43.6	-	90
B. Improving access to finance	1 138	100.0	-	-	-	-	-	-	-	-	1 138	30.4	-	-
C. Strategic capacity strengthening	596	95.8	-	-	-	-	26	4.2	-	-	622	16.6	-	26
D. Programme management	185	52.8	-	-	-	-	166	47.2	-	-	351	9.4	26	30
Total project costs	3 000	80.2	120	3.2	91	2.4	282	7.5	248	6.6	3 741	100.0	26	146

130. Total outreach of CLISSA is expected to amount to at least 4,000 direct beneficiaries of which approximately 2,000 farmers and actors in artisanal fisheries and 2,000 poor households involved in backyard gardening.

C. Summary Benefits and Economic Analysis

Beneficiaries and Benefits

131. Climate change adaptation would mainly be reflected in reducing the risk profile of production systems, as farmers would have a better control over water management and production would fluctuate less.

132. Other Project benefits are attributed to the following: (a) an increase in the productivity in vegetable, fruits and livestock farming - it is expected that the farmers will use good production practices which are better adapted to climate risks once their market linkages and slightly higher prices are ensured through better business arrangements, and extension facilities are provided in time. The cost of such assistance is included in the project design; (b) an increase in the farm-gate price through Project activities - a 5% in vegetable, 6% in fruits and 2% in livestock (pork); (c) a decrease in the cost of production in the long run which will be realized during the latter part of the project; (d) an increased income for fishermen due to assured markets through better business arrangements. However this increase is not anticipated within the project period due to the fact that basic improvements to boats, etc., appear to be an immediate need.

Institutional Benefits

133. The Project would strengthen capacity of key institutions involved in project implementation, namely SSA, SFA, SEnPA and SAHTC.

Financial Analysis of the Project

134. The objectives of the financial analysis are to: (i) evaluate the viability of the proposed agricultural, livestock and fisheries models that will form the basis of the environmentally friendly agricultural and fishing activities being promoted; and (ii) assess the incremental production of these sectors that results from project interventions.

135. Annex 10 presents a detailed financial analysis on the basis of 4 crop models and 2,022 households involved in some type of market-oriented production (including sales of small surpluses. Incremental benefits of 2,000 beneficiaries involved in backyard production for home consumption have not been quantified. Detailed analyses have been presented in Annex 10, Appendix 1. Analysis of the Project shows that all farm models are financially viable.

Economic Analysis of the Project

136. In order to calculate the Economic Rate of Return (ERR) of the Project, the economic benefits were calculated for a 20-year period. A simulation and sensitivity analysis, based on realistic assumptions, was done to estimate the cost-effectiveness of the investments and the economic rate of return. Conversion factors are then estimated to translate the financial flows into economic values to be used to calculate the Economic Rate of Return (ERR). It is based on direct costs and benefits, social and environmental benefits have not been taken into account. The period of analysis is 20 years. A number of scenarios were tested to establish the economic viability of the total Project in the event of adverse factors.

137. The base case scenario yields an Economic Internal Rate of Return of 31% and net present value (NPV) at 12% discount rate is SCR\$ 26,322 for period of 20 years. In comparison to the cost of capital of 12%, the project is economically viable. The analysis which provided the basis to the economic analysis was based on the benefits that were attributed to the narrowing down of the margins that is enjoyed by the producers at the beginning and then market price increase for the producers due to quality improvement. The latter will be monitored by the project.

138. The sensitivity to the assumptions was tested to assess the robustness of the economic benefits of the project to unforeseen changes. The results of the sensitivity analyses show that the project is adequately robust to withstand risks. However it is notable that the project becomes unviable for a scenario where there is no pig value chain. However even this scenario could be turned into economically viable situation by doubling the number of producers who are involved in high tech agriculture.

D. Sustainability

Sustainability

139. CLISSA will mainly be implemented through existing public and private institutions. The implementation of activities through PPP is a privileged way to sustain benefits after the project phase.

140. The Project is designed to stop harmful practices in agriculture and artisanal fisheries and encourage the breeding of these species in an environmentally sustainable



manner. The major positive environmental impact from the project would be the protection of farming and fisheries production systems.

Environmental and Social Review Note

141. None of the project activities would be implemented in environmentally sensitive areas, such as mangroves or other protected areas or have adverse impacts on the coral reefs, or threatened species or undertake any fishing or feeding practices which are harmful to the natural environment. The project would not support activities that might generate significant irreversible or cumulative environmental impacts. The proposed project would strictly follow the existing environmental laws and regulations applicable in the Seychelles. Each activity undertaken by the Project with the participation of the private sector, small enterprises or local communities would be subject to an Environmental Impact Assessment as stipulated by the Environmental Protection Agency of the Seychelles. Based on the relatively minor negative impacts of the targeted economic activities on the environment, the Project has been classified for the purposes of environmental scrutiny as Category B.

142. A more detailed analysis, including mitigation measures, is presented in Annex 12 (Environmental and Social Review Note).

 INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

THE REPUBLIC OF SEYCHELLES

COMPETITIVE LOCAL INNOVATIONS FOR SMALL-SCALE AGRICULTURE PROJECT

(CLISSA)

PROJECT DESIGN REPORT - ANNEXES

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(on file in ESA)

ANNEX 1: COUNTRY AND RURAL CONTEXT BACKGROUND

(i) The Comprehensive Africa Agriculture Development Programme

1. The Seychelles Government's long term vision for economic and social development is highlighted in the Seychelles Medium Term National Development Strategy, 2013-2017. Implementation of the Seychelles CAADP Compact is reflected under the Food Security, Trade and Diversification component of the overall strategy.

2. In September 2011, Seychelles signed the Comprehensive Africa Agriculture Development Programme (CAADP) "Compact". The CAADP framework is aligned to the Seychelles Medium Term National Development Strategy (MTNDS) 2013-2017, and the National Food Security Strategy 2008-2011 (which succeeds the Agricultural Development Strategy 2007-2011). The ultimate goal of the CAADP framework is to support the development and implementation of a coherent and comprehensive agricultural programme covering all of the major agricultural sub-sectors of crops, livestock, marine fisheries and forestry and to support the integration of agriculture into other economic sectors. In developing the Seychelles CAADP, five main intervention areas were identified:

Pillar 1: Protection and Sustainable Use of Agricultural Land and Infrastructure

Pillar II: Agricultural Research, Irrigation and Extension

Pillar III: Sustainable Fisheries Development.

Pillar IV: Marketing and Trade of Agricultural Produce

Pillar V: Food and Nutrition Security

3. Core issues related to the crop and livestock sub-sectors as outlined in the Agricultural Development Strategy/National Food Security Strategy as well as the Seychelles Sustainable Development Strategy 2011-2020, emphasize the need to address the unprecedented loss of agricultural land to other sectors of the economy such as tourism and social housing, the sub-optimal supply of agricultural inputs and supplies through inadequate infrastructure; and the effects of climate change through extreme weather events particularly since 1997.

(ii) Partnerships of GOS and donor community

4. United Nations Development Programme (UNDP) was greatly involved in the design and implementation of GEF-funded activities. It has been very successful in mobilizing funding to national environmental priority issues. Funding has been provided by UNDP, the Global Environment Facility (GEF) and the IUCN for investment in following fields: (a) capacity development for sustainable land management in Seychelles; (b) mainstreaming biodiversity management into production sector activities; (c) mainstreaming prevention and control measures for invasive alien species; (d) capacity development for improved national and international environmental management in Seychelles. A GOS/UNDP/GEF programme coordination unit was set up to manage all projects in environmental management.

5. African Development Bank (ADB) organized early September 2012 a mission for the preparation of a grant proposal. The objective is to prepare an Agriculture Sector Development Study, which could lead to a project that would contribute to the revival of the agriculture sector in the Seychelles. The proposed study will be implemented in three phases over a total period of 10 calendar months. Results will be available towards the last quarter of 2013. A Steering Committee and Study Coordination Unit will be put in place.

6. The African Union, FAO, Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), the Indian Ocean

Commission (IOC), and other regional partners committed through the Maputo Declaration, to support Seychelles National Agriculture strategies as defined in the MTNDS and the FSS through mobilising political, financial and technical support for their implementation.

7. FAO provides technical assistance through small technical assistance projects, for example in statistics and data collection and policy/strategy development.

(iii) Institutional stakeholders of the Project

Agriculture and fisheries

8. The Seychelles Agriculture Agency (SAA) (www.saa.sc) was created as a parastatal organization on the 6th January 2009¹⁴ and is responsible for agricultural extension, research & development, livestock development support services, national plant protection, veterinary services. The SAA operates under the Department of Natural Resources of the MNRI. The Agency is The SAA streamlined its operation in 2010 through reduction of its personnel but continued in its effort to implement the sector strategies. The main challenge of SAA is: (a) to assist livestock farmers which are under strong international competition; and (b) to upgrade crop production in order to align it to the needs of the modern consumer and client.

9. The Seychelles Fishing Authority (SFA) (www.sfa.sc) is a parastatal organization which functions as the executive arm of Government for fisheries and related matters. The Authority was created in August 1984 by the Seychelles Fishing Authority Act, at a time of intense development in the sector. The SFA is committed to achieving the above objectives via the following activities and services: (a) policy development & planning; (b) fisheries research; (c) fisheries management; (d) fisheries development & extension; (e) monitoring, control and surveillance; (f) training facilitation.

10. The Seychelles Farmers Association (SeyFA) (www.seychelles-farmers.sc) is non-profit organization registered in 2002 comprising mainly livestock farmers but by 2003 the constitution was amended to include crop farmers. SeyFA has 9 staff members. SeyFA receives indirect support from IFAD through SACAU. SeyFA is in a structural and credibility crisis as it failed to manage the slaughterhouse, hatchery and feed mill that were transferred to them during the liberalization process. In addition, several of its members are commercial livestock farmers that are hit by the crisis.

11. The Seychelles' Agricultural and Horticultural Training Centre (SAHTC) is a secondary school under the Ministry of Education with the mandate to train human resources for the agricultural sector. The number of students (65) is declining. The capacity (human resources and facilities) of SAHTC should be strengthened in order to be able to respond to the needs of the sector.

12. The Island Development Company (IDC) is a commercial parastatal registered in 1980 under the Companies Act of Seychelles and wholly owned by the GoS. IDC has been involved in many private-public partnerships in development of agriculture, livestock and fisheries in Seychelles during the last 30 years.

Financial services and small enterprise development

13. The Development Bank of Seychelles (DBS) (www.dbs.sc) was established in 1977 under Decree No.21 as a development finance institution with a specific mandate to assist in the economic development of the Seychelles. Main shareholders of DBS are Government (60%), AFD (20%) and EBRD (15.9%). Total lending amounts to SCR 500 million; average loan size is USD 20,180 (December 2011)¹⁵. DBS has been managing

¹⁴ Seychelles Agricultural Agency Act (Act 4 of 2009).

¹⁵ Appendix 13 contains a due diligence review of DBS with all technical and financial details.



the Agricultural Development Fund in the 1980s, and is currently also managing a EU subsidized credit scheme (interest rate of only 3%) for the semi-industrial fisheries sector.

14. The Small Enterprise Promotion Agency (SEnPA) became operational on the 1st of August 2004 and is responsible for the implementation of policies and strategies pertaining to crafts and cottage industries, guiding the development and maintenance of relevant infrastructure and providing training and assistance in business matters, including product development to small enterprises. SEnPA's core activities include: providing training courses at all levels in entrepreneurship skills, in management of quality and standard, in technical and information technology; (b) organising sectorial and monthly trade fairs; (c) providing information on various facilities and support offered to small enterprises; (d) providing professional advice to potential and existing small enterprises, crafts and cottage industries; (e) managing a database of small businesses, crafts and cottage industries

15. The Small Business Financing Agency (SBFA) (former Credit Concessionary Agency (CCA)), under the Ministry of Finance, is a one stop-shop for all the existing concessionary credit facilities, established by the Ministry of Finance in 2005. SBFA is currently managing 4 concessional credit schemes: (a) the YES scheme to provide financial assistance to young entrepreneurs; (b) the EMS scheme to provide; (c) the Small Business Finance Facilities; (d) the Agricultural Development Fund Scheme (ADF Scheme) to finance the development of small and medium sized agricultural projects in Seychelles. From January 2006 to December 2011 - assisted around 70 farmers under Agriculture Development Fund (ADF) and around 30 clients for backyard farming.

Tourism

16. Despite its important contribution to the economy of Seychelles, tourism is a small industry of high quality, catering for relatively affluent tourist customers. The main institutional stakeholders in the tourism sector are the Seychelles Tourist Board (STB) and the Seychelles Hospitality and Tourism Association (SHTA). The sector developed the Seychelles Sustainable Tourism Label (SSTL) which is an international-standard sustainable tourism management and certification program. The sector produced in 2010 a Seychelles Tourism Value Chain Analysis with proposals to develop local agricultural supplies to tourism.

(iv) Climate-resilient agriculture

17. The concept of climate smart agriculture is in line with the national agricultural strategies Agricultural development strategy 2007-2011 Food security strategy this is also being taken into account in the national CADDP compact.

18. Efforts being implemented by the government through the SAA include: (a) cultivation under shade (protected agriculture) house throughout the two cropping seasons; (b) encouraging terrace cultivation and contour planting on steep slopes; (c) use of drip irrigation and micro sprinklers; (d) the use of fertigation technologies; (e) the use of mulch and cover crop; (f) the use of legumes as cover crop in terms of green manures; (g) revitalisation of the soil laboratory for the precise application of fertiliser and irrigation water. On-going projects with regards to climate smart agriculture: (a) GEF UNDP sustainable land management project; (b) COI regional agro ecology project; (c) IAEA soil fertility and soil moisture project.

**APPENDIX 1: COUNTRY DATA – SEYCHELLES**

Land area (km² thousand) 2010 1/	460	GNI per capita (USD) 2010 1/	9710
Total population (million) 2010 1/	0.09	GDP per capita growth (annual %) 2010 1/	7
Population density (people per km²) 2010 1/	189	Inflation, consumer prices (annual %) 2010 1/	-2
Local currency Seychelles Rupee (SCR)		Exchange rate: USD 1 = SCR 13	
Social Indicators		Economic Indicators	
Population growth (annual %) 2010 1/	-1	GDP (USD million) 2010 1/	937
Crude birth rate (per thousand people) 2010 1/	18	GDP growth (annual %) 1/	
Crude death rate (per thousand people) 2010 1/	8	2000	4.3
Infant mortality rate (per thousand live births) 2010 1/	12	2010	6.2
Life expectancy at birth (years) 2010 1/	73	Sectoral distribution of GDP 2010 1/	
Total labour force (million) 2010 1/	n/a	% agriculture	2
Female labour force as % of total 2010 1/	n/a	% industry	20
		% manufacturing	12
		% services	78
		Consumption 2010 1/	
		General government final consumption expenditure (as % of GDP)	n/a
		Household final consumption expenditure, etc. (as % of GDP)	n/a
		Gross domestic savings (as % of GDP)	n/a
		Balance of Payments (USD million)	
		Merchandise exports 2010 1/	400
		Merchandise imports 2010 1/	650
		Balance of merchandise trade	-250
		Current account balances (USD million)	
		before official transfers 2010 1/	-268
		after official transfers 2010 1/	-225
		Foreign direct investment, net 2010 1/	161
		Government Finance	
		Cash surplus/deficit (as % of GDP) 2010 1/	2
		Total expense (% of GDP) a/ 2010 1/	32
		Present value of external debt (as % of GNI) 2010 1/	173
		Total debt service (% of GNI) 2010 1/	6
		Lending interest rate (%) 2010 1/	13
		Deposit interest rate (%) 2010 1/	3
Education			
School enrolment, primary (% gross) 2010 1/	102		
Adult illiteracy rate (% age 15 and above) 2010 1/	n/a		
Nutrition			
Daily calorie supply per capita	n/a		
Malnutrition prevalence, height for age (% of children under 5) 2010 1/	n/a		
Malnutrition prevalence, weight for age (% of children under 5) 2010 1/	n/a		
Health			
Health expenditure, total (as % of GDP) 2010 1/	n/a		
Physicians (per thousand people) 2010 1/	n/a		
Population using improved water sources (%) 2010 1/	n/a		
Population using adequate sanitation facilities (%) 2010 1/	n/a		
Agriculture and Food			
Food imports (% of merchandise imports) 2010 1/	n/a		
Fertilizer consumption (kilograms per ha of arable land) 2010 1/	n/a		
Food production index (1999-01=100) 2009 1/	38		
Cereal yield (kg per ha) 2010 1/	n/a		
Land Use			
Arable land as % of land area 2010 1/	n/a		
Forest area as % of total land area 2010 1/	89		
Agricultural irrigated land as % of total agric. land 2010 1/	n/a		

a/ Indicator replaces "Total expenditure" used previously

1/ World Bank, *World Development Indicators* database CD ROM 2011-2012

ANNEX 2: POVERTY, TARGETING AND GENDER

(i) Living Conditions and Poverty in Seychelles¹⁶

1. A study on poverty, carried out in 2005 by the Ministry of Social Affairs, concluded that absolute poverty did not exist in Seychelles, but that there were "pockets of poverty". The latter were classified into 3 categories: (i) "hidden poor" (the younger and older generations who are still unaware of social welfare programmes and thus live in conditions far below the standard of the average Seychellois); (ii) "seasonally unemployed" (mainly fishers, stevedores and small farmers, who have irregular income) and "retired people living on limited pensions". This study nonetheless pointed out the need for further research in order to ascertain the poverty status of vulnerable children and persons with disabilities.

2. The National Bureau of Statistics in collaboration with the Social Welfare Agency (now known as ASP) and UNDP carried out the **Living Conditions Survey (LCS)** for the first time in Seychelles in 2011¹⁷. The results of the Living Conditions Survey show that although living conditions of Seychelles households are found to be generally acceptable, there is a hidden core of worrying poverty and destitution situations. The estimated poverty line is worth 13554 Rupees (9770 USD) per adult-equivalent per year. The poverty rate is estimated at 17 percent of the population. In particular, serious hints have been found about household destitution in food for one-fifth of Seychelles households. This general finding of destitution for a small but not negligible minority of household is confirmed by many other results. Other areas that are investigated are basic needs in housing, clothing, health, education and transport. The global financial situations, the credit needs and the welfare applications of households are analysed. Also, the spending priorities of households and the shocks they suffered are studied. Finally, numerical estimates of basic needs are reported, either through self-assessment or through assessment of 'other families' of five given types.

3. On the whole, the dwelling conditions of Seychelles households are rarely terrible. There is particular concern that recent rises in food prices, attributable to a combination of rising fuel prices and concerns about security which have driven up the costs of imports to the Seychelles, may be increasing levels of food insecurity among the poorer sections of Seychellois society. A dimension where destitution is sometimes more severe is that of food consumption. Indeed, one third of households state that they have sometimes some difficulty to obtain daily food, and another 5 % considerable difficulty. Premium rice may be sometimes considered of bad quality. In this respect, it may be a hint at poverty status. 13 % of households consume it. Moreover, 19% of households state that they don't have the ability to buy sufficient fruit and vegetables, while 21 % of households state that they don't have the ability to buy sufficient fish and meat, and they are generally the same households. Surprisingly, the relationship of these destitution variables with the number of children is not very strong.

4. The LCS clearly indicated that fishers, as an occupational group, represent the poorest segment of Seychellois society, with over 28% of fishing households identified as below the poverty line. This is significantly above the occurrence of poverty nationally of around 17% of the population as a whole.

¹⁶ This section is based on the Living Conditions Survey that was carried out by National Bureau of Statistics in collaboration with the Social Welfare Agency (now known as ASP) and UNDP.

¹⁷ The Living Condition Survey (LCS) re-surveyed the same households who had been randomly selected for the 2006/07 Household Budget Survey (HBS). A total of 1,225 households were contacted among whom 1,125 households were finally interviewed.

(ii) Population of Seychelles and CLISSA Target Group

5. **Population.** In 2010, Seychelles had a population¹⁸ of 90,945 inhabitants, living in 24,770 households. About 8,662 households (35.0%) were involved in crop production, mainly vegetables and fruits but also small quantities of root crops (cassava, sweet potato). An estimated 3,061 households (12.4%) were raising livestock, mainly chickens and pork. In addition, 3,484 households (14.1%) were involved in fisheries, of which approximately 800 for sale and 800 for auto consumption. According to the Census of Agriculture in 2011¹⁹, 768 households/farms, often mixed farms, are producing crops mainly for sale in the domestic market. In addition, around 8,000 households are involved in some backyard gardening or livestock activities. Table 1 presents the number of households carrying out farming activities or raising livestock (mainly poultry and pigs). Table 2 looks at the purpose of production.

Table 1: Number of households carrying out farming or raising livestock

Whether farming activities	Whether livestock activities			
	No	Yes	Not Stated	Total
No	14,470	1,109	169	15,748
Not Stated	21	4	335	360
Yes	6,503	1,948	211	8,662
Total	20,994	3,061	715	24,770

Table 2: Number of households involved in farming activities (by purpose of production)

Purpose of production	Number of households	Percentage
Mainly for sale	503	6
Sale of surplus	477	6
Mainly for consumption	7,468	86
Not stated	214	2
Total	8,662	100

Source: Census of Population and Housing, 2010

6. **CLISSA target group.** The target group of the Project would consist of: (a) approximately 980 farmers who are producing for the domestic market; (b) approximately 1,330 people dependent on artisanal fishing and fish handling and processing; (c) some 7,500 additional households which are involved in some form of small-scale agricultural practices and backyard gardening, in particular the households of this group that are below the poverty line.

7. The Project would target the poor unemployed youth and women. The private sector partners for CLISSA would include the whole continuum of economic agents, ranging from subsistence or small-scale fishermen, wage-earners in the islands, small-scale traders and micro-entrepreneurs; to medium-sized, local private operators such as input suppliers, fish feed suppliers, enterprises involved in grow-out production of different fish species, transporters, processors, fish retailers, wholesalers and traders; to other, bigger market players such as the private companies involved in importing fish feed and seed, operators of hatcheries, exporters and resort owners interested in purchasing mariculture products.

¹⁸ Census of Population and Housing (COPH). 2010

¹⁹ Bureau of Statistics. Census of Agriculture. 2012

(iii) Targeting Strategy

8. CLISSA will adopt an inclusive approach to participation in project activities given the unique geographic characteristics of this small country, the nature of island communities, the unique profile of the people, gender roles and responsibilities and the need for participation of the private sector as a key partner.

9. Most of the activities of CLISSA will not have a poverty focus per se (except of targeting of households below the poverty line that are involved in backyard gardening) but many of its beneficiaries who have self-selected themselves for participation in project activities belong to the IFAD target group. Furthermore, the Project will be oriented towards market based activities which require the participation of individuals with entrepreneurial ability and the capital to invest in small enterprises. People with such an entrepreneurial spirit will take leadership roles in project activities and are essential partners. Their successful participation assures the sustainability of the endeavour, ensures the participation of poorer households either as employees or as beneficiaries from the ancillary activities, the backward and forward linkages generated and the multiplier effects created.

10. CLISSA will also support institutional strengthening of those actors who provide services to the target group which assist in their further development. A particular focus will be placed on investments in activities that enable disadvantaged groups (including women and youth) to improve their livelihoods and seize income-generating opportunities.

(iv) Gender Analysis and Policy Framework

11. **Analysis of gender.** A detailed analysis of gender is available in the *Seychelles Gender Barometer*, which is produced annually in close collaboration with the Southern African Development Community (SADC) since 2008.

12. Overall, women are doing well in the Seychellois society. However, the results of the Living Conditions Survey of 2011 highlight the gender differentials that persist in relative poverty in the Seychelles. Female-headed households in the Seychelles are significantly more likely to be poorer compared to male-headed households and, while this is also related to the peculiar situation in the Seychelles where a majority of households are female-headed (56%), it also indicates that there are probably wage differentials and pressures on many women raising their children by themselves and unable to participate fully in the workforce as a result. A specificity of Seychelles is the majority (56 %) of female-headed households. Note also the importance of single or not-in-union heads that constitute together 42 % of heads²⁰.

13. **Gender policy framework.** The 1993 Constitution of Seychelles promotes non-discrimination and guarantees equal rights and protection for both men and women. Female citizens are guaranteed equal rights and protection, have the same property rights and the same rights to inheritance as men. The country has also signed and ratified the principal conventions related to gender discrimination. The Government has reinstated the National Gender Steering Committee and a Gender Secretariat is in place within the Department of Social Services. The National Plan of Action for Social Development 2005-2015 calls for the elaboration of a National Gender Policy and a National Gender Action Plan in line with the Beijing Plan of Action. The National Gender Policy and Action Plan provide an important framework for addressing gender issues.

(v) Gender Action Plan of CLISSA

14. **Equal Opportunities** CLISSA would ensure the involvement of women in promoted agricultural and fishing activities and in the formation and strengthening of

²⁰ LCS



producer groups, which allows them to take part in decisions on production, processing and value addition, marketing. Equal participation of men and women would be targeted through focused mobilisation, sensitization and institutional sensitisation to take them on board. This requires several practical measures.

15. **Institutional Capacity.** The institutional readiness of both SAA and SFA would be enhanced through training and awareness raising on gender. Institutional mandate, which will be provided by the gender sensitive policy that is being currently developed under women and food and nutrition security in Seychelles, with budgetary allocations, capacity, and also with a monitoring and evaluation framework would be strengthened. The project would carry out training for the implementing agencies, including producers and other relevant actors. The project would establish linkages with other partners and secure resources and also create space for women's representation in every point of the promoted agricultural and fishing activities. The actors involved will be encouraged to recognise women as a key stakeholder group and are prepared to see that women have opportunities to contribute as key players in the promoted agricultural and fishing activities.

16. **Training** and awareness raising (through programmes and success cases, posters, etc. which will be designed by the Communication Centre that is supported by the project). Capacity development training would enhance women's entrepreneurship and women in decision making. The project would create partnership with Social Development Institutions and carry out these trainings. The awareness on financial capacity (through entrepreneurship development, credit / micro-finance management), human capacity (through training and skill development), and social capacity (through women's social capital) would be provided.

17. **Project staff.** Gender balanced project staff by recruiting of women. 20%-30% of the project staff and the staff from SAA and SFA who would deal with the project would be women. The project would encourage women to join the project staff at various capacities as appropriate and encourage women to work with farm production women. There will also be adequate representation of women in the TWGs.

18. **Access to financial services.** Unequal access to financial services, and in particular to term finance, loans exceeding 12 months duration is a widely observed problem in Seychelles. Women often shy away from Banks. And they need to be considered profitable clients in their own right. This would enable women to build their financial capacity and gradually get introduced into different types of promotional lending programmes that Seychelles provide. Women would widen livelihood options and make use of their time efficiently for engaging in remunerative work. The backyard garden development programme of the project will be mainly targeted at women.

19. **Project management and supervision.** Equal opportunities would also be provided project management and implementation structures. Through this process gender references to the entire project spectrum would be established. As part of the Gender Action Plan, gender training programmes would be carried out for all implementing agencies enhancing their institutional readiness and capacity to follow a gender inclusive strategy, and undertake gender related activities.

20. The M&E system would include gender disaggregated data collection, analysis and reporting at all stages of project implementation. The project supervision missions will monitor the progress of the proposed Gender action plan as it is proposed or any further improvement of the plan.

ANNEX 3: COUNTRY PERFORMANCE AND LESSONS LEARNED

(i) Performance of IFAD Country Portfolio

1. IFAD has no active projects in the Seychelles at the moment. The Fund financed the Employment Generation Project (EGP) during the 1990s. The objectives of the EGP were to improve smallholder income and standards of living through increased agricultural productivity and promotion of income-generating activities.

(ii) Lessons Learned

2. IFAD has drawn considerable experience from its projects on small islands and in medium-income countries. Relevant aspects for design of CLISSA include poverty targeting, community organization and cooperative formation, participation of the private sector, mainstreaming activities in existing institutions, access to financial services, project management, monitoring, evaluation and knowledge management, etc.

3. **Approach to poverty targeting.** IFAD projects on small islands have not had a poverty focus per se but adopt a self-targeting approach. This inclusive approach ensures the participation of households who fit the IFAD target group profile. Furthermore, IFAD projects have been oriented towards market based activities which require the participation of individuals with entrepreneurial ability and the capital to invest in small enterprises. The successful participation of non-poor and private sector players assures the sustainability of the endeavour, ensures the participation of poorer households either as employees or as beneficiaries from the ancillary activities, the backward and forward linkages generated and the multiplier effects created. As a medium-income country, Seychelles has quite good population and poverty statistics, as well as a Social Welfare System. The Project will build on this institutional capacity to target poor people directly.

4. **Understanding the constraints and incentives of private sector partnerships.** The role of the private sector has been correctly recognized by the Government of Seychelles (GoS) as key for economic growth and development in the country. Unfortunately, many development projects do not correctly assess the incentives and capacity for private sector participation and tie down such participation in complicated arrangements which micro-manage private sector activities. Many projects are unable to secure private sector participation. Some of the principal reasons for this included failure to anticipate private sector interest in investments in the proposed sectors, financial constraints, the straight jacketed nature of collaboration expected. The current design builds on these lessons by ensuring that private sector interest is demonstrated, understanding constraints of the private sector and by providing technical assistance, involvement of private sector in Technical Working Groups and access to financing for the micro-small and medium enterprises and individuals. The Project also provide considerable flexibility by encouraging partnership of a range of entrepreneurs who might want to invest in the sector.

5. **Unrealistic expectations from cooperatives and farmers' organizations.** Most projects have been very ambitious in terms of their expectation regarding cooperatives and farmers' organizations. Such arrangements only work well if internal leadership and institutional management capacity exists and when the benefits and costs of collective endeavour are well defined and ownership of the resource generating assets is clear. Whenever ownership rights are ambiguous and leadership is not available, collective arrangements can collapse or disintegrate at the first sign of friction. Furthermore, just because some cooperatives work well together in some tasks does not mean that they want to move from group action to joint ownership and partnership in a formally registered company. CLISSA recognises these aspects of collective action and will not force all groups to transform to the next level of formal organization when clearly there is no need to add this element of complexity in the organizational arrangements.

6. **Understanding the reasons for lack of access to finance.** Most development projects in Seychelles have correctly recognised the lack of finance as a constraint in the growth of the private sector in many areas of economic development. The key constraint in lending to a new sector is a mechanism that can help banks to underwrite some of their risks in the agricultural sector and help private sector to obtain funds. Primary producers on the other hand require the confidence of a sound and longer term profitable investment in order to borrow from a commercial bank. The proposed credit line will be implemented on an experimental basis as a pilot that the banks would later on scale up out of their own resources.

7. **Promotion of innovative financing through community based financial institutions.** The IFAD project that wrapped up in the mid 1990s involved the Seychelles Credit Union movement for extending micro loans to poorer islanders. The mechanism was innovative since part of the individual collateral that needs to be provide in the credit union lending approach was substituted by a project fund financed out of NGO / ECP grant resources at the time. It was one of many IFAD initiatives to find innovative ways of collaborating with thrift and credit cooperatives / credit unions in the 1990s.

8. **Forging sustainable market linkages.** Several projects have gotten directly involved in marketing as a result of which the project sponsored arrangements cannot sustain themselves beyond the project. Therefore, the Project design includes, as a key aspect of its strategy, PPP and involvement of the private sector in project institutional arrangements. In addition, activities will be undertaken as commercial initiatives and matching grant-funding is limited. The Project also recognises in its design that not everyone is an entrepreneur and a certain temperament and some innate skills are required. Thus the selection and initial screening would be very key in identifying the right candidates as entrepreneurs. This approach would create minimum dependence upon the Project. The Project would strengthen the capacity of these entrepreneurs throughout duration of implementation and would only provide them opportunities for linking with the market but would not get directly involved.

9. **Programme Management and Implementation.** The following key lessons are drawn from the experience of previous and on-going projects with reference to project management and implementation:

- i. *Mainstreaming in existing structures.* The design mission examined the best manner in which to leverage the project management and technical resources available to the project. It was decided therefore to mainstream management in existing structures. This is a cost-effective strategy given the size of the country.
- ii. *Procurement Procedures.* Previous IFAD projects in the region have found that one of the main causes for the delay in project implementation was the prolonged period involved in the processing and approval of procurement. Limited number of available and willing suppliers makes it an untenable and time consuming process to obtain even three quotations resulting in long procurement delays.
- iii. *Flexibility in drafting the PDR and Loan Agreement.* Previous IFAD projects in medium-income countries have found that if activities that are to be supported are very precisely defined in the Loan Agreement, it can lead to a level of inflexibility from which it is difficult to extricate later without making changes in the Loan Agreement which are cumbersome. The current design would ensure that the Loan Agreement will not be a straightjacket during implementation.
- iv. *Early recruitment of the Project Manager.* Early recruitment of the Project Manager and his/her involvement in the final project design and loan negotiations assists in greater clarity and in reducing the time required to get the project off the ground.

ANNEX 4: DETAILED PROJECT DESCRIPTION

Component 1: Enhancing business arrangements through capacity development of small farmers, rural micro entrepreneurs and fishers²¹

1. **Lessons learned and justification.** This component draws, amongst other sources, from the successful model of the IFAD PROSPERER project in Madagascar, a business development service initiative that supports both agriculture and non-agriculture activities with a flexible, highly effective and fast-implementing approach which already at mid-term allowed to demonstrate concrete impact on poverty reduction. For CLISSA, it is envisaged to adapt the PROSPERER approach to deliver support services to small-scale actors in agriculture, fishery and livestock sub-sectors. This can be considered as a partial scaling-up of the PROSPERER project to Seychelles. At the same time, “down-scaling”, adaptation and fine-tuning of the business models to suit a small island country like the Seychelles will be inspired by successful FAO experience in the Caribbean and the Pacific through the “producer–first buyer meetings” methodology (piloted as a tool to identify action areas for improving the relationship and the flow of produce, including, e.g., in the case of onions in Barbados, pineapples in Dominica, hot pepper in Belize).
2. The justification comes from (i) the demonstrated effectiveness of the PROSPERER approach which is based on the fast delivery of targeted business development and technical support to beneficiaries; and (ii) the nature of the Seychelles’ primary sector (a middle-income Small Island State characterised by limited domestic demand and development opportunities and a strong competition from imports) which requires a flexible, tailor-made intervention on small actors that covers the largest possible range of economic activities (maximising returns and minimising risks) while at the same time remaining cost-effective (maintaining transaction cost at a reasonable level by addressing only the worst bottlenecks in each economic activity).
3. Specifically for Seychelles, CLISSA recognizes the major role that also the larger and corporate private sector can play specifically in this small island economy. A key lesson learned from past development projects in the country is therefore that it is vital to correctly assess the incentives and capacity for private sector participation. This relates to the setting up trials, demonstration units, green and sustainable value chains and communication elements in this. Private sector interest in securing supply chains and presenting themselves as promoting the local economy are of major interest also for CLISSA
4. **Objective and strategy.** The objective of this component is to enable small farmers, rural micro entrepreneurs and fishers, to effectively respond to market signals through targeted business development, marketing and technical support services as well as establishing links with the market, and to promote innovative technologies and green value chains. This will be accomplished in CLISSA through the flexible business model outlined above including PPP with the tourism industry.
5. **Outputs and outcome.** The main outputs of the component include (i) training on business management, marketing and technical matters delivered to small actors in agriculture, fishery and livestock; and (ii) facilitation for establishing business links between sellers and buyers. The main outcomes are that small farmers and fishers are able to respond to the market through sustainable

²¹ Text is the same as main text, will be expanded upon after the start-up workshop.

commercial ventures operating in all three primary sub-sectors and with improved access to equitable financial services.

6. **Description.** The outcome of this component would be the establishment of robust and durable business links between small farmers and fishers and buyers. The Project will support the strengthening of small actors in agriculture, fishery and livestock in order for them to be able to better respond to the market. The main activities/process are derived from the approach of the IFAD supported PROSPERER project and include: (i) a rapid survey of small actors already active in agriculture, fishery and livestock which are likely to positively respond to the opportunities emerging out of the CLISSA project; this survey will be conducted in close collaboration with the Social Welfare Agency and the District Administration at the beginning of the project and will allow to select the products and activities to be supported. It will build on data kept by these agencies and those generated by poverty surveys and similar studies; (ii) establishing a small farmers' and fishers' database that will include data on their initial status (sales, VA, materials and inputs and income) as well as various support received and improvements in both quantitative and qualitative terms; (iii) screening potential business ventures among the surveyed small farmers and fishers; (iv) conducting a gap analysis in collaboration with the potential buyers in terms of needs for capacity building to meet market requirements by small farmers and fishers; (v) Elaborating a business / strategic plan for each identified small farmer, micro entrepreneur and fisher in collaboration with the potential buyers; (vi) providing general business management as well as technical training based on the above-mentioned business plan; (vi) facilitating business links with buyers that were already involved in the gap analysis; and (vii) monitoring progress and feeding the database. The Technical Working Group for Rural and Agricultural Finance would assess the extent to which these trainings should be used as a prerequisite for lending in new and innovative areas of production, processing and value chain development.
7. In fisheries, an integral part of the work on strengthening linkages between fishers and buyers would also be to encourage the development of effective mechanisms for managing fisheries, particularly in the inshore waters that are most heavily exploited by artisanal fishers. Co-management between fishers and the authorities is provided for under law and opportunities to support the creation of co-management mechanisms involving fisher organisations will be explored. This will aim to build on on-going experience with the Praslin Fishermen's Association developed with support from UNDP. Opportunities to support the extension of the experience of this organisation to Mahe and La Digue will be investigated.
8. Some indicative examples of project activities to be included in the list of eligible activities for this component will include:
 - a. Capacity building of small farmers and fishers in technology adoption, business development and business management, quality improvement of selected products, demonstrations, trials and studies and any other training that would be identified to promote these technologies; capacity building for fishers and farmers will be provided by professional public and private institutions, including SAA, SFA and SEnPA among others. In fisheries, organisational capacity will also be built and co-management capacity developed;
 - b. Identification of technologies packages and trials. The technologies promoted by the Project will be identified by the Technical Working Groups (see implementation arrangements below) and other pertinent



stakeholders as being of significant importance to the development of the sector. If required, the Project would finance trials and demonstrations to assess the efficiency of new technologies and adapt them to local conditions. As many as possible of the technologies and interventions that will be proposed and applied in the project will be selected as per their proven climate resilience and environmental friendliness. In fisheries, technology packages will be carefully vetted by the SFA to ensure that they will not place additional pressure on fisheries resources already heavily exploited;

- c. Special focus on environmentally sustainable and climate smart technologies. These should benefit primarily small farmers and rural micro entrepreneurs and would fall under two broad groups that should be equally considered for support: (i) technologies to support renewable energies over the entire spectrum i.e., biofuel, thermo and solar energy capture and different types of hydro based solutions, (ii) technologies to improve energy efficiency at the farm or rural community level and (iii) more fuel efficient designs of craft and engine to improve the efficiency of artisanal fishing operations. The thrust would be primarily on household level solutions, but could also include mini grid systems and tail end solutions where renewable energy sources are directly linked to the main grid.
- d. Improving food security by promoting home and community gardens. The Census of Population and Housing of 2010 identified approximately 8,000 households that practice backyard gardening. Main targeted crops by the project could include extensive and intensive horticulture (green houses and hydroponic), fruits (banana & papaw), and livestock (pigs). For further details, see “Financial and economic analysis” in annex 10).
- e. Enhancing productivity at the household level will be achieved through training and other forms of capacity development. Up to 30 per cent of project beneficiaries may select to link to financial services through CLISSA. Low income households that have been identified through the Poverty Reduction Survey 2012 will be given priority. The Project will develop a strategic partnership with the Social Welfare Agency and the District Administration in order to outreach to these households.
- f. Working on the “local agricultural supplies to tourism” idea that was identified in the “Seychelles Tourism Value Chain Analysis” in October 2010, as contribution to the Tourism Sustainability Label. Other ideas suggested by the Seychelles Tourist Board (STB) that might be developed would be: a demonstration farm, agro-tourism, etc.. Other ideas in agriculture would be the development of input supply or provision of services and goods to the sector (feed, fertilizer). In fisheries, where contract arrangements between fishers and private sector fish traders are already more widespread and firmly established, the Project would work to promote a dialogue between fishers, fish traders, tourism and Seychelles Fisheries Authority (SFA) to identify opportunities for diversifying fishing efforts and promoting demand for fish varieties that are currently less utilised and promoting their commercialisation and use. Linkages will be built to enhance the labelling of local fisheries products and to build on certification efforts that have already been initiated such as the Seychelles Hook and Line Fishermen certification for Responsible Fisheries. Awareness of this and other labelling schemes will be promoted in the tourist industry. This component may also support initiatives to process by-catch and would actively promote public private partnerships between larger

companies and corporate and the government managed PIU and the executing Ministry MNRI.

9. **Risks.** There are two types of risks. The first one relates to improvements that are not sustainable over time due to businesses ventures that are not consolidated and are vulnerable to internal (health-related; ownership rights; access to credit) as well as external shocks (weather-related; general economic situation). This can cause the supported small farmers and fishers to “fall back” into their initial status and below, losing the progress made under the project. In fact, even in the without project situation, there is a small group of farmers that still operate, but have been put back on account of climatic hazards and other uncertainties. Special recovery activities are aimed at this group defined as farmers and fishermen with (i) either a negative financial net worth, or (ii) suffering from insolvency because of the new rule to permit loan re scheduling only once even if climatic risks and other hazards would have justified further restructuring.
10. The second relates to the capacity of service providers to deliver the range of business support that the proposed flexible mechanism requires.
11. **Mitigating Measures:** The former risk will be mitigated by delivering a range of supports that stabilise and consolidate in particular farmers and fishermen currently under distress. These recovery funds would make up part of the business development activities of component 1.
12. Regarding the latter risk, outsourcing of private sector service providers as well as international expertise if and where required will be sought.
13. **Sustainability.** The market sustainability of the component will be ensured by the progress made by supported small farmers and fishers which hopefully will be able to be maintain successful business relations with buyers. The capacity of the project to continue providing services to potential clients (scaling-up and institutional sustainability), will be assessed at mid-term based on project outcomes and preliminary impacts.

Component 2: Accessing financial services

14. **Lessons learned and justification:** In small island economies where changing population and consumption patterns open new scope for the development of agriculture and related value chains, finance has often been identified as a constraint. Interviews with all the leading banks in the country confirmed that at present, none of the financial institutions has developed any services specifically for farmers and related agro processors. Similarly, fisher folk in particular small and micro entrepreneurs outside of urban areas often lack capital to expand their existing small businesses or intensify production on the farms. The government priority of promoting agriculture in the country would therefore need to include financing, and the CLISSA project and its sectoral structure is well placed to scale up and mainstream emerging lessons from pilot experience. Experience from IFAD supported projects with the Bank of Maldives (BoM) in a comparable island economy showed quick and sustainable results in promoting a largely dormant and under-financed productive segment through loans and other financial services. In the meantime, the IFAD pilot projects and initial credit funds for demonstration purposes were fully integrated into the general business operations of the BoM.

15. **Objective and strategy.** The objective of this component is to provide the financial services required for transforming the ailing agricultural sector and removing access constraints for smaller farmers, producers, fishers and rural micro entrepreneurs to finance. Here is presently no bank that services the proposed target clientele as a preferred market segment. Building on successful IFAD experience in comparable economies, innovative agricultural and value chain financing models will be developed, piloted and then scaled up through partner banks with the sufficient size and development banking experience to scale up out of their own resources.
16. *Outputs and Outcomes.* The outcome of this sub-component would be improved access by small farmers and fishers to development financing through participating banks, including those offering loans at slightly higher market rates because of the higher costs of mobilizing domestic deposits, but offering current account, cheque and other facilities over the same counter. Participating banks would finance working capital requirements of CLISSA beneficiaries out of their own resources and would be able to resort to a refinancing fund to pilot test term lending to a new productive clientele in the market. A list of cutting-edge technologies will be actively promoted by the Project.
17. The application of as yet untested and innovative types of financing such as, for example, micro-leasing (in the case of machinery and equipment with a relatively longer service life) will also be explored. By the time the project will start up, a leasing law is expected to have passed parliament and will enable domestic financial institutions to offer this service to its clients.
18. *Implementation arrangements.* For this component, and in line with the thrust of CLISSA to promote competition and thus improve services, two banks will manage IFAD refinancing funds. After depletion of an initial deposit that would equally (30 per cent) cover the initial 60 per cent of overall funding requirements, the balance funds would be disbursed to the bank with the superior project implementation experience (disbursement, management of loan funds, recovery record).

In addition to a sub component on loan funds, there are also funds for technical assistance and capacity development at the level of participating banks. These consist of loan officer trainings in smallholder agricultural finance and individual micro enterprise financing, as well as technical assistance at the level of participating banks, where required .

Risks: The main risk relates to the delivery capacity and sustained interest of the selected banks in partnering with MNRI in developing appropriate products and services to capture this largely dormant market segment of non-urban small farmers, fishers and micro entrepreneurs .

Mitigation measures. Taking at least two banks on board is the chief risk mitigation measure against the above. A service provider roster will be established during the first year of the project in order to address a large variety of on-the-job training.

Component 3: Strategic capacity building and infrastructure

19. **Justification.** Public goods are required to accompany the activities implemented in component 1 by private actors (small farmers and fishers as well as buyers). These include training and demonstration, research, public and collective



infrastructure, collective post-harvest services, communication and knowledge management.

20. **Objective and strategy.** The objective of this component is to: (i) provide the necessary and complementary public goods that will enable the implementation of component 1; and (ii) prepare the exit strategy of the project in terms of institutional continuity. The strategy is to strengthen existing agencies and entities for delivering the required public goods.
21. **Outputs and outcome.** The main outputs of the component include communication products, post-harvest service delivery, research, training of trainers. The outcome is an established capacity in the Seychelles allowing for the strengthening of small farmers, rural micro entrepreneurs and fishers and effectively linking them to the market.
22. **Description.** The component is divided into two sub-components namely, (i) strategic capacity building; and (ii) public and collective infrastructure.
23. Sub-component 3.1: Strategic capacity building. The aim of this sub-component is to strengthen strategic capacity of selected public (and private) actors involved in the implementation of Component 1. Some pertinent activities of this sub-component will include:
- a. A communication unit would be strengthened at the level of MNRI in order to enhance visibility of CLISSA and the interventions of MNRI. This unit will also extend into SAA to help with disseminating lessons and experience of trials, including extension material that is supported by the Project.
 - b. A postharvest unit would be established at the SAA research station for demonstration purposes (to accompany Component 1 activities). The unit would provide the necessary backstopping required in the promoted agricultural and fishing activities, in the field of organic farming practices, grading/storage/post-harvest handling, etc...
 - c. Targeted support for quality control mechanisms, import and screening of genetic material, specialised training of trainers (ToT) and training of field staff, and other requirements for the development of the targeted agricultural and fishing activities;
 - d. Assistance to the Seychelles Agriculture and Horticulture Training Centre (SAHTC) to: (a) revise the present curriculum to introduce smallholder centered and climate-resilient technologies; (b) invest in state-of-the-art demonstration equipment for horticulture and fruit production; (c) provide capacity building to the trainers.
24. Subcomponent 3.2: Public and collective infrastructure. The aim of this subcomponent is to finance enabling small scale communal rural infrastructure, related to activities of Component 1. The Seychelles are well-equipped in terms of basic infrastructure but for both small-scale agriculture and artisanal fisheries, there are some localised gaps that will be identified in close collaboration between the stakeholders in the sector. Infrastructure requirements in fisheries are likely to be more limited in view of recently finance inputs however, where appropriate and where the Technical Working Group, fisheries stakeholders and experts from the SFA identify specific, small-scale infrastructure requirements, support for the construction of these may be considered.



25. **Risks.** Collective infrastructure and equipment bring with them the issue of defining the responsibility for property, management and maintenance. If the underlying agreements between government and private actors are unclear about these points, the risk of mismanagement and deterioration is high.
26. *Mitigation measures* is represented by the support of a specialised business lawyer that will carefully analyse the above agreements to integrate the necessary legal provisions that address the risk associated with the property rights and maintenance of infrastructure and equipment and the transfer of these facilities to the beneficiaries.
27. **Sustainability.** Using public and/or private existing agencies and entities for delivering public goods ensures a continuity beyond the project life. Operation and maintenance of public infrastructure will be linked to decentralised local government and municipal entities and be carried out in accordance with existing frameworks and regulations at that level. The inclusion of acceptable arrangements for the operation and maintenance of collective infrastructure and equipment will be one of the conditions for the financing of such infrastructure and equipment.

Component 4: Project management

28. The purpose of this Component is to provide effective technical, financial and contract management of the Project. This would be achieved by adopting a strategy that combines a dedicated Project Management Unit (PMU) providing management and controlling functions. The Project would finance the required equipment, studies and training of staff, and operating costs. It would also finance the establishment and operation of a Monitoring & Evaluation System, as well as Knowledge Management. The PMU could recruit specialized expertise from the outside in the form of individual specialists that work under the overall guidance of the head of the PMU. All financial and operational authority is vested in this PMU model within the ministry and not outsourced to outside agencies or service providers.

ANNEX 5: INSTITUTIONAL ASPECTS AND IMPLEMENTATION ARRANGEMENTS²²

i. Organization of CLISSA

Lead Project Agency

143. The Ministry of Investment, Natural Resources and Industry (MNRI) will have the overall responsibility for the implementation of CLISSA. MNRI will coordinate with the Ministry of Finance, Trade and Investment (MOFTI) and other relevant Ministries and Agencies.

National Project Steering Committee

144. A National Project Steering Committee (NPSC) will be established within and chaired by MNRI. The NPSC membership will include representatives from finance, tourism, environment, land and water, small business promotion, local government, health, social affairs, agriculture/livestock, fisheries, SSDD, as well as representations from the private sector (farmers' associations, business, tourism, banking and finance, marketing and trade).

145. In line with CLISSA overall philosophy of close partnership with private sector agencies at different levels, the PSC will consist of an equal number of private sector and government (including parastatals) representatives. The NPSC shall be chaired by H.E. the Minister MNRI with the majority established by the chair in case of parity of votes. The NPSC should consist of a maximum of 10 representatives.

146. The NPSC shall: (a) provide general policy directions for the Project; (b) orient the overall Project implementation strategy; (c) oversee planning, review and approve each Annual Work Plan and Budget (AWPB) prior to submission to IFAD and review implementation progress and impact. It shall also ensure appropriate and timely coordination with other initiatives that are financed by other donors and/or Government. The NPSC shall meet two times in a year and on an ad-hoc basis as and when necessary.

147. The ToR, composition and relationship with the NPMU and the Technical Working Groups shall be finalized during the Start-Up Workshop for CLISSA planned to be conducted in the final quarter of 2013.

National Project Management Unit

148. A Project management unit (PMU) would be embedded with the Office of the Principal Secretary in MNRI. The PMU will be responsible for the implementation of the day-to-day activities of the Project to ensure the timely and results-oriented delivery of services by all stakeholders, and monitoring of progress and impact. After project completion, the PMU could be integrated into MNRI to continue with the provision of support services to the agriculture and fisheries sector. The PMU would have three professionals (National Project Coordinator (NPC), programming and M&E officer and financial controller), as well as the required support staff. Government will provide office space, salaries and contribute to operational expenditures. A staff position is budgeted in the cost

²² Text is the same as main text, will be expanded upon after the start-up workshop.

tables for external recruitment of a professional as part of the NPC. It is recommended that this be the programming and M&E officer who would operate under supervision of the head of the PMU.

Technical working groups

149. Three Technical working groups (stakeholder groups and key institutions) of approximately 10 participants each would be established, one for agriculture/livestock, one for rural and microfinance and one for fisheries. More than half of the participants of each of the three WG would come from non-state or parastatal institutions i.e., NGOs and private sector representatives. . These working groups would advise on the planning and implementation of components 1 and 2 and sub-component 2.1. The PMU will coordinate the Technical Working Groups and for convening meetings on a regular basis (4 times per annum), and ensure that key information is circulated among participants and more widely. The Communication Unit of MNRI will sit as an observer on the Technical Working Groups to provide the linkage between the Project and the public.
150. Participation in the Technical Working Group on Agriculture would include representatives from farmers, service providers in the livestock sector, Seychelles Hospitality and Tourism Association (SHTA), the Seychelles Chamber of commerce and industry (SCCI), Local Government, SAA, SEnPA, IDC, SeyFA, DBS, an environmental NGO, as well as private entrepreneurs. In addition, other agencies identified as being of relevance depending on developments in either of the sectors would be invited to participate on an ad hoc basis.
151. The Technical Working Group for Rural and Agricultural Finance would bring bankers, the Seychelles Credit Union (SCU) and the project together and chart the way forward as well as providing a platform for learning from each others' experiences. Above all Barclays Bank and SCU are interested to be involved in this process even though they will not be included as project financial services agencies for CLISSA.
152. For the Technical Working Group on Fisheries, participation would include representatives from the Seychelles Fishing Boat Owners Association, SFA, Seychelles Hospitality and Tourism Association (SHTA), the Chamber of commerce and industry (CCI), Seychelles Centre for Marine Research and Technology – Marine Parks Authority (SCMRT-MPA), Marine Conservation Society Seychelles (MCSS), SEnPA, IDC and DBS.
153. The first session of each of the WGs would endorse a set of specific terms of references specifying duties and responsibilities and specific inputs required. These range from a priori proposals for activities for the following year AWPB to advice on draft AWPB and procurement plan upon finalization and review and advise on project related documentation such as the initial survey and the subsequent CLISSA baseline survey.

Implementation of Project Components

154. The process for implementing the component will follow key benchmarks as follows. A draft Project Implementation Manual (PIM) will be presented at the Start Up workshop for finalization during the first six months of implementation of CLISSA.

155. Component 1: Enhancing business arrangements through capacity development of small farmers, rural micro entrepreneurs and fishers.
156. Kick Off Survey: This rapid survey of small actors already active in agriculture, fishery and livestock will be carried out by the PMU in close collaboration with concerned central and district level agencies and administration. Conduct of this survey will result in the establishment of a beneficiary database of eligible small farmers, rural micro entrepreneurs. Existing data bases need to be utilized to the fullest extent to avoid duplication and unnecessary work. Finalization of this survey. will be the responsibility of the PMU. Screening of potential business ventures will be the responsibility of the two Technical Working Groups for farming and for one fisheries; For rural finance, identification, initial screening and all associated responsibilities lie directly with the partner banks of CLISSA. A specialised service provider will carry out the following tasks: (i) conducting a gap analysis in collaboration with the potential buyers will be outsourced to a service provider; (ii) facilitate the elaboration of a business development / strategic plan for each supported small farmer, rural micro entrepreneur and fisher; (iii) implementing the training programme for these small farmers and fishers; (iv) implementing the training programme for these small farmers and fishers; (v) facilitating business links with buyers that were already involved in the gap analysis. These tasks will be implemented by the service provider under the supervision of the PMU. Monitoring progress and feeding the database will be the responsibility of the PMU.
157. SAA and SFA will develop and create awareness on technology packages and investments eligible for Project support. If required, SEnPA can assist farmers, fishers and other value actors with the preparation of business plan/loan request. Extension support and specialised training would be provided by the Seychelles Agriculture Agency (SAA), the Seychelles Fisheries Agency (SFA), the Small Enterprise Promotion Agency (SEnPA), and other qualified service providers. SEnPA and other service providers could provide capacity-building support for clients with investment financing requirements.
158. The Project will assist household below the poverty line with economic empowerment activities. The Project will develop a strategic partnership with the Social Welfare Agency and the District Administration in order to reach out to these households.
159. For the organisation of trials, the Project will sign MoUs with the relevant stakeholders, including the SAA and SFA research units and the Island development company (IDC). Relevance for the promoted agricultural and fishing activities and selection of trials will be validated by the TWG.
160. Component 2: Accessing financial services. CLISSA will include a competitive and innovative feature in this component: a competitive allocation between at least two banks participating as implementation partners of CLISSA. Participating banks will be selected following a nationally advertised expression of interest which will detail some selection criteria that banks will need to meet if they are to qualify and become project partners. The criteria will be determined in collaboration with IFAD's Rural Finance desk, and will include, inter alia, the need for participating banks to contribute funds from their own resources, plus a number of performance indicators including but not limited to non-performing loans. Credit funds would be tranching and disbursed in line with respective lending performance. Participating banks would apply their prevailing terms and conditions without subsidizing services under the project. Subsidiary Loan Agreements would be signed with both banks with an initial deposit of USD



300,000 each. The balance amount of USD 400,000 would be disbursed to the bank with better project implementation performance. The Technical Working Group for Rural and Microfinance would bring bankers, the SCU and the project together and chart the way forward as well as providing a platform for learning from each other's experiences. Above all Barclays Bank and SCU are interested to be involved in this process even though they will not be included as project lending agencies for CLISSA.

161. Lending terms and conditions that both banks would apply are their standard terms and conditions for productive term financing. CLISSA on lending funds would be managed in the main balance sheet of the two banks and not treated as a contingent liability / off balance sheet fund i.e., the credit risk would be borne by the two banks for the funds lent under CLISSA.
162. The SLA will prescribe a strict commercial pricing of loans in CLISSA with rates at all times at least 30 basis points or 3 per cent above the average costs of funds prevailing in the previous quarter.
163. Decisions on allocation of the balance amount after initial deposit will be made in PY 3, most usefully as part of the MTR.
164. A small second sub component 2.2 would finance loan officer trainings for participating banks and limited technical assistance for bank performance improvement through review of existing statutes and legal frameworks governing the proposed two partner banks.
165. Close coordination between components 1 and 2 would be safeguarded. The pool of potential clients to be identified through the Kick Of survey in the first project year would serve as the client base for financial services under CLISSA.
166. Component 3: Strategic capacity building and infrastructure The Project will sign a MoU with SFA and SAA for support in the implementation of subcomponent 3.1 on the basis of an Annual Work Plan and Budget (AWPB). Institutional support will be managed directly by the PMU. Relevance of the support requested will be validated by the TWG.
167. Subcomponent 3.2: Public and collective communal infrastructure. Processes and procedures for undertaking small-infrastructure works are well-developed in the country generally involving technical supervision from the appropriate government agencies and implementation by District Administrations through transparent bidding processes.



APPENDIX 1: ORGANIZATIONAL CHART

to be provided



APPENDIX 2: TORS OF KEY PROJECT STAFF

to be provided

APPENDIX 3: CAPACITY BUILDING PLAN

Target group	Type of training
PMU staff	<p>Logical framework and performance management</p> <p>Inclusive targeting (focus on women, youth, vulnerable groups)</p> <p>IFAD procedures (preparation of AWPB, financial management, procurement)</p>
Key implementing entities (SAA, SFA, SEnPA, participating banks)	<p>Project procedures (fiduciary management)</p> <p>Preparation of Annual Work Plan and Budget</p> <p>Monitoring and evaluation</p> <p>Performance planning and reporting</p>
Small farmers and fishers (beneficiaries)	<p>A specialised service provider will carry out the following tasks: (i) conducting a gap analysis in collaboration with the potential buyers will be outsourced to a service provider; (ii) facilitate the elaboration of a business plan for each supported small farmer and fisher; (iii) implementing the training programme for these small farmers and fishers; (iv) facilitating business links with buyers that were already involved in the gap analysis</p> <p>Extension support and specialised technical training would be provided by the Seychelles Agriculture Agency (SAA), the Seychelles Fisheries Agency (SFA), the Small Enterprise Promotion Agency (SEnPA), and other qualified service providers</p>

ANNEX 6: PLANNING, MONITORING AND EVALUATION, AND LEARNING AND KNOWLEDGE MANAGEMENT

(i) Annual Work Plan and Budget Preparation

1. CLISSA will be implemented on the basis of an approved Annual Work Plan and Budget (AWPB) prepared for each year of the Project duration. The AWPB will derive from the overall goal and objectives of the Programme; and guided by the targets set, the lessons learned from previous years whilst taking into account the prevailing conditions in any particular year.
2. Each year, a participatory planning process will be organised by the PMU in close collaboration with the 2 Technical Working Groups and key implementing entities (SAA, SFA, SEnPA, SBFA,...). This participatory approach will ensure strong bottom-up stakeholder participation and involvement of private sector.

(ii) Monitoring and Evaluation

3. The M&E system, which is results based, should enable the Project to report on progress, outcomes and impacts. The system will ensure that the timing of reporting is harmonized with the Government requirements. M&E would be undertaken at three level: regular and continuous monitoring of project activities and their immediate results (*output monitoring*); monitoring of project performance in achieving expected outcomes (*outcome monitoring*); and assessment of project contribution towards the achievement of its overall goal (*impact evaluation*), which will be undertaken closer to project completion.
4. National or international technical assistance if needed could be provided at project start up to: (i) finalise the project log-frame including output, outcome and impact indicators which will provide the basis to prepare the M&E system; (ii) develop the project M&E plan with M&E matrix, data collection reporting formats with responsibilities to operate them and information flow; (iii) design training and capacity building processes for the M&E staff and implementing entities.

Responsibilities and Activities

5. The PMU will establish a Monitoring and Evaluation (M&E) system in line with the requirements of GoS. The Logical Framework of CLISSA will form the basis for measuring output, outcome and impact.
6. The M&E manager will be responsible for: (a) the preparation of Annual Work Plans and Budgets (AWPBs); (b) preparation of Half-Year Progress Reports; (c) preparation of Annual Performance Reports; (d) preparation of Status Reports for Supervision Missions (SM); (e) preparation of Ad-hoc Reports (as required); and (f) preparation of a Project Completion Report (PCR).

Progress Reporting

7. The following progress reporting process would be prepared by the PMU: (i) bi-annually Progress Reports, (ii) joint supervision and implementation support missions undertaken jointly with MNRI, (iii) Mid-Term Review, and (iv) Project Completion Review.

Reference surveys

8. As far as possible, the collection of data for monitoring project impacts would be mainstreamed into activities already undertaken by the NBS and SWA and opportunities for disaggregating data collected on living conditions and well-being to clearly identify the project's target group of small-scale farmers and fishers would be pursued at an early stage of project implementation.
9. Baseline studies would be: (i) the Living Conditions Survey (LCS) in Seychelles (national poverty survey), organized by the National Bureau of Statistics, the Social

Welfare Agency and UNDP in 2012; (ii) the National Agricultural Census that was organized in 2012 by MNRI in collaboration with FAO; (iii) the Agriculture Sector Study that will be prepared by ADB; (iv) databases of SWA on poverty. (v) other specific studies to be identified during detailed design. Special attention in the specific studies would be accorded to environmental aspects.

Table 1: CLISSA M&E system

Activity	Description	M&E Reports	Timing
Baseline & Reference surveys	Living Conditions Survey 2010 Census of Population and Housing 2006, 2010 Statistics of Social Welfare Agency (SWA)	Baseline report	Project year 1
	Census of Agriculture 2012		
	Agriculture Sector Development Study (financed by ADB)		
Internal Progress Monitoring	Internal monitoring by PMU	Half-Year, Annual Progress Reports	Half Year
Conduct of Annual Review Meetings	Technical Working Group analysis of progress achieved in the previous years and seeking views and consensus for the ensuing year	AWPB	October every year
External monitoring	External monitoring of Project implementation by IFAD and GoS	Status reports for supervision	Once or twice a year
Facilitation of Mid-Term Review	Review of Project outreach to target groups; exit strategy and adjustment of focus and implementation mechanisms if considered necessary	Status reports for MTR	PY3
Preparation of Programme Completion Report	Use of conclusions from impact assessment studies/surveys and Project database to record key learning	Project Completion Reports	Not later than six months after completion

(iii) Results and Impact Management System (RIMS)

10. Maintaining and reporting Results and Impact Management System (RIMS) is a corporate requirement of IFAD. Standardized list of common indicators and ratings are available on-line which deal with: (i) 1st Level Indicators (Outputs) which measure financial and physical progress and easily managed with the information obtained from the project M&E system; (ii) 2nd Level Indicators (Outcomes), measuring improved functionality and behavioural change of project beneficiaries including the private sector which will be collected through outcome indicators of the M&E system; (iii) 2nd level Results Ratings, assessing sustainability and effectiveness of interventions, which is based on qualitative assessment carried out by the project team; and (iv) 3rd Level Indicators (Impact), measuring the combined effects of 1st and 2nd level results. As a start-up activity of the Project, relevant RIMS indicators for the Project would be identified and included in the Log-frame to facilitate the RIMS reporting process.

**(iv) Beneficiaries database**

11. CLISSA will establish a database of small farmers' and fishers' beneficiaries that will include data on their initial status (sales, VA, materials and inputs and income) as well as various support received and improvements in both quantitative and qualitative terms. This database will allow CLISSA to monitor poverty reduction in a reliable way and its results will provide feed-back into planning and overall implementation.

(v) Learning and knowledge management

12. Innovation is one of the key thrusts of IFAD's programs in the Seychelles and the promotion of innovative solutions to the issues faced by the country in addressing food security and climate change related concerns will be a key part of the CLISSA project.

13. Knowledge management will be a key aspect of the CLISSA Project. It will be particularly important given the high level of regional activity and interaction between different countries in the Western Indian Ocean in addressing the common issues that many of them face.

14. To facilitate the effective management of knowledge and learning the Project will focus on strengthening knowledge-sharing and learning processes, particularly focusing on climate adaptation efforts; developing a knowledge-sharing and communication infrastructure based on project supported facilities; and facilitating broader knowledge-sharing and learning in IFAD platforms.

15. The project M&E system will generate relevant "knowledge products" such as process documentation, case studies, impact assessments, and assessments of the promoted agricultural and fishing activities. These would be used to disseminate relevant lessons learned through *knowledge sharing processes* such as in-island stakeholder workshops, participation in national level development partner working groups, and participating learning events that could be organised by partners. Some of the lessons can be shared with other donors such as African Development Bank. The assistance provided to strengthen the communication centre would provide some of the infrastructure needs including IT to enhance knowledge management functions of the Project. The knowledge products of the Project would be incorporated into the IFAD websites for wider publicity and also to provide feedback on lessons learned regarding business arrangement facilitation.

16. The M&E Officer within the PMU, in close collaboration with the Communication Officer of MNRI will be responsible for undertaking knowledge management activities.

ANNEX 7: FINANCIAL MANAGEMENT AND DISBURSEMENT ARRANGEMENTS

i. Financial Management of the Project

1. The Ministry of Finance of Seychelles is responsible for the financial management of the public sector and all donor funded projects and programmes. To promote fiscal prudence and disciplines, GOS uses a centralised financial management and payment processing system which is centralised with very limited delegation of financial responsibilities to other agencies. The MOFTI operates one consolidated account, which is a dual currency account, at the Central Bank of Seychelles (CBS) and MOFTI makes all payments from this account for all Government activities including the funds received from external donors. The GOS has established a computerised public accounting system, namely Visual Account Mate (VAM) with built-in internal controls and ability to record all disbursements etc. This is however limited to MOFTI. Internal audit capacity is acceptable. Audit legislation and standards in Seychelles are in compliance with international standards. Tax laws and custom regulations are electronically accessible to the public. Accounting systems, internal controls, transparency, financial monitoring, and staff capacities are impressive and very adequate to operate a project similar to CLISSA.

2. A deficiency resides in the lack of delegation of responsibilities to the operational entities. This has necessitated all payments, withdrawals, record keeping and monitoring to be done by MOFTI. Being a small country with a population of about 91,000 inhabitants, the MOFTI seems to be operating the system with no difficulties at present. The daily financial operation, cash payments against project expenses and 1st level report preparation will be done by the PMU account staff who would be the existing MNRI staff. The four-member unit, headed by a Chief Accountant, will need capacity building of training in computerise record keeping, IFAD financial management and procurement training, recruitment of one more junior level account assistant to undertake such work once the project start. The staff also will need guidelines as to how the beneficiary and private sector contribution to the project will be quantified.

3. The Project's disbursement and specific financial management procedures will be outlined in a Letter to the Borrower (LTB) agreed between Government (MOFTI) and IFAD. The LTB, promptly prepared soon after loan signing, will specify IFAD procedures for the mode of payment for disbursement, all thresholds, withdrawal procedures, audit procedures, opening of accounts, and procurement procedures.

ii. Organization Structure

4. The project lead agency (PLA) is the Ministry of Natural Resources and Industry (MNRI). A PMU will be established in MNRI to coordinate the implementation. SAA and SFA will implement the 1st and the 2nd components except the credit line. A Financial Controller, seconded to the MNRI, would have the operational responsibility for financing all project activities. The financial management responsibility however will lie with MOFTI which includes managing the fund flow of loan resources, managing the dual currency account (which is operative in dollars and Seychelles Rupees (SCR) that will be opened at the Central Bank of Seychelles (CBS) to receive the initial deposit and replenishments, ensuring fund disbursement to the PMU from the CBS account on the basis of actual expenditure (no impress account, which is replenishable, is maintained at the PMU or MNRI level for the project), managing counterpart funds which will be in a Counterpart Fund Account opened at the CBS, monthly financial reporting, and arrangement for audits. The Public Budget Managing Division of MOFTI will be the operational units for these activities. Two officers from MOFTI will be appointed as signatories to operate the dual currency account.

5. The Account Unit of the MNRI will undertake the fiduciary functions of the PMU of the project. The fiduciary functions, which are mainly operational, that will be undertaken by the PMU through the Account Unit will include the preparation of the annual work plan and the budget (AWBP) and the procurement plan (PP), ensuring the GOS and IFAD approval for the AWPB and the PP, requesting financing from MOFTI to implement eligible project activities, justifying such expenditure, preparation of the draft financial progress to be finalised and vetted by MOFTI, assisting audit, undertaking all procurement under direct supervision and guidance of MOFTI, preparation of the withdrawal applications (WA) for the finalization of MOFTI who will finally sign and submit to IFAD, and maintaining copies of all background information.

6. The financial management assessment indicated that the Accounts Unit of MNRI, which includes a well experienced and qualified Chief Accountant, three Account Assistants who have been appointed on a contract basis and renewed annually, and an Office Assistant have experience in operating donor funded projects and also shows adequate expertise and experience to undertake the fiduciary functions that will be delegated to them. This unit will be further strengthened through the recruitment of a Financial Controller dealing specifically with IFAD funds and will undertake financial management activities for the project. However for the specific duties which need to comply with IFAD, capacity building in IFAD financial management and procurement will be provided. The GOS policy allows the GOS staff to receive such training. Previously such training has been useful, particularly in a situation where there is no frequent staff turn-over.

iii. **Flow of Funds**

7. Flow of funds for the Project, presented in Appendix 1, shows funding from three project financing sources, namely IFAD loan proceeds, the Government counterpart funds, and participating private sector including producers. The majority of IFAD loan proceeds would flow to the designated dual currency account that will be maintained at the CBS. However the flexibility would be maintained that above a certain threshold (to be specified in the LTB), service providers could be paid by IFAD on request from PMU and MOFTI using the 'direct payment' methodology.

8. Appropriate financial records will be maintained in accordance with government practices, acceptable to IFAD in the PMU and also at the MOFTI and reported to IFAD on a quarterly basis. The information will be recorded in the Visual Account Mate (VAM) managed at MOFTI as the country system. Actual progress will be reported against estimates of the AWPB and reasons for deviations will be highlighted.

9. The financial management assessment indicated that accounts unit that will be established for the PMU have adequate experience gathered through operating donor funded projects previously to manage and operate project level financing matters. There will not be an impress account to operate which makes the PMU work simplified. The VAM system, although not available for the PMU, facilitate proper and sage record keeping.

iv. **Disbursement Arrangements**

10. The IFAD loan will be disbursed over a period of five years. Between the date of entry into force of the Financing Agreement and the Financing Closing Date, the GOS would request withdrawals from the Loan Account of amounts paid or to be paid for Eligible Expenditures. Disbursements from the IFAD Designated Account would be made against certified withdrawal applications and loan funds will flow to the dual currency account. Only expenditures eligible for IFAD financing will be paid from the IFAD Designated Account. Copies of SOEs will be kept at the PMU with originals be maintained at MOFTI and be made available for audits and for review by supervision missions. The MOFTI and PMU will disburse only against approved AWPBs. The PMU will inform MOFTI

on the financing requirements for AWPB activities and the MOFTI will then release actual payments (cash) to Project Accountant who will make the payments with payment documents maintained in the PMU. For such release of money, MOFTI will open Local Purchase Order (LPO) in the VAM system before affecting the drawdown. As such all transactions are reported in the general country system. No imprest account maintained at project or implementation agency (SAA or SFA) level. MOFTI will release funds to participating banks for on-lending according to the terms stipulated in the subsidiary loan agreement (SLA).

11. MOFTI would submit withdrawal applications on a quarterly basis based on expenditures incurred by the project (or MNRI). Statement of expenditures (SOE) for eligible expenditures would be submitted for expenditures incurred against the Credit Funds and for below USD 50,000 for other expenditure categories. Eligible expenditures above USD 50,000 would require to be substantiated by adequate supporting documentation. Detailed withdrawal procedures, forms and templates are available in IFAD's Loan Disbursement Handbook and IFAD Loan Administration Manual which would be provided to the Project as part of the Start up Kit.

12. The following condition of withdrawal/disbursement would be applicable to the project: no withdrawal would be made from the IFAD Loan Account until: (a) the finance and administration section of the PIM is finalised and approved by both GOS and IFAD; (b) the three professionals (National Project Coordinator (NPC), programming and M&E officer and financial controller) staffing the PMU are recruited and their recruitment is acceptable to both GOS and IFAD; (c) the first AWPB and Procurement Plan has been approved by the Steering Committee and copies forwarded to IFAD; and (d) no disbursement would be made to participating banks from Credit Funds of the project until a Subsidiary Lending Agreement (SLA) has been established between the MOFTI and participating banks outlining the terms and conditions of credit financing and on-lending.

13. The financial management assessment indicated that the Account staff of MNRI has adequate experience in handling donor funds withdrawal process. Maintenance of General and Subsidiary ledgers appears to be in order. All accounting documents, originals at MOFTI and copies at MNRI, are maintained on a permanent basis. However they will need specialised training on IFAD procedure in the withdrawal process which should take place at the start-up face of the project. The current experience in handling foreign exchange risk at the PMU level is inadequate although they will not be managing foreign exchange as it is the function of MOFTI.

v. Bank Accounts

14. The rationale for opening a Designated Dual Currency Account and a Counterpart Fund Account, both at the CBS, is to facilitate reconciliation of donor funds. The MOFTI who operated the two accounts with the help of the PMU shall put in place a mechanism to monitor disbursements and balances from IFAD and GOS sources of funding. Monitoring of balances will be followed as well as monthly bank reconciliation statement which will be prepared by MOFTI as a control mechanism for prudent management of Project resources. The project's accounting year would follow the government's fiscal year.

15. Designated Dual Currency Account (IFAD Loan). Following the due opening of the Designated Dual Currency Account and upon request of the Borrower (through a Withdrawal Application), an initial advance would be transferred by IFAD into the Dual Currency Account, corresponding to approximately six months of anticipated expenditures in the first year AWPB. The amount of the authorised allocation for the advance will be indicated in the LTB. The proceeds from this account shall be used exclusively to finance the Project's eligible expenditures as will be stipulated in the

Project Loan Agreement. The Designated Account will be replenished on a regular basis from the IFAD loan account based on submission of duly completed withdrawal applications. The Designated Account will be opened in the Central Bank of Seychelles. The Designated Account will be operated by two designated staff members of MOFTI. MOFTI will inform IFAD on the nomination with their signatures. There will be no project account in local currency opened for the project, but the PIU will receive cash, on the basis of prior information to MOFTI, to finance expenditure.

16. Counterpart Fund Account. The Government Counterpart Fund Account receives the Government share of the AWPB. The Government counterpart account will be operated by the Public Budget Managing Division of MOFTI. The disbursement of funds will take the same form as mentioned above.

vi. **Financial Statements**

17. The current VAM system, which is not accessible for the PMU staff generates project level financial statements, but at the MOFTI level. As such the introduction of VMS financial software to the PMU level is recommended to ensure that project level financial statements and reports are easily generated. The PMU would be able to eliminate the current system of password protected excel based spread sheets for reporting purposes.

18. The financial management assessment indicated that MNRI account staff is very familiar with the fund flow and also handling counterpart funds in former donor funded projects. Since there is no NGO or beneficiary contribution is expected in cash the management of IFAD funds and counterpart funds will not be an issue. It was also observed that there were no delays or in compliance in providing counterpart funds in previous donor funded projects. The monthly bank reconciliation undertaken by MOFTI, as noted in the review, will also facilitate that process.

19. The main issue, as noted in the assessment, is that the PMU and the account staff will face a difficulty in the quantification of the in-kind (and in very rare case even cash) contribution of producer groups and other operators in the promoted agricultural and fishing activities. There are no guidelines available at present and the account staff needs guidance and training on handling this issue.

vii. **Internal Control**

20. PMU and the account unit should maintain sound internal control mechanisms to ensure proper accountability and transparency. In that proper practices of maintaining safeguard mechanisms over assets are necessary, including fixed assets accounting systems with associated registers, and consumable registry. At present the MOFTI maintain such systems and annually update the records, which is satisfactory. However, the PMU is not practicing segregation of duties in authorising to execute transactions; recording of the transactions; and custody of assets. Also there is no staff to segregate functions of initiating procurement, ordering items and receiving, accounting for the procured items and paying for good. All these functions, except the procurement initiation, are currently undertaken by MOFTI. Sound policies, Procurement Act, Financial regulations and procedures are in place and available electronically to ensure controls. The assessment observation is that the current system is acceptable for a small country and with few operations. However, once the operations expand, the MO and MNRI should consider the possibility delegating some of such activities to PMU.

viii. **Reporting and monitoring**

21. The PMU through the Account Unit should practice a sound reporting system in acceptable frequencies. This should include overall financial progress, financial reporting by components and by expenditure categories, reporting on comparing them AWPB and



its progress, and consolidated reporting. The current practice is that the reporting function is initiated in MNRI and forwarded through MOF. The assessment indicates that the same process can continue and the proposed additional staff position will enhance the process.

ix. **Auditing**

22. The accounts of the Project will be audited annually by a firm appointed by the Auditor General of the GoS. Expenses related to this audit will be borne by the government. Any external audit, if deemed necessary could be undertaken by a firm which is acceptable to IFAD. Such audit will be financed by the project. The audit will be performed in accordance with International Standards on Auditing complemented by terms of reference (TOR) acceptable to IFAD. The audit report, which would cover the financial statements, utilization of resources, operations and management, and on-lending resources would be delivered to IFAD within six months of the end of each fiscal year in line with IFAD's General Conditions. The annual audit should include an opinion on: Statement of Expenditures, Designated Dual Currency Account, and procurement and be accompanied by a Management Letter, audit opinion and consolidated financial statements. Failure to comply in time with the audit provisions of the IFAD Loan Agreement may result in the suspension of disbursement under the IFAD loan.

23. The assessment indicates that in addition to the General Audit, internal auditing in the MNRI is also undertaken by a qualified auditor. The system is adequate to undertake internal auditing at the MNRI level if there is a need. It is also noted that the cases of reporting qualified audit opinions are very rare and if that do happened, action have been taken to rectify the qualification.

x. **Taxes**

24. The IFAD loan proceeds will not be used to pay the domestic taxes and duties. In the event IFAD proceeds are used to pay taxes then such amounts should be promptly refunded to IFAD.

**APPENDIX 1: Project Fiduciary Risk Assessment at Design**

Project : Competitive Local Innovations for Small-Scale Agriculture Project (CLISSA)
Implementing Entity: Ministry of Natural Resources and Industry (MNRI)

	Initial risk assessment	Proposed mitigation	Final risk assessment
Inherent Risk			
TI Index	4.8		
RSP Score	Not available		
Control Risk			
1. Organization and staffing	Low	Almost all controls and management is under MOFTI and some training is needed at the Implementation Ministry level (SAA account staff) to support the MOFTI staff. Training in reporting to suit the electronic recording at MOFTI in VAM software	Low / no
2. Budgeting	Low		Low
3. Funds flow and disbursement arrangements	Medium	Implementing agencies will not be allowed to have accounts and as such delays could be expected. Submission of properly completed documentation from SAA and SFA to MOFTI will reduce the time gap.	Low
4. Internal controls	Low	Project specific financial section in the PIM, of which account unit has some experience of using will minimise the low risk.	Low / no
5. Accounting systems, policies and procedures	Low / no	The existing policies are robust. The application of them with quality and in timely manner will be enhanced with the appointment of additional staff that is requested	Low / no
6. Reporting and monitoring	Low	Mainly done by the MOFTI Public Budgeting and Management Division based on the report prepared by MNRI (PMU account unit). Implementation Ministry staff needs capacity improvement to support MOFTI to improve the reporting	Low / no
7. Internal Audit	Medium	In normal cases the audit completion takes place during the last quarter of the following year. The period could be shorten with a strong request made by the implementing ministry to the Auditor General. Quality of Audit has no risk.	Low
8. External Audit	Low		Low
Project Fiduciary Risk at Design	Low		Low



Comments:

Strengths:

1. Presence of a dedicated division, Public Budget Management Division, under MOFTI with experienced and adequate staff to manage and administer all donor funding projects and IFAD project will be included under this process
2. Long years of experienced Director, Project and Assets Management within MOFTI overseeing, managing and guiding financial management of all donor funded projects
3. Adequate support staff at the MOFTI level and also at the LPA level
4. Existing budgeting system which initiate with "Local Purchase Order" (LPO) opening will ensure maintaining adequate cash planning and budgetary control which is fully coherent in managing the AWPB of the project
5. Dedicated unit with five staff members, headed by experienced Chief Accountant at the MNRI level which is the LPA
6. Inclusion of the project budget management into the country system that runs with dedicated and secure Visual Accounting Mate electronic system which has codified system that can be effectively applied to the project financial management.
7. Usual monthly reconciliation and reporting system that will apply to the project

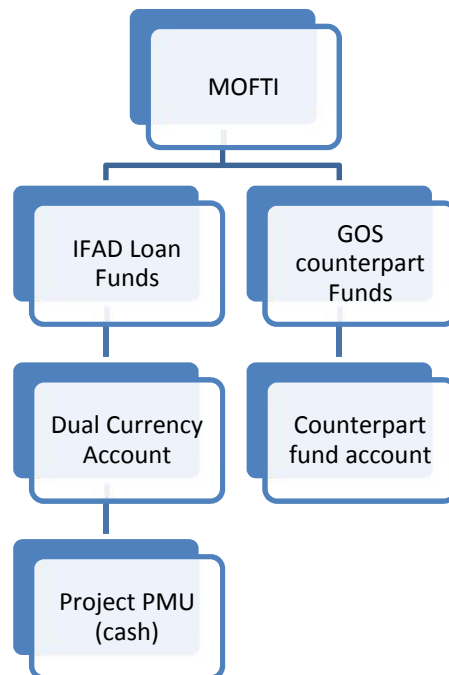
Weakness:

1. Financial management functions are centralised in MOFTI and only very limited operational aspects are delegated to the LPA. While MOFTI currently has experienced staff, delays may occur in timely disbursement of funds from MOFTI to LPA when there is too many project activities in place and when there is too frequent demand for cash. Proper and well planning is needed to minimise this weakness.
2. Need enhancement in capacity in handling IFAD centric WA process, SOE process and procurement.
3. Not having an imprest account at the MNRI level which limits to some extent the effectiveness of the fund flow management.

Recommendations to be picked up by supervision missions

4. Efficient and effective fund flow management since there is no imprest accounting system
5. Correct inclusion of project financing expenditure categories into the VAM country system.

APPENDIX 2: FLOW OF FUNDS





APPENDIX 3: TORS FOR AUDITORS

Objective

The objective of the audit of the financial statement is to enable the auditor to express a professional opinion on the financial position of CLISSA at the end of each fiscal year and of the funds received and expenditures incurred for the accounting period ended as reported in the project financial statement. The audit will be carried out in accordance with the International Standards of Auditing (ISA) and will include such tests and reviews, as the auditor considers necessary under the circumstances. Special attention will be paid to establishing that:

- All external funds have been used in accordance with the conditions stipulated in the financing agreements, with due attention to economy and efficiency, and solely for the purposes for which the financing was provided.
- Counterpart funds have been provided by Government of Seychelles and used in accordance with national or organisational financial regulations, with due attention to economy and efficiency, and solely for the purpose for which they were provided;
- Goods, consultancy and other services, and civil works financed out of project funds have been procured in accordance with stipulations in the financing agreement and/or government regulations;
- All necessary supporting documents, records and accounts have been kept in respect of all programme ventures, including expenditures reported via Statement of Expenditures (SOEs) or Designated Account (DA);
- The Designated Account has been used in accordance with the provisions of the financing agreement; and
- The project accounts have been prepared in accordance with consistently applied International Standards of Auditing and give a true and fair view of the financial status of the project at the end of the fiscal year and of resources and expenditures for the year ended on that date.

Project Financial Statements

The project financial statement will include the following:

- Yearly and cumulative statements of sources and application of funds, which should disclose separately IFAD's funds, counterpart funds (government), other donor funds and beneficiaries' funds;
- Balance sheet, which should disclose bank and cash balances (that should agree with the statement of sources and application of funds), fixed assets and liabilities;
- Yearly and cumulative Statement of Expenditures (SOEs) by withdrawal application and category of expenditures;
- Reconciliation of the Designated Account; reconciliation between the amounts shown as received by the project and those shown as being disbursed by IFAD should be attached as an annex to the project financial statement. As part of that reconciliation, the auditor will indicate the procedure used for disbursement – Designated Account funds, letters of credit, special commitments, reimbursement or direct payment – and indicate whether the expenditure is fully documented or uses the SOE format.

Statement of Expenditures (SOEs)

In addition to the audit of the project financial statement, the audit will include the review of SOEs used as the basis for submitting withdrawal applications. The auditor will carry out tests and reviews as necessary and relevant to the circumstances. SOEs expenditures will be carefully compared for eligibility with relevant financial agreements, and the disbursement letter, and with reference to the project appraisal report for guidance when necessary. When ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, auditors will note these separately. A schedule listing individual SOEs withdrawal applications by reference number and amount should be attached to the project financial statements. The total withdrawals under the SOE procedure should be part of the overall reconciliation of IFAD disbursements described above.

Designated Accounts

The auditor is also expected to audit the activities of the designated accounts associated with the project, including the Authorized Allocation or Initial Deposit, replenishments, interest that may accrue on the outstanding balances, and the year-end balances. The auditor must form an opinion

as to the degree of compliance with IFAD procedures and the balances of the special accounts at the year end. The audit should examine: (i) the eligibility of withdrawals from the designated accounts during the period under review; (ii) the operation of the designated accounts in accordance with the relevant financing agreement; (iii) the adequacy of internal controls within the project appropriate for this disbursement mechanism; (iv) the use of correct exchange rates to convert local currency expenditures to United States dollars.

Audit Opinion

As part of the opinion on project financial statements, the audit report will include an opinion on SOEs and special accounts, indicating the extent to which these procedures can be relied upon as a basis for loan disbursements under the programme.

Management Letter

The auditor will provide a management letter which will identify deficiencies in the project accounting records, procedures, systems and internal controls and make appropriate recommendations for improvements. The management letter will also include any other significant matters that come to the auditor's attention and might have material impact on project implementation.

ANNEX 8: PROCUREMENT

i. General principles (details in LTB)

1. Review of Seychelles Procurement Act (2008). Upon review of the Act its high relevance to undertake procurement which is in line with IFAD procurement guideline was observed.
2. Procurement of all goods and services would be initiated by the PMU, informed to MOFTI and then it will be managed by the PMU office and payment will be done by MOFTI. However there is flexibility for the partner agencies to undertake procurement in specific cases. In such instances the procedures that are consistent with IFAD procurement guidelines need to be adopted. The thresholds for goods and services procured by the PMU will be included in the LTB. All contracts valued at USD 100,000 or more would be subject to prior review by IFAD and those that are less than that would be subject to ex-post review during IFAD supervision missions.
3. Overall procurement responsibility will rest with MOFTI and as provided in IFAD's Procurement Guidelines, each procurement plan shall include the proposed contracts, methods of procurement and related IFAD review procedures. The PMU will generate annual procurement schedules as planned in the AWPBs.
4. All procurement financed from the proceeds of the IFAD loans will be exempt from national and local duties and taxes, including expenditures made for items procured under Local Shopping arrangements. All procurement will be authorised only against the procurement schedule in approved AWPBs, specifying items to be procured, responsibility for the procurement and the appropriate procurement methodology.
5. Local shopping procedures, with quotations from at least three sources, will be followed for procurement of goods totalling less than USD xxx. Direct purchase procedures will be followed for contracts totalling less than USD xxx. Staff salaries and other recurrent operating costs will not require specific procurement arrangements.
6. Procurement will be in accordance with IFAD Guidelines for items financed by the IFAD loan.

ii. Procurement of Civil Works and Goods (details in LTB)

7. Procurement of equipment, materials and vehicles common to the Project will be bulked together, to the extent possible, and carried out by the PMU. In the event that by bulking items together contracts exceed a value of USD xxx or more, they will be subject to International Competitive Bidding (ICB).
8. Equipment purchases bulked together that cost less than USD xxx will follow Local Competitive Bidding (LCB) procedures.

iii. Procurement of Consultant Services and Training (details in LTB)

9. Local Competitive Bidding. Each contract for consultant services and training estimated to cost USD xxx equivalent or more shall be awarded on the basis of competitive bidding advertised locally.
10. Local Shopping. Each contract for consultant services and training estimated to cost USD xxx equivalent but no more than USD xxx equivalent shall be awarded on the basis of evaluating and comparing bids invited from at least three suppliers, in accordance with procedures approved by the Cooperating Institution.
11. Direct Contracting. Each contract for consultant services and training estimated to cost less than USD xxx equivalent may be awarded through direct contracting with the consultant, on terms and conditions approved by the Cooperating Institution.



APPENDIX 1: EIGHTEEN-MONTH PROCUREMENT PLAN

Component / activity	Description of Goods, works and services	Units	Quantity	Total Cost SCR 1000	Method of selection	Advertising for EOI (date)	RFP final draft forwarded (date)	IFAD'S No objection for TOR Short list/ Final REP (date)
Enhancing business arrangements								
1. Preparation of a PPP action plan	Service providers	packs		15	PMU, LCB			post review
2. Business to business facilitation	Service Providers - Workshops	wks		10	PMU, LCB			post review
3. Quality assurance of selected products	Service Providers - Workshops	wks		10	PMU, LCB			post review
4. Training and skill development	Service Providers - Workshops	wks		75	PMU, LCB			post review
5. Investment support for value chain operation	Equipment	units		245	PMU, LCB/ICB			prior review
Improving access to finance								
Strategic capacity strengthening								
1. Strengthen the communication unit	Communication equipment	units		547	LCB			prior review
2. Support post harvest facilities for SAA	Postharvest equipment	units		273	LCB / ICB			prior review
3. Support for quality control mechanisms	Quality control equipment	units		273	LCB / ICB			prior review
4. Assistance to Agric and Horticulture Training Centre	Equipment for the centre	units		137	LCB / ICB			post review
Programme Management								
Double Cab	Cabs	#	2	54	ICB			prior review
Computer Sets	Sets	#	3	2	ICB			post review
Other office equipments	Units			5	LCB / ICB			post review
Baseline studies				8	LCB / ICB			post review
Total Value (1st 18th months)				1,654				



WKS

Component / activity	Description of Goods, works and services	Units	Quantity	Total Cost SCR 1000	Method of selection	Advertising for EOI (date)	RFP final draft forwarded (date)	IFAD'S No objection for TOR Short list/ Final REP (date)
Enhancing business arrangements								
1. Preparation of a PPP action plan	Service providers	packs		15	PMU, LCB			post review
2. Business to business facilitation	Service Providers - Workshops	wks		10	PMU, LCB			post review
3. Quality assurance of selected products	Service Providers - Workshops	wks		10	PMU, LCB			post review
4. Training and skill development	Service Providers - Workshops	wks		75	PMU, LCB			post review
5. Investment support for value chain operation	Equipment	units		245	PMU, LCB/ICB			prior review
Improving access to finance	Service Providers - Training	wks		208	PMU, LCB			prior review
Strategic capacity strengthening								
1. Strengthen the communication unit	Communication equipment	units		547	LCB			prior review
2. Support post harvest facilities for SAA	Postharvest equipment	units		273	LCB / ICB			prior review
3. Support for quality control mechanisms	Quality control equipment	units		273	LCB / ICB			prior review
4. Assistance to Agric and Horticulture Training Centre	Equipment for the centre	units		137	LCB / ICB			post review
Programme Management								
Double Cab	Cabs	#	2	54	ICB			prior review
Computer Sets	Sets	#	3	2	ICB			post review
Other office equipments	Units			5	LCB / ICB			post review
Baseline studies				8	LCB / ICB			post review
Total Value (1st 18th months)				1,862				



ANNEX 9: PROJECT COST AND FINANCING

1. Annex 9 describes the estimated project costs, based on the information collected during the course of the mission's work and data provided by the concerned agencies in Seychelles. The annex illustrates the (i) Detailed Cost Tables; (ii) Summary Expenditure Tables; (iii) Financing Tables; and (iv) Procurement Tables. All entries are made starting from fiscal year 2013 for a five year project and input costs are in foreign currency units, i.e. USD.

A. Physical and Price Contingencies

2. Since Seychelles agriculture sector is in a transition stage, unforeseen changes could take place during the project period and hence a physical contingency rate of 5% was assumed in the cost estimation. Price contingencies at 4% have been applied on all items to cover the estimated inflation rate. Although the domestic inflation rate can be higher during the latter part, price contingencies assumed only at constant rate of 4%. Foreign inflation rate has been assumed at 2%. All unit costs are estimated in USD as most of the input costs are available in USD rates.

B. Taxes and Duties

3. Taxes and duties have been estimated using existing taxation rules as provided by MOFTI. Items, which contained implicit duties and taxes, have accordingly accounted for, while nationally purchased items are subject to value added tax (VAT) rate of 15% which was imposed in early 2012. Technical Assistance (TA), training, surveys and studies are contracted or sourced out and contracted entities are responsible of their national tax liabilities, and a flat rate of 15% has been assumed. Computers and related equipment has a 20% tax; communication equipment for the communication unit has 10%; and imported vehicle has various taxes and custom duties which is collectively at 50%.

C. Unit Costs

4. Unit costs together with physical units have been identified for most items and costs are input in foreign currency unit, namely US Dollar. In most cases a lump sum allocations have been computed to give the maximum flexibility in procurement or for the implementation of such activities. Equipment and materials include plants, machinery, laboratory equipment, and postharvest lab equipment, office equipment such as laptops, printers, desk-tops and seed materials. It is noted that *"all unit costs are indicative and are used for the purposes of estimating the overall project costs. These are, therefore, subject to changes and revision during project implementation"*. The unit cost of key activities are preparation of PPP action plans, SCRs 5000 per plan; SCRs 2000 for conducting business to business facilitation workshops and quality assurance training session; and SCRs 15,000 for conducting training and skill development workshop.

D Exchange Rates

5. The initial exchange rate for the analysis has been set at the Seychelles Rupees 13.67 to one USD, the rate prevailing at the time of data collection in October 2012. Exchange rates during implementation phase and the foreign exchange rates forecasts for the Project costs estimates, and conversions from current SCRS values into USD are calculated using the constant purchasing power exchange rate.

6. The summary costs and detailed cost are presented below.

Table 1: Expenditure Accounts Project Cost Summary

	(SCR '000)		(US\$ '000)		% Foreign Exchange	% Total Base Costs
	Local	Foreign	Local	Foreign		
I. Investment Costs						
A. Vehicles, Equipment and Goods						
Vehicles	443	295	32	22	40	2
Equipment & goods	17 544	22	1 283	2	-	37
Subtotal	17 987	317	1 316	23	2	39
B. Civil Work /a	1 367	-	100	-	-	3
C. Technical Assistance						
Service Providers & Studies	1 873	-	137	-	-	4
Training and Workshops	8 735	-	639	-	-	18
Subtotal	10 608	-	776	-	-	22
D. Credit	13 670	-	1 000	-	-	29
Total Investment Costs	43 632	317	3 192	23	1	93
II. Recurrent Costs						
A. Salaries & Allowances	3 185	-	233	-	-	7
B. Operation and Maintenance	124	14	9	1	10	-
Total Recurrent Costs	3 309	14	242	1	-	7
Physical Contingencies	46 941	331	3 434	24	1	100
Price Contingencies	2 347	17	172	1	1	5
	3 797	9	110	0	-	3
	53 085	357	3 715	26	1	108

Table 2: Project Components by Year -- Base Costs – US\$ '000

Project Components by Year -- Base Costs (US\$ '000)	Base Cost					
	2010	2011	2012	2013	2014	Total
A. Enhancing business arrangements through capacity development of small farmers, rural micro entrepreneurs and fishers	442	567	405	80	10	1 504
B. Improving Access to Agricultural and Rural Finance						
Refinancing funds	600	-	400	-	-	1 000
Training and Technical assistance	16	40	-	-	-	56
Subtotal	616	40	400	-	-	1 056
C. Strategic capacity strengthening and infrastructure						
Strategic capacity strengthening	200	280	92	5	-	577
Public and collective infrastructure	-	-	-	-	-	-
Subtotal	200	280	92	5	-	577
D. Programme Management, KM, and M&E	118	55	50	49	49	321
Total BASELINE COSTS	1 376	942	947	134	59	3 458
Physical Contingencies	69	47	47	7	3	173
Price Contingencies						
Inflation						
Local	28	70	134	28	17	277
Foreign	0	0	0	0	0	0
Subtotal Inflation	28	70	134	28	17	278
Devaluation	-14	-40	-84	-18	-11	-168
Subtotal Price Contingencies	14	30	50	10	6	110
Total PROJECT COSTS	1 459	1 018	1 045	151	68	3 741
Taxes	61	53	26	6	-	146
Foreign Exchange	24	1	0	0	0	26

Table 3: Expenditure Accounts by Years -- Totals Including Contingencies - US\$ '000

	2010	2011	2012	2013	2014	Total
I. Investment Costs						
A. Vehicles, Equipment and Goods						
Vehicles	57	-	-	-	-	57
Equipment & goods	397	621	288	73	11	1 391
Subtotal	454	621	288	73	11	1 448
B. Civil Work /a	11	54	44	-	-	109
C. Technical Assistance						
Service Providers & Studies	52	57	39	-	-	148
Training and Workshops	256	234	179	23	-	690
Subtotal	308	291	217	23	-	838
D. Credit	636	-	441	-	-	1 078
Total Investment Costs	409	966	991	96	11	3 473
II. Recurrent Costs						
A. Salaries & Allowances	48	50	52	53	54	257
B. Operation and Maintenance	2	2	2	2	2	11
Total Recurrent Costs	50	52	54	55	56	268
Total PROJECT COSTS	459	1 018	1 045	151	68	3 741

/a Includes cost of on-farm investment and infrastructure development

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Table 4: Disbursement Account – US\$ `000

Disbursement Accounts by Financiers (US\$ `000)	IFAD		Private Companies		Other Donors		Producers		Government		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Civil Work	98	90.1	-	-	-	-	-	-	11	9.9	109	2.9	-	98	11
B. Vehicles, Equipments and Goods	29	50.0	-	-	-	-	-	-	29	50.0	57	1.5	23	6	29
Vehicles	824	59.3	120	8.7	248	17.8	91	6.6	107	7.7	1 391	37.2	2	1 282	107
Equipment & goods	853	58.9	120	8.3	248	17.1	91	6.3	135	9.3	1 448	38.7	25	1 288	135
C. Technical Assistance	61	100.0	-	-	-	-	-	-	-	-	61	1.6	-	61	-
Service Providers & Studies	777	100.0	-	-	-	-	-	-	-	-	777	20.8	-	777	-
Training and Workshops	838	100.0	-	-	-	-	-	-	-	-	838	22.4	-	838	-
Subtotal	1 078	100.0	-	-	-	-	-	-	-	-	1 078	28.8	-	1 078	-
D. Credit	122	47.2	-	-	-	-	-	-	136	52.8	257	6.9	-	257	-
E. Salaries & Allowances	11	99.4	-	-	-	-	-	-	0	0.6	11	0.3	1	10	-
F. Operation & Maintenance	3 000	80.2	120	3.2	248	6.6	91	2.4	282	7.5	3 741	100.0	26	3 569	146
Total PROJECT COSTS															

**ANNEX 10: ECONOMIC AND FINANCIAL ANALYSIS****i. Competitiveness of targeted sub-sectors****Vegetables and fruits**

1. Most smallholder farms have less than 1.5 hectare, are situated in the hills and are dependent on water harvesting combined with irrigation. In spite of attractive market prices and strong demand for fruit and vegetables in the domestic market, the sector has struggled to mainstream innovations, particularly state-of-the-art farm and water-management practices and technologies. This has been partly through lack of adequate policy support and poor access to credit for investment and has contributed to making farmers vulnerable to effects of climate change and liberalisation. In addition, the sector is also characterised by the absence of specialised wholesalers. Many farmers sell directly to consumers. Most smallholders are unable to respect standardized and expected delivery schedules, packaging, grading and maintenance of acceptable standards for food hygiene and safety, and overall quality that is required to supply the tourism sector and supermarkets, which rely therefore heavily on imports.

Livestock sub-sector (poultry and pigs)

2. The Seychelles poultry industry is comprised of medium-scale intensive poultry producers and small-scale. The industry is characterized by mainly commercial production systems with chicks hatched in the Island from imported eggs. The pig production systems consists of 3 production systems namely (i) the intensive automated production, (ii) the intensive semi-automated production system and the (iii) the intensive manual production system.

3. The national livestock sub-sector after suffering gravely from the national economic reform programme throughout 2009 which led to the tripling of livestock feed prices and cheaper imports of Brazilian broiler poultry, suffered another major blow in April 2010 when Government made a policy decision to totally liberalise the importation of meats with a view to make consumers benefit from more affordable imported meat. Table 1 & 2 present production and import statistics as well as the self-sufficiency rate since 2005. Government's liberalisation resulted in a drastic decline/stoppage of the local livestock industry. Consequently farm income and livelihoods were affected, with no long term food security consideration as farmers went out of business. The liberalisation of imports has caused a drastic reduction in the pig and broiler production.

4. Gross inefficiencies in the livestock sector as a consequence of old infrastructure and machinery, high costs of raw inputs such as feed and amenities lead to an uncompetitively priced dressed chicken. Also, the high lending rates from commercial banks have affected both existing and intending farmers.

Table 1: Pork Production and Import (tons)

Year	Local production (tons)	Import (tons)	Total (tons)	Self-sufficiency rate (%)
2005	668	313	981	68.09
2006	671	638	1309	51.26
2007	687	564	1251	54.91
2008	554	620	1174	47.20
2009	364	675	1038	35.01
2010	408	694	1102	37.05
2011	522	559	1081	48.26

Source: MNRI

**Table 2: Poultry Production and Import (tons)**

Year	Local production (tons)	Import (tons)	Total (tons)	Self-sufficiency rate (%)
2005	1544	336	1880	82.12
2006	1560	825	2385	65.40
2007	1439	960	2399	59.98
2008	1374	1124	2498	55.00
2009	1063	1923	2986	35.61
2010	802	2452	3314	24.20
2011	869	2331	3200	27.15

Source: MNRI

Fisheries

5. The fisheries sector comprises the industrial, semi-industrial and artisanal fisheries sub-sectors. The industrial scale purse-seine fisheries exploits the rich stocks of tuna in the EEZ of the Seychelles and accounts for most of the sector's contribution to national wealth, both through payments by foreign vessels for access to Seychelles waters, exports of fresh, frozen and processed tuna and employment in the provision of services for the sector. The small semi-industrial sector also contributes primarily to export. By contrast, the artisanal fisheries sub-sector focuses primarily on production for domestic consumption and provides employment for about 3,000 households. The fisheries sector has suffered due to a series of external factors in recent years: there have been episodes of fishers being kidnapped and held by Somali pirates and fear of piracy has led to fishers limiting their activity and the range of their fishing trips; in the industrial sectors, concerns over piracy have led to some tuna purse-seiners shifting their operations to the Atlantic; the costs of key inputs, particularly petrol, have risen significantly; exports of some species to the European Union have been limited by concerns over heavy metal levels. All of this has led to a significant rise in the price of fish on the domestic market, with prices rising by 83% between 2007 and 2011. In a country where domestic fish supply, and apparent consumption, is among the highest in the world, at c.62 kg per capita per annum, these changes in prices are likely to be having a serious impact on local consumers' access to high quality animal protein in the form of fish.

ii. Financial analysis

6. The objectives of the financial analysis are to: (i) evaluate the viability of the proposed agricultural, livestock and fisheries models that will form the basis of the environmentally-friendly value chains; and (ii) assess the incremental production of these sectors that results from project interventions; and (iii) provide a basis for the economic analysis of the project.

Project Benefits and beneficiaries

7. The Project benefits are attributed to the following: (a) an increase in the productivity in vegetable, fruits and livestock farming - it is expected that the farmers will use good production practices which are better adapted to climate risks once their market linkages and slightly higher prices are ensured through value chains, and extension facilities are provided in time. The cost of such assistance is included in the project design; (b) an increase in the farm-gate price through value chain development - a 5% in vegetable, 6% in fruits and 2% in livestock (pork); (c) a decrease in the cost of production in the long run which will be realized during the latter part of the project; (d) an increased income for fishermen due to assured markets through value chain establishment. However this increase is not anticipated within the project period due to



the fact that basic improvements to boats etc. appears to be immediate need. Also the benefits derived through back-yard garden are not included due to its very small scale nature and it is also expected that it will improve the nutritional conditions of the families rather than a commercial output. The medium term health benefits would be the expected outcome.

8. The matrix of incorporation in Table 1 summarizes the estimated number of beneficiaries of each production model and value chain. After 5th year onward 2022 beneficiaries will participate. The incremental number of beneficiaries with-project will be about 250 as summarized in Table 1.

Table 1: Cumulative number of beneficiaries participating with the Project: Producers and new marketers

Farm Model / value chain	Without project: Yr 1-20	Number of beneficiaries with project				
		PY 1	PY 2	PY 4	PY 5	PY 6 - 20
Extensive vegetable farming	769	769	769	769	769	807
Intensive agric (green houses and hydroponic)		14	14	14	21	21
Fruits (banana & papaw)	1020	1020	1020	1071	1071	1125
Livestock (pigs)	70	70	70	70	70	70
Total	1,859	1,873	1,873	1,924	1,931	2,022

Crop / Livestock / Models and Value Chains

9. The models making the basic production unit of the VC, that will be supported are high value vegetable namely (beans, capsicum, pumpkin, cucumber, chilies, tomatoes and egg plan); fruits (banana and papaw; and livestock (piggery). Table 2 summarizes their technical specifications and suitability for the project areas. The special emphasis is made to highlight the climate concerns that are integrated into the models. Table 3 presents the financial assessment of the models on 1 sq mt unit basis in order to demonstrate their viability and the incremental income that they can bring about to the beneficiaries. Both table presents the without-project and with-project situations to estimate the net increment for each production model.

Table 2: Technical specifications of crops and assumptions w/out and w/ project

Farm Model / value chain	Without project	With project
Extensive vegetable farming	Low chemical input, un-organized harvest, small quantity and individual marketing	Tailing off chemical and more organic inputs, systematic and seasonal harvesting, larger quantity and collective selling with grading. Number of farmers join the VC will gradually increase.
Intensive agric (green houses and hydroponic)	No intensive vegetable farming	High tech practices such as measures water and nutrient application, timely input and harvesting, sorting and grading before selling and collective selling. Number of farmers starts high tech and join the VC will gradually increase.
Fruits (banana & papaw)	Minimal inputs, un-organized harvest, small quantity and individual marketing	Gradually fertiliser will be applied, pruning and training, systematic and timely harvesting, sorting and grading, and collective marketing. More farmers will join the VC with time.
Livestock (pigs)	Minimal inputs, un-organized fattening and disposing, small numbers and individual marketing	Replaced with artificially inseminated breeds, systematic fattening and more care, timely slaughtering and collective selling



10. The assumptions used in the financial analysis for the extensive vegetable farming are the following:

- a. Financial gain with project intervention is due to the narrowing down of the market margin between the farm-gate and the market due to value chain arrangement. The cost of arrangements is included in the project design.
- b. Total net income gain at Country level (Rs) is 0 in the 1st year of the project because margin change will not generate additional income, but only transfer the income from market to the farm-gate
- c. Due to income increase in the 1st year (margin increase in the value chain arrangements), and with project interventions, an increase in quality of product is expected and hence an increase in the farm-gate price and income is also expected (see Appendix 1).
- d. In the 3rd year 5% increase in the extent of cultivation is expected due to favourable market conditions and project technical assistance and demonstration effect etc.
- e. Cost of production of vegetable is not factored into the analysis because the financial gain is due mainly to marketing margin changes. The additional cost of value chain arrangement which created margin benefits is included in the project cost (component 1).
- f. Number of vegetable farmers who join the promoted agricultural and fishing activities will increase by 5% in the 5th year.
- g. The average size of the farms, current yields, farm-gate and market prices and the margin for vegetables, which are from the census of agriculture, 2012, are presented below.

Candidate vegetable for VC	Farmers joining the VC	Avg size(sq mt)	Yield (Kg/sq mt)	Farm Gate Price (Rs/kg)	Market Price (Rs/kg)	Margin to the Farm-gate
Beans	101	158.8	1.26	60	79.11	76%
Capsicum	24	211.2	1.53	50	115.83	43%
Cucumber	162	208.6	3.06	20	23.65	85%
Chillies	183	379.6	1.53	100	200	50%
Pumpkin	91	1404.4	1.34	22	32.34	68%
Tomato	129	469.2	3.38	40	69.01	58%
Egg plant	79	404.9	2.52	19	34.33	55%

- h. Specific assumptions concerning high-tech vegetables are that the Intensive type of farming are hardly practised without project assistance because of high initial capital requirement which is provided by the project and lack of technical skills which is also provided by the project. Resorts are the markets for the high value fresh vegetables.
- i. Tomatoes under greenhouse conditions and lettuce under hydroponic systems will be supported. The construction costs and cost of production under these structures, and production and prices of both products are presented in the Appendix 1. The economic life of the green houses is assumed 10 years with a maintenance cost of 10% of the capital cost (see Appendix 1), and hydroponic is 10 years with 20% maintenance cost (see Appendix 1).
- j. For the fruit value chain, banana and papaya, which are predominant in the tourist resorts market, are considered. The set of assumptions that was used for vegetable is applicable.
- k. The production and price assumptions, which are from the census of agriculture, 2012, are presented below.

Candidate Fruits for VC	Participating HH having Nb trees	Productivity (kg/tree)	Tot production (kg)	Farm Gate Price (Rs/kg)	Market Price	Margin to the Farm-gate
Banana	120,268	18	2,164,824	9	14.88	60%
Papaya	19,684	30	590,520	10	17.93	56%

- l. For the pig VC the assumptions used are: the main financial benefit will be the weight gain of pigs (sow) that would be sold through the value chain; the price per sow will increase due to the weight gain, which also has an additional cost (SRs 250/sow), and contribute to the financial benefit; one year fattening is assumed to reach the price gain, which is the usual practice.



- m. Number of pig fatteners, who join the value chains will increase by 10% in the 3rd and 20% in the 5th year. The prices are presented in Appendix 1.

11. As presented in Table 3, all models operated by the number of producers presented in Table 1 under the assumption listed above will generate incremental income (total revenue - cost) which is higher than the without project income, indicating that they are financially viable models to be included in the value chains. The individual production models are summarized in appendix 1 of this annex.

Table 3: Financial assessments of the production models: WOP and WP situations

Farm Model / value chain: Net income	Units	Without project	With project - increments				
			Yr : 1	Yr : 2	Yr : 4	Yr : 5	Yr : 6
Extensive vegetable farming	All VCs, Rs 1000	1,457	1,877	1,877	2,043	2,043	2,248
Intensive agric (green houses and hydroponic)	Total VC Rs 1000	0	-850	566	579	916	916
Fruits (banana & papaw) in extensive cultivation	All VCs, Rs 1000	15,233	0	1,520	1,520	1,520	1,520
Livestock (pigs)	Total VC Rs 1000	3	3	1,435	1,579	1,579	1,895
Total incremental net income with project	Rs 1000		1,030	5,398	5,721	6,058	6,578

iii. Economic Analysis

12. The objective of the economic analysis is to evaluate the expected contribution of CLISSA to the economic development of the country as a whole and to determine whether the economic benefits sufficiently justify the use of the resources that the Project requires. The analysis includes all incremental costs and incremental benefits that are quantifiable and associated with the project's investments in development. Potential improvements in the micro-environment owing to climate smart practices were also quantified in the production models to the extent possible and included in the analysis.

13. The economic analysis is based on the following assumptions: (a) project implementation period is five years; (b) activities that are supported by the project will continue for further period of 20 years; (c) total project cost without price contingencies and taxes and duties (economic value), and excluding credit and matching grants is directly obtained from the costab computations; (d) both inputs and outputs move freely in the project islands responding to market signals, even the value chain products will hold this assumption since most competitive VCs are selected for the project assistance; (e) the economic cost does not include duties, taxes, credit, grants and price contingencies. Incremental costs are included; (f) all inputs and outputs that are traded are valued at their border prices as of October 2012 which is 80% of the market price of vegetable, including the transport and handling, as the imported ones are cheaper, 110% for fruits as imported ones are expensive. Due to the lack of properly recorded import prices these estimates (80% and 110%) are obtained from the SAA as they recon the market behaviour. All inputs are at the market prices as they are fully liberalised and the opportunity cost of labour is equal to the market price as there is no surplus unemployed labour in the country. The product prices have been adjusted using the estimated percentages to allow for transport and marketing costs between port of import/export and the project area locations to give an economic export/import parity value at the farm gate. The cost / prices of outputs at different points of the potential promoted agricultural and fishing activities are estimated based on secondary information maintained at the SAA; (g) the financial and economic



benefits and costs are in 2012 constant terms; (h) the analysis assumes the Opportunity Cost of Capital (OCC) at 12%; (i) the quantification of environmental benefits due to climate smart practices are valued in the lower risk profile of agriculture. The models with environmental mitigatory practices to be determined will be demonstrated through trials. Credit is provided to up-scale these trials. The benefits of these practices will realise in the long run and uncertain at the point of designing. Thus they are not included in the benefit flow.

14. It is expected that about 2000 professional producers including farmers and livestock keepers during the project period and fishers afterwards will benefit by the Project through the promoted agricultural and fishing activities. The economic cost and benefit of the whole value chain, as one unit, are considered for the economic analysis. The aggregate would be the number of different types of agricultural and fishing activities promoted by the project with its total final production. People providing the ancillary services for the value chain operations at different points will also be considered as incremental employees. These points would be service providers, marketers, transporters, others facilitators etc. Given an investment of USD 3 million and a required ERR of 12%, the incremental annual benefits to justify this investment amount to USD 360,000 or between the range of USD 360-720 per beneficiary.

15. The base case scenario yields an Economic Internal Rate of Return of 31% and net present value (NPV) at 12% discount rate is SCR\$ 26,322 for period of 20 years. In comparison to the cost of capital of 12%, the project is economically viable. The value chain analysis which provided the basis to the economic analysis was based on the benefits that were attributed to the narrowing down of the margins that is enjoyed by the producers at the beginning and then market price increase for the producers due to quality improvement. The sensitivity to these assumptions was tested to assess the robustness of the economic benefits of the project to unforeseen changes. Results of the sensitivity analysis is summarised in Table 4.

Table 4: Sensitivity of the economic analysis to the margin changes

Production model - different scenarios	IRR	NPV (12% DR)
Base case (margin will decrease by 3% & 5% for vegetable (when margin decrease gap between market and farm-gate decreases and producers get more money) in the 2 nd and 3 rd year of the project; 3% and 6% in fruits; 2% in pigs)	31%	26,322
Only 2% and 4% in vegetable (others remain)	30%	25,965
Only 2% and 4% in fruits	28.59%	23,594
Only 1% in pigs	29.72%	25,107
Absence of pig	14.18%	2,983
Drop in production by 10% of high-tech vegetable	30.13%	25,679
Absence of pig together with doubling the number of high tech agriculture producers	20%	12,390

16. The results of the sensitivity analyses show that the project is adequately robust to withstand risks. However it is notable that the project becomes unviable for a scenario where there is no pig value chain. However even this scenario could be turned into economically viable situation by doubling the number of producers who are involved in high tech agriculture from 14 to 28 at the beginning.

Appendix 1: Financial Analysis of Production Models which are linked to the promoted agricultural and fishing activities

Financial analysis of Vegetable production models

Crop model	Avg size (ac)	Total size (sq mt)	Farmer	Avg size(sq mt)	Kg/sq mt	Farm Gate Price (Rs/kg)	Market Price	Margin	Net income gain/HH	Total net income gain at farm level	Country level
Without project											
Beans	0.04	16,069	101	158.8	1.26	60	79.11	76%			
Capsicum	0.05	5,028	24	211.2	1.53	50	115.83	43%			
Cucumber	0.05	33,862	162	208.6	3.06	20	23.65	85%			
Chillies	0.09	69,351	183	379.6	1.53	100	200	50%			
Pumpkin	0.35	127,312	91	1404.4	1.34	22	32.34	68%			
Tomato	0.12	60,558	129	469.2	3.38	40	69.01	58%			
Egg plant	0.10	31,884	79	404.9	2.52	19	34.33	55%			
WP: Yr 1 - farm-gate margin increases by 3%											
Beans	0.04	16,069	101	158.77	1.26	62.37	79.11	79%	475	48,052	0
Capsicum	0.05	5,028	24	211.23	1.53	53.47	115.83	46%	1,123	26,732	0
Cucumber	0.05	33,862	162	208.64	3.06	20.71	23.65	88%	453	73,517	0
Chillies	0.09	69,351	183	379.55	1.53	106.00	200.00	53%	3,484	636,642	0
Pumpkin	0.35	127,312	91	1404.35	1.34	22.97	32.34	71%	1,826	165,514	0
Tomato	0.12	60,558	129	469.18	3.38	42.07	69.01	61%	3,283	423,762	0
Egg plant	0.10	31,884	79	404.86	2.52	20.03	34.33	58%	1,051	82,750	0
WP: Yr 2 - farm-gate margin increases by 5%											
Market price increase due to quality by 3%											
Beans	0.04	16,069	101	158.77	1.26	65.87	81.48	81%	1,175	118,934	70,882
Capsicum	0.05	5,028	24	211.23	1.53	57.47	119.30	48%	2,413	57,429	30,697
Cucumber	0.05	33,862	162	208.64	3.06	21.82	24.36	90%	1,161	188,374	114,858
Chillies	0.09	69,351	183	379.55	1.53	113.30	206.00	55%	7,724	1,411,223	774,581
Pumpkin	0.35	127,312	91	1404.35	1.34	24.33	33.31	73%	4,376	396,728	231,213
Tomato	0.12	60,558	129	469.18	3.38	44.75	71.08	63%	7,539	973,081	549,319

Egg plant	0.10	31,884	79	404.86	2.52	21.34	35.36	60%	2,385	187,852	105,102
WP: Yr 3 - farm-gate margin increases by 5%											
Market price increase due to quality by 3%											
Production extent increase by 5%											
Beans	0.04	16,872	101	159	1.26	65.87	81.48	81%	1,234	124,881	76,828
Capsicum	0.05	5,279	24	211	1.53	57.47	119.30	48%	2,533	60,300	33,569
Cucumber	0.05	35,555	162	209	3.06	21.82	24.36	90%	1,219	197,793	124,276
Chillies	0.10	72,819	183	380	1.53	113.30	206.00	55%	8,110	1,481,785	845,142
Pumpkin	0.36	133,678	91	1,404	1.34	24.33	33.31	73%	4,595	416,564	251,050
Tomato	0.12	63,586	129	469	3.38	44.75	71.08	63%	7,916	1,021,735	597,973
Egg plant	0.11	33,478	79	405	2.52	21.34	35.36	60%	2,505	197,245	114,495

High-tech Production Models of Vegetables

With project	Units	Yr : 1	Yr : 2	Yr : 3	Yr : 4	Yr : 5
Construction of green houses (8x20 mt)	Rs	95000				
Managing the GH	Rs		9500	9500	9500	9500
<i>Production: Tomatoes</i>						
Total material input cost	Rs		16000	16000	16000	16000
Cost of irrigation	Rs		200	200	200	200
Labour cost	Rs		640	640	640	640
Total cost	Rs	95000	26340	26340	26340	26340
<i>Production</i>						
1st grade tomatoes	Kg		1760	1760	1760	1760
Farm-gate price with better business arrangement	Kg		704	880	1320	1320
Gross income - 1st grade	Rs/kg	55				
2nd grade price	Rs/kg	46				
Gross income - 2nd grade	Rs		48576	40480	20240	20240
Total	Rs	0	87296	88880	92840	92840
Net income	Rs	-95000	60956	62540	66500	66500
IRR						55%

**Intensive farming: Hydroponic Model**

With project	Units	Yr : 1	Yr : 2	Yr : 3	Yr : 4	Yr : 5
Construction of hydroponic system (60 mt length)	Rs	35000				
Managing the system	Rs		7000	7000	7000	7000
<i>Production: Salad leaves - lettuce</i>						
Total material input cost	Rs	1440	1440	1440	1440	1440
Cost of fertigation & nutrients	Rs	500	500	500	500	500
Labour cost	Rs	200	200	200	200	200
Total cost	Rs	37140	9140	9140	9140	9140
Production	Kg	300	300	300	300	300
1st grade lettuce	Kg	240	240	240	240	240
Farm-gate price with better business arrangement	Rs/kg	80				
Gross income - 1st grade	Rs	19200	19200	19200	19200	19200
2nd grade price	Rs/kg	50				
Gross income - 2nd grade	Rs	3000	3000	3000	3000	3000
Total	Rs	22200	22200	22200	22200	22200
Net income	Rs	-14940	13060	13060	13060	13060
IRR		79%				



Fruits Production Model

Crop model	Nb trees	Productivity (kg/tree)	Tot production (kg)	Farm Gate Price (Rs/kg)	Market Price	Margin	Total net income gain at farm level	Country level
Without project								
Banana	120,268	18	2,164,824	9	14.88	60%	19,483,416	
Papaya	19,684	30	590,520	10	17.93	56%	5,905,200	
	139,952						25,388,616	
WP: Yr 1 - farm-gate margin increases by % trees connected to agricultural activity								
Banana	72,161	18	1,298,894	9.45	14.88	63%	12,269,876	0
Papaya	11,810	30	354,312	10.54	17.93	59%	3,733,704	0
	83,971						16,003,580	0
WP: Yr 2-10 - farm-gate margin increases by % trees connected to agricultural activity								
Banana	72,161	18	1,298,894	10.29	15.48	66%	13,363,691	1,093,815
Papaya	11,810	30	354,312	11.74	19.01	62%	4,159,746	426,042
								1,519,856

Fattening of piggery

Pig model	Nb fattners	Nb HH owners	Farm Gate Price (Rs/unit)	Price increase	Total net income gain at farm level	Country level
Without project	5316	97	45			
WP: Yr 1 - farm-gate price increases by	2%					
% HH connected to agricultural activities	60%					
Fattners	3189.6	70	45.9	0.9	2,871	2,871
Without project: Yr 2						
Value gain						
Sow	3189.6	70	4500			
With project: Yr 2						
Value gain due to agricultural activities	25%				797,400	
Cost incurred for value gain						
Selling of Sow	3189.6	70	5625	1125	3,588,300	3,588,300



Results of the Economic Analysis

Agricultural activity	Units	Without Project	P Yr: 1	P Yr: 2	P Yr: 3	P Yr: 4	P Yr: 5	P Yr: 6 - 20
<i>Extensive farming</i>								
Nb HH	individuals	769	769	769	769	769	807	807
Extent under farms	1000 sq mt	344	344	344	361	361	379	379
Net income increase	Rs 1000			1,668	1,809	1,809	1,990	1,990
<i>Intensive farming</i>								
Green house	Rs 1000	0	-95	43	45	48	48	48
Hydroponic	Rs 1000	0	-19	9	9	9	9	9
Nb users								
Green house		0	8	8	8	12	12	12
Hydroponic		0	6	6	6	9	9	9
Net income increase	Rs 1000		-876	400	410	653	653	653
<i>Fruits (Banana & papaw)</i>								
Nb HH		1,020	1,020	1,020	1,071	1,071	1,125	1,125
Net income increase	Rs 1000		0	1,604	1,684	1,684	1,768	1,768
<i>Piggery</i>								
Nb HH		97	70	70	77	77	92	92
Net income increase	Rs 1000		3	2,871	3,158	3,158	3,789	3,789
Total net income	Rs 1000		-873	6,542	7,061	7,304	8,201	8,201
Project economic cost (from COSTAB)								
Grand Total net cash flow	Rs 1000		-13,533	-11,896	-665	5,635	7,435	8,201
IRR			21%					



ANNEX 11: DRAFT PROJECT IMPLEMENTATION MANUAL

Table of Contents: Project implementation manual

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Currency Equivalent

Weights and Measures

Fiscal Year

Abbreviations and Acronyms

Chapter 1: Introduction and background

Describe the purpose and objectives of PIM, mention who are going to use this PIM, indicate the advantages of using PIM. State that **PIM is a dynamic document and it should be updated as and when required by the PMU staff and it is the responsibility of PIU to do so.**

Chapter 2: CLISSA Project Summary

- a) Describe the project area, target groups and project goal and objectives;
- b) Include a matrix to show selection criteria for project interventions with columns: types of intervention; facilities offered, targeting criteria, role of community, PIU and island community in the selection and identification of target activities and beneficiaries etc
- c) Introduce the project Financing Agreement and content in that, particularly the covenants that is to be complied with, particularly Schedule II, Allocation Table.

Chapter 3: Project Organisation and Management

- a) Briefly describe coordination arrangements, project lead agency, project steering committees, and their roles, responsibilities and functions, arrangements for meeting etc, coordination arrangements at island / atolls levels, organisation structure of PIU, staff structure and their duties and responsibilities and emphasis on the staff that will be released from the Government to work for the project
- b) Arrangements for implementation of project interventions, private and government sector agencies responsible for the implementation of various project components and subcomponents, and providing implementation support in terms of technical aspects and extension etc.
- c) Develop and provide a matrix with following columns: project intervention, geographic coverage, implementation responsibility, procurement, timeline and schedule of implementation etc
- d) Briefly indicate PIU staff responsibilities or TORs and recruitment of staff and procedures for recruitment. Provide an outline of duties and responsibilities of individual staff and also indicate the need for gender balance in staff structure etc.
- e) Introduce a structure to prepare the gender strategy for the project

Chapter 4: Project Cost Estimates (to be extracted from WP)

- a) Insert key summary cost tables as reference
- b) Insert Tables showing the project cost estimates by component and year:
- c) Add commentary notes on unit costs used and scope for flexibility during implementation; ensure cost estimates contain both physical and financial units.
- d) Mention the limits for cost escalation without amending the Schedule II of the Financing Agreement

Chapter 5: Finance Management (to be extracted from Letters To Borrower - LTB)

- a) Provide a brief introduction regarding the purpose of this chapter.
- b) One or two paragraphs on project costs and financing arrangements - reference to previous chapters;
- c) Describe in brief the flow of fund mechanism;
- d) Describe type of accounts: designated account, project account, subproject account if any etc and their operations and managing responsibilities;
- e) Describe the disbursement procedures and withdrawals (to be obtained from the LTB and its attachments)
- f) Include checklist for sending withdrawal application;
- g) Describe audit procedures and arrangements in place for conducting effective audit for each year and also describe arrangement for internal audit and its procedures;



- h) Identify annual audit statements and indicate how these statements are prepared and forwarded to IFAD and other entities; indicate how project completion report will be carried out and required financial statements.
- i) Indicate a list of registers and records to be maintained at PMU office such as contract record, individual contract monitoring form etc

Chapter 6: Procurement Procedures

- a) Describe general conditions of procurement and methods of procurement under IFAD Procurement Guidelines;
- b) Describe the procurement procedures in accordance with IFAD Guide in detail and as applicable to CLISSA;
- c) Describe procurement approval authorities; review mechanisms namely IFAD prior and post review and their application conditions; review of pre-qualification bidders or tenderers; describe the procurement committees at different levels and thresholds for approvals at different level; provide thresholds for national and international bidding process; prepare 18-month procurement plan for the project and attach it at the end of the chapter using the template provided by IFAD.

Chapter 7: Capacity improvement and staff training

- a) Purpose and objective of this activity should be highlighted; type and category of staff, whose skills are to be improved to support and manage the agricultural and fishing activities to be promoted, should be indicated.
- b) Types of training courses, areas for training, duration of training and number of participants should be indicated; training institutes and trainers training should be included; Training calendar for staff training and training of community should be prepared.

Chapter 8: Technical Assistance

- a) Rational, objective and purpose of the TAs
- b) Type of technical assistance that would be provided including a time schedule for the interventions.
- c) The process of recruitment for the TA team and the roles and responsibilities of each and the outputs and the types of reports to be provided by each.

Chapter 9: Monitoring and Evaluation System

- a) Establishment of the result chain closely with the promoted agricultural and fishing activities and associated logframe (can reappear to maintain the links)
- b) Project M&E matrix: (i) output monitoring with indicators; (ii) outcome monitoring with indicators; and (iii) impact evaluation with indicators;
- c) Specific case / studies on the promoted agricultural and fishing activities to be required and their cost estimates
- d) Reporting and communication: baseline studies, annual progress reports, RIMS survey reports

Chapter 10 Guidelines for Annual Work Plan and Budget, and the Procurement Plan (PP)

- a) Purpose of the chapter
- b) General introduction, template and instruction on the preparation of AWP&B, and the PP
- c) The result-oriented AWP&B will typically have the following elements:
 - Objective and expected result of components
 - Indicators for monitoring and RIMS
 - Quarterly targets for implementation (physical)
 - Appraisal Target (physical)
 - AWP&B Target (physical) for the planning period
 - Unit cost for the proposed activity
 - Achievements by Appraisal estimates and Annual Plan estimates
 - Budget estimates by Appraisal and Annual plan
 - Financing rule
 - Budget Category
 - Procurement Method etc

**ANNEX 12: COMPLIANCE WITH IFAD POLICIES**

1. The design of CLISSA was assessed with reference to the IFAD Strategic Framework as well as the IFAD policies potentially relevant for the project such as those pertaining to targeting, gender, private sector partnerships, enterprise development, rural finance, natural resource management, climate change and the environment. Details are presented in the table below.

IFAD policies	Compliance
IFAD Strategic Framework 2011-2015	<p>Aligned to the 2011-2015 Strategic Framework (SF). CLISSA is consistent with the principles behind the SF. The focus of CLISSA is on promoting rural entrepreneurship and smallholder agriculture/artisanal fisheries development.</p> <p>The Project would provide households traditionally engaged in fishing and agriculture to engage in more sustainable livelihoods. The Project is especially designed to empower poor rural people by strengthening their links with markets and small rural entrepreneurs and provide them access to finance. Technical and business advisory services would be provided with opportunities for access to services through existing Government initiatives. The Project would be designed to scale up the good experience of building marketing links and supplier contracts between island communities and the private sector as well as high end resorts in the Seychelles.</p>
Private Sector Development and Partnership Strategy (2005)	<p>Aligned. The Project expects to catalyse effective partnerships between stakeholders, women's groups, the private sector, financial institutions and other donor projects.</p> <p>IFAD outlined its strategy for private-sector development and partnership in April 2005. This strategy recognizes that in most developing countries, the private sector is now responsible for a majority of employment and income-generating opportunities, and has become the driving force for poverty reduction. CLISSA has an essential part to play in equipping the rural poor to interact more equitably with new market forces and in making market relationships work for them. The main focus is on encouraging private sector linkages with rural enterprises, building linkages for the rural private sector with markets and encouraging private sector investment in increasing investment and job opportunities which will benefit the poor. Rural market economies are fuelled by the economic relationships that exist among small rural producers and with other actors in private-sector markets.</p>
Rural Enterprise Strategy	<p>Aligned. The Project activities would help to increase access to financial services and would link the private sector entrepreneurs with MED in the short term for access to finance and in the long-term it expects that commercial banks and private sector entrepreneurs would by better understanding the risks. CLISSA would directly provide the essential non-financial services such as technical skills training for potential micro-entrepreneurs and helping establish sustainable marketing linkages.</p>
Rural Finance Policy (2009) Decision Tools (2010) and Technical Note (2011)	<p>Aligned. The CLISSA design team reviewed IFAD's six guiding principles outlined in its rural finance interventions namely: (i) support access to a variety of financial services; (ii) promote a wide range of financial institutions, models and delivery channels; (iii) support demand-driven and innovative approaches; (iv) encourage – in collaboration with private sector partners – market-based approaches that strengthen rural financial markets, avoid distortions in the financial sector and leverage IFAD's resources; (v) develop and support long-term strategies focusing on</p>



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	sustainability and poverty outreach; and (vi) participate in policy dialogues that promote an enabling environment for rural finance.
IFAD Targeting Policy (2006)	<p>Aligned. IFAD’s stress on targeting would be addressed by focusing on the lower end of the continuum of private sector players likely to be small fishing households, unemployed men and women, small farmers with the potential to generate significant employment and income multipliers for poor rural households.</p> <p>As a middle income country, the characteristics of poverty in the Seychelles portray slightly different traits than the IFAD normal target group. Food insecurity, for example, is not a relevant indicator for targeting in the country context. In keeping with the overall objectives of CLISSA to develop artisanal fisheries and agriculture in partnership with the private sector, the target group of the project would be private sector players who would include poor fishing households, unemployed men and women and small entrepreneurs and farmers with the capacity to generate significant multiplier affects for IFAD’s main target group which are poor rural households.</p> <p>CLISSA uses self-targeting and direct targeting and building the capacity of poor rural people. CLISSA will also support institutional strengthening of those actors who provide services to the target group which assist in their further development. A particular focus will be placed on investments in activities that enable disadvantaged groups (including women and youth) to improve their livelihoods and seize income-generating opportunities.</p>
Framework for Mainstreaming Gender in PMD operations.	<p>Aligned.</p> <p>See Appendix I below.</p>
Land rights and land tenure (2008)	Aligned. CLISSA has been designed in a manner which supports IFAD guidelines on land rights and tenure and also respects the Government of Seychelles policy of land use and the rights of island communities to use the water resources contiguous to the islands.
Environment and Natural Resources Management Strategy (ENRM) (2011)	<p>IFAD recognizes all too well that poor rural people are in the front line of climate change impacts; the ecosystems and biodiversity on which they rely are increasingly degraded. This is particularly true in the Seychelles where there is a limited land base and in the case of island communities. IFAD’s ENRM strategy is at the core of delivering IFAD’s poverty reduction and sustainable agriculture mandate because of its target group’s reliance on the environment and natural resources for their livelihoods. The goal of the ENRM policy is “to enable poor rural people to escape from and remain out of poverty through more-productive and resilient livelihoods and ecosystems.” The purpose is “to integrate the sustainable management of natural assets across the activities of IFAD and its partners.” In addition, the strategy highlights the need to maximize the positive environmental impact of value chains, assess the downside risks and build on its comparative advantage of working through community-based approaches.</p> <p>The current project addresses some of the central concerns raised by IFAD’s ENRM policy and is designed to assist Seychelles to manage its natural resources more efficiently. CLISSA would attempt to engage environmentally conscious resorts with a strong commitment to protecting the fragile environment of the country. Ecologically friendly choices are used by some of the high end resorts as a unique selling point for the more environmentally conscious tourist. These selling points are expected to lead to the engagement of the project in ‘climate-resilient’ approaches to rural development, give greater attention to risk and resilience in order to</p>



	manage environment- and natural-resource-related shocks and engage in value chains that drive green growth.
IFAD Climate Change Strategy (2010)	IFAD's climate change strategy recognizes that the speed and intensity of climate change are outpacing the ability of poor rural people and societies to cope. IFAD recognizes that climate-related risks, and potential opportunities, can be addressed more systematically within its projects and policy advice. The goal of this strategy is to maximize IFAD's impact on rural poverty in the context of climate change. The Seychelles is in the front line of climate change.
Guidelines for Integrating Climate Change Adaptation and Mitigation Options for Fisheries and Aquaculture into Project Design (2011)	IFAD's 'Guidelines for Integrating Climate Change Adaptation and Mitigation Options for Fisheries and Aquaculture into Project Design' (Fezzardi & Corsin, 2011) have been used to cross-check the project's approach to mitigating both the potential project-specific influences on climate change, as well as acting to counter external threats.
Environmental and Social Review Note (ESRN)	Aligned. See Appendix 2 below

**Appendix 1: Key features of gender-sensitive design and implementation**

	Issues
1. The Project design document contains – and project implementation is based on – gender-disaggregated poverty data and analysis of gender differences in the activities or sectors concerned.	Yes. Design is based on the Census of Population and Housing (2010), the Living Conditions Survey (2011) and the preliminary results of the Census of Agriculture (2012).
2. The project design report articulates – or the project implement – actions with aim to: <ul style="list-style-type: none"> • Expand women’s economic empowerment through access to and control over fundamental assets ; • Strengthen women’s decision-making role in community affairs and representation in local institutions; and • Improve women’s knowledge and well-being and ease their workloads by facilitating their access to basic rural services and infrastructure. 	<ul style="list-style-type: none"> - yes, the promoted agricultural and fishing activities are to be managed by them, about 75% of the matching grants that may be provided may be given to women, and most of the backyard garden development efforts would be targeted at women. - training in entrepreneurship development would be targeted to women as well which will empower them to hold control / position in the promoted agricultural and fishing activities entities. - farming and processing where women are involved would be improved through agronomy demonstrations and farm mechanization demonstrations
3. The design document describes - and the project implements - operational measures to ensure gender- equitable participation in, and benefit from, project activities. These will generally include:	
3.1 Allocating adequate resources to implement the gender strategy;	- resource under project management is available, component 1 provides financing for food security and component 2 provide financing for infrastructure, both are beneficial to women.
3.2 Ensuring and supporting women’s active participation in project-related decision-making bodies and committees;	- entrepreneurship training targeted at women in the Gender Action Plan would improve their capacity to increase their representation in institutions related to the promoted agricultural and fishing activities
3.3 Ensuring that project management arrangements (composition of the project management unit, project terms of reference, etc.) reflect attention to gender equality and women’s empowerment concerns; and	Responsibilities for gender mainstreaming have been included in the TORs of project staff
3.4 Ensuring direct project outreach to women (for example through appropriate numbers and qualification of field staff), especially where women’s mobility is limited.	- backyard garden development would directly support the women
4. The project’s logical framework and monitoring and evaluation (M&E) system specify in design – and project M&E units collect – gender-disaggregated performance and impact data.	Indicators in the logical framework are gender-disaggregated. M&E plan has yet to be developed, but the TOR for the M&E specialist includes establishing a gender-sensitive Monitoring and Evaluation System taking into account IFAD RIMs and project objectives.



APPENDIX 2: ENVIRONMENTAL AND SOCIAL REVIEW NOTE

1. The objective of this Appendix is to mainstream environmental issues into the design report of CLISSA and to ensure that the environmental and social aspects are taken into consideration during its design implementation. To achieve this objective, the task was designed to answer three key questions. They are: (a) perform an environmental assessment of the proposed project activities based on the data available; (b) review the relevant experience from the government, development partners and NGO initiatives; identify practices and innovations in terms of mainstreaming environmental concerns; and; (c) prepare an Environment/Natural Resource Management Environmental and Social Review Note along IFAD guidelines.

1. Brief Description of Project and Project Components

2. The target group of the Project would consist of: (a) approximately 700 farmers who are producing for the domestic market; (b) approximately 1,330 people dependent on artisanal fishing and fish handling and processing; (c) some 8,000 additional households which are involved in some form of small-scale agricultural practices and backyard gardening.

3. The Project would have 2 investment components.

4. **Component 1: Enhancing business arrangements and sustainable productivity.** The aim of subcomponent 1.1 is to strengthen business arrangements in agriculture, livestock and fisheries by fostering win-win contractual relationships between farmers, artisanal fishers, private entrepreneurs and public services. The proposals for PPP would come from the private sector that would also co-finance the initiatives and ensure management on a commercial basis. The aim of subcomponent 1.2 is to foster the dissemination of climate-resilient and agro-ecological farming and fisheries practices. Investment support would be provided through a CLISSA credit line, managed by participating banks. The main target group would be individual small farmers and artisanal fishers, as well as households involved in backyard gardening.

5. **Component 2: Strategic capacity strengthening and infrastructure.** The aim of this subcomponent 2.1 is (a) to test technology packages and (b) to strengthen strategic capacity of selected public (and private) actors required for implementation of Component 1. The Project would finance trials that could be up-scaled under Component 1 in the field of renewable energy, climate-resilient technologies, agro-ecological and organic farming practices, and elsewhere in relation to the promoted agricultural and fishing activities. The aim of subcomponent 2.2 is to finance enabling rural infrastructure, including public investments (access roads, etc.) and collective investments (irrigation/water harvesting, etc.), and which are related to activities of Component 1. Potential of cofinancing or parallel financing with the African Development Bank (ADB) would be explored.

6. **Component 3: Project management and M&E.** To facilitate implementation, a Project management unit (PMU) would be embedded with the Office of the Principal Secretary in MNRI. The Monitoring & Evaluation (M&E) would also be mainstreamed in the MNRI and the National Bureau of Statistics and make use, as far as possible, of existing mechanisms for generating knowledge regarding the well-being of the project's target groups.

2. Major site characteristics of Seychelles

7. Seychelles being a small island developing state is more vulnerable to the effect of climate change with that regards and message is conveyed at various international forum. Seychelles is spearheading the Sea level rise foundation which aims at giving a united voice and force with regards to the small island states concerning climate change.



8. The granitic islands of the Seychelles are composed of a core of ancient granitic rock which forms the steep uplands, with narrow surrounding coastal plains formed by beach sand. Both types of soils are physically and chemically poor. Around 80% of Seychelles land area is under some form of forest or vegetation cover, though less so on the more urbanized main islands. Land degradation has mainly occurred because of forest fires, clearing of forest for development purposes (agriculture, including plantations; housing; infrastructure), invasive alien species, and unsustainable agriculture and construction practices.

9. Out of the 455, 000 hectares of total land area of the Seychelles, 6000 hectares have been estimated as potential agricultural land. However, only 600 hectares are under arable agriculture with about 200 hectares under intensive cultivation. Farm size is between 0.5-2 hectares. It has been estimated that of the total 6000 hectares of potential agricultural land, 3000 hectares are of the Seychelles' red earth which is an acidic, feralitic soil. 1300 hectares are of the alkaline, coralline sandy soil. Both types of soils are deficient in both macro and micro elements which are essential for optimum plant growth and development.

3. Environmental Category

10. The design mission has reviewed the IFAD Environmental and Social Assessment procedures to ensure that CLISSA does not in any way cause any adverse impacts on the environment. The Project is designed to stop harmful practices in agriculture and artisanal fisheries and encourage the breeding of these species in an environmentally sustainable manner.

11. None of the project activities would be implemented in environmentally sensitive areas, such as mangroves or other protected areas or have adverse impacts on the coral reefs, or threatened species or undertake any fishing or feeding practices which are harmful to the natural environment. The project would not support activities that might generate significant irreversible or cumulative environmental impacts. The proposed project would strictly follow the existing environmental laws and regulations applicable in the Seychelles. Each activity undertaken by the Project with the participation of the private sector, small enterprises or local communities would be subject to an Environmental Impact Assessment as stipulated by the Environmental Protection Agency of the Seychelles. This would include an assessment of the physical, biological and socio-economic monitoring. CLISSA is classified in Category "B" according to IFAD's Administrative Procedures for Environmental Assessment. The classification is based on the available information gathered during the field visits and on-site assessment in the country.

4. National Environmental Policy

12. Seychelles embarked on its first environment management plan in 1989, with the support of UNDP, UNEP and the World Bank. The success of the EMPS 1990-2000, prompted Government to embark on the preparation of a second generation action plan; the EMPS 2000-2010. In 2009, a review of the EMPS 2000-2010 revealed that 85% of the EMPS 2000-2010 action Plan was effectively implemented despite serious economic difficulties experienced during this period.

13. The Seychelles Sustainable Development Strategy (SSDS) 2012-2020 is an approved national instrument which incorporates national priorities for sustainable development and lays out a roadmap for the implementation of those priorities. Both the priority setting and development of the roadmap is a result of consultations with various stakeholders and groups, including community groups. The drafting of the SSDS 2012-2020 has been supported with the financial assistance of the Regional Programme for the Sustainable Management of Coastal Zones in the Indian Ocean Countries (ReCoMaP)



and the UNDP-GEF Capacity Development for Improved National and International Environmental Management in Seychelles (CB2) Project.

5. Institutional partners responsible for environment

14. The Seychelles Sustainable Development Division (SSDD) will be responsible for the implementation and coordination of the SSDS and will report to the Minister responsible for Environment. For practical purposes the establishment of the Division shall be undertaken in phases, as it will involve a review of the existing UNDP-GEF Project Coordination Unit and the EMPS Coordinating Unit, both under the responsibility of the Department of Environment. The entire process is being supported administratively by the Department of Environment and the Joint Seychelles-UNDP-GEF Project Coordination Unit.

15. The Knowledge Base Unit of SSDD shall be responsible for ensuring there is knowledge development and capture in the implementation of the SSDS. It shall maintain information systems to support the work of the Division as well as develop a knowledge base accessible to all stakeholders. It shall be a repository of project reports and relevant outputs. It shall not be a repository of primary data unless specifically mandated by the specific project implementers. It shall not have the power to mandatorily acquire data or information unless it is done through an appropriate information/data sharing agreement.

16. The Monitoring and Evaluation Unit of SSDD shall be responsible for ensuring transparency and appropriate implementation of the SSDS. It shall generate yearly monitoring and evaluation reports and shall be responsible for the development and maintenance of a quality system in the Division.

17. UNDP was greatly involved in the design and implementation of GEF-funded activities in Seychelles. It has been very successful in mobilizing funding to national environmental priority issues. Funding has been provided by UNDP, the Global Environment Facility (GEF) and the IUCN. (a) Capacity Development for Sustainable Land Management in Seychelles; (b) Mainstreaming Biodiversity Management into Production Sector Activities; (c) Mainstreaming Prevention and Control Measures for Invasive Alien Species; (d) Capacity Development for improved National and International Environmental Management in Seychelles.

6. Further information required

18. No further information is required to complete the environmental screening and scoping exercise for the project.

7. Recommended features of project design and implementation

19. The major positive environmental impact from the project would be the protection of farming and fisheries production systems. The demand for reef fish, both for local consumption (especially in tourist resorts) and export is high and likely to increase in the future. Potential environmental adverse impact and suggested mitigation measures would be:

Environmental Impact	Mitigation Measures
Water contamination due to accidental spills or release of untreated water	<ul style="list-style-type: none"> - Activities to be carried out under the supervision of experienced person - Accidental disposal should be avoided by pre-planning modalities for waste disposal or re-use whatever possible
Introduction of exotic species with the wild stock can have	<ul style="list-style-type: none"> - All exotic species to be quarantined



several negative effects.	<ul style="list-style-type: none"> - Introduction of acceptable species would be carried out one at a time - Quarantined fish to be monitored by experienced staff
Soil erosion and soil fertility	<ul style="list-style-type: none"> - Ongoing research at the level of SAA research unit
Water use	<ul style="list-style-type: none"> - Promotion of efficient use of water - Promotion of efficient use of waste water (from livestock and agriculture)
Erosion	<ul style="list-style-type: none"> - Promotion of conservation agriculture

8. Monitoring aspects

20. For the implementation of this Project, monitoring would be done on all environmental aspects. The Ministry of Environment and Energy (MoEE) will be involved in all supervision missions. The monitoring program would require information regarding: (a) water consumption and availability at selected locations; (b) ecological aspects; (c) coastal zone aspects: specifically erosion and coastal zone changes; (d) terrestrial environment: flora, fauna, soil and air; (e) water quality: groundwater and wastewater; (f) socio-economic environment: employment.

21. The monitoring program would include a monitoring schedule which would determine the monitoring frequency for all the parameters included in the project. In the course of its supervision missions IFAD would regularly review the relevant Environmental Assessment documents and implementation of recommended measures for randomly selected investments.



ANNEX 13: CONTENTS OF THE PROJECT LIFE FILE

to be provided

Annex 14: Fisheries for CLISSA

1. Introduction and overview

In common with many small-island nations, particularly those with small populations and located in remote oceanic settings, the Seychelles as a nation faces many important limitations and constraints. The country has a high human development index, and high indices of health, education and income, especially if compared to other African nations in the region. However, the investments in health, education and social services that have made this possible have been heavily dependent on a limited number of economic sections, with tourism and fisheries playing a major role.

Both these key sectors are highly dependent on wider conditions outside of the Seychelles and are vulnerable to a range of factors that are beyond the control of national authorities. In the case of fisheries, several key factors have had a major influence on fisheries over the last decade.

2. Key issues facing the fisheries sector

Piracy : Somalia is located just 1,300 kms. to the north and east of the Seychelles and the growth of piracy based on the Somali coast has had a dramatic impact on many aspects of life in the Seychelles. All forms of shipping moving to and from the Seychelles are at risk and, as a result, the costs of imports and exports by sea from the Seychelles have increased as insurance premiums have been driven up. The effects of the piracy threat on fisheries have been particularly dramatic, especially after Seychellois fishers were seized by pirates in October 2011. Fishing activity by artisanal fishers has declined dramatically in response to this threat, leading to a very significant decline in fish availability in local markets between 2011 and 2012 and an increase in the price of fish. In addition, several of the industrial purse-seine operations based in the Seychelles, and which represent a key sector of the local economy, have shifted their operations to the Atlantic Ocean in response to this threat. The increase in costs of all imported goods to the Seychelles has affected the economic viability of fishing operations as well, as the prices of petrol and other key inputs have been driven up. While, in late 2012, the rate of pirate attacks in the region has declined somewhat and there is optimism that the situation is improving, the experience of the last few years in this regard highlight the vulnerability of fisheries to external conditions.

Maintaining the role of fisheries in ensuring domestic food security: From 2007 to 2010, fish prices in the Seychelles rose by 83%, which is generally in line with the overall rate of inflation over this period, where other goods were also subject to considerable rises in prices due to high import costs. Current inflation is estimated at 7% annually while the inflation rate for food items in general is slightly higher. Clearly much of these dramatic increases in fish prices can be attributed to the relatively exceptional circumstances faced in this period, and particularly to the piracy issue. Artisanal fish catches have dropped – from 4,189 tonnes in 2007 to 2,595 tonnes in 2010. While data on how this has affected fish consumption are not available, it is clearly likely to have affected access to fish for food for people on the islands, particularly bearing in mind the extremely high levels of fish consumption in the Seychelles, among the highest in the world.

Global economic conditions: The impacts of the piracy threat on fisheries came on top of a period that has seen widespread instability in global economic conditions and, in common with fisheries in many parts of the world, these have had repercussion on those

involved in the sector in the Seychelles. Fluctuations in oil prices, in particular, have very direct impacts on fishing operations where the cost of diesel fuel constitutes the single major input to fishing operations. Broader economic conditions, particularly in Europe which constitutes the principal market for Seychellois exported fish and for tourism in the islands, also directly influence the demand for fisheries products and the viability of fishing operations.

International regulation: As for any activity that is linked to global markets, international regulations and standards also have important impacts on those fishing activities producing fish for export in the Seychelles. In 2003, the EU banned exports of swordfish from the Seychelles due to high levels of cadmium and this had a particularly significant impact on the semi-industrial long-lining which targeting these species. Significantly, this particular sub-sector in fisheries was one being actively promoted by the Seychelles Government as a means of encouraging local fisheries entrepreneurs to expand fishing effort to more offshore areas that were less intensively exploited compared to inshore water. Until the adjustment of EU policy in 2005 that re-opened EU markets to Seychelles swordfish, the loss of income from these exports represented an important set-back for the sub-sector.

Climate change: In common with many small-island states, the Seychelles is particularly exposed to the potential impacts of climate change. The archipelago is located in tropical waters and is surrounded by extensive coral reef systems: in the case of many of the outer island, these reefs constitute the basic building blocks of the islands themselves which are coral atolls; in the case of the inner, “granitic” islands, the reefs are mainly fringing reefs. Coral reef systems are particularly sensitive to changes in water quality and temperature and there is widespread concern that rising ocean temperatures and acidification will lead to a widespread decline in coral reef ecosystems over the coming decades. The Seychelles experienced a dramatic precursor to these potential future impacts during the 1998 coral bleaching event in the Indian Ocean, when significantly higher than normal sea temperatures in large areas of the Indian Ocean, associated with an El Nino weather pattern, resulted in massive die-off of coral. The Seychelles was particularly severely affected, with an estimated 90% overall reduction in live coral cover. Coral reef systems play a critical role in the life-cycles of many species supporting fisheries and studies (Graham et al., 2007) have indicated that this event had a major impact on the structure of fish populations and the abundance of some species. The same studies have also highlighted the dramatic long-term effects of this bleaching event on coral around the Seychelles, where recovery on many reefs has been extremely limited to date. This highlights the long-term vulnerability of fisheries to processes associated with climate change.

Shortages of skilled labour: Availability of labour, and particularly skilled labour, represents an increasingly serious constraint in the fisheries sector. Fishing is widely perceived among Seychellois as being a low-status activity which offers limited prospects for advancement and improved living standards, particularly when compared with jobs in the tourism sector. The risks associated with fishing as a result of incidents of piracy in Seychellois water over recent years has not improved this situation. The Maritime Training Centre (MTC) provides training for seamen and fisheries but a large proportion of graduates do not continue to work in the fisheries sector. Given the limited interest among younger Seychellois in becoming fishers, the average age of those involved in the sector is rising and the longer-term survival of the artisanal fishing fleet is in doubt. As in many other sectors of the Seychellois economy, it is likely that migrant workers from South Asia will become more active in the sector in the future.



High costs

As with many other economic activities carried out in a small-island environment, where costs of primary inputs to production are often higher than elsewhere, achieving economic sustainability for small-scale fishing activities in the Seychelles can be challenging. The costs of fuel and other fishing inputs have risen substantially in the past years and, while fish prices have also risen, fishers face the challenge of extracting the maximum possible value from their catches.

In addition, any efforts to identify new external market opportunities are likely to be affected by the high costs both in fisheries production and the costs associated with exporting from a remote location. This is likely to constitute a significant constraint on the development potential of new forms of production such as aquaculture, which is also likely to suffer from high costs in the Seychelles setting.

3. Options to address these issues

Many of the issues identified above that are facing fisheries in the Seychelles represent major challenges that are not easily addressed at the local level. The emphasis therefore in interventions for the sector will inevitably focus on strengthening the resilience of the sector to the range of external challenges it faces. Several key areas can be considered for intervention.

Strengthening the adaptive capacity of fishers

Fishers need to be able to respond to the changes that they currently face, and are likely to continue to face in the future, as a result of the effects of climate change, international market conditions and other externalities over which they have limited control. This means increasing their capacity to assess options for fisheries in a changing environment and their capacity to select and then access those options that are likely to be most appropriate.

This is likely to involve action in several dimensions.

- Representation
- Access to financial assets for appropriate investment
- Capacity building and access to information and advice

This requires action to:

- building fishers' access to information and capacity to process this information in order to make appropriate investment decisions regarding their fisheries activities.
- Improve fishers' access to the expertise and advice required in order to appropriately assess fisheries options.
- Improve access to the financial and technical means for fishers to pursue those options that are most appropriate.

Possible mechanisms for achieving this would be:

- The establishment of a permanent mechanism that brings together representatives of the sector and concerned institutions to enable closer



interaction between stakeholders involved in the sector discuss issues facing the sector, participate in the formulation of appropriate management

Strengthening of mechanisms to ensure appropriate management of fisheries resources

Future fisheries management in the Seychelles will need to be flexible and responsive to a changing environment. One-off imposed measures that fail to take into account the changing context of fisheries in the archipelago are likely to have undue negative impacts on fishers' livelihoods and may not be particularly effective. This highlights the need to establish effective mechanisms that allow the highest possible levels of consultation and participation by both key institutions and stakeholders in the sector in management-related decisions.

Given the importance of fisheries for the country, the establishment of a Technical Working Group that brings together key institutions and representatives of the sector is likely to be important for ensuring that management decisions are as informed as possible and taken with full awareness among those likely to be affected by those decisions. Current efforts on Praslin, along with past efforts that have led to the establishment of a management regime for sea cucumber, show that there is potential for establishing effective co-management arrangements in the Seychelles and the Seychelles Fishing Authority has demonstrated that it is open to participatory approaches to management. This can be built on in the future.

4. Fisheries resources in the Seychelles

The Republic of Seychelles is an archipelago made up of 115 islands, with a total area of just 457 km², scattered over an extensive exclusive economic zone (EEZ) covering 1.374 million km² in the Western Indian Ocean. The islands are divided in two distinct geological groups. The eastern part of the archipelago is made up of a group of 40 extremely ancient, granitic islands (the only oceanic islands with these characteristics worldwide) with fringing coral reefs. These granitic islands include the largest islands of Mahé, Praslin and La Digue where most of the population, and economic activity and administration, is concentrated. The rest of the archipelago, which stretches to the south and west from the so-called "inner" islands around Mahé, are much more recently formed atolls, divided into 5 groups of which the most distant from Mahé (the Aldabra and Farquhar Groups) are considerably closer to the coasts of Tanzania and Madagascar respectively than they are to Mahé.

Not surprisingly given the isolated position of the Seychelles in the Indian Ocean and the lack of water on most of the coralline atolls, as well as the steep topography of the granitic islands, dependence on marine resources has always been a critical for people living on the islands. Two very distinct sets of marine resources are available to the people of the Seychelles.

The marine resources most widely exploited by people from the islands are those associated with the coral reefs that surround practically all the islands. These include demersal (bottom dwelling and feeding) finfish species resident in coastal waters, cephalopods (octopus, squid, etc.) and shellfish, and some pelagic (surface or mid-water dwelling and feeding) finfish that are found in coastal waters. Fishing for these species, either from small fishing craft, from shore or from diving or gleaning on reefs and coastal flats, has always represented a key activity both for household subsistence and for income among a large number of Seychellois households. While many of these coastal resources, particularly those resident on reef areas, are relatively susceptible to over-

exploitation, as they tend to be less mobile and relatively slow-growing, and also more easily accessible to coastal fishers, the relatively low population density in most of the Seychelles has, at least until recently, ensured that these fish stocks have remained relatively abundant.

The second key set of resources are those migratory, pelagic found in deeper waters further offshore. The Exclusive Economic Zone of the Seychelles incorporates the principle fishing grounds for tuna in the Western Indian Ocean and the important fishing industry that exploits these stocks carries out much of its activity either in Seychellois waters or in adjacent seas using the Seychelles as a base. Of the 279,244 metric tonnes of tuna caught in the Western Indian Ocean in 2010, 84%, or 235,206 metric tonnes passed through the port at Victoria, Seychelles. The catches from these waters are predominantly of skipjack (*katsuwonis pelamis*), yellowfin (*thunnus albacares*) and bigeye (*thunnus obesus*) tuna and represents 30% of the total tuna catch for the Indian Ocean and almost 6% of global tuna production (FAO, 2012).

The port of Victoria has thus become the major hub for tuna fisheries in the region due to its proximity to these key fishing grounds and the added advantage of being located outside of the cyclone belt.

5. The development of fisheries in the Seychelles

Up until the early 1980s, fisheries in the Seychelles was predominantly a small-scale, artisanal sector which provided fish for local consumption and for the growing tourism sector on the islands. Fishing effort was focused almost exclusively to relatively shallow areas on the shelf surrounding the principle granitic islands. The mainstays of the economy were the export of a limited range of plantation crops such as vanilla, cinnamon and copra, with tourism gaining increasing importance from the mid-1970s onwards.

Development of industrial fisheries

However, in response to growing global demand for tuna, from the 1980s onwards, industrial fisheries have gained increasing importance. Initially, the Government of the Seychelles permitted access in the early 1980s to fishing vessels from the then-Soviet Union, but by the mid-1980s access rights were extended to vessels other fishing nations, notably Japan, South Korea, France and Spain. The process of developing appropriate port facilities to support fishing operations also began in this period. From the start of the 1990s, processing facilities were also developed, particularly the Indian Ocean Tuna canning factory and this has contributed to a dramatic increase in fish catches since the mid-1990s. The industrial-level fishing activity that has contributed most of this increase in catch is predominantly conducted by foreign owned and flagged vessels although there are also some foreign-owned but Seychelles-registered ships operating and these have been increasing their share of the total catch in recent years. Fully Seychellois-owned vessels are mostly involved in the artisanal and semi-industrial sectors and only contribute about 1.2% of national GDP whereas the contribution of the fisheries sector as a whole (including the many service activities that support the sector) now exceeds that of tourism and stands at about 30% of GDP. An estimated of 90% of exports are represented by fish and processed fish products.

Catches in the industrial fishing sector in the Seychelles are dominated by purse-seiners which account for by far the bulk of the catch. Spanish-owned and registered purse-seiners are the most important of these, followed by foreign-owned, Seychelles-registered craft and French-owned and registered vessels. Other nations with purse-seiners that have been registered to fish in Seychellois waters in recent years include

Italy, Thailand and Mayotte. Long-liners also operate in the sector but their contribution to overall catches has diminished in recent years and currently stands at less than 10,000 metric tonnes per year. Long-liners registered to operate in Seychellois waters include craft from Japan, Taiwan and South Korea, with Seychellois-registered craft playing an increasingly important role.

This key contribution to the nation’s economy from industrial tuna fisheries is underpinned by a series of fishing agreements between the Seychelles and key foreign fishing nations, particularly Japan and the European Union. Since the mid-1980s, a series of these agreements have facilitated access to investment funds which the Government of the Seychelles has used to improve fisheries-related infrastructure and processing facilities in Victoria. The latest fishing agreement signed with the EU in June, 2010 provided for a financial contribution from the EU of € 5,600,000 per year. This is divided between € 3,380,000 payment for access rights to 52,000 tonnes of tuna caught annually in Seychellois waters, while € 2,220,000 per year is provided to the Government of the Seychelles to support the implementation of national fisheries and maritime policy.

The Seychelles has been able to establish itself as the major tuna transshipment, processing and servicing hub in the Indian Ocean, but the costs involved in maintaining their dominant position are relatively high, mostly due to the Seychelles isolated position. Constant investment is required to ensure that the services and facilities provided in Victoria Harbour remain attractive for the international tuna fishing fleet.

Artisanal fisheries

While the development industrial fisheries in the Seychelles over the last 3 decades has been dramatic, artisanal fisheries have remained more stable and change in the sub-sector has been more measured. The artisanal fisheries of the Seychelles have developed to exploit the wide range of different marine environments of the archipelago - shallow water fringing reefs, granitic reefs, bank and plateau shelves and drop-offs, atolls, lagoons, seamounts and pelagic habitats (Jennings et al., 1999). The artisanal fisheries deploy a range of different craft and gear combinations to take advantage of these diverse habitats.

Several different types of fishing craft were active (as of 2010) including:

- Pirogue (small canoes) – 16 nos.
- Outboard (5 metre undecked fibreglass boats powered by 25-40hp outboard engines making day trips) – 316 nos.
- Whalers (inboard-engine powered “whalers” of around 9-12 metres, with crews of 6-7 people, equipped with ice-boxes and making trips of 3-6 days) – 105 nos.
- Schooners (decked vessels of 10-13 metres, inboard engine powered with larger iceboxes and crews of 7-8 people, making trips of up to 8 days) – 27 nos.

The artisanal catches, as recorded through the regular catch assessment surveys conducted by the Seychelles Fishing Authority between 2005 and 2010 are shown below:

Table 2: Fish Catches from Artisanal Fisheries in the Seychelles								
Artisanal fisheries – fish catch (MT and % of total artisanal catch) by craft (based on SFA Annual Report 2007-2010)								
Boat type	2005		2008		2009		2010	
	MT	%	MT	%	MT	%	MT	%
Pirogue*	66.5	1.5	28.7	0.6	33.2	1.1	18.2	0.7

Outboard*	1551.7	35	1213.4	25.4	1132.2	37.5	877.6	33.8
Whaler	2305.3	52	3071.7	64.3	1434.1	47.5	1241.1	47.8
Schooner	474.4	10.7	425.2	8.9	401.5	13.3	444.0	17.1
Foot fishers	31.0	0.7	38.2	0.8	18.1	0.6	13.0	0.5
Total artisanal catch	4433.3		4777.1		3019.1		2595.4	

**includes part-time fishing vessels*

Pirogues and outboard boats tend to fish using hand-lines for both semi-pelagic species, such as jacks, trevallies and tunas, and demersal species such as snappers, groupers, emperors and jobfish, as well as traps laid on reef areas catching mostly demersal species. While, in terms of numbers, these small vessels are the most numerous, they include vessels operated by part-time fishers and their contribution to overall catch tends to average between 30 - 40% or between 1,000 and 1,500 metric tonnes.

Whalers have generally made the most important contributions in terms of catch particularly through handlining for semi-pelagic and demersal fish and provide the main supply of fish for local markets and domestic consumption.

Multi-day fishing by the larger “schooners” has been developing steadily and its contribution to artisanal landings has increased to around 17%. These craft have generally targeted demersal species on offshore banks and the drop-off areas at the edge of the Mahé Plateau, but have also been involved in long-line fishing for pelagic species and sharks.

Semi-industrial fisheries

Since the year 2000, the Government of the Seychelles has also encouraged the development of a semi-industrial sector, consisting of purpose-built fibreglass long-liners targeting larger pelagic species such as tuna, swordfish and shark for export markets. The number of these vessels operating over the last decade has varied from 4 to 12 and their landings have generally been around 300 metric tonnes per year depending on effort and the fishing grounds.

Both the artisanal and semi-industrial sectors have benefitted in recent years from important investments in fisheries infrastructure. Ice supplies are provided by 5 ice plants, 4 on Mahé and 1 on Praslin, all of which were originally government-run but two of which have recently been privatised. Two of these plants, at Bel Ombre and Providence on Mahé are of recent construction (2010).

6. The post-harvest sector

In the artisanal sector, the close proximity of most fish landings to consumers and fish markets would appear to have prevented the development of a more specialised fish handling and marketing sub-sector. Even today, sales of fish in the principle fish market in Victoria on Mahé are carried out to a large extent directly by the fishers who caught the fish.

However, the two principle fish processing and export companies active in the Seychelles, Oceania and Sea Harvest, are also providing more specialised handling facilities to provide fish to domestic markets, to hotels and restaurants and to their

export trade. Some fishers are now operating on a contract basis for these companies as well.

In the past, a variety of government programmes have also created various small-scale facilities such as cold stores and local marketing facilities for fishers in support of the post-harvest handling and sale of fish. While the coverage of these facilities is not comprehensive, it provides fishers with relatively good access to the key infrastructure they require. Private sector fish buyers also play an important role in ensuring that fishers are able to market their fish in good condition.

The Japanese Fisheries Development Project has recently completed the construction of the Providence/ Bel Ombre fishing port and facility on Mahé. This includes a 100-metre jetty, fuel bunkers, two ice plants, warehousing which it is hoped to make available for processing and value-addition activities and office facilities. These facilities, completed in 2010, are already being used by semi-industrial and artisanal fishers. Japanese funding also supported the creation of a processing laboratory at Victoria Fishing Port which is being used to pilot a range of value-addition processes for fish, and these are also being disseminated for small-scale processors with support from SEnPA (Small Enterprise Promotion Agency).

7. Fisheries exports

Export of fish from the Seychelles is dominated, not surprisingly, by tuna, and in particular by canned tuna from the Indian Ocean Tuna Company in Victoria. In 2010, just over 29,000 metric tonnes of canned tuna was exported from the Seychelles for a total value of SR 2,382,456,000 (or c. US\$ 190 million). Exports of fresh and frozen fish, including tuna from industrial scale fisheries but also some fish from artisanal and semi-industrial operations, amounted to 306 metric tonnes worth just over US\$ 2 million while the 70 metric tonnes of dried shark fins and sea cucumber exported in 2010 generated almost US\$ 2.5 million in foreign exchange earnings.

8. Aquaculture

Current policy and key issues

Within the Government of the Seychelles and within the Seychelles Fishing Authority, there is a significant expectation that aquaculture potential in the archipelago may begin to be realised in the near future. The SFA has recently produced an Aquaculture Development Strategy and several areas with potential for development have been identified.

Not surprisingly, given the limitations on land area in the Seychelles, the focus is above all on marine-based aquaculture, or mariculture. The key comparative advantages for the Seychelles in the area of aquaculture development are the fact that they have abundant areas with high water quality that would be appropriate for mariculture activities, they are outside the cyclone belt, and the general conditions of current, waves and wind are generally favourable.

However, as with any activity that involves the use of imported inputs, the Seychelles will also suffer from significant disadvantages in attempting to develop commercial aquaculture. The high costs of imports, and the similarly high costs associated with any exports from the archipelago, mean that the viability of commercial aquaculture activities is always likely to be in doubt. A limited market is available domestically, for farmed crustaceans for hotels and restaurants in particular, and there may be some

scope for culture of high-value finfish species for the same domestic markets, but the costs of feed for aquaculture are always likely to be a significant issue.

Possibilities may exist for making use of by-catch, particularly from the industrial purse-seine fisheries, to manufacture feed locally, but the viability of this would need to be demonstrated.

Future aquaculture development in the Seychelles is likely, in any case, to be a relatively high-investment activity that would not generally be appropriate for small-scale operators.

Experience with aquaculture in the Seychelles to date

To date, only three aquaculture projects have actually been implemented in the Seychelles: the Coetivy Prawn Farm, located on Coetivy Atoll some 100 kms to the south of Mahé,;and the Pearl Oyster Farm and the Giant Clam Farm, both located on Praslin. The Coetivy Prawn Farm was set up in 1989 and occupies almost half of Coetivy Island covering an area of 80 hectares. It operated with some degree of success, run by the Seychelles Marketing Board up until 2006 when, as a result of a disease outbreak, the operation was forced to close down. Recently, the Island Development Corporation (IDC) has been awarded management of the facility on Coetivy and has been tasked with rehabilitating the operation. Currently it is envisaged that this would involve re-starting prawn production from about half of the available ponds with a view to satisfying demand in the Seychelles hotel and restaurant trade for prawns (currently all imported from abroad). This strategy recognises that lack of comparative advantage that Seychellois cultured prawns would have in extremely competitive international markets for crustaceans. Options for converting the remaining ponds to other forms of aquaculture, such as finfish or sea cucumber, would be explored.

Significantly, an important constraint faced in rehabilitating the Coetivy facility is finding workers who are willing to spend significant time periods on this remote island. Most of the labour involved in the farm when it was in function was made up of immigrants from South Asia.

The pearl oyster farm and giant clam farms established in the mid-1990s on Praslin are both managed by Praslin Ocean Farm Ltd. although these are relatively high-investment activities requiring high levels of technical expertise to be successful.

9. Fishers and fish workers in the Seychelles

Along with tourism, fisheries constitutes the most important sector from the point of view of employment in the Seychelles. The numbers involved in different key fisheries related activities are shown in Table 3.

Table 3: Employment in the fisheries sector in the Seychelles		
Key fisheries sub-sectors and activities	Nos. employed*	Total in each sub-sector
<i>Large-scale industrial fisheries (large-scale tuna purse-seining & long-lining)</i>		3,352
Indian Ocean Tuna Company (tuna cannery, Victoria)	2,500	
Services to industrial fisheries	783	
Seamen on foreign owned vessels	69	
<i>Semi-industrial fisheries (long-lining for</i>		24

<i>pelagics)</i>			
Long-liners		24	
<i>Artisanal fisheries</i>			<i>1,290</i>
Pirogue (unmotorised vessels)		15	
"Mini mahe" (outboard engine powered vessels)		588	
"Lekonomi", "lavenir" & "whalers" (inboard engine powered vessels)		340	
"Schooners" (larger inboard engine powered vessels)		192	
Sea cucumber diving		125	
<i>Post-harvest fisheries</i>			<i>105</i>
Fish handling and export (Oceania and Sea Harvest)		87	
Sea cucumber processing		18	

**preliminary figures from Agricultural Census, 2011 via personal communication*

The largest single group of fish workers is employed by the Indian Ocean Tuna canning factor in Victoria (one of the largest tuna canneries worldwide), which employs around 2,500 people. The harbour for tuna purse-seiners in Victoria, the most important in the region, is also an important source of work for many Seychellois. Almost 800 people are involved in providing services for the tuna fishing fleet in Victoria Harbour and a further 70 work as seamen on board foreign fishing vessels operating out of the harbour.

The numbers of people involved in artisanal and semi-industrial fishing are fewer than those employed in the industrial sector overall but they are more spread around the 3 major islands and more likely to be located in rural communities. Currently, based on preliminary estimates from the Agricultural Census of 2011 (pers. comm.), an estimated 1,290 people are involved in these smaller-scale fishing activities, including the handling of fish catches once they are landed. Given the small population of the Seychelles, the artisanal fisheries sector is therefore an important employer in rural areas of the country. Most artisanal fishers are concentrated on Mahé Island, but there are also small numbers of small-scale fishers on Prahlin and La Digue.

The National Bureau of Statistics in collaboration with the Social Welfare Agency (now known as ASP) carried out the LCS for the first time in Seychelles in 2011. This study clearly indicated that fishers, as an occupational group, represent the poorest segment of Seychellois society, with over 28% of fishing households identified as below the poverty line. This is significantly above the occurrence of poverty nationally of around 17% of the population as a whole.

The characteristics of poverty in the Seychelles cannot be directly compared with that encountered in less-developed countries in Africa but the LCS has highlighted the vulnerability of some groups to poverty, and fishing households have been signalled out in this respect. There is particular concern that recent rises in food prices, attributable to a combination of rising fuel prices and concerns about security which have driven up the costs of imports to the Seychelles, may be increasing levels of food insecurity among the poorer sections of Seychellois society.

10. Fisheries contribution to national development

Fishing has traditionally played an important part in the life of Seychellois people, and, particularly since the development of the industrial fishing sector for tuna and tuna processing facilities in Victoria, it has also come to represent a key element in the

modern Seychellois economy. With the emergence in the mid-1980s of Port Victoria as the principal tuna transshipment port in the region, and the development of the Indian Ocean Tuna canning factory, which became the largest single national employer in the late 1990s, the fisheries sector has even surpassing tourism in terms of generation of foreign exchange earnings.

Table 4 – Foreign Exchange Earnings from Fisheries

	2007	2008	2009	2010	% (2010) of total national current account receipts
Visible Exports	1,311,860	2,157,009	3,142,212	2,565,990	
Revenue from Industrial Tuna Fishing	987,430	1,691,319	1,398,649	1,265,291	
Gross inflow from fisheries	2,299,290	3,848,328	4,540,861	3,831,281	36 %
Gross inflow from tourism	1,901,200	2,437,800	2,841,400	2,784,900	26 %
Total national current account receipts	6,229,900	9,888,200	12,291,100	10,627,800	100 %

Fish and food security

Unsurprisingly for an oceanic archipelago, fish represents the key source of animal protein for people living in the Seychelles. Annual per capita fish supply, based on FAO's food balance sheets for 2009, is in the region of 58 kg per capita per year (FAO, 2012) and represents one of the highest levels of dependence on fish for animal protein in the world. Fish also plays an important cultural role with the serving and eating of a variety of fish regarded as a fundamental part of traditional Seychellois hospitality.

Global figures for fish consumption mask important seasonal dimensions in the availability and consumption of fish. During the relatively calm north-west monsoon, from November to January, fish catches are abundant, fish prices are normally relatively low and fish consumption is correspondingly high while during the cool, dry south-east monsoon, from April to October, seas are rougher and fishing is more difficult leading to higher prices for catches and a reduction in consumption. However, significantly, recent patterns of inflation in the market prices of fish, due to external factors such as piracy, reduction in fishing effort and costs of materials and inputs to fishing, have cut across these seasonal differences and recent peaks in fish prices were precisely during the period when fish would normally be cheapest.

Traditionally, for artisanal fishers, the key resources have been those found in inshore waters, coral reefs and on the relatively shallow plateau surrounding the main granitic islands of Mahé, Praslin and La Digue.

The key species exploited from these areas for local markets and consumption include demersal species and rock fish, pelagics like tuna, bonito and sardines, octopus and shark, caught with traps, handlines, bottom set lines and small purse seines.

In the 1980s, the development of the industrial scale tuna fishery operating out of Victoria Harbour, and the development of a semi-industrialised multi-day fishery and the increasing sophistication and addition of new technology to artisanal craft has increased



the options open to fishers in the islands as well as increasing pressure on the resource available to them.

The tourism industry has created new demand for some species of fish which is still largely met by local fishers but those species that are especially in demand from hotels and restaurants, notably a red snapper variety which is exclusively found in the Seychelles and some seas around Australia (*Lutjanus* spp.), are under considerable pressure and the need for management has been repeatedly highlighted by researchers. Management plans have been introduced for some species to attempt to mitigate overexploitation but the capacity to implement these plans is still limited.

In the past, availability of fish has been complemented by local agricultural and livestock production, ensuring the availability of a variety of foods and substitutes in the event of seasonal fluctuations of availability. With the removal of protective tariffs on food imports (WTO-imposed) in 2003, local production of some alternative forms of animal protein, notably chickens, has proven to be unable to compete with cheap frozen imports due to high prices for animal feed and local production has practically disappeared. Some other local livestock, such as pigs, is still raised by some producers, but reliance on fish as a primary source of high quality animal protein is now higher than ever.

This means that food security in the Seychelles should be even more dependent than previously on the sustainability of access to fish, and the assurance that fish is available in local markets through the maintenance of a viable and sustainable local fisheries industry exploiting a well-managed and sustainable fisheries resource.

11. Institutional arrangements in fisheries

The institutional framework of the fisheries sector is determined by the Ministry of the Environment and Natural Resources, which establishes the general lines of fisheries policy.

The Seychelles Fishing Authority (SFA) is the executive body, set up in 1984 as the sole body responsible for management, planning, development, scientific research and training. It also has powers in terms of enforcement, such as surveillance duties in collaboration with the Coastguard, and catch monitoring. The SFA is arranged into four departments. Its two most important functions are, on the one hand, research and development and, on the other hand, fisheries management.

The SFA collaborates in research on fisheries with a range of other research institutes, such as the Institut pour la Recherche et le Développement (Institute for Research and Development – IRD, France), the Instituto Español de Oceanografía (Spanish Oceanographic Institute – IEO, Spain) and the Institut Français de Recherche pour l'Exploitation de la Mer (French Oceanographic Institute – IFREMER, France).

The development of civil society organisations to represent the interest of actors in the fisheries sector has been limited, until relatively recently, to the Fishing Boat Owner's Association (FBOA) which plays an active role in consultations with the SFA and represents . This body plays an active role and has recently been involved in establishing a labelling initiative for hook-and-line fishers who are members of the association. This aims to clearly identify fish on international markets caught by association members using responsible and sustainable fishing methods. This programme is being developed with EU funding and the full support of SFA and in collaboration with another fisher association from France, the Association des Ligneurs de la Pointe Bretagne.

Recently, fishers on Praslin have established the Praslin Fishers Association which is working with SFA and with support from UNDP to develop a co-management strategy for fisheries around their island.

The two private sector fish processing and exporting companies active in the Seychelles, Sea Harvest and Oceana Fisheries, as the key actors involved in the export of fish from the country, are also important representatives of the fishing industry.

12. Fisheries policy in the Seychelles

The most recent articulation of fisheries policy for the Seychelles was the 2005 Fisheries Policy document published by the Government of the Seychelles, which has been subject to occasional updating since its publication. However, the key policy objectives laid out in that policy document remain valid to date. The Fisheries Policy document was prepared by a newly established Fisheries Policy Unit (FPU) established within the Ministry of Natural Resources and Industry (MNRI) in 2005, who work in close collaboration with the key technical agency responsible for the management, planning, development, research and planning of the sector, the Seychelles Fisheries Authority (SFA).

The long-term policy of the Government of Seychelles for the fishing industry is “the promotion of sustainable and responsible fisheries development and optimisation of the benefits from this sector for the present and future generations.”

Under this overall objective, the policy defines 7 more specific policy concerns:

1. To promote conservation and management of marine resources in order to ensure the sustainability and long-term viability of the industry

This commits the government to the use of appropriate management and a precautionary approach is specifically referred to.

2. To generate the maximum amount of employment

This recognises the key role of the fisheries sector as a source of employment and livelihoods for an important section of the Seychelles population.

3. To maximise revenue from fisheries and other related activities

This recognises the key contribution to national wealth made by fisheries and the important role played by foreign fisheries agreements in ensuring this flow of income to the State.

4. To promote an integrated economy

Given the high reliance of the Seychelles economy on two key sectors, tourism and fisheries, the importance of encouraging the multiplier effects of fisheries and stimulating linkages with other sectors of the economy is highlighted.

5. To enhance food supply and food security

The important contribution of fish to the national food supply and food security is recognised.



6. To promote safety at sea

Recognising the inherent risks involved in fishing as an occupation, efforts to ensure safety for Seychellois fishers will be enhanced.

7. To maintain Port Victoria as the major tuna landing/ transshipment port in the Western Indian Ocean

Port Victoria plays a key role in ensuring the important flow of income for the Seychelles from the high seas tuna fisheries and this will be maintained.

This fisheries policy is fully aligned with the principal set of international recognised standards for the fisheries sector, the FAO's Code of Conduct for Responsible Fisheries (CCRF). The policy also subscribes to the application of precautionary and ecosystem-based approaches to fisheries management and has encouraged the development of management plans for specific fisheries, notably for red snapper, shark and sea cucumber fisheries.

A new draft Fisheries Bill (SFA, 2012) has recently been published and is being discussed and reviewed at present. This aims to provide the Seychelles with a comprehensive and modern fisheries regime to help the Seychelles Fishing Authority to fulfil its national and international responsibilities. Significantly this act makes specific provision for the SFA's management responsibilities and provides formal recognition of the importance of stakeholder consultations in formulating effective fisheries management plans and recognition of co-management arrangements.

13. Fisheries management in the Seychelles

The Seychelles has a significant body of measures in place to manage fisheries, including limitations on access to fisheries, limitations on catches, technical measures and closures of certain fisheries and areas.

The following measures limit access to fisheries:

- The number of licences for foreign purse seiners is limited to around 50.
- The number of licences for sea cucumber and crawfish fishing is limited to 25.
- Demersal trawling is prohibited.
- The use of mother ships is prohibited around the Mahé Plateau and Amirante archipelago. These are only authorised in some deep-sea fishing grounds close to the southern islands.
- Shark fishing with nets is prohibited, and those sharks landed on vessels more than 24 metres in length must have their fins attached to their body.
- Fishing for live fish for export is prohibited.
- Underwater spearfishing is prohibited.

Since August 2005, a limitation on catches of sea cucumber has been in place, fixing a quota of 425 tonnes per year, with a total allowable catch (TAC) set for each of the four species. The TAC is divided equally between the licence-holders using a system of individual and transferrable fishing rights. Any transfer of these fishing rights is dependent on authorisation by the Seychelles Fishing Authority (SFA).

The following temporary closures and technical measures are also in place:

- Lobster fishing is prohibited from the beginning of February to the end of October, and catching females with eggs is prohibited. A minimum shell length has also been set for catches of each species of lobster.
- Night-time fishing for mackerel using gillnets is prohibited.
- Pot meshes must have a minimum size of 40 millimetres.

Restrictions on fishing in certain areas have also been introduced including:

- Marine Parks, mainly around the granitic islands, where fishing activity is prohibited.
- Protected areas established around some reefs of the three main granitic islands, where fishing with nets is prohibited.
- Restricted areas where fishing by foreign fishing vessels is prohibited less than 3 kilometres from the 200-metre isobath.

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**ANNEX 15: PROPOSALS FOR AGRICULTURAL AND RURAL FINANCE IN CLISSA**

1. Summary DBS Due Diligence Review

DBS operates out of an adequate base in terms of management capacity, oversight and market positioning within the small marketplace of the country. It focuses on financially supporting the five sectors of services, fisheries, agriculture tourism and industries. In the financial year 2011, the bank approved a total of 325 loans worth SCR 181.27 mn . Of these, the lion share of 67% of the total volume of loans approved went to the services sector defined in the DBS portfolio as comprising taxis and omnibuses, pick-ups, commercial buildings and other services. Tourism had 21 per cent of loan approvals, agriculture 7%, fisheries 3% and industries 1%. The 15 loans approved for agriculture during 2011 had a total value of SCR 11.99 mn.

DBS does not provide short term loans and finances working capital exposure only in conjunction with investment loans, a practice known from the Indian sub-continent as “composite loan”. All loans are secured with the exception of very small loans up to SCR 50,000 . In this case, two salaried guarantors suffice. The collateral cover needs to amount to 1.25 times the loan amount. The prevailing landholding pattern of operating leaseholds, typical of small island economies, does not generally constitute an access barrier to finance. These leaseholds are long term and illegal squatting seems to be the exception on territories of the Inner Islands, the proposed project implementation area. DBS operates basically un-subsidized. Neither operating funds in the main balance sheet (i.e. not considering the EU administered funds for fisheries promotion), nor salaries and operating costs are financed out of government or other public sector budgets. Assumption of (i) forex risk for lending funds sourced from international finance institutions and (ii) of guarantees for future domestically sourced loans constitute the only element of indirect financial public sector support for DBS.

Interest rates are therefore set in relation to the average cost of funds and amount generally to 3 per cent above the costs of funds (bonds issued, lines of credit from domestic and international sources).

There are two main risks that are building up within DBS. First and foremost a liquidity risk. As the Due Diligence report of IFAD is going to illustrate in detail, the DBS is maneuvering itself towards a situation of increasing illiquidity and a scenario where commitments to domestic sources of funds restrain available operating funds to an extent that makes lending caps necessary. These started for certain sectors in 2011 already, but since 2012 DBS does not approve any new project any more until liquidity issues are sorted out. Field visits to four borrowers underscored the alarm that clients sense about the lending caps and temporary halt on new loan approvals. Barriers faced in mobilizing funds by the DBS are mainly a restrictive Statute (Decree 63 of 1978, see attachment 3) that established the bank and slow and dragging negotiations with international funding agencies, mainly the European Investment Bank. A EUR 5.0 m line of credit has been expected since early 2012, but disbursements under a credit contract that was already signed are expected to be forthcoming only in early 2013.

The second risk related to impaired assets. In 2011 already, when liquidity shortages were not yet apparent, NPLs of three months and above constituted



23 per cent of DBS loan portfolio or 1,435 loans with a total amount non due of SCR 483.3 mn. This situation has been deteriorating further during 2011 when clients became aware of the temporary halt on new loan approvals.

2. Proposals of other Banks

During project desing, all major banks servicing the domestic sector were met and issues and options discussed at the Managing Director (CEO) level. In addition to DBS, these were the Barclays Bank, the Bank of Baroda and the Nuovobanq. The Seychelles Credit Union network with its unique “one primary society – three branches” operating model that resembles that of a community owned bank more than a CU network, was visited as well.

The publicly owned Nuovobanq is not active in the agriculture and small scale fisheries sector and does not view this business line as a strategic sector for future growth. Nuovobanq is about to provide a EUR 2.5 mn. line of credit to DBS to ease immediate liquidity concerns. Barclays Bank clients do not generally operate in the rural and smaller scale sector but the CEO sees growth potential and wants to be involved in strategic debates on agricultural finance in the country. The Bank of Baroda Seychelles has an impressive record in small scale agricultural finance worldwide. In Trinidad and Tobago, where it entered the market only a few years ago, it built up a loan portfolio around agricultural loans at a time when the sector was considered unprofitable by local banks. In Uganda and Tanzania BoB is traditionally a partner for major primary producers and processors. The CEO expressed a keen interest to be involved in any future policy initiative and international project activity focusing on rural and agricultural finance promotion. Discussions with the Seychelles Credit Union CEO were cordial. IFAD support to the network through an NGO ECP project and also in the context of an earlier investment project date back almost two decades but are still felt to have provided a useful impetus on the reach of SCU to lower income households and their financing requirements. The mechanism used by IFAD was to have a collateral-substitute fund placed in SCU to substitute for the self financing proportion of an SCU loan. It is understood that this mechanism was open only for households assessed to be lower and low income. Since IFAD support was phased out almost 20 years ago, the movement operates without international funding support.

3. Proposals for Component 2 - Agricultural and Rural Finance in CLISSA

Against this background, the following proposals should guide the implementation for rural and agricultural finance promotion through CLISSA.

Implementation Partners: Participating banks would be included in implementation and credit funds would be tranching and disbursed in line with lending performance. Both banks would apply their prevailing terms and conditions without subsidizing services under the project.

Collaboration modalities: Subsidiary Loan Agreements would be signed with both banks and the remaining balances of the fund could be used to plish a future agricultural development fund open to all interested banks in the country. Precise modalities are to be worked out at MTR. A **Technical Working Group for Rural and Agricultural Finance** would bring bankers, the SCU and the project together and chart the way forward as well as providing a platform for learning from each others’ experiences. Above all Barclays Bank and SCU are interested to be involved in this process even though they will not be included as project lending agencies for CLISSA.



The pool of potential clients to be identified through demand surveys in the first project year would serve as the client base for financial services under CLISSA.

The limited role of grants in this component: This market based approach, in line with the high standards of the Seychelles financial sector, leaves only limited room for grants. These are proposed to be kept completely separate from loans and not to be provided through the same delivery window (financial institutions), but – if required – separately under guidance of the PMU. Above all commercial banks felt that there is no room for introducing grants and subsidy elements in developing the segment of rural and agricultural finance. The investment has to be robust as is and without grant support, and no expectation should be kindled in this clientele for subsidy driven financial service delivery, through CLISSA and beyond. A credit culture is easily compromised, but hard to be built up again.

For this reason, it was deliberated to consider a special “revival package” in grant form for a small sub group of heavily affected farmers that still farm their plots. Access criteria to this facility that would not exceed USD 5,000 equivalent per recipient and may be accessible to no more than 1 – 3 per cent of the total proposed project clients would have to be worked out by the PMU with a process that is completely independent of the provision of loans under CLISSA. Savings on grant proceeds that accrue because of these proposals could be used to (i) finance technical trainings to loan officers in agricultural finance, and possibly also to (ii) provide TA to the DBS for amending the Decree of 1978 and thus giving it more space to diversify their financial products and services.

Sub-lending terms and conditions: Participating banks would apply their standard terms and conditions for productive lending. CLISSA on lending funds would be managed in the main balance sheet of the two banks and not treated as a contingent liability / off balance sheet fund i.e., the credit risk would be borne by the two banks for the funds lent under CLISSA.

Promotion of other services for the benefit of project clients: In the short term, BoB would offer the best chances of a diversified product range for clients, and for working out a complete agricultural financing scheme under CLISSA. This scheme would not only make it possible for project participants to save and put term deposits and benefit from current account and cheque facilities, it would also permit sales of other financial services such as insurance²³ over the same counter as the ordinary lending services.

The main report will contain the detailed implementation arrangements and costing for component 2.

²³ There is no law on leasing and leasing is therefore not standard financial service offered by the banks or by specialized subsidiaries of these banks.