Public Enterprises Fiscal Risk Report 2019

December 2020

PEMC
PUBLIC ENTERPRISE MONITORING COMMISSION

Contents

Abbreviations and acronyms

AFS	Annual Financial Statements
AS	Air Seychelles Limited
BADEA	Arab Bank for Economic Development in Africa
BDRI	Bois de Rose Investment Limited
CBS	Central Bank of Seychelles
DBS	Development Bank of Seychelles
EIB	European Investment Bank
EUR	Euro
GBP	British pound sterling
GDP	Gross Domestic Product
GICC	Green Island Construction Company Limited
GoS	Government of Seychelles
GTIC	Green Tree Investment Company Limited
HFC	Housing Finance Company Limited
IDC	Islands Development Company Limited
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
l'UE	L'Union Estate Limited
MoFTIEP	Ministry of Finance, Trade, Investment and Economic Planning
bnSCR	Billion Seychelles Rupees
mSCR	Million Seychelles Rupees
mUSD	Million U.S. Dollars
NISA	National Information Services Agency
OICL	Opportunity Investment Company Limited
PDEE	Paradis des Enfants Entertainment Limited
PE	Public Enterprise
PEMC	Public Enterprise Monitoring Commission
PMC	Property Management Corporation
PS	Petro Seychelles Limited
PUC	Public Utilities Corporation
QFA	Quasi-Fiscal Activity
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
SCAA	Seychelles Civil Aviation Authority
SCB	Seychelles Commercial Bank Limited
SCI	Statement of Corporate Intent
SCR	Seychelles Rupee
SEYPEC	Seychelles Petroleum Company Limited
SIMBC	Seychelles International Mercantile Banking Corporation Limited (Nouvobanq)
SPF	Seychelles Pension Fund
SPA	Seychelles Ports Authority
SPS	Seychelles Postal Services Limited
SPTC	Seychelles Public Transport Corporation
SRC	Seychelles Revenue Commission
SSI	Société Seychelloise d'Investissement Limited
STC	Seychelles Trading Company Limited
2020 DC	2020 Development (Seychelles) Limited

Summary of risks

Source of risk	Description	Recommendation
1. Contingent liabilities	Contingent liabilities are obligations that do not arise unless particular discrete events occur in the future. The realisation of contingent liabilities can cause increases in public debt.	
	1.1 Explicit **1.1.1 Government guarantees** Government guarantees on PE borrowings constitute contingent liabilities since the Government would have to service the debt on behalf of the PE in the event of default. As at December 31, 2019, approximately 49.5% (bnSCR1.9) of PE debt was guaranteed by the Government and total borrowing of the sector was bnSCR3.8. Non-guaranteed debt represented 47% (bnSCR1.8) of total borrowing, and on-lent debt represented 3.5% (bnSCR0.1) of total debt.	Guarantees of PE debt should be subject to scrutiny and suitable prioritisation. Mechanisms such as guarantee fees, partial guarantees, quantitative ceilings on guarantees could be considered.
	1.1.2 Loans from Government to PEs Loans from the Government to PEs are contingent liabilities since the Government would not be able to recover the amounts outstanding if the PEs are unable to service their loans. Two PEs had loans outstanding from the Government at the end of 2019: ***1.1.2.1 DBS*** The Government borrowed on behalf of DBS for on-lending to its clients. The lending institutions and amount outstanding at December 31, 2019 are as follows: Agence Française de Développement (AFD): mSCR72.8 Arab Bank for Economic Development in Africa (BADEA): mSCR9.2 European Investment Bank (EIB): mSCR60.6 ***1.1.2.2 STC*** The amount outstanding at December 31, 2019 was mSCR5.	Loans from the Government to PEs should be subject to scrutiny and suitable prioritisation.
	1.1.3 Government guarantees for Public-Private Partnerships (PPPs) undertaken by PEs In the event of failure of a PPP whereby a PE is the contracting authority, a risk arises if projects are incomplete and the debt of the PPP is transferred from the PE to the Government. Other instances could be	A detailed risk assessment should be conducted before a PE engages in a PPP to identify potential fiscal risks and contingent liabilities. The review and approval process of the PPP should include the Ministry of Finance, the PEs'

court-mandated obligations for the Government to pay compensation for the collapse of a PPP agreement. The PE or the Government may also lose crucial assets to the investor in the event that a PPP agreement collapses.

Responsible Ministry and the Commission. The draft Public-Private Partnership Bill 2019 details the feasibility study to be undertaken. Consideration could also be given to value for money assessments for PPPs.
A central register of PE PPP commitments could also be maintained by the Government.

1.2 Implicit

1.2.1 Loans between PEs

Loans between PEs can be a risk as both the debtor PE and the creditor PE may require Government support in the event of a liquidity crisis and default. This risk is increased in cases where several debtor PEs are encountering difficulty to meet their commitments at the same time, such as during an economic crisis, causing increased pressure on the creditor PE.
The exposure of the creditor PEs at December 31, 2019 are as follows:

Lending institution	Maximum exposure 31.12.2019	Maximum exposure 31.12.2019
	mSCR	mUSD
Non-financial PEs		
SSI	120	-
SPF	124	-
Financial PEs		
Nouvobanq	426	8
SCB	118	-

Within the PE-PE borrowing, there is inter-company lending by SSI, a non-financial entity, to three subsidiaries: BDRI, Petro Seychelles and PDEE. The loans to Petro Seychelles, PDEE and a portion of the loan to BDRI bear interest at 0% and their repayment terms have not been

The implementation of approval thresholds on PE borrowing, whereby the PE would need the approval Ministry of Finance and the PEs Responsible Ministry before signing new borrowing, irrespective of whether a Government guarantee would be required.

	defined. Such lending, unsecured and without guarantee of repayment, is comparable to a cross-subsidy or capital contribution. Cross-subsidies between PEs may take resources from more fruitful investment ventures and may also be considered as an extra-budgetary flow.	
	1.2.2 Bailouts Bailouts may lead to less incentive for PEs to increase efficiency and build their capacity to withstand macroeconomic shocks, as they may face 'soft budget constraints'[1]. Bailouts may encourage PEs to take excessive risks, such as accumulating significant debt, as they recognise that there is a possibility of government support, despite the absence of an explicit commitment. The Ministry of Finance announced in August 2020 that the Government has committed to assist Air Seychelles with mUSD15 funding to pay a debt from two bonds of value mUSD21.5 and mUSD50 with maturity of September 2020 and June 2021 respectively. It was also mentioned that Air Seychelles expects to re-negotiate to pay mUSD30, a sum which the Government will back if the bondholders reject the plea deal of mUSD15.	Bailouts or subsidies provided to PEs could be attached to certain conditions that the PE has to fulfil, such as defined actions to improve their efficiency. For instance, the funding may be disbursed in tranches, subject to certain pre-agreed conditions being fulfilled. Providing PE Management with performance-based incentives may also aid in improving PE efficiency; this should be supported by transparent PE reporting to limit the risk of earnings management.
	1.2.3 Legal claims against PEs Legal claims regarding PEs can pose a potential risk for the Government in cases where the PE is in a poor financial position and unable to make payments associated with a legal decision.	Systematic reporting by PEs of significant pending lawsuits to the Commission.
2. Macroeconomic risk	Macroeconomic changes can impact the financial performance of PEs which may ultimately result in an adverse repercussion on Government finances, such as the amount of taxes and dividend being paid into the budget.	

[1] 'Soft budget-constraint syndrome, a concept formulated by Kornai (1979), pertains wherever a funding source - e.g., a bank or government - finds it impossible to keep an enterprise to a fixed budget, i.e., whenever the enterprise can extract ex post a bigger subsidy or loan than would have been considered efficient ex ante.' Maskin Eric S., *Theories of the Soft Budget Constraint, 1994*

	2.1 Exchange rate risk PEs, whose part of operation and transactions are performed in foreign currencies, are directly exposed to the volatility of the exchange rates. PEs having debt denominated in foreign currency are also exposed to the risk of exchange rate losses in the event of an important depreciation of the Seychelles rupee. At December 31, 2019 approximately 65% (bnSCR2.5) of PE debt was denominated in foreign currency, of which 71% (bnSCR1.8) in U.S. dollar, and 29% (bnSCR0.7) in Euro. Therefore, a depreciation of the Seychelles rupee would lead to higher import costs and debt costs within the PE sector. ***2.1.1 DBS*** DBS is exposed to exchange rate risk from its borrowings that are denominated in foreign currency. DBS has signed a contract with the Ministry of Finance stating that net foreign exchange losses arising on loan facilities will be reimbursed by the latter. The total net foreign exchange loss on borrowings for DBS in 2019 was mSCR1.95. DBS estimates the total anticipated foreign exchange loss for 2020 at mSCR3.3. ***2.1.2 STC*** The exposure of STC to exchange rate risk arises primarily from the importation of goods and the depreciation of the Seychelles Rupee will increase import costs for STC. For 2020 STC is anticipating an exchange loss of mSCR6.5.	Use of mechanisms to transfer the risk directly associated with particular PEs, for example, hedging and insurance instruments.
3. Other revenue and expenditure developments	All PEs are exposed to the risk of fluctuations in revenue and expenditure, which would affect their performance. Reduced PE profitability may cause lower taxes and dividends to the Government, and an increase in the need for subsidies or recapitalisation.	
	3.1 New or increased Quasi-Fiscal Activities (QFAs) QFAs can harm the financial performance of PEs and can reduce income for the Government from PEs. They can lead to recurring losses and underinvestment by the PEs, which may subsequently affect economic growth. PEs which are in a weak financial position may require	Policy mandates of PEs should be transparently disclosed and compensated.

	government support to continue the service provisions for the QFAs, for example through capital injection, subsidies or debt restructuring. Lack of transparency surrounding QFAs may also be an incentive for PE management to justify underperformance, notably in regulated sectors where there is no private sector peer for benchmarking. A list of QFAs by PE for 2019 is presented in Appendix 8.	
	3.2 Cybersecurity risks Commercially sensitive data can be stolen in cyber-attacks, which may lead to reputational costs for the PEs, loss of revenue, and the risk of increasing the cost of doing business.	Improve cyber-resilience by investing in IT security.
4. Arrears	The tolerance of arrears by PEs from Ministries, Departments, Agencies and other PEs may affect their liquidity and pose a risk to Government finances. **4.1 Arrears from Government to PEs** Disclosed arrears from GoS to PEs due for longer than 90 days at December 31, 2019 is as follows: **Arrears GOS to PE** – **mSCR** AS – **16** PUC – **23** STC – **2** **Total** – **41** **4.2 Arrears from PEs to Government** There were no identified arrears from PEs to Government at December 31, 2019 based on data received from PEs. **4.3 Arrears between PEs** Arrears between PEs reciprocally affects their cash flow if not managed accordingly. The Commission was unable to report on arrears between PEs due to inconsistencies in the data received from the latter.	Reduce pressures on PEs to tolerate payment arrears of Ministries, Departments, Agencies and other PEs.
5. Institutional risks	**5.1 Oversight framework** There is a lack of clarity between the roles of the Government, Responsible Ministry and PE Board due to the absence of an ownership	Development of formal performance targets for the PEs by the shareholder to minimise the risk

	policy[2]. This may cause undue interference by a Ministry in the operations of a PE. There are no formal performance targets set for PEs by the Government, in addition to an absence of formal public policy targets. This leads to a lack of strategic direction for the PE, leaving the PE Boards to formulate their objectives. It is complex to measure the performance of PE Board and management in the absence of such targets.	of PE bailouts and to provide the shareholder's expectation to the PE Board. International good practice recommends that the PE ownership unit sets financial targets in collaboration with the Responsible Ministry to ensure that there is alignment between these targets and policy targets
	5.2 Lack of resources of the Commission The Commission has insufficient resources to exercise the required amount of scrutiny on the PEs' finances, operations and budgets and conduct a comprehensive risk analysis to advise decision-makers promptly.	Improved allocation of resources to the Commission, to enhance its capacity.
	5.3 Selection process of Board members The current selection process of board members lacks transparency, and the absence of a skills matrix per PE may lead to gaps in the appointment process.	Strengthen Corporate Governance within the PE sector supported by a formal, transparent nomination and appointment process for directors. A register of directors would also broaden the horizon of the nomination and appointment authorities, leaving an open and transparent process for prospective candidates to apply to be included in the register, increasing the likelihood that candidates are appointed on Boards corresponding to their skills.
	5.4 Lack of compliance (PEMC Act) The Commission lacks the enforcement powers to compel PEs to comply with its information requests. The inadequate legal provisions contribute to the delay in conducting an effective and efficient analysis. Untimely and incomplete reporting by PEs delays the Commission's reporting and ultimately hinders the availability of timely analysis to decision-makers. Prompt reporting by PEs also aids in improving the accountability of PE Boards and Management.	Introduction of enforcement mechanisms within the PEMC Act.

[2] A draft Ownership policy was submitted to the Cabinet of Ministers for approval by reporting date.

Introduction

'Fiscal risks are factors that may cause fiscal outcomes to deviate from expectations or forecasts. These factors comprise potential shocks to government revenue, expenditure, assets or liabilities, which are not reflected in the Government's fiscal forecasts or reports[3].' Public Enterprises (PEs) can be a source of fiscal risk, for example, through bailouts or revenue shortfalls, which can incur considerable unforeseen costs.

This report discloses the fiscal risk exposure of the Government arising from PEs for the year 2019 and the medium-term. It also aims to inform the decisions of Government and key stakeholders on the management of PE-related fiscal risks.

For the year 2019, the PEs carried aggregate assets representing 138% of GDP (bnSCR32) and total liabilities representing 71% of GDP (bnSCR17), comprising of borrowings worth 16% of GDP (bnSCR4) and net profit worth 3% of GDP (bnSCR0.8). The net revenue of the sector represented approximately 50% of GDP (bnSCR12)[4] .

Contingent liabilities, macroeconomic conditions, revenue and expenditure developments, the institutional framework are all sources of fiscal risk from the PE sector.

1 Contingent liabilities

Contingent liabilities are obligations that do not arise unless particular discrete events occur in the future[5]. They differ from direct liabilities where the settlement date is fixed at the time when the nominal obligation is set.

Contingent liabilities of PEs can arise from a variety of sources such as guarantees on their borrowings, loans from Government to PEs and legal cases. The realisation of contingent liabilities can lead to increases in public debt.

Contingent liabilities are classified into two main categories: explicit and implicit contingent liabilities.

1.1 Explicit contingent liabilities

Explicit contingent liabilities are obligations based on contracts, laws or clear policy commitment of the Government to provide support if specific circumstances arise. Table 1 refers to two potential explicit contingent liabilities for the Government at the end of 2019.

[3] Fiscal Transparency Handbook, International Monetary Fund. Fiscal Affairs Dept. April 2018
[4] Includes provisional (unaudited data) of PEs which have not submitted their AFS 2019 by reporting date. More data on the performance of the PEs for 2019 will be published by the Public Enterprise Monitoring Commission (the Commission) in the aggregate Annual Public Enterprise Report 2019.
[5] Public Sector Debt Statistics Guide, International Monetary Fund, 2011

Table 1. PEs carrying explicit contingent liabilities

Risk parameter	Loans granted by Government to PEs	Other government guarantees granted to PEs
AS	x	x
BDRI		
DBS	x	x
FSA		
HFC		x
IDC		
L'UE		
NISA		x
PS		
PDEE		
PMC		x
PUC		x
SCAA		
SCB		
SEYPEC		
SIMBC		
SPA		x
SPF		
SPS		
SPTC		
SSI		x
STC	x	x
2020 DC		

1.1.1 Loans from Government to PEs

Loans from the Government to PEs are contingent liabilities since the Government would not be able to recover the amounts outstanding if the PEs are unable to service their loans.

Two PEs had loans outstanding from the Government at the end of 2019:

1.1.1.1 Development Bank of Seychelles (DBS)

The Government borrowed on behalf of DBS from the following institutions, for subsequent on-lending to its clients:

1) Agence Française de Développement (AFD) with an outstanding amount of mSCR72.8 at December 31, 2019
2) Arab Bank for Economic Development in Africa (BADEA) with an outstanding amount of mSCR9.2 at December 31, 2019
3) European Investment Bank (EIB) with an outstanding amount of mSCR60.6 at December 31, 2019

1.1.1.2 Seychelles Trading Company Ltd (STC)

STC had an outstanding amount of mSCR5 at December 31, 2019 due on a direct loan of mSCR45 from the Government for working capital which was received in 2015.

1.1.2 Government guarantees granted for Public-Private Partnerships (PPPs) undertaken by PEs

PPPs can be an important source of fiscal risk as they can create explicit and implicit contingent liabilities. In the event of failure of a PPP whereby a PE is the contracting authority, a risk arises if projects are incomplete and the debt of the PPP is transferred from the PE to the Government. Other instances could be court-mandated obligations for the Government to pay compensation for the collapse of a PPP agreement. The PE or the Government may also lose crucial assets to the investor in the event that a PPP agreement collapses. It is therefore recommended that an in-depth risk assessment is conducted before a PE engages in a PPP to identify potential fiscal risks and contingent liabilities. The review and approval process of the PPP should include the Ministry of Finance, the PEs' Responsible Ministry and the Commission. The draft Public-Private Partnership Bill 2019 details the feasibility study to be undertaken. A central register of PE PPP commitments could also be maintained by the Government, to facilitate the identification of risk from these commitments.

1.1.3 Other Government guarantees granted to PEs

Government guarantees on PE borrowings constitute contingent liabilities since the Government would have to service the debt on behalf of the PE in the event of default. **As at December 31, 2019, approximately 49.5% (bnSCR1.9) of PE debt was guaranteed by the Government and total borrowing of the sector was bnSCR3.8. Non-guaranteed debt represents 47% (bnSCR1.8) of the total borrowing of the sector, and on-lent debt represents 3.5% (bnSCR0.1) of total debt.**

In addition to the risk of guarantees being called in the event of default, the PE sector is also exposed to exchange rate losses on borrowings denominated in foreign currency, due to the depreciation of the rupee. This risk has further increased in 2020 following the impact of the COVID-19 pandemic. **At December 31, 2019 approximately 65% (bnSCR2.5) of the total PE borrowing was denominated in foreign currency, of which 71% (bnSCR1.8) in U.S. dollar[6] , and 29% (bnSCR0.7) in Euro[7].**

Government guarantees on PE borrowings for 2019, based on the data provided by the PEs, are disclosed in Table 2.

[6] Exchange rate: SCR/USD=14.0335

[7] Exchange rate: SCR/EUR=15.7539

Table 2. Government guarantees granted to PEs

PEs	Currency	Type of guarantee	Purpose	Legal end date	Maximum exposure 2019 mSCR
AS	USD	Domestic USD loan	To provide working capital facility	Not yet in place	175.4
	USD	Redemption of Air Seychelles Preference shares	Government guarantee to third party bank to provide bank guarantee to Etihad	Not yet in place	421.0
DBS	EUR	Loan with Nouvobanq	Loans taken for on-lending to clients	2020 & 2023	38.4
	SCR	Loan with Barclays		2023	70.1
	SCR & EUR	Loan with MCB		2024	33.0
	SCR	Loans with Al Salam Bank of Seychelles		2024	45.4
	USD	Letter of comfort for Al Salam Bank of Bahrain		2021	35.7
	SCR	DBS Bonds		2022	302.2
HFC	SCR	Government guarantee for commercial loan taken for on - lending. Fresh loan with the SCB. To make payment in the event of default.	Loan taken for on - lending to clients.	2024	100.8
NISA	SCR	Loan	Capital Expenditure	2022	11.7
PMC	SCR	Direct Loan - Loan of mSCR150 from Seychelles Pension Fund	To finance housing projects	2026	124.0
	SCR	Direct loan- Loan of mSCR200 from Nouvobanq		2029	184.9
SPA	EUR	AFD Loan	Port rehabilitation and extension project	2038	7.9
SSI	SCR	Pledge to assign dividend payable by Nouvobanq to Nouvobanq	Guarantee on SSIL loan with Nouvobanq	2020	25.7
PUC	SCR	International Loans	Guarantee against the loan from European Investment Bank (EIB) for project Neptune - water and sanitation projects	Data not provided by PUC	405.3
	SCR	International Loans	Guarantee against the loan from Agence De Française Développement (AFD) for the project Neptune - water and sanitation projects		156.8
	SCR	International Loans	Guarantee against the loan from African Development Bank (AFDB) for raising La Gogue Dam		125.8
	SCR	International Loans	Guarantee against the loan from Saudi Fund for the 33 kV network development		195.2
	SCR	International Loans	Guarantee against the loan from BADEA for the 33 kV network development		103.4
	SCR	International Loans	Guarantee against the loan from Abu Dhabi fund for development for the solar farm project at Romainville		86.4

1.2 Implicit contingent liabilities

Implicit contingent liabilities refer to cases where there is no legal responsibility or announced obligation for government support; however, there is an expectation of government intervention in cases where a PE faces liquidity problems. Such liabilities are a social or moral obligation of the Government that reflects the interest and pressure of the public. Implicit contingent liabilities are not officially recognised until a failure occurs. The triggering event, the value of exposure and the amount of the Government outlay that could eventually be required are all uncertain.

This section focuses on identified implicit contingent liabilities based on information collected from PEs, as shown in Table 3.

Table 3. PEs carrying implicit contingent liabilities

Risk parameter	Loans granted by PE to other PEs	Loans given by PE to third parties	Bailouts of PEs
AS			x
BDRI	x		
DBS	x	x	
FSA			
HFC	x	x	
IDC	x		
L'UE			
NISA	x		
PS	x		
PDEE	x		
PMC	x		
PUC	x		
SCAA	x		
SCB	x	x	
SEYPEC			
SIMBC	x	x	
SPA			
SPF	x		
SPS			
SPTC	x		
SSI	x		
STC			
2020 DC			

1.2.1 Loans between PEs

Loans between PEs can be a source of risk for Government finances, as both the debtor PE and the creditor PE may require Government support, in the event of a liquidity crisis and default. This risk is increased in cases where several debtor PEs are encountering difficulty to meet their commitments at the same time, such as during an economic crisis, causing increased pressure on the creditor PE.

During 2019, fifteen PEs were involved in PE-PE borrowing (ref. Table 4). The Commission notes the presence of inter-company lending by SSI, a non-financial entity, to its subsidiaries, for which the repayment terms have not been defined. The loans to Petro Seychelles, PDEE and a portion of the loan to

BDRI bear interest at 0%. The loans to Petro Seychelles and PDEE are for working capital, and the financial position of both debtors does not indicate a capacity to repay the loans in the short-term. Such lending, unsecured and without guarantee of repayment, is comparable to a cross-subsidy or capital contribution. It is to be noted that cross-subsidies between PEs may take resources from more fruitful investment ventures and may also be considered as an extra-budgetary flow.

Table 4. Loans between PEs

Lending institution/PE	Beneficiary	Currency	Legal end date	Maximum exposure 2019 (m)
SSI	BDRI	SCR	2028	54.4
	BDRI	SCR	Deferred[8]	56.2
	PS	SCR	To be determined by the lender	5.0
	PDEE	SCR	Not finalised	4.4
SCB	GTIC	SCR	2020	22.5
	HFC	SCR	2024	95
Nouvobanq[9]	NISA	SCR	2024	11.7
	DBS	SCR	2020	12.7
		SCR	2023	25.8
	GTIC	SCR	2020	22.5
		SCR	2025	89.9
	IDC	USD	2019	0.4
		USD	2023	1.8
		USD	2023	2.0
	GICC	SCR	2019	0.17
		SCR	2019[10]	3.6
		USD	2019	4.2
	PMC	SCR	2029	184.9
	PUC	SCR	2027	75.0
SPF	PMC	SCR	2026	124.0

1.2.2 Bailouts of PEs

Bailouts may lead to less incentive for PEs to increase efficiency and build their capacity to withstand macroeconomic shocks, as they would face soft budget constraints, contrary to similar entities in the private sector. Government's use of fiscal resources to bailout PEs can come at a high cost to the national budget and can cause distortions in an economy's allocation of financial resources. Bailouts may encourage PEs to take excessive risks, such as accumulating important debt, as they recognise that there is a possibility of government support, despite the absence of an explicit commitment from the Government.

[8] The loan from SSI to BDRI was restructured in August 2018 as follows:
- Inter-company loan of mSCR60 and accrued loan interest of mSCR14.6
- Shareholder loan of SCR56. The repayment of the shareholder loan (mSCR56) has been deferred, and it bears interest at 0%.

[9] Data received from debtor PEs, Nouvobanq declined to provide confirmation on the data.

[10] Extended to 2020

For instance, the Government may have to incur implicit liabilities to pay out the long-term debt of a PE if the latter is unable to do so despite no previous guarantee agreements or obligation in place. The Ministry of Finance announced in August 2020 that due to Air Seychelles' financial challenges, the Government has committed to assist the Company with additional funding of mUSD15 requested to pay its debt incurred from two bonds of value mUSD21.5 and mUSD50 with maturity of September 2020 and June 2021 respectively. It was also mentioned that Air Seychelles expects to re-negotiate to pay mUSD30, a sum which the Government will back[11] if the bondholders reject the plea deal of mUSD15.

It is recommended that bailouts or subsidies provided to PEs are attached to certain conditions that the PE has to fulfil, such as concrete actions to improve their efficiency. For instance, the funding may be disbursed in tranches, subject to certain pre-agreed conditions being fulfilled.

Another mitigating measure could be the implementation of approval thresholds on PE borrowing, whereby the PE would need the approval Ministry of Finance and the PEs Responsible Ministry before signing new borrowing, irrespective of whether a Government guarantee would be required.

1.2.3 Legal claims against PEs

Legal claims involving a PE can pose a potential risk for the Government. Lawsuits may extend for several years into the future, and the amount of possible loss may be uncertain. In instances where the PE find itself in a poor financial position and unable to make payments associated with a legal decision, the Government may be expected to step in and do so on its behalf. This may pose pressure on the budget and the Government's financial position.

2 Macroeconomic risks

Variation of key macroeconomic variables such as oil prices and interest rate from forecasts can result in the occurrence of macroeconomic risk. Macroeconomic changes can impact the financial performance of PEs which may ultimately result in an adverse repercussion on Government finances, such as the amount of taxes and dividend being paid into the budget. The impact of changes in macroeconomic variables on the PEs depends on their sub-sector and potential to mitigate such volatility.

2.1 Risk identification

Table 5 identifies the exposure of each PE to different types of macroeconomic risks.

[11] http://www.nation.sc/articles/5779/interview-with-finance-trade-investment-and-economic-planning-minister-maurice-loustau-lalanne

Table 5. Matrix illustrating the vulnerability of PEs to different macroeconomic risk parameters

Risk parameter	Oil price	Exchange rate	Interest rate	Credit availability	Tourism	Housing prices	Inflation
AS	x	x	x	x	x		x
BDRI			x	x			x
DBS		x	x	x	x	x	x
FSA		x	x	x			x
GICC	x	x	x	x	x	x	x
GTIC			x	x		x	x
HFC		x	x	x	x	x	x
IDC	x	x	x	x	x	x	x
I'UE	x	x			x	x	x
NISA	x	x	x	x			x
PS	x	x					x
PDEE							x
PMC			x	x		x	x
PUC	x	x	x	x	x	x	x
SCB		x	x	x	x	x	x
SCAA	x	x	x	x	x		x
SEYPEC	x	x		x	x		x
SIMBC		x	x	x	x	x	x
SPA	x	x	x	x	x		x
SPF		x	x			x	x
SPTC	x	x	x				x
SPS	x	x					x
SSI	x	x	x	x	x	x	x
STC	x	x	x	x	x		x
2020 DC	x	x	x	x		x	x

2.2 Sensitivity analysis

The following sensitivity analysis measures the impact of fluctuations in oil prices, exchange rate and interest rate on the net profit of various PEs.

2.2.1 Oil prices

The most significant rise from 2009-2019 in oil prices over one year was between 2010 to 2011, when the global average world price rose by 32%. The potential of SEYPEC and PUC to mitigate the impact of such an increase is highlighted below.

2.2.1.1 SEYPEC

A rise in oil prices will directly affect SEYPEC as its principal activity involves supplying petroleum products in Seychelles, marine bunkering, aviation refuelling and transhipment and transportation of petroleum and chemical products by tankers. A 32% increase in oil prices during 2019 would have resulted in a rise in fuel and oil expense of approximately bnSCR1. Assuming all variables remain constant, the net profit of mSCR237.2 generated in 2019 would have resulted in a loss in the range of mSCR8-mSCR9.

As a result, a decline in SEYPEC'S profitability will have a direct impact on the amount of revenue received by the Government from lower tax and dividends. For the year 2019, SEYPEC's business tax expense amounted to mSCR37.8 while its dividend paid was mSCR200.

Moreover, if oil prices increase, SEYPEC may face difficulties in absorbing the cost of its Quasi-Fiscal Activity[12] relating to the sale of petroleum products on other islands at the same price as on Mahe. The total cost of QFA absorbed by SEYPEC in 2019 amounted to mSCR58.9, which represented 1% of its total expenditure, equivalent to 25% of its net profit. In the event of a substantial rise in oil prices, SEYPEC will face important difficulties in providing for its QFA, which suggests that Government would need to compensate SEYPEC by funding its QFA or deciding to end it.

2.2.1.2 PUC

PUC would also be directly impacted by an increase in oil prices as generation fuel and lubricant represents the bulk of its operating expense. In 2019, generation fuel and lubricant represented 47% of PUC's total revenue. If all variables remain constant, a 32% rise in oil prices for 2019 would have resulted in an increase in fuel and oil expenses in the range of mSCR260-mSCR275. In turn, this would have resulted in a net loss in the range of mSCR155-mSCR160.

If a spike in oil prices occur, PUC would not be able to sustain the QFA of charging fees below market level for electricity, water and sewage services. The total cost to PUC of these QFAs in 2019 amounted to mSCR235, which represented 212% of net profit for the year. The Government would, therefore, have to provide PUC with resources to continue its provision of the QFAs or decide to end them.

2.2.2 Exchange rate

PEs, whose part of operation and transactions are performed in foreign currencies, are directly exposed to the volatility of the exchange rates. **Additionally, PEs having debt denominated in foreign currency are also exposed to the risk of exchange rate losses in the event of an important depreciation of the Seychelles rupee. At December 31, 2019 approximately 65% (bnSCR2.5) of PE debt was denominated in foreign currency, of which 71% (bnSCR1.8) in U.S. dollar[13] , and 29% (bnSCR0.7) in Euro[14].** Therefore, a depreciation of the Seychelles rupee would lead to higher import costs and debt costs within the PE sector.

The principal currency exposures of the PEs are the U.S. Dollar, the Euro and the British Pound Sterling.

2.2.2.1 Nouvobanq

An important source of revenue for Nouvobanq is the trading of foreign currencies which exposes the Bank to the risk of exchange rate fluctuations. The net foreign exchange gain earned by Nouvobanq in 2019 accounted for 23% of its total revenue. Nouvobanq's functional currency is the Seychelles Rupee, and its primary currency exposures are the US Dollar and the Euro. Nouvobanq does not have any borrowing in foreign currency.

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[12] QFA: A non-commercial activity conducted by a PE on behalf of the Government for which it is not compensated.
[13] Exchange rate: SCR/USD=14.0335
[14] Exchange rate: SCR/EUR=15.7539

2.2.2.2 Development Bank of Seychelles (DBS)

DBS is exposed to exchange rate risk from its borrowings that are denominated in foreign currency.

DBS has signed a contract with the Ministry of Finance, Trade, Investment and Economic Planning (MoFTIEP) stating that net foreign exchange losses arising on loan facilities will be reimbursed by the latter. The total net foreign exchange loss on borrowings for DBS in 2019 was mSCR1.95. **DBS estimates the total anticipated foreign exchange loss for 2020 at mSCR3.3,** this is higher than previous years due to the depreciation of the rupee, as a consequence of the COVID-19 pandemic.

2.2.2.3 PUC

PUC is exposed to exchange rate risk arising from its acquisition of supplies and capital projects that are denominated in currencies other than its functional currency, which is the Seychelles Rupee. PUC's primary currency exposures are for the Euro, the US Dollar, the Singapore Dollar, the South African Rand and the British Pound Sterling. In 2019, PUC reported a net loss on exchange of mSCR3.6. PUC aims to aggregate a net position for each of the above currencies so that natural hedging can be achieved.

2.2.2.4 Seychelles Trading Company Ltd (STC)

The exposure of STC to exchange rate risk arises primarily from the importation of goods and the depreciation of the Seychelles Rupee will increase its import costs. The Company's functional currency is the Seychelles Rupee, and its primary currency exposures are for the US Dollar and the Euro. STC also aims to aggregate a net position for each of the above currencies so that natural hedging can be achieved. For 2020 STC is anticipating an exchange loss of mSCR6.5 and an exchange loss of mSCR2 for 2021.

2.2.3 Interest rate

PEs which have a large number of borrowings, especially those which are long term and at a floating rate are exposed to interest rate volatility. A rise in interest rate will have an impact on the financial performance and cash flow of a PE.

2.2.3.1 Development Bank of Seychelles (DBS)

DBS' exposure to interest rate risk arises from the interest rate charged on loans taken from various banks, such as Nouvobanq and Absa Seychelles, for on-lending to its customers. If the interest rate on DBS' borrowings would have fluctuated by 1% with all other variables held constant, the net profit of 2019 amounting to mSCR5.1 would have fluctuated by approximately mSCR3.5-mSCR3.7. In 2019, interest expense accounted for 44% of total revenue.

2.2.3.2 Housing Finance Company Ltd (HFC)

HFC's exposure to interest rate risk arises from loans taken for funding of the housing sector, and these loans are at a floating rate. If the interest rate on HFC's borrowing fluctuated by 1% with all other variables held constant, the 2019 net profit of mSCR8.6 would have fluctuated by approximately mSCR1. In 2019, interest expense accounted for 28% of total revenue.

3 Risks from other expenditure and revenue development

All PEs are exposed to the risk of fluctuations in revenue and expenditure, which would affect their performance. Reduced PE profitability may cause lower taxes and dividends to the Government, and an increase in the need for subsidies or recapitalisation.

Table 6 shows the exposure of PEs to risks related to deviating revenue and expenditure. Some expenditure and revenue risks would have a significant effect on all PEs, for instance, changes in government policies and regulations. Table 6 also shows that all PEs are exposed to at least one type of expenditure or revenue risk.

Table 6. PEs exposed to risks from expenditure and revenue development

Risk parameter	higher expenditure because of	higher wages/salaries	cost overruns investment projects	new or increased QFAs	unexpected maintenance, new investment	natural disaster	government policies and regulations	lower revenue because of	lower turnover	lower dividends received	QFAs	lower loan repayment	inflation
AS				x		x	x		x		x		x
BDRI			x		x	x	x		x				x
DBS						x	x		x			x	x
FSA						x	x		x				x
GICC			x		x	x	x		x				x
GOIC						x	x		x				x
GTIC			x		x	x	x		x				x
HFC						x	x		x			x	x
IDC			x		x	x	x		x				x
l'UE				x		x	x		x	x	x		x
NISA						x	x		x				x
PS		x				x	x		x				x
PDEE		x				x	x		x				x
PMC			x	x	x	x	x		x		x		x
PUC			x	x	x	x	x		x		x		x
SCB						x	x		x			x	x
SCAA			x	x	x	x	x		x		x		x
SEYPEC				x		x	x		x		x		x
SIMBC						x	x		x			x	x
SPA			x	x	x	x	x		x		x		x
SPF						x	x		x	x			x
SPTC		x	x	x	x	x	x		x		x		x
SPS		x		x		x	x		x		x		x
SSI						x	x			x			x
STC				x		x	x		x		x		x
2020 DC						x	x		x				x
OICL						x	x						x

3.1 Higher expenditure

3.1.1 Wages or salaries/ other current costs/ cost overruns on investment projects

PEs are at risk to fluctuations in expenditure, such as an increase in salaries and cost overrun on investment projects due to the effects that these may cause on their financial performance. For some PEs such as Petro Seychelles, Seychelles Postal Services (SPS) and Paradis des Enfant Entertainment (PDEE), an increase in salary cost while other variables remain the same, will result in further losses to the PE. If salaries rise by 5%, Petro Seychelles would incur a loss of mSCR7.2 which represents an additional net loss of mSCR0.1 compare to the actual loss reported in 2019.

The PE, which would be most affected by a 5% rise in salaries is PUC with its net profit declining from mSCR111.1 to mSCR99.9.

3.1.2 Government policies and regulations

All PEs are vulnerable to impacts of policies and regulations introduced or amended by the Government, which can affect their financial performance. For instance, in January 2017, the Government introduced the 13th-month salary law where all employers are obligated to pay an additional one month's pay to their employees at the end of December of each year. This caused an increase in wages and salaries expense of the PEs, which resulted in lower profit than anticipated, and overall lower tax expense, reducing revenue for the Government.

3.1.3 New or increased Quasi-Fiscal Activities (QFAs)

A QFA is defined as a non-commercial activity conducted by a PE on behalf of the Government for which it is not compensated. Unfunded policy mandates are examples of QFAs. QFAs may be imposed on PEs through pricing or other types of regulations.

QFAs can harm the financial performance of PEs and can reduce income that the Government would receive from the PEs. They can, for example, lead to recurring losses and underinvestment by the PEs, which may subsequently affect economic growth. PEs which are in a weak financial position may require government support to continue the service provisions for the QFAs, for example through capital injection, subsidies or debt restructuring.

Lack of transparency surrounding QFAs may also be an incentive for PE management to justify underperformance, notably in regulated sectors where there is no private sector peer for benchmarking.

A list of QFAs by PE for 2019 is presented in Appendix 8.

3.1.4 Cybersecurity risks

Cyber-attacks are a threat to PEs since they can be high-value targets for hackers. Commercially sensitive data and supplier/customer records can be stolen, which may lead to reputational costs, customer frustration resulting in loss of customers, therefore eventually impacting the financial position of the PE.

Cyber-attacks also carry the risk of increasing the cost of doing business, hence the importance of improving the cyber-resilience of the PEs by investing in IT security.

3.2 Lower revenue

3.2.1 Lower dividends received

3.2.1.1 By the PEs

Some PEs such as Société Seychelloise d'Investissement Ltd (SSI), L'Union Estate Company and Seychelles Pension Fund (SPF) hold shares in other companies and are entitled to receive dividend income from their respective subsidiaries and associates. These investments can either be in other PEs or privately owned entities. A reduction in the dividend received by these companies would have an impact on their financial performance.

3.2.1.2 By the Government

A reduction in the dividends paid by the PEs will lessen the amount of dividend income for the Government. SSI is a holding company that holds shares of other companies on behalf of the Government. SSI collects dividend income from four[15] of its ten subsidiaries, which are PEs. SSI also receives dividend income from its associates. In 2019, SSI paid mSCR312.2 dividend to the Government. The primary sources of dividend for the Government for 2019 were SEYPEC (mSCR200) and SCAA (mSCR115). A 5% reduction in the dividend paid by SEYPEC would reduce Government dividend income by mSCR10.

4 Arrears

An arrear is an obligation or liability that has not been settled by its due date. Arrears from Government to PEs and between PEs in 2019 arose from delayed payment for services of the PEs. The tolerance of arrears by PEs from Ministries, Departments, Agencies and other PEs may affect their liquidity and consequently pose a risk to Government finances.

This section presents arrears or outstanding payments due in the following categories:

i) from Government to PEs
ii) from PEs to Government and
iii) between PEs.

Arrears that are not identified and quantified can disguise the actual size of the Government's or the PEs' debt. Table 7 identifies PEs with arrears as at December 31, 2019.

Table 7. PEs affected by risks related to arrears

PE	Government in arrears to PE	PE in arrears to Government
AS	**x**	
PUC	**x**	
STC	**x**	

[15] IDC, Nouvobanq, Seychelles Commercial Bank, SEYPEC

4.1 Arrears from Government to PEs

Table 8 presents arrears from Government to PEs as at December 31, 2019, which amounted to mSCR40.5, from the data provided by the PEs.

Table 8. Arrears from Government to PEs

Arrears GOS to PE	mSCR
AS	**15.9**
PUC	**23.0**
STC	**1.6**
Total	**40.5**

The Government arrears towards Air Seychelles amounted to mSCR15.9 relating to non-payment of invoices despite reminders. Government's arrears towards PUC corresponded to outstanding utility invoices from Ministries, Departments and Agencies and amounted to mSCR23 and the payment was due for longer than ninety days. The arrears of STC from Government amounted to mSCR1.6 due to non-payment of invoices despite reminders and has been due for longer than one year.

4.2 Arrears from PEs to Government

Arrears from PEs to the Government can also create liquidity problems for the public department or concerned Ministry, exerting more fiscal burdens on the budget and affecting the availability of public finance if the PE cannot pay the amounts owed to the Government.

There were no identified arrears from PEs to Government at December 31, 2019 based on data received from PEs.

4.3 Arrears between PEs

Arrears between PEs reciprocally affects their cash flow if not managed accordingly. The Commission was unable to report on arrears between PEs due to inconsistencies in the data received from the latter.

Uncertainty of arrears may also cause PEs to limit their investments by being more conservative in their operations, thereby limiting growth in the public sector and the economy as a whole. This uncertainty can also deepen fiscal risks if both PEs and GOS do not have clear and quantifiable data on the extent of their arrears while they continue to invest or accumulate their dues. The monitoring of arrears by PEs and the Government is consequently critical.

5 Institutional risks

The institutional risks which arise from the gaps in the oversight framework, inadequate capabilities to deal with the growing number of PEs and the lack of compliance to the relevant legislation by PEs may lead to fiscal risks if not mitigated. Non-compliance regarding the submission of relevant documents such as PEs' Annual Financial Statements (AFS) may impede the proper analysis and forecasting of their financial performance and cause information asymmetry. This, in turn, may affect decision-making and policy formulation for their effective management.

5.1 Oversight framework

There is inadequate guidance provided to the PEs towards achieving their goals due to the absence of an ownership policy. The ownership policy drafted by the Commission was yet to be implemented by reporting date. The policy defines the mandate and objectives of the Government as the owner of PEs and aims to improve the efficiency and competitiveness of the economy. The objectives of the draft policy are as follows:

- To establish a single ownership and oversight entity;
- To provide a clear "Statement of Expectations" to PEs governing board;
- To provide Responsible Ministers and the Minister responsible for Finance with a greater understanding of, and therefore confidence in, the performance of PEs through performance indicators;
- Establish suitable capital framework which imposes financial disciplines on PEs while ensuring they have enough capital to pursue their business and investment decisions without the assistance of the national budget; and
- Ensure that requests for government financial assistance are considered in line with the PE business needs.

Presently, no Public Policy Objective (Public policy) has been formulated by the PEs' Responsible Ministries. This means that that the Responsible Ministries and PEs have not agreed on clear and mandated policy targets and performance that will drive the direction and strategies of the latter. The Public policy outlines the mandate and purpose of the PEs, which also includes defining, identifying, quantifying and disclosing the costs associated with the Public Service Obligations (PSOs) currently being undertaken by PEs. PSOs lead to QFAs when PEs are not transparently compensated for performing these obligations.

The Commission does not set targets despite its responsibility to monitor and evaluate the financial performance of PEs. As per the PEMC Act[16], the setting of financial targets falls within the mandate of the respective PE board. In line with international good practice, the ownership and oversight unit sets financial targets to ensure that there is alignment between these targets and the objectives outlined in its policy targets. The setting of targets can be challenging, as the process needs to consider the PEs public policy targets before determining a reasonable level of profitability. In the absence of such targets, it becomes complex to measure the performance of PE Board and management.

[16] PEMC Act, 2013, Section 35

There is also fragmentation across the oversight framework whereby PEs are mandated to report to multiple oversight bodies and ministries in respect of their financial, governance and sectoral performance. This leads to duplication of effort and impedes the effectiveness of the oversight framework.

5.1.1 Lack of resources of the Commission

The fragmented oversight of the PE sector and the lack of resources of the Commission as the body mandated to monitor the PEs, constitutes a risk to public finances. The Commission has insufficient resources to exercise the required amount of scrutiny on the PEs' finances, operations and budgets and conduct a comprehensive risk analysis to advise decision-makers promptly.

5.2 Selection process of Board members

Currently, as per the PEMC Act[17], the President appoints the Board of directors whereas the Commission is responsible for monitoring the governance of PEs and is not involved in the appointment or due diligence process. As such, the Commission is unable to ensure that the potential Boards have the required expertise to undertake their responsibilities effectively. Efficient Boards are a crucial aspect for the long-term success of PEs.

The current selection process of board members lacks transparency, and the absence of a skills matrix per PE may lead to gaps in the appointment process, to ensure that candidates with the appropriate skills are appointed to the corresponding Board.

A register of directors would also broaden the horizon of the nomination and appointment authorities, leaving an open and transparent process for prospective candidates to apply to be included in the register, increasing the likelihood that candidates with required skills are appointed on Boards.

5.3 Lack of compliance (PEMC Act)

The Board of each PE is responsible and accountable for ensuring that submissions and content of the Statement of Corporate Intent (SCI), the Annual Report (AR), and the Monthly Report (MR) comply with minimum legislative requirements of Part V of the PEMC Act 2013 (the Act).

The Commission, responsible for monitoring the reporting obligations of PEs, lacks the enforcement powers to compel the latter to comply with its information requests, as the Act does not provide for sanctions in cases of non-compliance. The inadequate legal provisions contribute to the delay in conducting an effective and efficient analysis. The Commission is reviewing the PEMC Act to include compliance mechanisms and has started transparently publishing the lists of PEs that are non-compliant.

The following section presents the status of the PEs' compliance with reporting obligations for 2019.

[17] PEMC Act, Section 25

5.3.1 Statement of Corporate Intent

> *"The board of each Public Enterprise shall prepare and deliver to the Responsible Minister and the Commission, **not later than one month** after the coming into operation of this Act, a statement of corporate intent in respect of the Public Enterprise and thereafter n**ot later than one month** after the commencement of each **consecutive third financial year** an updated statement of corporate intent in respect of the financial in which it is delivered and in respect of each of the immediately following two financial years."*
>
> **-PEMC Act, Section 34**

5.3.1.1 Submission

The Commission has SCIs of 22 out of 23 PEs; however, 13 of these had expired. Bois de Rose Investment, Paradis des Enfants Entertainment Limited and Seychelles Fishing Authority[18] did not comply with this provision as no submissions were made. As per Appendix 3, 12 of the 23 SCI submissions by the respective PEs have expired, i.e. the submitted SCI's scope has lapsed. Seychelles Petroleum Company Ltd, L'Union Estate Ltd, Petro Seychelles Ltd, Seychelles Ports Authority, Seychelles Pension Fund, Financial Services Authority, Housing Finance Company Ltd, Seychelles Civil Aviation Authority and Nouvobanq were the only PEs which submitted their SCIs within the prescribed time requirement. To note that, 14 of the 23 Statements of Corporate Intent were expired or invalid.

2 of the 9 SCIs valid for the year 2019 did not cover the required scope as specified in the Act. S.34 of Act states that the Statement of Corporate Intent shall cover three years and shall be renewed at the end of the third year. The Statements of Corporate Intent of Seychelles Ports Authority (SPA) and Seychelles Pension Fund (SPF) respectively cover ten years and one year. This time frame is not realistic, given the nature and purpose of the document.

5.3.1.2 Non-Compliance with legislative requirements for the content of SCIs

The 9 SCIs submitted have failed to fully comply with all the content requirements of SCIs, as stated by Section 35 (1) of the Act. S.35(1) of the Act states that PEs are mandated to specify the legal requirements, including the objectives and mission; nature and scope of activities; and their performance targets as per Appendix 3. The 9 SCIs contained the objectives and mission of the PE and the nature and scope of the activities to be undertaken by the PE.

The 9 SCIs did not contain the following provisions as listed in S.35(1) of the Act; the ratio of shareholder's funds to the value of the total assets of the Public Enterprise, an estimate of the amount intended to be distributed as dividends for each year and no requests for amendments was submitted by the PEs.

[18] The SFA only became a PE in late 2019.

7 out of the 9 SCIs did not contain standard performance targets. The Seychelles Civil Aviation Authority (SCAA) and Nouvobanq were the only PEs which submitted performance targets as per S.35(d) of the Act. However, their respective Statements of Corporate Intent contained only one out of the four required by the Act (ref. Figure 1). Furthermore, Nouvobanq was the only PE to submit its estimated Net Present Value of investments as per S.35(f) of the Act.

Contents of statement

35.(1) A statement of corporate intent shall specify—

(a) the objectives and mission of the Public Enterprise;

(b) the nature and scope of the activities to be undertaken by the Public Enterprise;

(c) where a Public Enterprise has a share capital, the ratio of the shareholders' funds to the value of the total assets of the Public Enterprise;

(d) the following standard performance targets

(i) percentage increase in turnover;

(ii) percentage increase in return on assets;

(iii) percentage increase in Return on Capital employed;

(iv) percentage increase in profit after tax;

and any other measures by which the performance of the Public Enterprise may be judged in relation to its objectives and the underlying assumptions on which the objectives are based—

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(e) an estimate of the amount intended to be distributed as dividends for each year covered by the statement of corporate intent;

(f) an estimate of the Net Present Value (NPV) of the investments in the Public Enterprise and the manner in which, and the time at which, this value is to be reassessed using a percentage cost of capital applicable to the Enterprise.

(2) The Board of a Public Enterprise may, subject to changes in its core operational strategy, after notifying and agreeing with the Responsible Minister and the Commission, amend the statement of corporate intent and serve a copy of the statement as amended to the Responsible Minister and the Commission.

Figure 1. Extract from S.34, S.35(1) and S.35(2) of the Act

5.3.2 Monthly reports

> *"Each Public Enterprise shall,* ***within fifteen days after the end of every month, submit to the Commission in such form as the Commission may determine, a statement of the financial and operational performance of the Public Enterprise during that month including details of debt performance,*** *failure to do so may lead to sanctions as per schedule 5(5) (b)."*
>
> **-PEMC Act, Section 38**

5.3.2.1 Submission

All of the 23 PEs were compliant in submitting monthly reports for 2019, as prescribed by Section 38 of the Act. This is an improvement from 2018, whereby 17 out 21 PEs (81%) were compliant in submitting all monthly reports. 4 out of 21 PEs[19], namely FSA, 2020 DC, STC and SPF, failed to submit certain monthly reports during 2018. Appendix 6 shows the submission dates of the monthly reports for 2019.

Only 2 out of 23 PEs (9 %) were compliant to Section 38 of the Act, in submitting all their monthly reports within 15 days after the end of the month during 2019. IDC and Petro Seychelles were the only two PEs that submitted all monthly financials within 15 days after the end of the month. Most PEs, 21 out of 23 (91%) were not compliant in submitting ***all*** their monthly reports within 15 days after the end of the month

[19] Submission of monthly reports for Paradis des Enfants and Bois de Rose Investment were not recorded in 2018.

as prescribed by Section 38 of the PEMC Act. 12 out of 23 PEs (52 %) did not submit reports at all within 15 days after the end of the month. These PEs include SSI, BDR Investment, STC, 2020 DC, Paradis des Enfants, Air Seychelles, FSA, PMC, SCB, SCAA, SPTC, and SPS. Three PEs, namely SPF, DBS and Nouvobanq, submitted their monthly reports for 11 out of 12 months within 15 days after the end of the month. Figure 2 and Appendix 6 illustrates the total timely and late submissions of monthly reports for 2019.

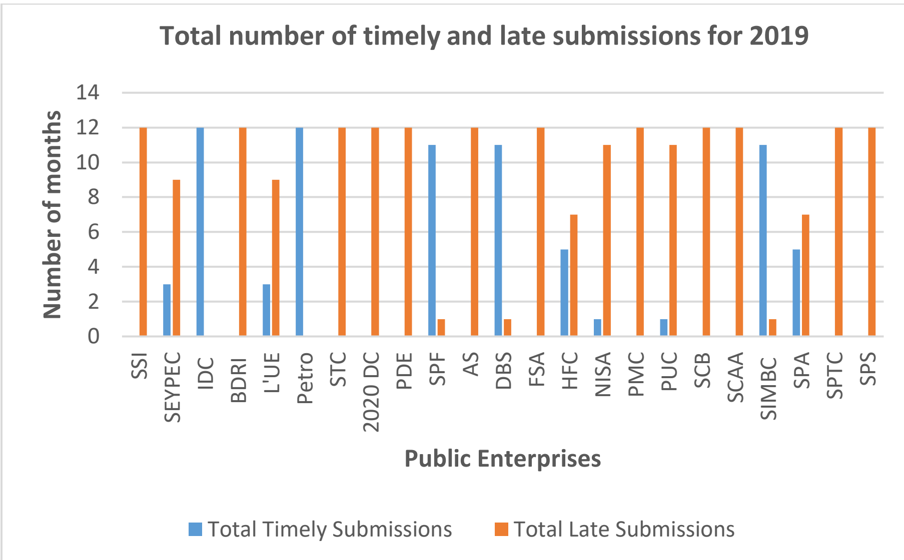

Figure 2. Submissions of monthly reports for 2019

5.3.2.2 Content of monthly reports

18 out of 23 PEs (78%), submitted three types of statements, Profit and Loss Account, Balance Sheet and Cash Flow Statement in the submission of the monthly reports[20] in 2019. However, 5 out of 23 PEs (21%), were not submitting all three types of statements. These are SPA, 2020 DC, Paradis des Enfants, SPF and Nouvobanq. 4 PEs (17%), SPA, 2020 DC, Paradis des Enfants and Nouvobanq submitted only P&L accounts and balance sheet, whilst SPF submitted only the balance sheet during 2019.

[20] Submission of the three types of statements; the P&L Accounts, Balance Sheet and Cash Flow Statement, is the form that the Commission has determined, as appropriate and useful for the submission of the monthly reports by PEs, for "a ***statement of the financial and operational performance of the Public Enterprise during that month including details of debt performance",*** as provided for in Section 38 of the Act.

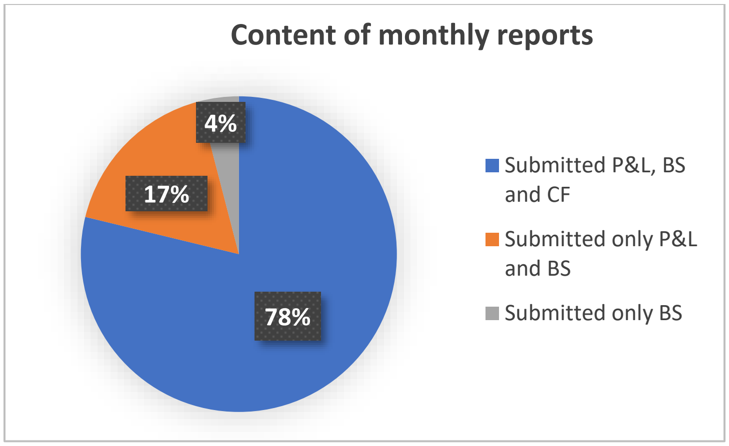

Figure 3. Content of monthly reports

5.3.3 Annual Financial Statements (AFS)

> *"Each Public Enterprise shall,* ***within three months after the end of its financial year prepare an annual report*** *on its operations which, together* ***with a copy of its annual audited accounts*** *as well as any report by the auditors on its management and accounting practices, shall be submitted to:*
>
> *(a) the Minister of Finance;*
> *(b) the Responsible Minister; and*
> *(c) the Commission."*
>
> **-PEMC Act, Section 36(1)**

5.3.3.1 Submission

The Commission noted that up to the reporting date, only 23 PEs had submitted their AFS. Appendix 4, illustrates the date of submission of the AFS for the year-end 2019. PEs namely 2020 DC, Air Seychelles, OICL, PDEE, and SPS were not compliant to Section 36 (1) of the Act.

None of the 23 PEs submitted their AFS within the prescriptions of Section 36 (1) of the Act. Section 36 (1) also makes provision for submission of the AFS within three months after the financial year-end. The total number of late submissions equated to 100% for all 23 PEs which submitted their AFS as they exceeded the respective deadline. It is to be noted that the national prohibition of movement during the first quarter of 2020, due to the COVID-19 pandemic, disrupted the operations of the PEs. Figure 4 illustrates the percentage of PEs, 77%, that submitted their AFS up to the reporting date.

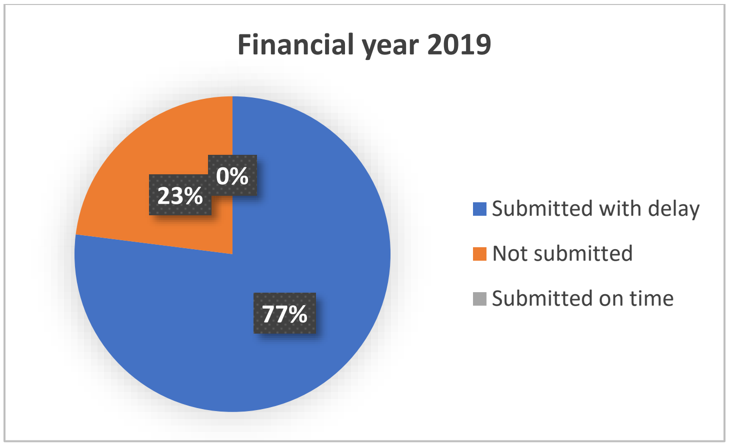

Figure 4. Percentage of timely, late, and non-submission of AFS for 2019

5.3.3.2 Content of AFS

i. Adherence to IFRS standard

2 out of the 23 PEs submitted AFS are non-compliant to Section 1(b) (iii) of Schedule 4 [21]**of the Act which states that AFS should be prepared in accordance with the International Financial Reporting Standards (IFRS) as set by the International Accounting Standards Board (IASB).** 5 out of the 23 PEs have adopted IFRS for SMEs as illustrated in Appendix 4. The use of different accounting practices leads to difficulty in comparing and benchmarking the performance of the PEs. Figure 5 shows the percentage of PEs compliant with IFRS.

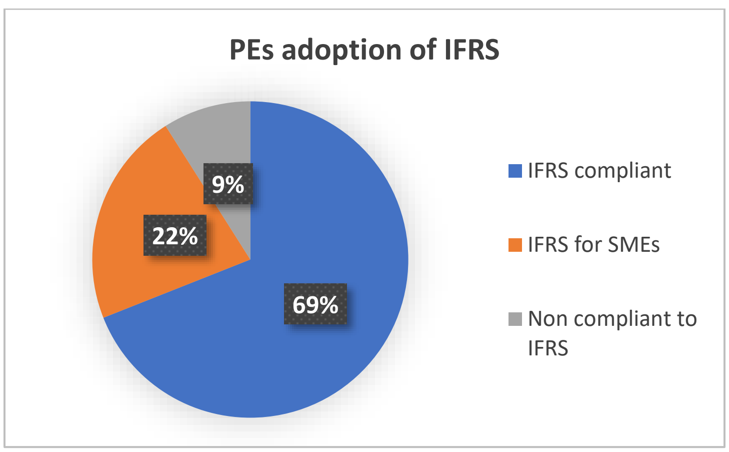

Figure 5. Percentage of PEs preparing AFS as per IFRS for the year 2019

ii. Compliance to Schedule 4 of the Act

All 23 submitted AFS were compliant to certain provisions as prescribed by Schedule 4 of the PEMC Act. For instance, the 23 submitted AFS, were accompanied by the Auditors statement on whether the accounts give a true and fair view, as prescribed by Section 1 (b) (vi) of Schedule 4 of the Act. In addition,

[21] "The transition period for preparation of annual financial statements in accordance with IFRS shall be 3 years from the date of commencement of this Act"- PEMC Act, Schedule 4

all 23 PEs provided audited financial statements which included the statement of Financial position, Profit or Loss and Cash flow. Moreover, all 23 AFS submitted have been audited in accordance with the International Standards on Auditing (ISA).

5.3.4 Annual Reports

5.3.4.1 Submission

17 out of 23 (74%) PEs did not submit their Annual Reports (ARs) for the year 2019. The only PEs, excluding subsidiaries[22], which submitted their AR to the Commission were DBS, SPF, SCAA, SEYPEC, PMC and SPTC. In 2018 there were 11 PEs which submitted their AR to the Commission, whereas for the year 2019 only 6 PEs submitted their AR (ref. Table 9). The Commission did not receive any request for extension of deadline for the submission of AR nor did it receive any explanation from the PEs for the late submission and the non-submission of AR.

Table 9. Submission of ARs for the year 2019 & 2018

No.	Public Enterprise	2018	2019
1	SSI	Not Submitted	Not Submitted
2	SEYPEC	16-Aug-19	10-Sep-20
3	IDC	Not Submitted	Not Submitted
4	BDRI	Not Submitted	Not Submitted
5	L'UE	Not Submitted	Not Submitted
6	PS	Not Submitted	Not Submitted
7	STC	Not Submitted	Not Submitted
8	SPA	4-Jun-19	Not Submitted
9	PDEE	Not Submitted	Not Submitted
10	SPF	26-Apr-19	10-Jun-20
11	Air Seychelles	Not Submitted	Not Submitted
12	DBS	9-Jul-19	5-Oct-20
13	FSA	Not Submitted	Not Submitted
14	HFC	Not Submitted	Not Submitted
15	NISA	Not Submitted	Not Submitted
16	PMC	23-Apr-19	25-Nov-20
17	PUC	21-Nov-19	Not Submitted
18	SCB	21-Oct-19	Not Submitted
19	SCAA	18-Jun-19	7-Aug-20
20	Nouvobanq	16-Oct-19	Not Submitted
21	2020 Development	Not Submitted	Not Submitted
22	SPTC	27-May-19	26-Jun-20
23	SPS	23-May-19	Not Submitted

[22] In certain cases, the subsidiaries do not issue ARs, and their 'parent company' issues ARs. Therefore, for the purpose of this report only the parent PEs and not their subsidiaries have been considered for the submission of ARs.

All 23 PEs were non-compliant to section 36 (1) of the PEMC Act as they did not submit their ARs within three months of their financial year. The 74% did not submit their AR and the remaining 26%, although they submitted their AR, the submissions were made after three months of their financial year. Therefore, there was an untimely submission of ARs by the 6 PEs which submitted their ARs to the Commission.

5.3.4.2 Content of ARs

The ARs submitted by the 6 PEs were partially compliant with the requirements prescribed by Schedule 4 of the PEMC Act. All of the submitted ARs provided an outline of the organisational structure, a review of financial performance, auditor's fees, AFS and the Auditor's Report to the financial statements. Only two the ARs of SPF and SCAA excluded a 'changes in financial position' statement as part of their AFS as required by section 1 (a) (iii) of Schedule 4. Out of all the requirements prescribed by Schedule 4, 7[23] of them were not satisfied by all of the ARs. Therefore, all of the ARs submitted did not include any statements in regards to performance targets detailed in the SCI, judicial proceedings, budget approval and authorisation for acquisition and use of financial resources, fair presentation of the affairs of the PE at the end of the financial year, maintenance of adequate accounting records, discussion with stakeholders, as well as, financial and other effects of direction from the Commission. Additional information which was not included in some of the ARs and not in others include financial and non-financial performance of the PEs and their abilities to meet liabilities and commitments, complaints made against the PE, information in regards to the Board of Directors, social services obligations, internal control and risk management, internal and external factors affecting performance, as well as, significant events that may affect future performance.

[23] Schedule 4, PEMC Act – Section 1 (c), (h), (m) (i) (ii) & (iv), (n) (vii) (viii)

Conclusion and recommendations

PEs remain a source of fiscal risk at the end of the year 2019 and the medium-term. The linkages between PEs indicates that shocks can be correlated and may have a ripple effect within the sector. Macro-economic shocks, risks of other revenue and expenditure developments, contingent liabilities and arrears all contribute to increasing the fiscal risk exposure of the Government in the medium-term.

Corporate governance weaknesses in PEs and the absence of formal shareholder target-setting, are also deficiencies in the sector.

The Commission recommends the following to eliminate or mitigate these risks:

i. Introduction of enforcement mechanisms within the PEMC Act to improve compliance of PEs. Untimely and incomplete reporting by PEs delays the Commission's reporting and ultimately hinders the availability of timely analysis to decision-makers. Prompt reporting by PEs also aids in improving the accountability of PE Boards and Management.

ii. Strengthen Corporate Governance within the PE sector supported by a formal, transparent nomination and appointment process for directors. The introduction of a register of directors would also broaden the horizon of the nominating and appointing authorities, leaving an open and transparent process for prospective candidates to apply for be included in the register, increasing the skillset and number of candidates available for Board appointment.

iii. Improved allocation of resources to the Commission, to enhance its capacity. The lack of capacity for oversight and limited information from PEs undermines the Commission's ability to assess potential fiscal risk.

iv. Introduction of conditions attached to subsidies/bailouts to limit soft budget constraints for PEs. For instance, subsidies may be disbursed in tranches, subject to certain pre-agreed conditions being fulfilled by the PE. Providing PE Management with performance-based incentives may also aid in improving PE efficiency; this should be supported by transparent PE reporting to limit the risk of earnings management.

v. Improved regulation of PE borrowings including the implementation of an approval process involving the PEs Responsible Ministry and the Ministry of Finance, irrespective of whether a Government guarantee would be required. This measure would aim to reduce unforeseen implicit fiscal risks from non-guaranteed PE debt and excessive PE borrowing, for example, by introducing debt or liability ceilings for PEs. This should, however, be considered after taking into consideration the particularity of each PE.

vi. Development of formal performance targets for the PEs by the shareholder, in accordance with the sector policy of the Responsible Ministry, to minimise the risk of PE bailouts and to provide the shareholder's expectation to the PE Board. The setting of performance targets for PEs may also aid to limit prolonged recurrent losses by PEs. International good practice recommends that the PE ownership unit sets financial targets in collaboration with the Responsible Ministry to ensure that there is alignment between these targets and the objectives outlined in the PEs' policy targets. It is complex to measure the performance of PE Board and Management in the absence of such targets.

vii. Projects undertaken by PEs should be discussed with their Responsible Ministry, once approved by their Board, before investment. This measure will ensure that PEs are investing in projects that are within their mandate and following their sector policy, thus limiting risk to the shareholder, such as a bailout or poor return on investment. The presence of PEs in non-core operations can also lead to dividend volatility for the shareholder.

viii. Detailed risk assessments should be conducted before a PE engages in a PPP to identify potential fiscal risks and contingent liabilities. The review and approval process of the PPP should include the Ministry of Finance, the PEs' Responsible Ministry and the Commission. A central register of PE PPP commitments could also be maintained by the Government, to facilitate the identification of risk from these commitments.

ix. Implementation of a dividend policy[24] to formalise the Government's expectation of returns from the PEs, as well as avoid public funds being invested in projects by PEs that are not in line with sector policy, which may expose public finances to unnecessary risk. Also, such investments carry risk since they may not be subject to the same scrutiny as investments by Ministries, Departments and Agencies as they may not be part of the budgetary process.

A dividend policy would also limit the risk of excessive dividend payments being made to meet short-term budgetary objectives at the expense of a PE's investment in essential infrastructure, which may have long-term consequences on economic growth.

x. Implementation of an ownership policy to clarify the role and responsibilities of Government as the owner or majority shareholder in the PE.

xi. Implementation of a coordinated framework of reporting between MoFTIEP, the Responsible Ministries, regulators and the PEs with regards to decisions that would impact PE performance, for example, the introduction of new QFAs. Such coordination should also include the Commission as the oversight body of the PE sector, to avoid information asymmetry whereby the Commission is uninformed of decisions taken by the Government regarding PEs, hindering its capacity to provide input at an early stage rather than retrospectively.

xii. Use of mechanisms to transfer the risk directly associated with particular PEs, for example, hedging and insurance instruments.

xiii. Reduce pressures on PEs to tolerate payment arrears of Ministries, Departments, Agencies and other PEs.

xiv. Improve the cyber-resilience of the PEs by investing in IT security.

xv. Systematic reporting by PEs of any significant pending lawsuits to the Commission, to minimise the risk associated with legal claims.

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[24] A draft dividend policy was submitted to the Cabinet of Ministers for approval by reporting date.

Appendices

Appendix 1. List of Public Enterprises in Seychelles

Public Enterprises	PE sector	GoS ownership	Total value of shareholding	Responsible Ministry	Subsidiaries	Minority interest[25]	Enabling legislation	Board structure under enabling legislation
Société Seychelloise d'Investissement Ltd	Services and Development	100%	100 shares at SCR 100=SCR10,000[26]	MOFTIEP	SEYPEC IDC BDRI L'UE Ltd PS Ltd 2020 DC Ltd PDEE Ltd STC Ltd SIMBC (Nouvobanq) SCB	SCS Ltd IOT IPHS Seyloin Ltd	Co. Act 1972	Not Less than 2 Directors.
Seychelles Petroleum Company Ltd	Energy	100%	SCR50,000,000 USD8,595,053[27]	OVP	Seychelles Progress Seychelles Patriot Seychelles Pioneer Seychelles Prelude		Co. Act 1972	Not Less than 2 Directors.
Seychelles Progress	Energy	100%	GBP2,000	OVP			Isle of Man Co. Acts	*
Seychelles Patriot	Energy	100%	GBP2,000	OVP			Isle of Man Co. Acts	*
Seychelles Pioneer	Energy	100%	GBP2,000	OVP			Isle of Man Co. Acts	*

[25] Source of Information about the Minority Interest are from AFS of PEs
[26] SSI AFS 2019
[27] SEYPEC AFS 2019

Seychelles Prelude	Energy	100%	GBP2,000	OVP			Isle of Man Co. Acts	*[28]
Islands Development Company Ltd	Services and Development	100%	213,309 shares at SCR100=SCR 21,330,900 issued for cash SCR21,330,924[29]	OVP	GICC GOIC GTIC	Green Tree Green Oak Poivre Island Lodge Paradise Marine Ltd Platte Island Development Ltd	Co. Act 1972	Not Less than 2 Directors.
Green Island Construction Company Ltd	Services and Development	100%	1000 shares at SCR100 =SCR100,000	OVP			Co. Act 1972	Not Less than 2 Directors.
Green Tree Investment Company Ltd	Services and Development	100%	1000 shares at SCR100 =SCR100,000	OVP			Co. Act 1972	Not Less than 2 Directors.
Bois de Rose Investment Ltd	Services and Development	100%	10,000,000 shares at EUR1=EUR[30]10,000,000	MOFTIEP			Co. Act 1972	Not Less than 2 Directors.
L'Union Estate Ltd	Services and Development	100%	SCR7,292,500	OVP			Co. Act 1972	Not Less than 2 Directors.
Petro Seychelles Ltd	Energy	100%	SCR1,000,000	OVP			Co. Act 1972	Not Less than 2 Directors.
Seychelles Trading Company Ltd	Services and Development	100%	SCR10,000	MOFTIEP		SCB[31]	Co. Act 1972	Not Less than 2 Directors.
2020 Development (Seychelles) Ltd	Services and Development	100%	SCR10,000	MOFTIEP			Co. Act 1972	Not Less than 2 Directors.
Paradis des Enfants Entertainment Ltd	Services and Development	100%	100 shares at SCR100=SCR10,000	MOFTIEP			Co. Act 1972	Not Less than 2 Directors.
Seychelles Pension Fund	Financial	Owned by members of the Fund.	Not Applicable	MOFTIEP	OICL	Seychelles Breweries Ltd Cable and Wireless Al Salam Bank	SPF Act,2005	Not more than 10 members. The quorum is 7.
Opportunity Investment Company Ltd	Financial	51%	100 shares at SCR100= SCR10,000	MOFTIEP			Co. Act 1972	Not Less than 2 Directors.

[28] *The quorum necessary for the transaction of the business of the directors may be fixed by the directors, and unless so fixed shall, when the number of directors exceeds three, be three, and shall, when the number of directors does not exceed three, be two. (Source: Isle of Man Companies Act 1931, pg. 220)
[29] IDC AFS 31.03.2020
[30] BDRI AFS 2019
[31] STC AFS 2018

Air Seychelles Ltd	Transport	60%	SCR650,000,000[32]	MTCAPM			Co. Act 1972	Not Less than 2 Directors.
Development Bank of Seychelles	Financial	61%	Issued and fully paid shares = 39,200,000[33]	MOFTIEP			DBS Decree 1991	Not more than 10 or less than 5 other members. The quorum is 4.
Financial Services Authority	Financial	100%	Not Applicable	MOFTIEP			FSA Act,2013	The Board should consist of 10 members. The quorum is 6.
Housing Finance Company Ltd	Financial	100%	SCR20,000,000	MOFTIEP			Co. Act 1972	Not Less than 2 Directors.
National Information Services Agency	Services and Development	100%	Not Applicable	OVP			NISA Act, 2010	The Board should consist of 5 members. The quorum is 3.
Property Management Corporation	Services and Development	100%	Not Applicable	MHILT			PMC Act, 2004	Not less than 4 and not more than 8 members. The quorum is 3.
Public Utilities Corporation	Energy	100%	Not Applicable	MEECC			Public Utilities Corporation Act, 1986	Not less than 5 nor of the more than 7 members
Seychelles Commercial Bank Ltd	Financial	60%	SCR60,000,000[34]	MOFTIEP			Co. Act 1972	Not Less than 2 Directors.
Seychelles Civil Aviation Authority	Transport	100%	Not Applicable	MTCAPM			Seychelles Civil Aviation Authority Act, 2005	Not less than 7 nor more than 11 members. The quorum is 4.
SIMBC Nouvobanq	Financial	78%	SCR 100,000,000	MOFTIEP			Co. Act 1972	Not Less than 2 Directors.

[32] Source: Unanimous written declaration of the shareholders of the Company, registered on 21.06.2012
[33] DBS AFS 2019
[34] SCB AFS 2019

Seychelles Ports Authority	Transport	100%	Not Applicable	MTCAPM			Seychelles Ports Authority Act, 2004	The Board should consist of 5 members. The quorum is 4.
Seychelles Public Transport Corporation	Transport	100%	Not Applicable	MHILT			Seychelles Public Transport Corporation Decree 1977	Not less than 2 and not more than 4. The quorum is 3.
Seychelles Postal Services Ltd	Services and Development	100%	1000 shares at SCR100= SCR 100,000	MOFTIEP			Co. Act 1972	Not Less than 2 Directors.

Appendix 2. Board members, key personnel and auditors of PEs

No.	Public Enterprise	Board	Key personnel	Auditor
1	Seychelles Petroleum Company Ltd	Chairperson: Dr Selwyn Gendron Member: Ms Philippa Samson Member: Mr Eddie Belle Member: Ms Veronique Laporte Member: Mr Suketu Patel Member: Dr Steve Fanny	**CEO:** Mr Conrad Benoiton	BDO Associates
2	Public Utilities Corporation	Chairperson: Mr Eddie Belle Member: Mr Stephen Rousseau Member: Mr Yannick Vel Member: Dr Selwyn Gendron Member: Ms Nanette Laure Member: Mr Phillippe Chong-Seng	**CEO:** Mr Philippe Morin **Deputy CEO:** Mr Joel Valmont	BDO Associates
3	Seychelles Civil Aviation Authority	Chairperson: Mr David Savy Member: Ms Anne Lafortune Member: Ms Nadine Potter Member: Mr Vincent Amelie Member: Ms Cindy Vidot Member: Ms Amelie Nourrice	**CEO:** Mr Garry Albert	Office of the Auditor General
4	Seychelles Public Transport Corporation	Chairperson: Mr Andy Moncherry Member: Mr Alone Edmond Member: Ms Marilyn Reginald Member: Ms Cecily Derjacques	**CEO:** Mr Patrick Vel **Deputy CEO**: Mr Maxwell Julie	BDO Associates
5	Seychelles Ports Authority	Chairperson: Mr Paul Hodoul Member: Mr Andre Ciseau Member: Mr Leslie Benoiton Member: Ms Doreen Bradburn Member: Mr Alexandre Antonakas	**CEO:** Mr Ronny Brutus **Deputy CEO**: Dr Egbert Moustache	Office of the Auditor General
6	Air Seychelles Ltd	Chairperson: Mr Jean Weeling-Lee Vice Chairperson: Mr Robin Kamark Member: Mr Oliver Bastienne Member: Ms Sitna Cesar Member: Mr Cyril Bonnelame Member: Mr Christopher Youlten Member: Mr Bassam Al Mosa	**CEO:** Mr Remco Althuis	AFS 2019 not submitted to the Commission
7	Seychelles Trading Company Ltd	Chairperson: Mr Guy Morel Member: Mr Gerard Adam Member: Ms Farida Camille Member: Mr Oliver Bastienne Member: Mr Ashik Hassan	**CEO:** Ms Christine Joubert **Deputy CEO**: Ms Marie-France Hansen	Baker Tilly
8	National Information Services Agency	Chairperson: Ms Lucy Athanasius Vice Chairperson: Ms Roseline Hoareau Member: Mrs Marie-Annette Ernesta Member: Ms Claudette Albert Member: Mrs Barbara Kilindo Member: Ms Joelle Perreau Member: Mr Conrad Lablache	**CEO:** Mr Gerard Govinden	Office of the Auditor General
9	Seychelles Postal Services Ltd	Chairperson: Ms Melanie Stravens Member: Ms Astride Tamatave Member: Ms Rudy Rose Member: Mr Ayub Suleman Adam Member: Mrs Dothy Valmont Raforme	**CEO:** Mr Errol Dias	AFS 2019 not submitted to the Commission

10	Société Seychelloise d'Investissement Ltd	Chairperson: Ms Vijaykumari Tirant Member: Mr Ange Morel Member: Mr Karl Pragassen Member: Ms Annie Dugasse Member: Mr Bernard Adonis	**CEO:** Mr Rupert Simeon	Pool and Patel
11	L'Union Estate Ltd	Chairperson: Mr Frank Hoareau Member: Ms Corinne Delpeche Member: Mr Damien Thesée Member: Mr Gerald Lablache Member: Mr Andreix Rosalie Member: Mr Barry Assary	**CEO:** Mr Gustave Delpeche	Bhanderi & Co
12	Islands Development Company Ltd	Chairperson: Mr Patrick Berlouis Member: Mr Patrick Lablache Member: Mr Willy Confait Member: Ms Sherin Francis Member: Ms Angelique Antat Member: Ms Angele Lebon	**CEO:** Mr Glenny Savy	Pool and Patel
13	Seychelles Commercial Bank Ltd	Chairperson: Mr Patrick Payet Member: Ms Esther Boniface Member: Capt. Robert Morgan Member: M. Jenna Thelermont Member: Mr Sandy Mothee Member: Mr Jamshed Pardiwalla	**CEO:** Ms Annie Vidot	BDO Associates
14	SIMBC (Nouvobanq) Ltd	Chairperson: Mr Abdul Gafoor Yakub Member: Mr Vincent Van Heyste Member: Mr David Howes Member: Mr Anil Dua Member: Damien Thesee	**CEO:** Mr Ahmad Saeed **Deputy CEO:** Mr Michael Benstrong	BDO Associates
15	Housing Finance Company Ltd	Chairperson: Jennifer Morel Member: Mr Daniel Frichot Member: Mr Yves Choppy Member: Ms Elizabeth Agathine Member: Mr Michel Marie	**CEO:**Mr Ronny Palmyre	BDO Associates
16	Development Bank of Seychelles	Chairperson: Ms Brenda Bastienne Deputy Chairperson: Mr Brian Charlette Member: Ms Ina Barbe Member: Mr Rupert Simeon Member: Mr Marc Naiken Member: Mr Roy Clarisse Member: Ashwin Bhanderi	**CEO:** Mr Daniel Gappy	Pool and Patel
17	Financial Services Authority	Chairperson: Mr Suketu Patel Member: Mr Phillip Moustache Member: Mr David Esparon Member: Mrs Veronique Herminie Member: Mr Mike Laval Member: Ms Jenifer Sullivan Member: Ms Cindy Vidot Member: Mr. Robert Stravens Member: Ms. Seylina Verghese	**CEO:** Dr Steve Fanny **Deputy CEO:** Ms Zenabe Daman	Office of the Auditor General
18	Property Management Corporation	Chairperson: Mr Christian Lionnet Vice-chairperson: Ms Sitna Cesar Member: Ms Roma Edmond Member: Mr Denis Barbe Member: Ronny Palmyre Member: Mrs. Gina Adelaide	**CEO:** Ms Evelina Antha	BDO Associates

19	Petro Seychelles Ltd	Chairperson: Amb. Barry Faure Member: Mr Patrick Payet Member: Mr Dennis Matatiken Member: Mr Raymond Chang-Tave	**CEO:** Mr Patrick Joseph	ACM & Associates
20	Seychelles Pension Fund	Chairperson: Mr. Jacquelin Dugasse Member: Mr Patrick Payet Member: Ms Cilia Mangroo Members: Mr Ravi Valmont Members: Mr Antoine Robinson Members: Mr Peter Sinon Members: Ms Cindy Vidot Members: Marie Claire Marie Members: Mr Bernard Adonis Members: Ms Elsie Morel	**CEO:** Ms Lekha Nair	Pool and Patel
21	2020 Development Company Ltd	Chairperson: Amb. Barry Faure Member: Yves Choppy Member: Priscille Chetty	**CEO:** Ms Sabrina Agathine	AFS 2019 not submitted to the Commission
22	Green Island Construction Company Ltd	Chairperson: Mr Patrick Berlouis Member: Mr Willy Confait Member: Mr Patrick Lablache Member: Ms Sherin Francis Member: Ms Angelique Antat Member: Ms Angele Lebon Member: Mr Alain Decommarmond	**CEO:** Mr Glenny Savy	Pool and Patel
23	Green Tree Investment Company Ltd	Chairperson: Mr Patrick Berlouis Member: Mr Willy Confait Member: Mr Patrick Lablache Member: Ms Sherin Francis Member: Ms Angelique Antat Member: Ms Angele Lebon Member: Mr Alain Decommarmond	**CEO:** Mr Glenny Savy	Pool and Patel
24	Bois De Rose Investment Ltd	Chairperson: Mr Brian Loveday Member: Ms Tacey Furneau Member: Ms Jeannette Lesperence Member: Mr Alderic Bristol Member: Mr Ayub Adam	**CEO:** Mr Rupert Simeon	Pool and Patel
25	Paradis Des Enfants Entertainment Ltd	Chairperson: Mr Roy Collie Member: Ms. Beryl Pillay Member: Mr. Joshua Marguerite Member: Mr. Danny Fontaine Member: Ms. Sophia Parmentier Member: Mr. Nigel Pillay		AFS 2019 not submitted to the Commission

Appendix 3. Overview of key legislation

Legislative	Category of PE	Relevance
Public Enterprise Monitoring Commission Act 2013 (PEMC Act)	All PEs	The PEMC Act makes provision for the establishment of the Commission to oversee the PEs and stipulates the PE's reporting obligations to the Responsible Minister, the Minister of Finance and the COMMISSION. It also makes provision for the appointment and functions of the Board of Directors for PEs.
Public Officer's Ethics Act 2008 (POE Act)	All PEs	The POE Act makes provision for the establishment of the Public Officers' Ethics Commission (POEC) which monitors compliance of Public Officers to the Code of Conduct and Ethics of the POE Act 2008 (Part II). As PEs are categorised as Public Corporations under the POE Act, its executive and non-executive directors are obliged to comply with the ethics laws for public servants.
Public Finance Management Act 2012 (PFM Act)	All PEs	The PFM Act outlines the duties and responsibilities of the Accounting officer [35] with the aim of ensuring efficient financial management of PEs (Part VIII).
Seychelles Revenue Commission Act 2009 (SRC Act)	All PEs	The SRC Act makes provision for the establishment of the Seychelles Revenue Commission (SCRC) which has the oversight and administrative function of the Revenue laws of Seychelles and for the collection of taxes on behalf of the Government. The PEs are obliged to comply with tax laws and regulations as well as the tax policies formulated specifically for PEs by the MoFTIEP unless exempted by a specific policy.
Companies Ordinance Act 1972 (Companies Act)	For PEs incorporated under the Companies Act	The Companies Act governs the PEs incorporated under the Act which includes the legal requirements pertaining to the Board of those PEs such as the appointment and duties of the directors.

[35] **PFM Act**, Section 2

Appendix 4. Submission of Statements of Corporate Intent

Public Enterprise (excluding subsidiaries)	Available submissions	Compliance to PEMC Act								
		Validity status	Covers 3-year period	Objectives/ mission	Nature/ scope of activities	Shareholder funds/Total assets	Performance targets 4/4	Provisional dividend distribution	NPV of Investments	Amendments
SSI	SCI 2016-2018	Expired	-	-	-	-	-	-	-	-
SEYPEC	Strategic Plan 2016-2020	Valid	Yes	Yes	Yes	No	No	No	No	No
IDC	SCI 2016-2018	Expired	-	-	-	-	-	-	-	-
BDRI	N/A	N/A	-	-	-	-	-	-	-	-
L'UE	Strategic Plan 2017-2021	Valid	Yes	Yes	Yes	No	No	No	No	No
PS	SCI 2019-2021	Valid	Yes	Yes	Yes	No	No	No	No	No
STC	SCI 2014-2016	Expired	-	-	-	-	-	-	-	-
SPA	SCI 2013-2022	Valid	No	Yes	Yes	No	No	No	No	No
PDEE	N/A	N/A	-	-	-	-	-	-	-	-
SPF	SCI 2017	Valid	No	Yes	Yes	No	No	No	No	No
AS	PowerPoint Presentation 2013	Expired	-	-	-	-	-	-	-	-
DBS	Strategic Plan 2016-2018	Expired	-	-	-	-	-	-	-	-
FSA	Strategic Plan 2015-2019	Valid	Yes	Yes	Yes	No	No	No	No	No
HFC	Business Plan 2017-2019	Valid	Yes	Yes	Yes	No	No	No	No	No
NISA	Business Plan 2013	Expired	-	-	-	-	-	-	-	-
PMC	SCI 2016-2018	Expired	-	-	-	-	-	-	-	-
PUC	SCI 2016-18	Expired	-	-	-	-	-	-	-	-
SCB	SCI 2015-2017	Expired	-	-	-	-	-	-	-	-
SCAA	SCI 2019-2021 SCI 2020-2022	Valid	Yes	Yes	Yes	No	Yes (1/4)	No	No	No

Public Enterprise (excluding subsidiaries)	Available submissions	Compliance to PEMC Act								
		Validity status	Covers 3-year period	Objectives/ mission	Nature/ scope of activities	Shareholder funds/Total assets	Performance targets 4/4	Provisional dividend distribution	NPV of Investments	Amendments
Nouvobanq	Business Plan 2017-2019	Valid	Yes	Yes	Yes	No	Yes (1/4)	No	Yes	No
2020 DC	Letter re: SCI January 2014-January 2016	Expired	-	-	-	-	-	-	-	-
SPTC	SCI 2016-2018	Expired	-	-	-	-	-	-	-	-
SPS	Strategic Plan 2013-2015	Expired	-	-	-	-	-	-	-	-

Appendix 5. Submission of AFS for 2019 and adoption of IFRS

Audited Financial Statement 2019				IFRS Compliant
No.	**Public Enterprise**	**Submission date**	**Compliance**	
1	SSI	May 29 2020	PC	Yes
2	SEYPEC	May 27 2020	PC	Yes
3	Pioneer	Nov 23 2020	PC	Yes
4	Prelude	Nov 23 2020	PC	Yes
5	Patriot	Nov 23 2020	PC	Yes
6	Progress	Nov 23 2020	PC	Yes
7	IDC	Jul 27 2020	PC	IFRS for SMEs
8	GICC	Jul 27 2020	PC	IFRS for SMEs
9	GTIC	Jul 27 2020	PC	IFRS for SMEs
10	BDRI	Aug 28 2020	PC	IFRS for SMEs
11	L'Union Estate	Jun 16 2020	PC	No
12	PS	May 19 2020	PC	Yes
13	STC	Oct 15 2020	PC	Yes
14	SPA	Jul 24 2020	PC	Yes
15	PDEE	**NOT SUBMITTED**	NC	**NOT SUBMITTED**
16	SPF	Jun 1 2020	PC	Yes
17	OICL	**NOT SUBMITTED**	NC	**NOT SUBMITTED**
18	AS	**NOT SUBMITTED**	NC	**NOT SUBMITTED**
19	DBS	May 25 2020	PC	Yes
20	FSA	**NOT SUBMITTED**	NC	**NOT SUBMITTED**
21	HFC	Sep 29 20	PC	Yes
22	NISA	Aug 25 2020	PC	IFRS for SMEs
23	PMC	Nov 25 2020	PC	Yes
24	PUC	Jul 22 2020	PC	Yes
25	SCB	Jun 23 2020	PC	Yes
26	SCAA	Jun 5 2020	PC	No
27	Nouvobanq	Sep 3 2020	PC	Yes
28	2020 DC	**NOT SUBMITTED**	NC	**NOT SUBMITTED**
29	SPTC	Jun 17 2020	PC	Yes
30	SPS	**NOT SUBMITTED**	NC	**NOT SUBMITTED**

Compliant (C): Submitted on time
Partially compliant (PC): Submitted after the deadline
Non-compliant (NC): Not submitted

Appendix 6. Submission dates of monthly reports for 2019

No.	Public Enterprise	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1	**SSI**	18-Feb-19	22-Mar-19	02-May-19	22-May-19	21-Jun-19	23-Jul-19	23-Aug-19	01-Oct-19	24-Oct-19	03-Dec-19	10-Feb-20	10-Feb-20
2	**SEYPEC**	15-Mar-19	19-Mar-19	26-Apr-19	21-May-19	27-Jun-19	17-Jul-19	19-Aug-19	11-Sep-19	15-Oct-19	25-Nov-19	13-Dec-19	27-Jan-20
3	**IDC**	15-Feb-19	11-Mar-19	15-Apr-19	13-May-19	14-Jun-19	11-Jul-19	10-Aug-19	11-Sep-19	15-Oct-19	15-Nov-19	04-Dec-19	15-Jan-20
4	**BDRI**	18-Feb-19	22-Mar-19	02-May-19	22-May-19	08-Jul-19	23-Jul-19	23-Aug-19	01-Oct-19	24-Oct-19	03-Dec-19	26-Feb-20	26-Feb-20
5	**L'UE**	03-May-19	03-May-19	03-May-19	03-May-19	14-Jun-19	22-Jul-19	02-Sep-19	12-Sep-19	18-Nov-19	23-Jan-20	23-Jan-20	23-Jan-20
6	**PS**	11-Feb-19	12-Mar-19	10-Apr-19	15-May-19	14-Jun-19	15-Jul-19	14-Aug-19	10-Sep-19	11-Oct-19	11-Nov-19	06-Dec-19	15-Jan-20
7	**STC**	16-Apr-19	03-May-19	13-May-19	10-Jun-19	26-Jun-19	23-Jul-19	04-Sep-19	02-Oct-19	29-Oct-19	28-Nov-19	26-Dec-19	24-Apr-20
8	**2020 DC**	07-Oct-20	08-Oct-20	09-Oct-20	10-Oct-20	11-Oct-20	12-Oct-20	13-Oct-20	14-Oct-20	15-Oct-20	16-Oct-20	17-Oct-20	18-Oct-20
9	**PDEE**	07-Jul-20	07-Jul-20	07-Jul-20	07-Jul-20	07-Jul-20	07-Jul-20	07-Jul-20	07-Jul-20	07-Jul-20	07-Jul-20	07-Jul-20	07-Jul-20
10	**SPF**	18-Feb-19	12-Mar-19	10-Apr-19	07-May-19	07-Jun-19	10-Jul-19	12-Aug-19	10-Sep-19	15-Oct-19	14-Nov-19	10-Dec-19	15-Jan-20
11	**AS**	05-Mar-19	21-Mar-19	25-Apr-19	21-May-19	21-Jun-19	18-Jul-19	21-Aug-19	20-Sep-19	22-Oct-19	26-Nov-19	24-Dec-19	04-Feb-20
12	**DBS**	15-Feb-19	15-Mar-19	15-Apr-19	14-May-19	14-Jun-19	15-Jul-19	14-Aug-19	12-Sep-19	15-Oct-19	15-Nov-19	13-Dec-19	23-Jan-20
13	**FSA**	09-May-19	09-May-19	17-May-19	12-Sep-19	18-Sep-19	05-Oct-19	18-Oct-19	10-Jan-20	30-Dec-19	23-Nov-19	27-Jan-20	07-Oct-20
14	**HFC**	15-Feb-19	18-Mar-19	15-Apr-19	16-May-19	17-Jun-19	01-Aug-19	16-Aug-19	13-Sep-19	16-Oct-19	15-Nov-19	16-Dec-19	15-Jan-20
15	**NISA**	27-Mar-19	27-Mar-19	20-May-19	20-May-19	15-Jun-19	01-Aug-19	03-Sep-19	12-Dec-19	12-Dec-19	12-Dec-19	03-Feb-20	03-Feb-20
16	**PMC**	21-Feb-19	28-Mar-19	03-May-19	28-May-19	25-Jun-19	24-Jul-19	28-Aug-19	26-Sep-19	24-Oct-19	18-Dec-19	08-Jul-20	08-Jul-20
17	**PUC**	03-May-19	03-May-19	03-May-19	28-May-19	17-Jun-19	26-Jul-19	20-Aug-19	13-Sep-19	12-Nov-19	10-Dec-19	31-Jan-20	31-Jan-20
18	**SCB**	28-Feb-19	01-Apr-19	03-May-19	20-May-19	27-Jun-19	17-Jul-19	19-Aug-19	17-Sep-19	24-Oct-19	22-Nov-19	16-Dec-19	20-Jan-20
19	**SCAA**	24-Apr-19	24-Apr-19	14-May-19	27-May-19	08-Jul-19	24-Jul-19	06-Sep-19	05-Oct-19	23-Oct-19	25-Nov-19	23-Jan-20	27-Jan-20
20	**Nouvobanq**	08-Feb-19	12-Mar-19	04-Apr-19	20-May-19	07-Jun-19	06-Jul-19	08-Aug-19	09-Sep-19	04-Oct-19	15-Nov-19	05-Dec-19	09-Jan-20
21	**SPA**	15-Feb-19	16-Mar-19	17-Apr-19	17-May-19	14-Jun-19	15-Jul-19	20-Aug-19	18-Sep-19	15-Oct-19	15-Nov-19	16-Dec-19	12-Aug-20
22	**SPTC**	19-Feb-19	18-Mar-19	18-Apr-19	17-May-19	24-Jun-19	19-Jul-19	21-Aug-19	18-Sep-19	16-Oct-19	20-Nov-19	17-Dec-19	30-Jan-20
23	**SPS**	15-Apr-19	25-Apr-19	16-May-19	04-Jun-19	25-Jun-19	17-Jul-19	27-Aug-19	30-Sep-19	18-Oct-19	22-Nov-19	13-Jan-20	04-Mar-20
	Total Submissions	23	23	23	23	23	23	23	23	23	23	23	23

Appendix 7. Timeliness in the submission and content of monthly reports for 2019

No.	Public Enterprise	Total timely submissions	Total late submissions	Compliance in submission of P&L, Balance Sheet and Cash flow Statement
1	**SSI**	0	12	Yes
2	**SEYPEC**	3	9	Yes
3	**IDC**	12	0	Yes
4	**BDRI**	0	12	Yes
5	**L'UE**	3	9	Yes
6	**PS**	12	0	Yes
7	**STC**	0	12	Yes
8	**2020 DC**	0	12	No
9	**PDEE**	0	12	No
10	**SPF**	11	1	No
11	**AS**	0	12	Yes
12	**DBS**	11	1	Yes
13	**FSA**	0	12	Yes
14	**HFC**	5	7	Yes
15	**NISA**	1	11	Yes
16	**PMC**	0	12	Yes
17	**PUC**	1	11	Yes
18	**SCB**	0	12	Yes
19	**SCAA**	0	12	Yes
20	**Nouvobanq**	11	1	No
21	**SPA**	5	7	No
22	**SPTC**	0	12	Yes
23	**SPS**	0	12	Yes

Appendix 8. Identified QFAs of the PEs for 2019

Public Enterprise	Description of QFA	Annual effect for PE mSCR	Compensation from the budget mSCR
Air Seychelles Ltd	Charging prices below market level for the resident fares on the domestic operation	25.01	0.00
L'Union Estate Ltd	L'Union Estate has been excavating for red soil and selling to people on La Digue at the price of SCR200 per truck to help the population of La Digue in their construction purposes. The costs for providing such a low-priced service includes: - rental of accommodation and salary for excavator operator - salary and other costs for support staff - fuel costs for the excavator - repairs and maintenance for the excavator	0.32	0.00
	L'Union Estate also provides low-priced pumping services on La Digue due to a lack of sewage pumping services on the island. The costs for providing such a low-priced service includes: - salary and other costs for driver & support staff - fuel costs for the tractor - repairs and maintenance for the tractor	0.17	0.00
Property Management Corporation	Charging prices below market level	16.34	5.72
Public Utilities Corporation[36]	Charging prices below market level	235.01	0.00
	Revenue loss due to Photovoltaic (PV) energy penetration	8.52	0.00
Seychelles Civil Aviation Authority	QFA 1: Maintenance of XRAY Machine Cargo-Customs	0.06	0.00
	QFA 2: Maintenance of XRAY Machine -Customs Immigration	0.06	0.00
	QFA 3: SRC Customs Building	0.37	0.00
	QFA 4: MET Land Lease	1.24	0.00
	QFA 5: SEYPEC Land Lease	0.32	0.00
	QFA 6: Inadmissible passenger (INAD) facility at new domestic terminal	0.10	0.00
	QFA 7: Electricity at Met office	1.07	0.00
	QFA 8: Electricity as Customs	0.43	0.00

[36] PUC does not receive direct compensation for this QFA, however the Corporation received mSCR60 budget subsidy in 2019 from the Government for infrastructure development for utility service provision.

Seychelles Petroleum Company Ltd Group	Selling petroleum products on other islands at the same price as on Mahe	58.89	0.00
Seychelles Ports Authority	Derogation for the usage of Ramp on Praslin	0.45	0.00
	Rental Relief	0.03	0.00
Seychelles Trading Company Ltd	Charging prices below market level including Transportation Cost absorbed by STC on delivery of Category I products to Inner Islands	35.66	0.00
Total		**384.05**	**5.72**

Appendix 9. Macroeconomic assumptions

Indicator	Source	2019
Yearly average exchange rate USD	CBS	14.0335
Yearly average exchange rate EUR	CBS	15.7539