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Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 25-Nov-2024 | Report No: PIDDC00844

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Seychelles, Seychelles	P505856	Renewable Energy Acceleration Project	
Region	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
EASTERN AND SOUTHERN AFRICA	03-Mar-2025	29-May-2025	Energy & Extractives
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing (IPF)	Ministry of Finance, National Planning and Trade	Ministry of Agriculture, Climate Change, and Environment , Public Utilities Corporation	

Proposed Development Objective(s)

The PDO is to enable renewable energy integration and strengthen infrastructure and capacity to mobilize private investment in renewable energy assets.

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	Yes

SUMMARY

Total Operation Cost	**22.50**
Total Financing	**22.50**
of which IBRD/IDA	**10.00**
Financing Gap	**0.00**

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	10.00

Non-World Bank Group Financing	
Trust Funds	12.50
Green Climate Fund	12.50

Environmental and Social Risk Classification	Concept Review Decision
Substantial	

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Seychelles is an archipelago of 115 islands with a total population of 121,355[1].** Nearly 90 percent of the population lives on three islands—Mahé, Praslin, and La Digue. Mahé, which is home to the capital city of Victoria and accounts for 30 percent of the country's population. Seychelles is categorized as a Small Island Developing State (SIDS) due to its remoteness, small land area (455 sq.km), and lack of resources.

2. **Seychelles has become a development success story.** The country achieved high-income status in 2015, driven by tourism, which contributes 46 percent to GDP and 42 percent to exports. In 2023, GDP per capita was US$17,879[2]. Despite low poverty rates (5.9 percent below the US$6.85/day threshold, 2017 PPP), 25.3 percent are poor by national standards. The Human Development Index is 0.802, ranking 67th globally. The Gini coefficient improved from 46.8 in 2013 to 32.1 in 2018[3], indicating reduced inequality. However, gender disparities persist in education, parliamentary representation, and management roles.

3. **Despite being Africa's only high-income country, Seychelles faces intensifying vulnerabilities due to its remoteness, limited economic diversification, climate shocks, and external headwinds.** The COVID-19 pandemic and the 2023 natural disaster caused significant economic disruptions. The country also contends with high living costs and climate change impacts like flooding, droughts, and rising sea levels.

4. **With the current set of vulnerabilities passing, Seychelles is expected to recover and develop further.** Tourism rebounding to 91 percent of pre-pandemic levels, reducing the current account deficit from 15.3 percent in 2020 to 7.2 percent in 2023. The government recently published the Seychelles National Development Strategy 2024-28, focusing on six priority areas: modern public service, transformative economic agenda, a healthy nation, promotion of law and order, a modern education system aligned with future needs, and environmental sustainability and climate change resilience.

[1] Seychelles National Bureau of Statistics
[2] The World Bank, World Development Indicators
[3] The World Bank, World Development Indicators

Sectoral and Institutional Context

5. **Seychelles' energy sector is primarily driven by the public sector.** The Ministry of Agriculture, Climate Change, and Environment (MACCE) formulates policies for affordable energy, energy efficiency, and renewable energy (RE) access. The Utilities Regulatory Commission (URC), established by the URC Act 2023, oversees electricity, water, and sewerage sectors, regulates tariffs, issues licenses, protects consumer rights, promotes RE, ensures fair competition, and resolves disputes. The Public Utilities Corporation (PUC) provides electricity, water, and sewage services, operating all utility-scale power stations, and manages transmission and distribution networks.

6. **Seychelles' energy sector, heavily reliant on fossil fuel imports, faces high and volatile costs. The installed capacity is just over 125 MW, concentrated in three diesel power stations: Roche Caiman (77.5 MW), New Port (28.8 MW), and Baie Ste Anne (15.4 MW).** In 2023, electricity generation was 476 GWh, with only 3.6 percent from RE. Per capita consumption was c. 3,600 kWh/year, with peak demands of 63.4 MW on Mahé and 10.0 MW on Praslin. End-user tariffs are among Africa's highest, averaging US$0.28 per kWh, driven by thermal generation costs. Residential tariffs (US$0.19 per kWh) are cross-subsidized through commercial and government charges (US$0.38 and US$0.41 per kWh). The PUC remains profitable, having booked a positive net profit for the past 5 years, only with the exception of 2020, due to the impact of COVID. In 2023, oil imports were US$279 million, 20 percent of total imports, with electricity generation accounting for a quarter. This fossil fuel dependency impacts economic stability and competitiveness whilst contributing to global emissions.

7. **Decarbonizing the electricity sector is vital for Seychelles' development in three key ways.** Firstly, it can lower the import bill and mitigate external vulnerabilities. Secondly, it can significantly cut emissions, contributing to Seychelles' net-zero target. Thirdly, it supports green infrastructure growth and generates sustainable jobs. The government, recognizing these benefits, is committed to increasing RE capacity through the National Energy Policy (Seychelles Energy Policy 2010-2030), aiming for an interim target of 15 percent RE in the mix by 2030.

8. **Seychelles faces several challenges in transitioning to RE.** The small land area limits large-scale installations, affecting economies of scale, and variable weather patterns impact solar and wind energy generation. Significant upfront investments for RE projects are also a major obstacle. The reliance on imported fossil fuels creates competition for RE, as traditional electricity costs may be lower short-term. The intermittency of RE resources poses grid stability challenges, requiring grid upgrades.

9. **Limited private sector participation exacerbates these challenges.** While private involvement in distributed solar power generation is growing through initiatives like the Small-Scale Distributed Generation scheme and the Seychelles Energy Efficiency and Renewable Energy Program, achieving the 2030 goal of 15 percent RE will need substantial private investment. An estimated US$50-60 million is required for generation assets, plus US$35 million for grid upgrades. The PUC is unlikely to secure this funding from the government or capital markets without harming its credit standing, highlighting the need for private investment. Financing the RE target with public funds would increase Seychelles' Debt/GDP ratio from 58 percent to 61 percent. The country's credit rating remains below investment grade (BB- Positive Outlook as of September 2024). Private sector challenges include high upfront investments, limited financing, small market size, regulatory uncertainties, land availability, and technical issues.

10. **To address technical challenges as well as challenges in attracting private sector capital, the government has implemented multiple measures.** The Seychelles government has taken several initiatives focused on RE and reducing reliance on fossil fuels:

- Seychelles Energy Transition Strategy 2030: The government plans to invest in solar, wind, and waste-to-energy projects to meet its goal of 15 percent RE in the energy mix by 2030.

- Waste-to-Energy Initiative: Investments are being channeled into converting municipal waste into energy, reducing waste and contributing to energy generation.
- Energy Efficiency Investments: The government is encouraging energy efficiency upgrades through both public and private investments, including modernizing power grids and implementing smart meters.

These projects are key to diversifying the energy mix and improving the sustainability of Seychelles' energy infrastructure.

11. **On the legal and regulatory side, the government is improving its regulatory framework to boost investor and private sector confidence, creating a more attractive environment for RE projects.** Supported by technical assistance from the World Bank-financed Seychelles Renewable Energy Transition Project (P180425 Seychelles Renewable Energy Transition), the government has recently reviewed existing key policies, including updates to the Energy Bill, and endorsed a new bill, the Utility Regulatory Commission (URC) Bill, creating an independent regulator URC. Similarly, the government has also created new regulations targeting Independent Power Producers (IPPs), distributed renewable energy (DRE), and tariffs.

Relationship to CPF

12. **The project is well-aligned with the new Country Partnership Framework 2024-29 (P500388)**. The proposed project would support the following objectives of the Country Partnership Framework (CPF): Objective 3: Improved Social and Environmental Resilience. As per the CPF, the strategy to achieve this objective emphasizes the importance of transitioning towards RE to reduce the archipelago's fossil fuel dependency, aligning with global climate action efforts and enhancing energy security. By supporting electricity generation from RE and improving climate resilience by diversifying the energy mix, this project contributes to the CPF. Objective 5: Build Climate Resilience and Circularity in Key Sectors. As per the CPF, achieving a 15 percent RE target by 2030 and 100 percent beyond will require a fundamental shift in the status quo, including ensuring regulations are consistent with energy sector goals and the National Determined Contributions (NDC) Update.

C. Proposed Development Objective(s)

13. The project development objective (PDO) is to facilitate renewable energy integration and create markets to promote the private sector.

Key Results (From PCN)

14. Proposed Project Development Results Indicators are:
    - KM of reinforced grids enabling further Variable Renewable Energy (VRE) integration
    - Volume of renewable energy enabled
    - Private capital enabled

D. Concept Description

15. **The proposed project for Seychelles aims to facilitate the country's transition to RE and reduce its dependence on fossil fuels.** This transition requires significant investments in generation, transmission, and distribution, with private sector participation still in its early stages. The project focuses on financing climate-resilient investments in grid stability to increase access and integrate variable renewable energy (VRE) sources.

Key risks addressed by the project include:

1. **Financing Risks:** The project aims to leverage resources and expertise from the World Bank Group (WBG), including IFC and MIGA, to create a conducive investment environment for RE.
2. **Technical Risks:** Integrating VRE in Seychelles involves modernizing grid infrastructure and managing high capital costs for storage technologies. The project will finance grid upgrades and stability investments to

minimize these technical risks. The project will finance investments from the list of transmission investments that the government has prepared that would help the country achieve the 15 percent renewable energy target.

3. **Capacity Building:** The project will provide technical assistance and transaction advisory to support Seychelles' renewable energy tender program, promote private sector participation, and offer training on planning and integrating new technologies like Battery Energy Storage Systems (BESS) and VRE.

16. By targeting these risks, the project aims to increase access to renewable resources, and support Seychelles in meeting its RE goals.

17. **Component 1: Strengthening of Distribution and Transmission Network (GCF: US$8 million), implemented by PUC.** This component will finance grid modernization, upgrading of the distribution and transmission network, as well as the installation of new substations on the three islands: Mahé, Praslin, and La Digue. The infrastructure construction will follow technical standards that account for climate hazards in Seychelles, ensuring that the new investment will be climate change resilient.

18. **Component 2: Technical Assistance (TA) (GCF: US$4.5 million), implemented by PUC and MACCE.** The proposed activities include the following:

A. Sub-Component 2.1 (US$3.5 million), to be implemented by PUC:

Preparation of transactions (e.g., pre-feasibility and feasibility studies including a climate risk assessment, ESIA, etc.): Transaction advisory support (legal, technical, financial/commercial) to assist Seychelles in developing a bankable RE program to attract private investors, including developing the right risk mitigation instruments needed; Capacity building for training on state-of-the-art planning tools that will allow the company to better plan for new and disruptive technologies such as battery storage; Any other sector TA activities as identified during implementation, including for an enhanced representation of women in the sector.

B. Sub-Component 2.2 (US$ 1 million), to be implemented by MACCE:

Sector studies as well as embedded advisors looking at creating a more conducive enabling environment for private sector participation, which leads to regulatory changes and capacity building for training on state-of-the-art implementation tools of policies and regulations that support the transition to renewable energy.

Legal Operational Policies

Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

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APPROVAL

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