

**AFRICAN DEVELOPMENT BANK**



**SEYCHELLES**

**COUNTRY STRATEGY PAPER  
2011-2015**

**REGIONAL DEPARTMENT EAST A**

**MARCH 2011**

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## **CURRENCY EQUIVALENTS**

Currency                      15 March 2011

UA 1.00            =            USD 1.57

UA 1.00            =            SCR 18.71

1USD                =            SCR 11.89

## **WEIGHTS AND MEASURES**

Metric System

## **GOVERNMENT FISCAL YEAR**

January 1- December 31

## ACRONYMNS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
AIDS	Acquired Immunity Deficiency Syndrome
ARVs	Antiretroviral drugs
AWF	African Water Facility
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Report
CSO	Civil Society Organisation
CSP	Country Strategy Paper
DBS	Development Bank of Seychelles
DPs	Development Partners
EEZ	Exclusive Economic Zone
EFF	Extended Fund Facility
EGRP	Economic Governance Reform Programme
EMPS	Environmental Management Plan of Seychelles
EPA	Economic Partnership Agreement
ESW	Economic and Sector Work
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
GCI	General Capital Increase
GDP	Gross Domestic Product
GNI	Gross National Income
GOS	Government of Seychelles
HDI	Human Development Index
HFC	Housing Finance Company
HIV	Human Immuno-deficiency Virus
IBCs	International Business Companies
ICT	Information and Communication Technology
IMF	International Monetary Fund
IOC	Indian Ocean Commission
ISN	Interim Strategy Note
LUNGOS	Liaison Unit of the Non-Governmental Organizations
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MEFP	Memorandum of Economic and Financial Policies
MIC(s)	Middle Income Country (Countries)
MTS	Medium Term Strategy
NDS	National Development Strategy
NEPAD	New Partnership for Africa's Development
NGOs	Non-Governmental Organisations
NTF	Nigeria Trust Fund
OECD	Organisation for Economic Cooperation and Development

PBPCG	Policy Based Partial Credit Guarantee
PEFA	Public Expenditure and Financial Accountability
PIDA	Programme for Infrastructure Development in Africa
PFM	Public Finance Management
PP	People's Party
PPP	Public-Private Partnership
RISP(s)	Regional Integration Strategy Paper(s)
RMF	Results Measurement Framework
RSF	<i>Reporteurs Sans Frontières</i>
SADC	Southern Africa Development Community
SBA	Standby Arrangement
SCCI	Seychelles Chamber of Commerce and Industry
SCR	Seychelles Rupee
SEAS	Seychelles East Africa Submarine cable
SIB	Seychelles Investment Bureau
SIDS	Small Island Development State
SMEs	Small and Medium Enterprises
SNP	Seychelles National Party
SPA	Seychelles Ports Authority
SPPF	Seychelles People's Progressive Front
SSA	Sub Saharan Africa
TSA	Treasury Single Account
UA	Unit of Account
UN	United Nations
UNCBD	United Nations Convention on Biological Diversity
UNDP	United Nations Development Programme
USD	United States Dollar
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organisation

## **I. INTRODUCTION**

1.1 The Bank Group's Strategy for Seychelles, covering the period 2009-2010, was articulated in an Interim Strategy Note approved by the Board in April 2009. The strategy was designed to guide the Bank Group's re-engagement with Seychelles after a long period of absence<sup>1</sup> and to support the Government's comprehensive reform program launched in October 2008. During this period the Bank Group adopted a cautious approach with its lending program limited to the provision of much-needed budget support and assistance for debt restructuring. In addition, several grants were offered to provide technical assistance to help underpin, over the medium and longer term, more substantial engagement. All this has led to a remarkable turnaround of the country's macroeconomic performance, so much so that the Bank is now ready for more substantial lending interventions, which will be guided by a Country Strategy Paper. The CSP for 2011-2015 seeks to guide the Bank Group's response to Seychelles' emerging development priorities, as the authorities embark on what is commonly termed the second generation of reforms.

1.2 The strategy paper assesses the country's development prospects and challenges, as well as the Government's strategic options. It also focuses on the role the Bank Group can play in providing strategic assistance to Seychelles, consistent with areas where the Bank has comparative advantage. It is hoped this will help the country achieve its medium-to-long term development goals. The preparation process for CSP involved detailed discussions and consultations with the Government and other major stakeholders, including Development Partners (DPs), private sector organizations and civil society institutions. The issues discussed included: (i) the country context and prospects; (ii) the indicative project pipeline and its consistency with the proposed pillars, as well as with Government priorities; (iii) other DP intervention areas during the period covered by the CSP; and (iv) formulation of the CSP Results Measurement Framework (RMF).

## **II. COUNTRY CONTEXT AND PROSPECTS**

### **2.1 Political, Economic and Social Context**

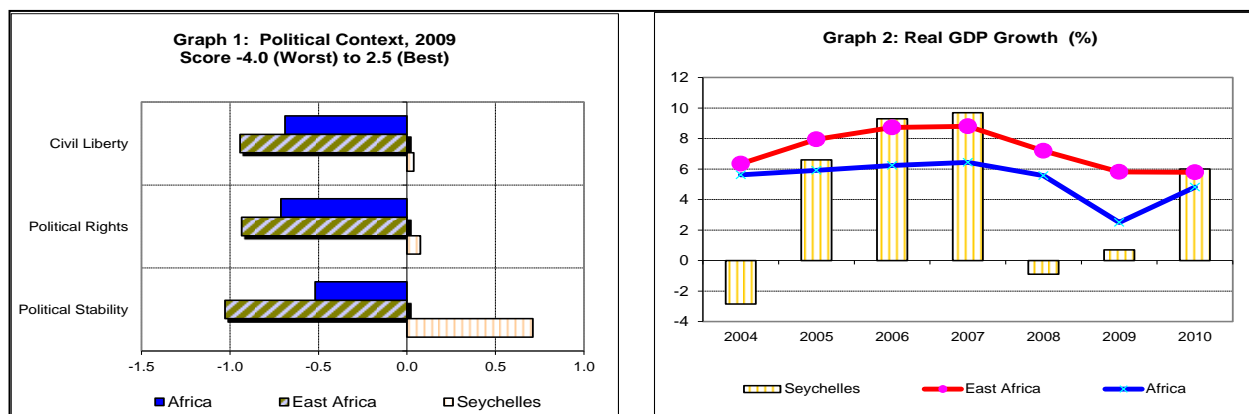
#### **Political Context**

2.1.1 The country's political focus is now on presidential elections due in May 2011 and Parliamentary elections set for mid-2012. During the last presidential elections, held in July 2006, President James Michel, representing the Seychelles People's Progressive Front, or SPPF (later renamed the People's Party), emerged victorious with 54 percent of the votes, while the opposition candidate of the Seychelles National Party (SNP) got 46 percent. Legislative elections followed in May 2007, with broadly similar results. President Michel will be seeking a second term in the upcoming elections, which is of critical significance, as this will be the first election since the global financial meltdown and the subsequent sweeping economic reforms of 2008-10. Another important development in the political front is that the reform process has apparently narrowed the differences between the two main parties. In essence, the ruling party has abandoned its earlier quasi-socialist stance and embraced economic liberalization, which had been the opposition's policy in past elections. Given this scenario and Seychelles' dependence on external support, no significant policy shifts are expected whatever the outcome of the poll. In fact, the socio-economic reform process is likely to turn Seychelles into a more transparent and less partisan society. However, some key challenges remain, notably those of building a more

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<sup>1</sup> Seychelles was under sanctions due to its arrears with the Bank Group from 2002-2006.

independent judiciary and improving press freedom. It should, nonetheless, be highlighted that in comparison to other countries in Africa, Seychelles performs very well in terms of political stability (see Graph 1). Although its record on political rights and civil liberties is better than the African average, scope for improvement remains.



Source: ADB Statistics Department, Data from WEF, 2009

ADB Statistics Department, African Economic Outlook, March 2011

## **Economic Context**

2.1.2 Seychelles' economy has in the past two years undergone a major transformation. Before 2009, recurrent expansionary fiscal and monetary policies, coupled with mismatched trade and exchange rate policies, produced serious macroeconomic imbalances. Indeed, the economy became so fragile that, at the end of 2008, it defaulted on its foreign debt repayment. Thanks to a comprehensive reform program that the Government put in place, and assisted by the support from major DPs (including the Bank Group, the Bretton Woods Institutions and the European Union), the economy has recorded a significant turnaround. Over this period, the country has improved its creditworthiness and demonstrated a good track record on reforms.

## **Growth and Growth Drivers**

2.1.3 Economic Growth: The country's real GDP growth rose from -1.3 percent in 2008 to 0.7 percent in 2009, which in spite of still being low, contrasted significantly with the 7.6 percent contraction expected at the onset of the reform program (Graph 2). This growth was fuelled by a rebound in tourist arrivals in the second half of 2009.

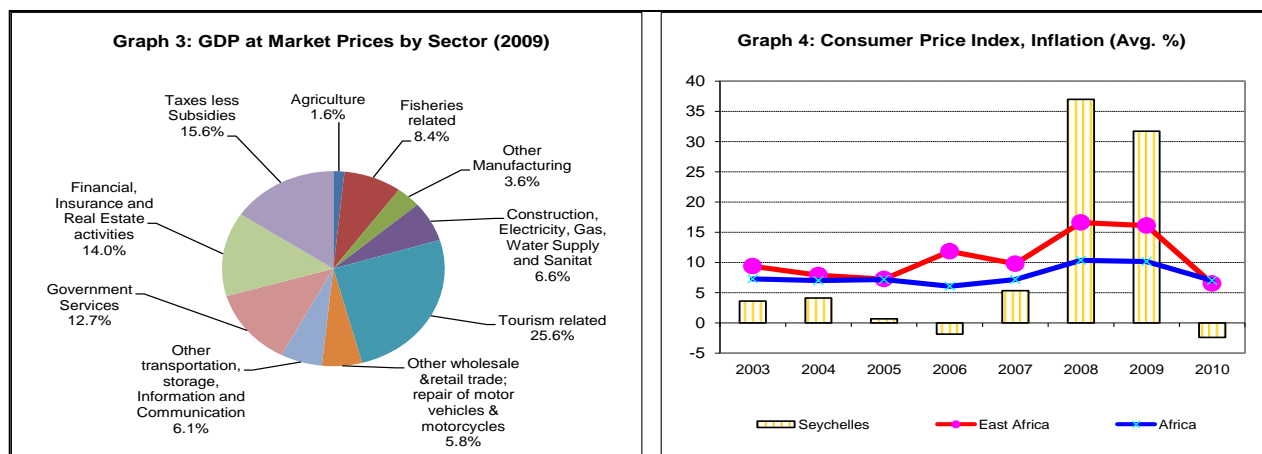
2.1.4 By end-2009, tourist arrivals were down by only about 1 percent compared to numbers in the previous two years, and then grew by a record 10 percent in 2010<sup>2</sup>. Compared to 2009, tourists from Europe (which account for about 75 percent) increased by 8 percent in 2010; African and Asian tourist arrivals grew even faster-- at 58 percent and 24 percent respectively. This happened because of a combination of factors including a rebound in the global economy, a weaker Seychelles Rupee (SCR) and price discounting by tour operators. In addition to tourism, the other major growth driver has been Foreign Direct Investment (FDI). The latter increased due mainly to the completion of several high-end hotels, largely financed by foreign investors, and the construction of a residential project in Ile Perseverance.

2.1.5 Real GDP growth is estimated at 6 percent in 2010 and the medium-term outlook is favorable, with growth projected to be about 5 percent over 2011-13. This is due mainly to the spike in tourism caused by the Government's efforts to promote the country as an enchanting destination, expansion in communications and construction activities. The fishing sector

<sup>2</sup> As a comparison, Mauritian tourism grew by 7% in 2010.

continues to be adversely impacted by a drop in fish stocks and the threat from piracy in the Indian Ocean. FDI inflows are expected to slow down due to the completion of the large construction projects.

**2.1.6 Economic Structure:** The overall size of the economy is small, with nominal GDP estimated to be about \$790 million in 2009. In terms of structure (Graph 3), the economy remains predominantly service-based with tourism and fishing and fish processing being the two main contributors to GDP. As a result, the country remains highly dependent on international trade and services. Tourism is estimated to account for 26 percent of GDP, providing about 30 percent of employment and 70 percent of foreign exchange earnings. Seychelles enjoys an Exclusive Economic Zone (EEZ) of almost 1.4 million square kilometres in one of the world’s major tuna fishing grounds. Direct and indirect tuna fishing and processing account for about 8 percent of GDP, 7 percent of jobs and 35 percent of exports. A challenge going forward is to enhance the backward linkages in the local economy from fisheries, which will ensure optimum exploitation of the potential value from this sector.



Source: Seychelles National Bureau of Statistics

ADB Statistics Department, African Economic Outlook, March 2011

**2.1.7** Given its limited land size of just 455.3 sq kilometre and options for diversification, Seychelles relies heavily on imports for oil, food, almost all raw materials, and specialized services. The country is thus highly vulnerable to global economic and/or terms-of-trade shocks. Agricultural production is constrained by the limited availability of arable land, which is estimated to be only about 600 hectares. As a result, the country is a net food importer and the Government is working to put in place a food security policy in order to cope with exigencies. It is worth noting that offshore oil exploration is being actively pursued in the EEZ aimed at diversifying the economy.

**Macroeconomic Management**

**2.1.8** The reform program undertaken by the Government at the end of 2008 was in stark contrast to the earlier state-led development strategy that focused on an economic model of self-sufficiency and direct intervention in manufacturing, distribution, trade and other economic activities through parastatals. The program that was initially supported by a two-year Standby Arrangement (SBA) has been successfully implemented, showing the Government’s commitment in confronting the twin crisis -- global recession and the country’s large external debt. As a result, the IMF approved an Extended Fund Facility (EFF) in December 2009 to replace the SBA. Under the EFF, Seychelles has made a good start on its second generation of



reforms (see Box 1). According to the IMF's third program review under the EFF (March 2011), Seychelles was in full compliance with its end-December 2010 quantitative benchmarks and good progress has been made in its structural reforms. Moreover, key reforms remain on track, including the overhaul of the tax system, improvement in the public financial management (PFM) systems, modernization of monetary operations, strengthening of financial sector supervision and macroeconomic indicators.

**Box 1: Second Generation of Reforms**

The current economic reform program continues to be guided by the Memorandum of Economic and Financial Policies (MEFP) agreed with the IMF under the EFF. As articulated in the MEFP, the Government has embarked on a second generation of reforms. The objectives are to consolidate macroeconomic stability, complete debt restructuring and achieve external sustainability, improve economic efficiency and raise growth through the implementation of numerous structural reforms. These include:

- Continued implementation of public administration and PFM reforms;
- Completing the tax reforms, including the implementation of VAT in 2012;
- Achieving greater efficiency, oversight and accountability of public enterprises;
- Initiating a reform of the social security system; and
- Improving the business environment (i.e., liberalising the licensing regime, investment process & work permit procedures)

High-level commitment to this economic reform program has been reiterated on a number of occasions, including in the President's National Day speech (June 2010), the 2011 Budget presentation of the Minister of Finance (December 2010), and the President's State of the Nation address (February 2011).

**2.1.9 Monetary Policy:** Price stability has been the main objective of monetary policy and, in 2009 and 2010, the outcome has been remarkable. The annual average inflation rate that had shot up to 37 percent in 2008 following the foreign exchange liberalization in November 2008, was brought down to single digit by the end of Q1 2010. Inflationary pressures remain well-contained, with the annual average inflation rate for 2010 falling to -2.4 percent. The easing of inflationary pressures has mainly resulted from increased competition in the trade sector, which has allowed the country to counter the threats of rising international food prices. However, inflation is projected to increase to 4.2 percent in 2011, before falling to 2.9 percent in 2012 (Graph 4).

**2.1.10** The Central Bank of Seychelles (CBS) has also strengthened its supervision of the non-commercial financial institutions such as the Development Bank of Seychelles (DBS) and the Housing Finance Company (HFC). However, in recent months, a challenge has emerged pertaining to the liquidity management and the transmission of monetary policy signals. To address this shortcoming, CBS is coordinating with the Ministry of Finance on the issuance of Treasury bills. **Exchange rate management:** The SCR has stabilized since the large swings in late 2008. After being floated in late 2008, the SCR slumped to SCR 16.8/US\$1, before rebounding to a peak of SCR10.3/US\$1 in October 2009, and slipping gradually since then to about SCR12/US\$1 in February 2011. The CBS maintains its intervention policy in the foreign exchange market in order to tackle excessive volatility and ensure orderly market conditions.

**2.1.11 External Sector:** In 2010, the current account deficit is estimated to have increased to 33.2 percent of GDP from 30 percent in 2009, due mainly to a surge in imports. It was caused by improved economic activities (notably construction) that were mainly being financed by foreign investors. The deficit is projected to drop to 24.5 percent and 22.2 percent in 2011 and 2012 respectively on account of robust export growth. With regard to foreign exchange reserves, the

amount stood at \$211 million in mid-November 2010. This was equivalent to around 2.3 months of imports, compared to \$169 million or 1.6 months of imports a year earlier<sup>3</sup>.

2.1.12 **Fiscal Policy:** The Government has been pursuing a policy stance that is in line with the targeted public debt reduction strategy, leading to achievement of fiscal surpluses since 2009 (Graph 5). The primary surplus in 2010 is estimated to have reached 9.4 percent of GDP, reflecting positive developments in tax reforms, revenue and expenditure (Box 2).

**Box 2: Development in Tax Reforms and Fiscal Policy**

The stronger-than-expected growth in 2010 enhanced business tax revenue, while the SCR's depreciation against the US dollar boosted trade and sales taxes on imports. Tax reforms also progressed well: revised business tax legislation was enacted in January 2010, reducing rates and broadening the tax base. The sales tax base was expanded, cascading effects were reduced and concessional rates are being phased out. A withholding-based personal income tax was introduced in July 2010 to replace the social security contributions previously levied on employers and employees. The final cornerstone in the tax reforms will be the introduction of VAT from July 2012. In addition, the accelerated repayment to Government of public entity loans and the partial release of the capital expenditure contingency, agreed at the start of the EFF, have provided additional fiscal space. On the expenditure side, delays in implementing the new wage grid and scheme of service for health and education professionals, and stricter controls on spending such as social programs, have led to significant savings. A Treasury Single Account (TSA) was introduced in late 2009 and represents a major step forward in Government's capacity to both monitor and control public expenditure and manage cash balances. Domestic interest payments were, however, larger than anticipated due to the unforeseen upfront cost of converting 20-year government bonds into treasury bills.

2.1.13 **External Debt:** One of the most remarkable developments in the country's reform agenda has been the substantial progress made in debt restructuring<sup>4</sup> (see Box 3). As of January 2011, the authorities had reached agreements with external creditors covering around 91 percent of the debt eligible for restructuring. Given these agreements, the external debt stock declined from \$734m (92 percent of GDP) in 2009 to \$461m (49 percent of GDP) at end-2010 (Graph 6). In light of these developments, Fitch upgraded Seychelles ratings to "B" with stable outlook in early February 2011.

**Box 3: Progress made in Debt Restructuring**

The debt restructuring agreement reached with the *Paris Club* creditors in April 2009 saw Seychelles benefit from a provisional 45% debt write-off (worth about \$65m). Half of this was cancelled immediately and the rest, which was linked to a successful first EFF review, was cancelled in July 2010. The remainder of the Paris Club debt has been rescheduled over 18 years with a 5-year grace period. With regard to *commercial debt*, the country's debt exchange offer closed successfully in February 2010 (**supported by the Bank Group in the form of a \$10m partial credit guarantee**) with a 50% debt cancellation through the restructuring of claims with a face value of \$320m, including the \$230m Eurobond, the €55m Amortizing Notes and commercial bank loans held by three banks. Since then, discussions with *non-Paris Club bilateral and commercial creditors* have also progressed. All bilateral creditors and one commercial creditor have either signed agreements or otherwise indicated their willingness to accept terms at concessional as those of the Paris Club. All these efforts confirm the continued strong commitment of the Government towards a sustainable debt path, and ensuring sustainable growth in the medium term.

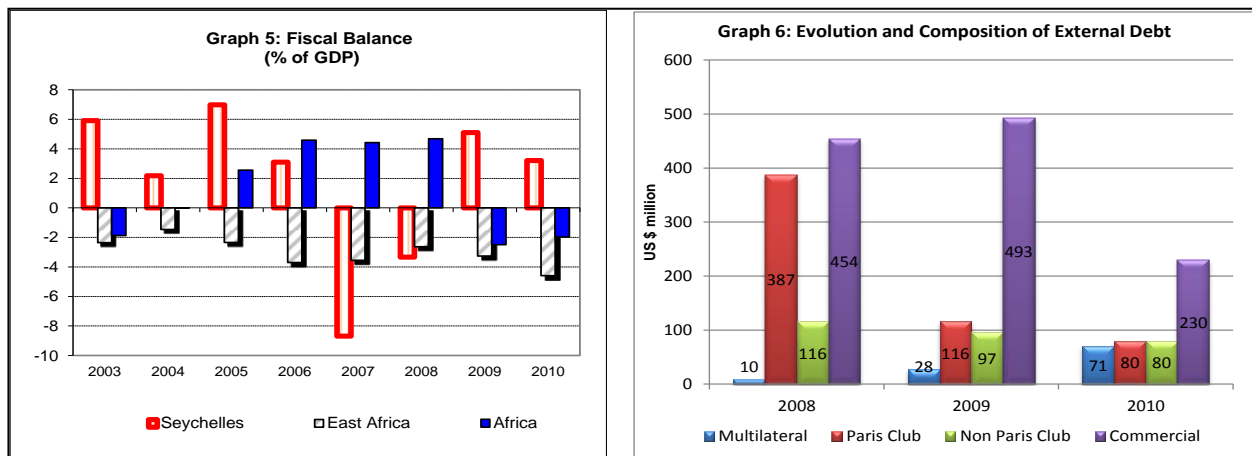
**Governance**

2.1.14 Seychelles is a good performer in terms of overall governance. The World Bank's Worldwide Governance Indicators show that in most dimensions of governance (political stability, government effectiveness, rule of law and control of corruption), Seychelles is above the 50 percentile rank amongst the 212 countries surveyed in 2009. Furthermore, the 2010 Mo Ibrahim Index of African Governance<sup>5</sup> shows that between 2008 and 2009, Seychelles improved its overall score from 77.0 to 78.5 (out of 100). Its ranking remained unchanged at second place (after Mauritius) out of the 48 Sub-Saharan African countries.

<sup>3</sup> They are projected to reach 2.7 months of imports in 2011, and the projected target of 3 months of imports by 2012.

<sup>4</sup> The Seychelles' debt crisis that culminated in its default on foreign debt in October 2008 was described in detail in the Interim Strategy Note approved by the Board on 15 April 2009.

<sup>5</sup> The Ibrahim Index assesses the delivery of public goods and services to citizens by government and non-state actors. It uses indicators across four main categories as proxies for the quality of the processes and outcomes of governance. These categories are: (i) safety and rule of law; (ii) participation and human rights; (iii) sustainable economic opportunity and (iv) human development.



Source: ADB Statistics Department, AEO, March 2011

Ministry of Finance (data for 2010 reflects the status as at January 2011)

**2.1.15 Control of Corruption:** For the third consecutive year, the country's score, according to the Corruption Perceptions Index (CPI) of Transparency International, remained unchanged at 4.8<sup>6</sup> in 2010. In terms of ranking, Seychelles improved in 2010, moving up to 49<sup>th</sup> place (out of 178 countries) from 54<sup>th</sup> in 2009. Seychelles also retained fourth position in Sub-Saharan Africa, behind Botswana, Mauritius and Cape Verde. While the CPI by definition assesses perceived rather than actual corruption, it indicates that the survey respondents believe that the level of corruption has not increased over the last few years.

**2.1.16 Public Financial Management (PFM):** The 2008 Public Expenditure and Financial Accountability Assessment (PEFA)<sup>7</sup> concluded that a fairly sound fiduciary environment prevailed in the country. However, at the time of assessment, the first generation of reforms had not been fully implemented and indeed under the Bank's first budget support operation (Economic Governance and Reform Program – EGRP)<sup>8</sup>, strengthening PFM was one of the focus areas. The Bank's on-going post-evaluation of the EGRP indicates that notable progress has been made since 2008 in the implementation of PFM reforms. It has been possible because of the enactment of a new Public Procurement Act<sup>9</sup> in 2008, the creation of a TSA in late 2009 and the enactment of the Audit (Amendment) Act<sup>10</sup> in mid-2010. In spite of the commendable progress in PFM reforms, challenges remain, notably in terms of internal and external control of public finances.

**2.1.17 Seychelles' CPIA ratings** have been low but rising since 2007 (Annex VII). While the country has performed very well in some aspects, notably in social inclusion and equity, its scores in the area of economic management and structural policies have not improved much, and its scores on financial sector and business regulatory environment remain below average. This reflects the challenges articulated in Section 2.2.2 and forms the basis of the areas identified for dialogue and Economic Sector Work (see Sections 3.3 and 3.6).

### **Business Environment and Competitiveness**

**2.1.18** As part of the first generation of reforms, the Government also focused on improving the business climate and supporting private sector-led growth. In this context, a number of

<sup>6</sup> 0 represents maximum corruption and 10 represents minimum corruption.

<sup>7</sup> A new PEFA assessment is currently being carried out and the Report is expected by April 2011.

<sup>8</sup> Ref: ADB/BD/WP/2009/117, approved on July 22, 2009.

<sup>9</sup> The Act is modelled according to COMESA's 2002 Public Procurement Framework Directive and standardizes procurement procedures within the public administration by harmonizing regulations and procedures.

<sup>10</sup> The amended act provides more operational independence to the Office of the Auditor General.

legislative, regulatory and institutional reforms had been implemented, which were also supported by the Bank through the EGRP. These include the enactment of two crucial Acts in 2010: (i) the Licensing Amendment Act (and the amendments therein aimed at simplifying licensing procedures that were unchanged since 1986); and (ii) the Investment Act, giving the Seychelles Investment Bureau (SIB) better leverage to attract foreign investors and promote Public-Private Partnerships (PPPs).

**Table 1: Ease of Doing Business in 2009 and 2010  
(rank among African countries)**

Item	2009 Rank	2010 Rank	Status - Improvement (▼)
Ease of Doing Business	12	10	▼
Starting a business	10	16	▲
Dealing with licenses	6	7	▲
Registering property	5	5	▶
Getting credit	42	42	▶
Protecting investors	11	11	▶
Paying taxes	5	6	▲
Trading across borders	12	4	▼
Enforcing contracts	10	10	▶
Closing a business	50	50	▶

2.1.19 Although it improved to 10<sup>th</sup> place in Sub-Sahara Africa, according to the 2011 Doing Business Report, Seychelles slipped to an overall rank of 95 out of 183 countries in the ease of doing business index. Its ranking was 92 in 2009. Indeed, Seychelles might have improved the efficiency of paying taxes, but the reform program has so far mostly targeted the macro economy and escaped the specific doing business indicators. As shown in Table 1, the lowest rankings include

Source: ADB Statistics Department using data from Doing Business, WB, 2011

getting credit and closing a business, which respectively reflect a small, fairly uncompetitive financial sector and the existence of bureaucratic red tape. As Seychelles embarks on the second generation of reforms, it will need to focus more strongly on creating a business-friendly environment. In this context, policy measures will need to be implemented and they must primarily address infrastructural bottlenecks (e.g., ICT, energy, water and sanitation) and access to credit.

### **Regional Integration and Trade**

2.1.20 Seychelles belongs to the Common Market of Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), and the Indian Ocean Commission (IOC) and is increasingly focused on building regional partnerships. It remains on track for the implementation of the COMESA common external tariff by 2013. As a preliminary step, the Government introduced (2010 budget) a common excise tax on petroleum, motor vehicles, alcohol and cigarettes that applies equally to imports and locally-produced items. The country is also negotiating to join the World Trade Organisation (WTO) and has initiated negotiations for an Economic Partnership Agreement (EPA) with the EU. However, Seychelles' geographical isolation (about 1,900 km from mainland Africa) remains a major constraint to enhanced regional integration, which in turn limits its scope for regional trade. For instance, its regional trade amounts to less than 1 percent of exports and less than 5 percent of imports. The EU is the main trade partner of Seychelles, accounting for about 77 percent of its total exports and 43 percent of its total imports<sup>11</sup>. While it is recognized that the country's physical isolation from major markets increases the cost of imports and exports and acts as a 'hidden tariff' on all its trade, it must be noted that other constraining factors also exist<sup>12</sup>.

<sup>11</sup> Other key trade partners for imports include Saudi Arabia (16%), South Africa and Singapore (7% each).

<sup>12</sup> Seychelles has a poor ranking (93rd, 2010) for 'trading across borders', which is substantially lower than neighbouring Mauritius, which is ranked at 19th.

2.1.21 Finally, the Government remains committed to a liberal foreign trade policy. The import tariff regime is already quite liberalized: more than 94 percent of all tariff lines are set at zero and all permit requirements for the export of goods have been abolished. The Customs clearance procedures have been modernized with the introduction of advanced software. In spite of these improvements, there remains an on-going need for reform, especially with regard to the legislation and regulatory framework<sup>13</sup>.

## **Social Context and the Environment**

### **Social Inclusion and Equity**

2.1.22 Over the past two decades, Seychelles has successfully promoted high living standards and social development. In Africa, the country has the second highest GDP per capita of \$10,290 (after Equatorial Guinea, an oil exporter), which makes it one of the six upper-middle-income countries; it also leads in human development. On the Human Development Index (HDI), it was ranked 57<sup>th</sup> in the UNDP's Human Development Report of 2009, a level comparable to many OECD countries.<sup>14</sup> Allocations to such social sectors as health and education constituted about 43 percent of the country's budget in 2010, or 5 percent of GDP. This reflects the considerable emphasis the Government puts on poverty and social welfare programs. In fact, human development has been an essential element of all policies and national development plans since independence in 1976. As a result, Seychelles has already met the target for most of the eight MDGs (Annex VI).

2.1.23 Seychelles does not have a national poverty line for measuring poverty. However, the latest household income and expenditure survey done in 2006-07 provides some data that can be used as a baseline measure for poverty level. According to the survey, the food poverty line (the most basic requirement for survival) is SCR 38.9 per capita per day. Applying this threshold to the household survey data, around 18 percent of households are estimated to be living below the food poverty line. However, the county boasts a low unemployment rate of about 4 percent. Currently, about 57 percent of the 1,900 active job seekers are women, with the majority younger than 30 years and with a junior to senior secondary level of education. The employment situation is further compounded by the problem of stigma attached to certain types of available jobs, which the job seekers consider menial.

2.1.24 Given the substantial and continuing reforms since the end of 2008 (which include stringent adjustment measures), coupled with continued global economic uncertainty and the change in Government approach from a universal to a targeted welfare system, there is concern that poverty, unemployment and vulnerability may have increased in recent times. In order to counter this, the Government established a Welfare Agency to support better targeting of expenditure to those most in need.<sup>15</sup> For this to be really effective, the Government (with technical assistance from the UNDP) is undertaking a survey in 2011 to establish the true level of poverty and vulnerability.

2.1.25 Gender: The Constitution promotes non-discrimination and guarantees equal rights and protection for both men and women. The country has also signed and ratified the principal conventions related to gender discrimination. As a result, the support for women empowerment, pursued by the Government over the years, has led to some remarkable outcomes. For example,

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<sup>13</sup> Since March 2010, the Customs Reform Strategy and Plan has been implemented, and in December 2010 the Customs Management Bill was tabled at the National Assembly.

<sup>14</sup> Seychelles was not included in the HDI ratings for 2010 because data were missing for one or more of the indicators.

<sup>15</sup> This includes single mothers, unemployable seniors, young males and those without parents.

gender parity in primary education has been achieved. Although girls currently outnumber boys in secondary and tertiary education, they still have lower representation in scientific fields. Seychelles is also amongst the top countries in the SADC region to have met targets for female representation at all decision-making levels, with 35 percent of women in parliament and 45 percent at chief executive or middle management levels. The Government is, however, concerned about the under-performance of boys in secondary and tertiary education and is aware that measures need to be put in place to reverse this inequality.<sup>16</sup> Concerns also exist over heightened drug and alcohol abuse amongst men, in particular, as well as depression and a generally lower health status among them, which cuts their life expectancy by 10 years compared to that of women. In addition, increased incidences of domestic violence (involving mostly women, but also some men, as victims) are a serious concern to the Government. In this context, a major step was taken in April 2010 with the adoption of a two-year national action plan on ending gender-based violence.

**2.1.26 Civil Society:** The Liaison Unit of Non-Governmental Organisations (LUNGOS), established in 1990 as the umbrella body of civil society groups, brings together about 60 registered NGOs.<sup>17</sup> It promotes the involvement of civil society in national policy formulation through interaction with the Government. In addition, there are other important non-state actors such as the Seychelles Chamber of Commerce and Industry (SCCI) and the Federation of Employers' Association of Seychelles. The Constitution also provides for freedom of speech and of the press. Although the Government continues to take steps to ensure that this provision is fulfilled<sup>18</sup>, it still maintains a virtual monopoly on both broadcast and print media. According to the global rankings by *Reporteurs Sans Frontières* (RSF), Seychelles' press freedom score was 18 in 2010<sup>19</sup>, with a ranking of 65 out of 173 countries.

## **Environment and Climate Change**

**2.1.27** The Government's efforts to conserve the environment are laudable and Seychelles is regarded as a pioneer in environmental protection and conservation. It is a signatory to the United Nations Convention on Biological Diversity (UNCBD), under which various types of protection areas exist. Consequently, the country has one of the highest percentages of protected areas in the world, with about 47 percent of total land area designated as environmentally fragile and under protection.<sup>20</sup> Through the Environmental Management Plan of Seychelles (EMPS), launched in 1990 and updated in 2000, the Government has made efforts to mainstream environmental management into all sectors. Environmental education has also been introduced at school levels and groups of young people are now regularly involved in environmental activities under the umbrella of the Wildlife Clubs of Seychelles, a local NGO.

**2.1.28** The country's 115 islands are, however, likely to be affected by global warming and the fallout associated with climate change (rising sea level and coral bleaching, extreme floods and droughts). In recognition of the magnitude of this problem, the Government established the National Disaster Committee that reports directly to the President's Office. Seychelles has also become more active in raising awareness of climate change and sea-level rise. The country

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<sup>16</sup> African Development Bank (2009), *Seychelles: Gender Socialization in the Home- Its Impact on Boys' Achievement in Primary and Secondary Schools*, ADB/BD/IF/2009/335; December 2009

<sup>17</sup> LUNGOS is run by an elected Board and promotes inter-NGO cooperation at the national level.

<sup>18</sup> Parliament approved the Seychelles Media Commission Bill in December 2010 and in March 2011 passed a new piece of legislation to create the Seychelles Broadcasting Cooperation.

<sup>19</sup> 0 represents maximum press freedom and 100 total controls.

<sup>20</sup> This includes internationally and nationally designated protection areas such as natural reserves, national parks, World Heritage Sites, and surrounding reefs and marine areas.

launched the Sea Level Rise Foundation in September 2007 with the main aim of increasing global awareness to sea-level rise in small island states and coastal nations.

2.1.29 In spite of the laudable record, there are still environmental challenges that need to be addressed. The majority of these stem from increased urbanization of the main granitic islands and include land-use conflicts, higher demand for energy and freshwater, treatment of waste water and threats from invasive species. To cope with this, the Government is preparing the third EMPS (2010-2020) to build on previous successes, as well as address the key outstanding challenges, including: (i) conserving coral reefs while at the same time reclaiming land to help ease development pressures; (ii) protecting and expanding the water catchment areas; (iii) maintaining the high levels of endemic biodiversity in the forested areas; (iv) bio-security (keeping disease and pests under control); and (v) making climate-proof investments (e.g., sturdier bridges and houses).

## 2.2 Strategic Options

### 2.2.1 Country Strategic Framework

2.2.1.1 In view of a global environment that has changed since early 2007, and in order to refashion its development agenda following the reform program launched in October 2008, the Government is preparing a medium-term National Development Strategy (NDS) to update and replace ‘Seychelles Strategy 2017’. Strategy 2017 was launched (March 2007) in recognition of the need for macroeconomic and structural reforms. The thrust of Strategy 2017 was to double GDP in 10 years, by stimulating private sector development and reducing the commercial activities of the State, expanding the fisheries and tourism sectors, and reducing public debt to 60% of GDP. The Government has indicated that the NDS will continue with this thrust and that there are unlikely to be any major changes in its orientation (see Box 4).

#### Box 4: Thrust of Seychelles Strategy 2017

**Sound Macroeconomic Management:** (i) Prudent monetary policy and strict fiscal discipline; (ii) reduce total external debt to 60% <from what?> of GDP by 2017; and (iii) Reduce the size of government and clarify the role of the civil service.

**Enhance Competitiveness and Governance:** (i) Promote tourism, fisheries, and off shore services; (ii) Revamp out-dated regulatory practices; (iii) Increase the domestic savings ratio; and (iv) Promote good governance.

**Improve Equity:** (i) Promote training in vocational, managerial and service skills; (ii) Ensure continued free health care to the needy; and (iii) Ensure social protection for the vulnerable.

**Improve Infrastructure, Land Management and Biodiversity:** (i) Improve utilities (electricity, potable water and ICT); (ii) Revise public transport policy to allow private participation; (iii) Promote home ownership financed by private capital; (iv) Allocate land in a fair and transparent basis; (v) Ensure national environmental legislation complies with international best practices; and (vi) Ensure national food security and supply for a growing tourism sector.

Source: Seychelles Strategy 2017

2.2.1.2 Accordingly, the NDS will provide a strategic framework over the medium term to guide the development agenda following the first generation of reforms (see Section 2.1). To this end, the NDS will reflect current development challenges more accurately and, thereby, propose relevant interventions going forward. The Government aims to finalize the NDS in 2012. In addition to the thrust of Strategy 2017, the Government has, in consultation with the Bank (see Box 5), indicated certain pending priorities for the NDS. These include: (i) rehabilitating and expanding both economic and social infrastructure; (ii) increasing human resource capacity; (iii) expanding the on-shore fisheries value chain; (iv) improving efficiencies and emphasizing quality in agriculture; (v) enhancing regional trade and transport links; and (vi) diversifying tourism. The overarching objective of these priorities is to further improve the climate for private sector development.

#### Box 5 : CSP Consultation

The preparation of the 2011-2015 CSP was participatory and involved meetings with various stakeholders during a mission in February 2011. There were extensive discussions with key Central Government Ministries and Agencies, representatives of civil society (LUNGOS) and the private sector (Seychelles Chamber of Commerce and Industry). With regard to DPs, the Bank, World Bank and the European Union mission were timed to ensure joint consultations. The mission also met with the major bilateral donors resident in the country. The purpose of the consultations with stakeholders was to seek their views on: (i) the development constraints and challenges facing the country; (ii) the development potential and sources of growth and; (iii) whether the proposed areas of Bank Group intervention provide an adequate response to the challenges and priorities articulated by the Government going forward. Stakeholders welcomed the Bank's intention to focus its initial interventions on removing infrastructural bottlenecks, particularly in improvement of ICT and enhancement of potable water supply. The discussion with DPs also focused on how Aid Coordination could be further enhanced, especially given that there are very few donors resident in the country.

### 2.2.2 Weaknesses and Challenges

Seychelles is faced with a number of weaknesses and, as a result, challenges. These can be grouped into five main areas:

i. Sustaining the reform agenda. Although the Government has already undertaken an extensive reform program, there are still numerous economic and structural weaknesses (see Box 1). Moreover, the Government faces two potential threats to its reform resolve. The first relates to the upcoming presidential and parliamentary elections; but, given the success of the reform agenda to date, indications are that there will most likely not be any policy reversal after the elections. The second emanates from a possible reversal of economic prosperity. Although economic growth has rebounded strongly since 2008, Seychelles' economic prospects are still very much tied to developments in other economies (especially the Euro-zone). The risk of continued downturn in these economies could reverse growth in the Seychelles, with concomitant calls for slowing/stalling the reform program. The challenge now is to maintain macroeconomic stability and sustain the economic and structural reforms.

ii. Reducing infrastructure bottlenecks. *ICT* costs in Seychelles are high<sup>21</sup> due to a shortage of appropriate international telecommunications bandwidth capacity. Currently, Seychelles depends entirely on satellite technology, which is costly and has limited bandwidth, for communicating with the outside world. In order to address this critical challenge, the Government has, based on a feasibility study supported by the Bank's MIC Grant, initiated the Seychelles East Africa Submarine Cable (SEAS) project. This will be a 1,900 km submarine cable from Seychelles to Dar-es-Salaam, which will connect Seychelles to the global economy. The limited availability and access to adequate *water and sanitation services* continue to pose a severe problem, which affects the development of other sectors. The boom in housing construction experienced since the late 1980s has contributed to an annual increase of about 7 percent in demand for potable water. In addition, it is estimated that around 40 percent of the water supply is lost due to pipe leakages. As a result, the Public Utilities Corporation (PUC) can only meet about 60 percent of the demand for potable water. From June to October each year, the PUC resorts to rationing and delivering of water by tankers in certain areas. Given the country's dependence on imports and the importance of fisheries to the economy, development of the main *port in Mahe* is critical. To this end, the Seychelles Ports Authority (SPA) has started to modernize the aging port by expanding the quay space and creating facilities for container traffic. With regard to *energy*, the country's needs are mainly met by imported petroleum products, which accounts for about 90 percent of all primary energy supply, thereby exposing the island to the vagaries of the international oil market. Seychelles has recently installed two new fuel-powered generators in order to enhance supply capacity, whilst more sustainable and cost-

<sup>21</sup> For 2MB per second download speed, monthly charges in Seychelles are about US\$625, compared to about US\$63 and US\$31 in Mauritius and Grenada respectively (Seychelles Department of ICT, March 2011).



effective options are being explored. The *road network* is generally in good condition. However, with the enhanced tourism investments that are currently underway, there is concern about the impact this may have on the road network, both during construction and the envisaged increase in visitors.

iii. Building human resource capacity. Similar to other Small Island Developing States (SIDS), Seychelles, with a tiny population of 86,335 (2008), faces the problem of manpower and skills' shortages. The opening of the University of Seychelles, in September 2009, was a positive step since it aims at building skills that are relevant to the Seychelles economy. However, until the University produces its first graduates, capacity constraints in human resources and certain relevant institutions continue to pose a challenge for sustaining medium- to long-term growth. Currently, the Government intends to continue filling this gap by either hiring expatriates from overseas or using technical assistance, provided mainly through bilateral agreements with countries including China and India.

iv. Increasing private sector led growth. Although the investment climate regulatory framework has been improved, a number of challenges still need to be addressed for the private sector to play the predominant role in the economy. As Seychelles embarks on its second generation of reforms, it will need to focus on removing the infrastructure constraints (discussed above), creating a more business-friendly environment and expanding the country's SME potential.

v. Inherent vulnerabilities of SIDS. These include small land area, limited natural resources, environmental vulnerability, distance from markets and susceptibility to external shocks. Given the limited opportunities for economic diversification, the country's future growth will continue to depend on the expansion of tourism and fisheries, which are inextricably linked to the quality of the natural and physical environment. The islands are also likely to be affected by global warming and associated climate change fallout (rising sea level, coral bleaching, extreme floods and droughts). Furthermore, although Seychelles lies outside the tropical cyclone belt, it is indirectly affected by atmospheric disturbances and the El Nino phenomenon.<sup>22</sup> The external shocks that the country has to currently contend with include: (i) the weak global economic recovery that adversely impacts tourism revenues; and (ii) increased piracy attacks in Seychelles waters that negatively affect tourism and fishing activities.<sup>23</sup>

### **2.2.3 Strengths and Opportunities**

Seychelles has certain strengths, which can be used to take advantage of the following opportunities:

i. Diversifying the tourism sector. The sector will remain the mainstay of Seychelles economy for the foreseeable future. The Government has made efforts to promote tourism investment on a large scale, and this appears to have been highly successful in terms of investor response for hotel projects that will materialize over the next few years. There is, nevertheless, an opportunity to move into alternative high-value tourism niches, especially conference and business tourism. This is important as the country's capacity to manage increasing tourist numbers will eventually hit a limit.

ii. Exploiting more of the fisheries value chain. Although tuna production has been increasing in recent years, it is now reaching a plateau because of the internationally accepted

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<sup>22</sup> For example, natural calamities such as the 2004 floods and tsunami adversely impacted the economy.

<sup>23</sup> To address the piracy issue, the authorities amended its penal code in March 2010 to allow for the prosecution of Somali pirates – including those captured by EU naval forces outside Seychelles' waters – under universal jurisdiction. It has become the second country after Kenya to establish a dedicated UN-backed regional court to prosecute pirates.

limits set for preventing over-fishing. However, Seychelles is yet to tap the full potential of its fisheries resources. This can be done by considering ways to increase value-added activities, so that a larger amount of the fish resources caught in the EEZ (or transhipped in Victoria) are processed onshore. Potential also exists to diversify into the production of aquaculture/mariculture products.

iii. Consolidating the budding offshore financial services sector. The offshore sector has already revealed potential to diversify the economy by attracting capital with an annual turnover estimated to be around \$25m. So far, the activities seem to cluster around international business companies (IBCs)<sup>24</sup>, which raises some transparency concerns. Although the Government currently perceives the offshore sector as a marginal activity, there is potential to grow this sector through the development of mutual funds, trusts and insurance products. However, in order for this to happen, the Government needs to put a clear strategy in place, including appropriate legislation and institutions, for positioning Seychelles optimally as an offshore financial center.

### **2.3 Aid Coordination/Harmonization**

2.3.1 Systematic foreign aid co-ordination in the country continues to be hampered by the limited number of resident development partners. While informal coordination exists, recently the Government has started to make efforts to improve the process and development partner teams are collaborating on mission timings to facilitate overlap in the field. This collaboration was adopted during the preparation of this CSP to ensure synergies and avoid duplication of efforts – thus, joint discussions were undertaken with the World Bank and the EU.

2.3.2 The current areas of intervention by the major donors are shown in Annex VIII. The IMF takes the lead in formulation and oversight of the economic reform program. The World Bank's assistance in the last two years has been guided by an Interim Strategy, formulated in parallel with ADB, which included two Development Policy Loans (DPLs). The objective of the World Bank's ISN was to support the government's macroeconomic stabilization program in the short run and to initiate the structural reforms required for private sector-led growth. The World Bank has started preparation of a five-year Country Partnership Strategy, focusing on improving competitiveness and employment. The EU's assistance is guided by the 10<sup>th</sup> European Development Fund (EDF) program, for the period 2008-2013, under which it allocated €5.9m for the country, with the bulk earmarked for the environment (€5m). The EU also provided budget support through grants in 2009 and 2010 and is currently considering an additional tranche linked to the impact of piracy in the region. The UNDP and bilateral donors are mainly involved in providing capacity building and technical assistance.

### **2.4 Bank Group's Positioning in Seychelles**

2.4.1 Overview: The Bank Group's approach in the last two years was articulated in the ISN. A Completion Report undertaken in October 2010 noted that the Bank Group had maintained strategic responsiveness and flexibility, thereby ensuring success of its assistance. The advantage of this is that it ensured interventions were focused in areas that led to greater development impact. This approach is, therefore, followed in the preparation of this strategy.

#### **Portfolio Analysis**

2.4.2 Cumulative Operations: The Bank Group began its engagement in Seychelles in 1978 and has since approved 24 operations comprising 15 projects, five studies, three lines of credit

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<sup>24</sup> IBC registrations rose from 10,000 in 2002 to over 35,000 in 2008.

and one emergency assistance operation.<sup>25</sup> The portfolio composition and commitment by sector since 1978 (up to 28 February 2011) reveals that the bulk of the operations were in the Social Sector (34%), followed by Multi Sector (23%), Transport (13%), Agriculture (12%), Water and Sanitation (11%) and Finance (8%).

2.4.3 **On-going Operations:** As of 28 February 2011, three operations were on-going and two were technically finished (i.e., PCR's yet to be completed), with a total commitment value of UA20.59 million (see Annex II). These comprised only two lending operations, namely the budget support loan – the *Economic Governance Reform Program (EGRP)* – amounting to €15m (now fully disbursed) and the *Policy Based Partial Credit Guarantee (PBPCG)* of \$10m. The other three operations were grants provided under the MIC Trust Fund and the African Water Facility aimed at providing technical assistance to help underpin more substantial engagement over the medium and longer term (two of these grants are ongoing – see Annex 1). The limited level of operations reflects the Bank Group's deliberate strategy during the re-engagement period to focus mainly on the restoration of macroeconomic stability and debt restructuring.

### **Portfolio Performance**

2.4.4 Some noteworthy observations emerged from the Country Portfolio Performance Review (CPPR) carried out in October 2010, with the caveat that the results need to be interpreted with caution given the limited number of operations. The overall rating of the portfolio was rated to be satisfactory. However, this mainly reflected the implementation of the budget support operation (EGRP), given that non-lending activities are not rated, and that the partial guarantee has not been called (a positive sign that Seychelles debt repayments are proceeding smoothly). The average age of the portfolio was 1.56 years and the average disbursement ratio was 33.27 percent, again reflecting the fact that at the time the EGRP was 50 percent disbursed. Moreover, there are no problematic projects and only one grant was rated as potentially problematic due to first disbursement delays. A number of generic problems identified during the portfolio review include: (i) laxity in supervision and inadequate follow up by the Bank; and (ii) capacity weaknesses in the Government ministries and implementing agencies. Following the CPPR, the Bank Group and the Government drew up an Action Plan (see Annex III) to improve portfolio performance and address the identified problems.

### **Lessons from implementation of the ISN (2009-10)**

2.4.5 The overall finding from the Bank Group Interim Strategy Note Completion Report is that the *strategy and assistance were relevant* to the country's reform program over the last two years. It underscored that the Bank Group support played an invaluable role in assisting Seychelles in the transition from an economy with critical imbalances to one that is now looking more sustainable going forward.

2.4.6 Considerable progress was noted in the outputs and outcomes under the single pillar, mainly attributed to the *selective and flexible approach* adopted by the Bank. It involved two lending operations: (i) a budget support operation; and (ii) the Policy Based Guarantee. Indeed, the guarantee was not even envisaged when the ISN was approved, and it was a unique operation for the Bank. However, when the authorities requested for assistance in August 2009, the Bank worked expeditiously to finalize a response. Ultimately, the Bank's guarantee was instrumental in assisting the country towards restructuring its commercial external debt.

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<sup>25</sup> There were no approvals between 2001 and November 2006 when the country was under sanctions, except for an emergency assistance grant worth \$500,000 to deal with the Tsunami disaster in January 2005.

2.4.7 With regard to the grants for technical assistance, the implementation was mixed, with some suffering considerable delays due to *capacity constraints and inadequate follow-up*, while others proceeded quite smoothly.

2.4.8 Major lessons learned about the proposed strategy include: (i) maintaining a candid dialogue with Government; (ii) close cooperation and coordination with other Development Partners; (iii) close supervision and follow-up of all operations (regardless of size) to ensure that weaknesses are identified and addressed when they arise; and (iv) ensuring that Government/Agency officials in-country are conversant with the Bank rules and procedures so as to prevent delays.

### **III. BANK GROUP STRATEGY FOR SEYCHELLES**

#### **3.1 Rationale for Bank Group Intervention in the Seychelles**

There are three compelling reasons for the Bank to follow up on the ISN with a full CSP:

3.1.1 First, implementation of the Seychelles reform agenda needs continued support. As noted earlier, the reform program has led to a notable turnaround in macroeconomic performance, reflecting the strong resolve of the Government to rebalance the economy and to put the country on a more sustainable development path. Nonetheless, as the country embarks on its second generation of reforms (see Box 1), there are critical development areas (including infrastructure, private sector and capacity building) which require the financial and technical support of DPs, including the Bank Group.

3.1.2 Second, the country's relationship with the Bank Group has improved over the past two years. At present the Bank is considered one of the key DPs, especially for the support it offered through the EGRP and the PBPCG. As Seychelles endeavors to sustain its implemented reforms and initiate more ambitious ones, notably in infrastructure and the private sector, the Bank will continue to support the country and be responsive to the specific needs of this middle-income SIDS. This will also consolidate past gains from Bank support under the ISN.

3.1.3 Third, the recent Bank Group General Capital Increase (GCI) offers a chance for enhanced support to MICs. The historic increase in GCI in 2010 means that the Bank is better positioned to channel resources to MICs, which stand to benefit considerably from this development, given their exclusive access to its non-concessional lending arm. Their capacity to deploy funds to productive use makes them the destination of choice for infrastructure and private sector funding, two key focus areas for the Bank in its efforts to take Africa's development to the next level.

#### **3.2 Pillar for Bank Group Support**

3.2.1 The choice of pillar for the CSP derives from: (i) the thrust of the Government's development agenda, the immediate challenges faced by the country, and to complement the assistance of other Development Partners; (ii) the Bank Group's orientation provided for by the strategic framework for enhancing support to MICs, the operational focus of the Medium Term Strategy (MTS) 2008-12, and the Eastern Africa RISP 2011-15; and (iii) lessons learned from the Bank's engagement with the country during the ISN (see section 2.4).

3.2.2 As discussed in Section 2.2, the thrust of the Government's development agenda, as espoused in Strategy 2017 and currently being updated in the NDS, is to improve the environment for private sector development. Key challenges (see Section 2.2.3) that need to be

overcome in order to achieve this objective are to sustain the reform agenda, remove infrastructure bottlenecks, build human resource capacity and stimulate the private sector's nascent potential. Given other development partners' orientations (see Annex VIII), there is a clear need for Bank support in infrastructure development, improving access to finance and complementing the efforts of other DPs in building human capacity.

3.2.3 Linked to the above, the *Bank's framework for enhancing support to MICs* recognizes that, in spite of their status, they still face challenges similar to low income countries. To overcome this, four critical areas of intervention are identified under the framework: (i) enhancing competitiveness through infrastructure development; (ii) deepening private sector investment and catalytic transactions through various non-sovereign guarantee instruments such as direct investments and equity participation; (iii) investing in regional integration by scaling up investments in cross-border activities; and (iv) supporting capacity building and knowledge generation. Furthermore, the *Bank's MTS 2008-12* puts emphasis on selectivity and a particular operational focus on infrastructure, governance, developing a more robust private sector, and higher education<sup>26</sup>. Finally, the pillars of the *Eastern Africa RISP 2011-15* are regional infrastructure and capacity building. Within the infrastructure pillar, the RISP will, amongst other things, focus on building transport and ICT links between countries.

3.2.4 Thus, in order to directly support the Government's development agenda, and attend to certain key challenges, complement the work of other development partners and maintain flexibility in the Bank's approach to Seychelles in 2011-15, the following pillar is proposed:

### **Strengthening Private Sector Development and Economic Competitiveness**

3.2.5 This pillar directly supports the crux of Seychelles' development agenda by recognizing that a strong and active private sector is vital for the country's future economic success. It aims to enhance the environment for private sector activity and investment, as well as improve the competitiveness of the small-island state. In order to achieve this, the pillar is broken up into three separate and complementary sub-components:

*(i) Infrastructure development* – Seychelles is currently faced with a number of infrastructure bottlenecks (see Section 2.2.3). Most critical of these are: (i) inadequate broadband capacity to support a modern and technologically efficient economy; (ii) a recurring water supply shortage and lack of proper sanitation; and (iii) limited regional infrastructure links to mainland Africa and other Indian Ocean islands. This sub-component focuses on the development and improvement of critical infrastructure.

*(ii) Enabling financing and regulatory environment* – Seychelles faces direct financing and regulatory constraints to enhanced private sector development and entrepreneurship. The Bank will provide two levels of support under this sub-component: (i) financing for SME development; and (ii) assistance to improve business and investment regulatory environment. This sub-component is premised on the need to continue building on the progress already achieved through the ISN and EGRP.

*(iii) Human capacity development* – Seychelles is hamstrung by significant skill and capacity constraints, hindering private sector development and entrepreneurship. In addition, a key lesson from the ISN is that there is a lack of strong project implementation skills in the public service, which impedes the success and progress of

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<sup>26</sup> While the CSP covers a longer term than the Medium Term Strategy, the sectoral areas of focus that are identified are expected to continue being relevant in coming years.

donor interventions and Government projects. Under this sub-component, the Bank will engage on two levels: (i) supporting development of priority skills to enable a private sector-driven economy; and (ii) developing skills for effective and efficient delivery of public services.

3.2.6 Finally, under this pillar and across all three sub-components, Bank Group support will, in areas of direct complementarity, leverage on the assistance being offered by other development partners (see Section 3.3.4). This is a key lesson from the ISN and critical for a MIC country, which faces lending limits and no access to grant financing.

### 3.3 Deliverables and Targets

3.3.1 As an upper middle-income country, Seychelles can only borrow from the ADB window. As such, the amount of resources at its disposal is determined by the sustainable lending limit.<sup>27</sup> Currently, the limit is UA7 million per annum or UA35 million over the period of the CSP. However, front-loading is allowed to finance operations that demand more resources in the current year, provided that lending levels are lower in subsequent years

**Table 2: Indicative Lending and Non-lending Pipeline**

Year	Amount	Projects
<i>Lending</i>		
2011	\$12m	Submarine cable
2012	EUR 8m	Water supply and sanitation
2013	TBD	Mariculture Development
2014	TBD	Line of Credit (for SMEs)
2015	TBD	Institutional Support Project
<i>Non-lending</i>		
2011	\$0.9m	Human resource development strategy
	\$0.3m	Bank's Indian Ocean flagship report
	\$0.7m	Statistical capacity building programme
2012-2015	\$0.7m	Infrastructure Action Plan
	\$0.3m	PPP framework

3.3.2 In line with the strategic pillar proposed for this CSP, an indicative work program is shown in Table 2. It combines both lending and non-lending activities and, to maintain Bank flexibility, they will be reviewed periodically (i.e., mid-term review and if necessary annual updates) to cope with changing conditions and Government priorities. The Bank Group will deliver its assistance through various modes including stand-alone local projects, private sector support and regional operations. In all these modes of financing, the Bank will utilize and support improvements in country systems. Furthermore, Economic and Sector Work (ESW) is also an effective response to a country's development challenges and opportunities. This is especially the case in MICs, where either their need for financing or ability to borrow under the ADB window is limited. The objective of ESWs, including targeted analytical work, advisory services and institutional strengthening, is to assist respective Governments in making informed policy choices and decisions. Thus, in addition to lending activities, the Bank will provide assistance to Seychelles through non-lending activities and in collaboration with other development partners.

<sup>27</sup> This limit is drawn from the country risk assessment, which encompasses five clusters, namely: (i) macroeconomic fundamentals, policy implementation and performance; (ii) sustainability of external debt; (iii) socio-political outlook; (iv) conduciveness of the business environment to private sector development; and (v) Bank Group portfolio performance and project implementation status.

3.3.3 The proposed lending program comprises five projects. For two of these-- the submarine cable and the water supply improvement project-- the Bank has already financed the preparation of their studies through the MIC Trust Fund and the African Water Facility. The submarine cable will provide Seychelles with broadband internet access for the first time through a connection to mainland Africa. The Bank will co-finance the submarine cable with the European Investment Bank (which already signed a loan agreement with the Government in March 2011). With regard to the improvement of water supply, a donors' conference is planned in mid-May 2011 to discuss and agree on possible areas and instruments for intervention. For the mariculture project, a study has been initiated and is expected to be finalized by 2012. The remaining two projects are expected to be supported by the proposed non-lending program.

3.3.4 The Bank is planning to prepare an *Infrastructure Action Plan for Seychelles*, which will assess the status and needs in other critical areas such as power, land and sea transport, and the existing port. In addition, the Bank is already preparing the *Indian Ocean Flagship Report*, with the objective of guiding an appropriate approach to integrating Indian Ocean countries both locally (i.e., amongst themselves) and regionally (i.e., into larger regional blocs such as SADC, and COMESA). Further infrastructure interventions (e.g., potentially rehabilitating port infrastructure) will be guided by the Action Plan and Indian Ocean Report, and considered over the course of the CSP and as the lending limit to Seychelles allows. Finally, in order to improve the regulatory environment, complement the sub-component on infrastructure development, and in recognition of the limited public resources, the Bank aims to support the Government in the preparation of a *PPP framework*.

3.3.5 The Bank is also considering to finance a comprehensive *Human Resource Development Strategy*, which will inform the Government and other stakeholders on how best to enhance skill development. To that end, the Bank plans to organize periodic training and workshops on project implementation, specifically for Bank-supported projects. This will complement support that the IMF and World Bank, in particular, are providing Seychelles to improve public sector efficiency. Furthermore, the Bank aims to initiate a *statistical capacity building program* to assist Seychelles meet its data requirements for effective policy and decision making, and facilitate efficient results measurement, monitoring and evaluation. Finally, to maintain flexibility and align with the NDS, the Bank will use its mid-term review in 2013 to explore further options for lending and non-lending activities. Already, there are suggestions for a *line of credit* to the Development Bank of Seychelles (DBS), which can be used to improve access to finance for SMEs, encourage self-employment amongst the youth, and reduce reliance on social welfare.

3.3.6 The proposed Bank interventions are closely linked to the country's major growth drivers and are also expected to address some of the existing challenges. For example, the undersea cable will lead to better interconnectivity – with concomitant beneficial impacts for the tourism and financial services sectors. The water project will improve supply to major users including hotels and the tuna canning factory, while the mariculture project focuses on the diversification of the fisheries sector.

### **3.4 Monitoring and Evaluation**

3.4.1 In order to assess the relevance of Bank Group strategy and operations, credible, concise and realistic results for the CSP and for individual projects are essential. The Results Measurement Framework (RMF), to be used jointly by the Government and Bank to monitor the outcomes of this CSP, is shown in Annex 1. It focuses on the sector and national outcomes to

which Bank-financed interventions contribute during the period. In this regard, access to adequate national statistics will be crucial for monitoring and evaluation of the CSP outputs and outcomes. The Bank's proposed statistical capacity-building program will support the development and refinement of the national statistics.

3.4.2 The Bank will track progress towards the attainment of the development objectives of projects by conducting annual CPPRs (preferably jointly with other DPs). A mid-term review of the CSP will be undertaken during the first quarter of 2013 to assess progress towards the expected outcomes and a completion report will be prepared in late 2015.

### **3.5 Potential Risks and Mitigation Measures**

The key risks that could pose a threat to the implementation of the CSP and how they could be mitigated are discussed below:

3.5.1 Wavering Government resolve to the reform program. The Government's reform program has spawned much success over the past few years, most notably, the macroeconomic stability and a much improved governance environment. However, as discussed earlier (see Section 2.2.3), the upcoming elections (and likely political unrest) as well as heightened social tensions among vulnerable groups being adversely affected by the reforms could weaken the reform momentum. These aspects can be *mitigated* on a number of fronts. First, during the last elections, the Government invited observers from the Commonwealth's Independent Expert Team, which reported that the election was free, fair and credible and had allowed for the expression of the will of the Seychellois people. This approach is expected to be used in the upcoming elections, thereby reducing the chances of political upheavals. Second, the return of positive economic growth since end-2009 has increased public support for the reform program and there is a real sense that the public (civil society, private sector etc.) is now strongly behind a continuation and completion of the reforms. Third, the Government will continue to emphasize the targeting of social welfare assistance to vulnerable group, and also to job-related training and placement.

3.5.2 Capacity constraints that stall implementation of reforms and Bank-funded projects. This is a constraint that affected some of the Bank operations during the ISN. Moreover, the reforms being put in place require the existence of increasing numbers of technical and professional staff in many sectors. To *mitigate* this shortcoming, the Bank is considering funding the human resource development strategy aimed at informing the Government and other stakeholders on the critical gaps and areas for capacity investment. The recently established Seychelles University is also expected to provide training in skill development.

3.5.3 External shocks to the small-island economy. External shocks that could pose considerable risks to the Bank's strategy include piracy in the Indian Ocean region and the continuing global economic downturn. While such shocks are unavoidable, it is instructive that the country's resilience has improved in the recent past. As a *mitigating* measure, the Bank will work closely with the authorities and other stakeholders to monitor global developments and assess their potential impact on Seychelles. In addition, the flexible approach adopted by the Bank will allow mitigating interventions to be undertaken in a more responsive and timely manner.



### **3.6 Country Dialogue Issues**

3.6.1 Government's continued commitment to reforms. This is critically important given that financial and technical support from the Bank Group depends on the continued implementation of the reform program. The Bank will liaise closely with the authorities and other DPs to monitor developments to ensure that potential problems are identified and addressed early enough.

3.6.2 Development partner coordination. Although there is an informal level of coordination amongst certain DPs (e.g., the Bank Group, World Bank, IMF and EU), there is scope for further and more formal engagement with the Government. The Bank will continue to encourage the Government to explore ways of systematizing the role and interventions of DPs in the economy aimed at ensuring the most efficient use of external resources.

3.6.3 Portfolio performance. The CPPR, undertaken in October 2010, made the case for ensuring satisfactory management and performance of the portfolio so that project resources are effectively utilized and intended benefits achieved on time. The Bank will, therefore, undertake regular monitoring of projects and programs to be financed during the CSP period. It will be done through periodic supervision and review of the portfolio as agreed in the Country Portfolio Improvement Plan. The Bank will also maintain dialogue aimed at encouraging the authorities to put in place mechanisms to ensure quality at entry and managing for results.

3.6.4 Enhancing regional integration. Economic cooperation has particular significance for such an isolated island country. The Bank will continue to assist Seychelles so that the country can effectively harness its prospects and opportunities, as well as mitigate the challenges towards regional cooperation and integration. This is in line with the Bank's new efforts and initiatives for enhancing regional integration, including and as articulated under NEPAD, the Program for Infrastructure Development in Africa (PIDA), and the Bank's RISPs and the forthcoming Indian Ocean flagship report.

## **4. CONCLUSION AND RECOMMENDATION**

4.1 This CSP is timely as it coincides with a critical period in the economic development of the country. Indeed, Seychelles has in a relatively short span established itself as a credible reformer and has started to reap the fruits of its efforts through improved prospects and better relations with major development partners. The formulation of this CSP also comes at a timely occasion for the Bank Group as it significantly increased its General Capital that will enable more interventions in MICs.

4.2 The focus of the CSP on supporting infrastructure development, an enabling financing and regulatory environment, and on human capacity development remain key priorities for the Government. The support provided by the Bank Group towards these sub-components will improve Seychelles' prospects for both private sector development and further economic growth, as it continues to undertake critical reforms.

4.3 The Board of Directors are invited to consider and approve the proposed Country Strategy Paper for Seychelles for 2011–2015.

## ANNEX 1: SEYCHELLES 2011-2015 CSP MONITORING AND RESULTS FRAMEWORK

Country Development Goals	Constraints hindering achievement of desired outcomes	Final Outcomes (by 2015)	Final Outputs (by 2015)	Mid-Term Outcomes (by 2013)	Mid-term Outputs (by 2013)	Bank Group Interventions during CSP period (on going and proposed)
<b>STRENGTHENING PRIVATE SECTOR DEVELOPMENT &amp; ECONOMIC COMPETITIVENESS</b>						
<b>A. INFRASTRUCTURE DEVELOPMENT</b>						
<i>Water Supply and Sanitation</i>						
<b>Improving access to water and sanitation</b>	Insufficient funding to meet the high demand	Increase in water supply by 20% in Mahe between 2010 and 2015	Enhanced storage and production capacity in Mahe		Feasibility Study for Water Supply and Sanitation in Mahe finalized	<u>On-going:</u> Feasibility Study for Water Supply in Mahe <u>Proposed:</u> Water Supply Improvement Project
	High losses due to pipe leakages	Reduction in losses from pipe leakages from 44% (2010) to 25% (2015)	Rehabilitation of distribution systems in Mahe	Reduction of pipe leakage losses from 44% (2010) to 35% (2013)		
<i>ICT</i>						
<b>Improve ICT infrastructure</b>	Prohibitive ICT costs  Lack of availability of international telecommunications bandwidth capacity	Increase in advertised bandwidth per user from 512 kilobytes per second (2010) to 1000 kilobytes per second (2015)  Reduce cost of bandwidth from \$50 (2010) per month to \$30 (2015)	Construction of a 1900 km under- sea cable from Mahe to Dar es Salaam	Household penetration increases from 19 % (2010) to 24% (2013)  Internet access costs fall from \$50 per month (2010) to \$30 (2013)	Construction of a 1900 km under- sea cable from Mahe to Dar es Salaam	<u>Proposed:</u> Seychelles Sub Marine Cable Project
<b>B. ENABLING FINANCING AND REGULATORY ENVIRONMENT</b>						
<i>Financing for SME development</i>						
<b>Improve access to credit</b>	Inadequate access to credit	Increase in value of loan approvals by 15% from SCR 271 million (2010) to SCR 315 million (2015)  Increase beneficiary SMEs from 486 (2010) to 600 (2015)	Line of credit to DBS operational	Priority sectors identified for DBS Line of credit	Sensitization Workshop for SMEs on Line of credit	<u>Proposed:</u> Line of credit to DBS
<i>Support to improve the business and investment regulatory environment</i>						
<b>Enhanced Public-Private Partnership</b>	Lack of a PPP Framework	1 priority concession identified	PPP Framework finalized and launched	List of potential concessions	Draft PPP Framework	<u>Proposed:</u> Study on PPP Framework; Infrastructure Action Plan
<b>Develop a sustainable mariculture sector</b>	No Mariculture Master Plan	Mariculture Development Project confirmed	Project Investment Workshop	List of priority mariculture development projects identified	Mariculture Master Plan finalised	<u>On-going:</u> Preparation of a Mariculture Master Plan <u>Proposed:</u> Mariculture Development Project
<b>C. HUMAN CAPACITY DEVELOPMENT</b>						
<b>Increase numbers of technical and professional staff in all sectors</b>	Lack of a comprehensive human resource plan	Institutional Support Project confirmed	Human Resource Development Plan finalized	List of potential Institutional Support Projects identified for consideration	Draft Human Resource Development Plan	<u>Proposed:</u> Human Resource Development Plan  Institutional Support Project

## ANNEX II: SUMMARY OF ONGOING BANK OPERATIONS (FEBRUARY 2011)

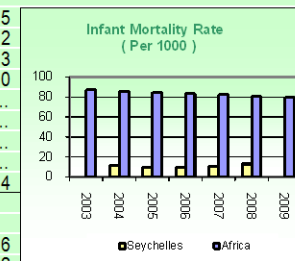
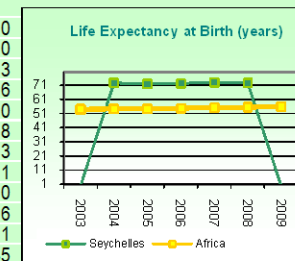
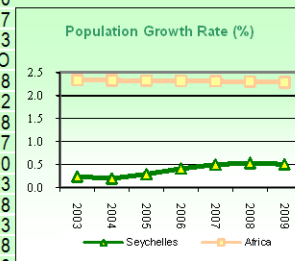
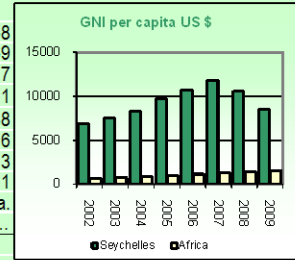
Sector	Project Name	Net Commitments (UAm)	Disbursement Amount (UAm)	Disbursement Rate (%)	Overall Assessment Supervision Rating	Project age in years from approval	Status*
<b>Lending</b>							
<b>Multi-Sector</b>	Policy Based Partial Credit Guarantee	6.29	0.00	0.00	n/a	1.00	
	Support to Economic & Financial Governance Reforms	12.88	12.88	100.00	3	1.25	Completed. PCR under preparation
<b>Multi-Sector sub-total</b>		<b>19.17</b>	<b>12.88</b>	<b>63.54</b>			
<b>Non-lending</b>							
<b>Communications</b>	East African Sub Marine Cable Link Study (MIC Grant)	0.29	0.27	93.10	n/a	1.60	Completed. Balance to be cancelled
<b>Water Supply &amp; Sanitation</b>	Water Supply Development Plan (AWF)	0.85	0.34	39.84	n/a	2.66	
<b>Agriculture</b>	Mariculture Master Plan (MIC Grant)	0.28	0.00	0.00	n/a	0.50	
<b>Grand Total</b>		<b>20.59</b>	<b>13.49</b>	<b>65.52</b>		<b>1.40</b>	

### ANNEX III: COUNTRY PORTFOLIO IMPROVEMENT PLAN

<b>Issues &amp; Constraints</b>	<b>Actions Required</b>	<b>Responsible</b>	<b>Time frame</b>
<b>Project staff not conversant with Bank rules and procedures</b>	Provide training of project staff handling Bank operations in relevant Bank procedures in loan and grant administration, disbursement and procurement	ADB	Continuous
<b>Lack of rigor in feasibility studies</b>	Engagement of qualified and experienced experts	Ministry of Finance & Ministries implementing projects	As and when necessary
<b>Inadequate project implementation capacity</b>	Carry out a comprehensive analysis of the capacity of the Executing Agency to implement the project and, where necessary, provide technical assistance to overcome such capacity constraints	GoS/ADB	Continuous
<b>Weak project supervision by the Bank</b>	Ensure regular follow up through enhanced supervision missions	ADB	Continuous
<b>Inadequate follow up by Government</b>	Nominate a focal point for Bank projects at the Ministry of Finance	GoS	Immediate
<b>Changes in the project environment affecting progress of project implementation</b>	Undertake rigorous project reviews so as to assess implementation progress, identify implementation bottlenecks, and recommend mitigating measures	GoS/ADB	Continuous

## Annex IV: Seychelles: Comparative Socio-Economic Indicators

	Year	Seychelles	Africa	Developing Countries	Developed Countries
<b>Basic Indicators</b>					
Area ('000 Km <sup>2</sup> )		0	30 323	80 976	54 658
Total Population (millions)	2009	0.1	1,008	5 629	1 069
Urban Population (% of Total)	2009	54.8	39.6	44.8	77.7
Population Density (per Km <sup>2</sup> )	2009	185.2	3.3	66.6	23.1
GNI per Capita (US \$)	2009	8 480	1 550	2 780	39 688
Labor Force Participation - Total (%)	2009	46.3	41.2	45.6	54.6
Labor Force Participation - Female (%)	2009	48.7	41.2	39.8	43.3
Gender-Related Development Index Value	2005	...	0.525	0.694	0.911
Human Develop. Index (Rank among 169 countries)	2005	...	n.a	n.a	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2005	...	50.8	25.0	...
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	2009	0.5	2.3	1.3	0.7
Population Growth Rate - Urban (%)	2005	...	3.4	2.4	1.0
Population < 15 years (%)	2009	0.0	56.0	29.2	17.7
Population >= 65 years (%)	2009	0.0	4.5	6.0	15.3
Dependency Ratio (%)	2009	43.9	78.0	52.8	49.0
Sex Ratio (per 100 female)	2009	101.3	100.7	93.5	94.8
Female Population 15-49 years (% of total population)	2005	...	48.5	53.3	47.2
Life Expectancy at Birth - Total (years)	2008	72.8	55.7	66.9	79.8
Life Expectancy at Birth - Female (years)	2008	78.9	56.8	68.9	82.7
Crude Birth Rate (per 1,000)	2008	17.8	35.4	21.5	12.0
Crude Death Rate (per 1,000)	2008	7.6	12.2	8.2	8.3
Infant Mortality Rate (per 1,000)	2008	12.9	80.0	49.9	5.8
Child Mortality Rate (per 1,000)	2005	...	83.9	51.4	6.3
Total Fertility Rate (per woman)	2008	2.3	4.5	2.7	1.8
Maternal Mortality Rate (per 100,000)	2005	...	683.0	440.0	10.0
Women Using Contraception (%)	2005	...	...	61.0	75.0
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	2008	70.0	42.9	78.0	287.0
Nurses (per 100,000 people)*	2008	407.0	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2005	...	50.5	63.4	99.3
Access to Safe Water (% of Population)	2004	88.0	64.0	84.0	99.6
Access to Health Services (% of Population)	2005	...	61.7	80.0	100.0
Access to Sanitation (% of Population)	2005	...	38.5	54.6	99.8
Percent of Adults (aged 15-49) Living with HIV/AIDS	2008	6.0	4.5	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2008	6.0	313.7	181.9	14.1
Child Immunization Against Tuberculosis (%)	2008	99.0	83.0	89.0	99.0
Child Immunization Against Measles (%)	2008	99.0	74.0	81.7	92.6
Underweight Children (% of children under 5 years)	2005	...	25.6	27.0	0.1
Daily Calorie Supply per Capita	2007	2 463	2 324	2 675	3 285
Public Expenditure on Health (as % of GDP)	2007	3.5	5.5	4.0	6.9
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	2008	130.7	100.2	106.8	101.5
Primary School - Female	2008	130.1	91.7	104.6	101.2
Secondary School - Total	2008	109.8	35.1	62.3	100.3
Secondary School - Female	2008	119.9	30.5	60.7	100.0
Primary School Female Teaching Staff (% of Total)	2009	84.9	47.5	...	...
Adult Illiteracy Rate - Total (%)	2008	8.2	35.2	19.0	...
Adult Illiteracy Rate - Male (%)	2008	8.6	26.0	13.4	...
Adult Illiteracy Rate - Female (%)	2008	7.7	44.1	24.4	...
Percentage of GDP Spent on Education	2006	5.0	4.5	...	5.4
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	2008	2.2	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2005	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2005	...	10.9	...	...
Per Capita CO2 Emissions (metric tons)	2008	12.5	1.1	1.9	12.3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update : November 2010

UNAIDS; UNSD; WHO; UNICEF, WRI, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data **Not Available**.

## ANNEX V: SEYCHELLES: KEY MACROECONOMIC INDICATORS

	1980	1990	2000	2007	2008	2009
<b>GNI per capita, Atlas method (current US\$)</b>	2,137	5,167	7,420	11,060	10,290	..
<b>GDP (current US\$) (in millions)</b>	147	369	738	1,026	926	596
<b>GDP (constant 2000 US\$) (in millions)</b>	282	400	738	853	846	788
<b>Real GDP growth (annual %)</b>	..	7.5	24.5	9.7	-0.9	0.7
<b>Real per Capita GDP Growth Rate (annual %)</b>	..	6.0	23.2	9.2	-1.4	-7.3
<b>Gross capital formation (% of GDP)</b>	38.3	24.6	32.7	29.3	36.1	29.1
<b>Gross national savings (% of GDP)</b>	11.5	25.9	23.9	9.1	-14.1	7.7
<b>Exports of goods and services (% of GDP)</b>	49.7	62.5	68.5	85.1	110.1	105.0
<b>General government final consumption expenditure (% of GDP)</b>	28.7	27.7	33.6	31.2	15.1	13.9
<b>Household final consumption expenditure (% of GDP)</b>	55.1	52.0	33.6	56.5	89.7	82.0
<b>Imports of goods and services (% of GDP)</b>	71.8	66.7	68.5	102.1	150.9	130.0
<b>Central government, total revenue and grants (% of GDP)</b>	45.5	55.0	31.2	32.2	36.4	33.7
<b>Central government, total expenditure and net lending (% of GDP)</b>	52.1	49.4	42.6	40.9	39.8	31.1
<b>Central government, Fiscal Balance (% of GDP)</b>	-6.6	5.6	-11.5	-8.7	-3.3	2.6
<b>Money and quasi money (M2) as % of GDP</b>	33.6	39.8	76.5	67.4	67.8	64.6
<b>Money and quasi money growth (annual %)</b>	..	13.6	4.6	-8.0	28.0	-9.6
<b>Gross international reserves in months of imports</b>	1.8	0.8	0.8	0.3	0.4	1.4
<b>Gross international reserves (current US\$) (in millions)</b>	18.4	16.6	33.6	25.8	41.4	114.0

Source: ADB Statistics Department

## ANNEX VI: Seychelles-MDGs Status (as at 2010)

GOAL	Status	Factor of Success/Failure	Remark
<b>Eradicate extreme poverty and hunger</b>	Achieved: national Poverty line higher than US \$ 1PPP	National development policies, budgetary support and programmatic actions, involving state agencies and civil society organizations	In some sectors the state agencies are the main contributors to the achievement of the MDG
<b>Achieve Universal Primary Education</b> Achieve 100% enrolment of 6-12-year old children into primary school by 2015	Achieved	Same as above	Parental value of education plays a significant role
<b>Promote Gender Equity and Women Empowerment</b>	Achieved	Same as above	Some disparities still exist for both genders
<b>Reduce infant mortality</b>	Achieved	Differences in criteria set for the indicators in Seychelles make data comparisons between years of observation difficult	Low mortality rates/some disparity exist. Difficult to reduce rates further, already at par with OECD countries
<b>Reduce maternal mortality</b>	Achieved	National development policies, budgetary support and programmatic actions, involving state agencies and civil society organizations	Able to achieve zero deaths in some years
<b>Combat HIV/AIDS, malaria and other diseases</b>	Achieved for access to Antiretroviral drugs (ARVs)	Same as above: special attention needs to be paid to Most at Risk Populations. National surveys are needed for improved data sets	Pandemic increases, but 100% access to ARVs, and Voluntary Counselling and Testing available freely
<b>Ensure environmental sustainability</b>	Achieved	Same as above; monitoring of coral bleaching and severe tropical storms required to better understand processes and social development impacts	Most of national territory under protection; strong CSO engagement
<b>Develop global partnership for development</b>	Ongoing: public debts still problematic	Bilateral and multilateral agreements in major sectors of national development; new ones being forged with other partners	Debt crisis largely over; need for vigilance to maintain present gains

Source: Ministry of Foreign affairs, August 2010, *Seychelles Millennium Development Goals: Status Report 2010*

## **ANNEX VII: SEYCHELLES CPIA RATINGS 2007-2010**

		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>A. Economic Management</b>	1. Macroeconomic Management	2.0	3.0	3.5	4.0
	2. Fiscal Policy	2.0	2.5	3.0	3.0
	3. Debt Policy	3.5	2.5	3.0	3.5
<b>B. Structural Policies</b>	4. Regional Integration and Trade	2.0	2.5	3.0	3.0
	5. Financial Sector	2.5	2.5	2.0	2.0
	6. Business Regulatory Environment	2.5	2.5	2.5	2.5
<b>C. Policies for Social Inclusion and Equity</b>	7. Gender Equality	4.0	4.0	4.5	4.5
	8. Equity of Public Resource Use	4.0	4.0	3.5	3.5
	9. Building Human Resources	3.0	3.5	3.5	3.5
	10. Social Protection and Labor	4.5	4.5	4.5	4.5
	11. Environmental Policy and Regulation	4.5	4.5	5.0	5.5
<b>D. Public Sector Management and Institutions</b>	12. Property Rights and Rule-based Governance	3.5	3.5	4.0	4.0
	13. Quality of Budgetary and Financial Management	3.0	3.5	3.5	3.5
	14. Efficiency of Revenue Mobilization	3.0	3.5	3.5	3.5
	15. Quality of Public Administration	3.0	3.0	3.0	3.0
	16. Transparency, Accountability and Corruption in Public Sector	3.0	3.5	3.5	3.5
<b>Overall Rating</b>		<b>2.98</b>	<b>3.10</b>	<b>3.29</b>	<b>3.45</b>



## ANNEX VIII: DEVELOPMENT PARTNERS' ACTIVITIES BY SECTOR

PARTNER		ACTIVITIES				
	Economic Reforms	Social Development	Productive/ Growth Sectors	Infrastructure and Utilities	Environment	Thematic/Cross cutting Issues
<b>Multilateral Donors</b>						
<i>ADB</i>	General Budget Support (Policy Based Loan); Partial Credit Guarantee					
<i>IMF</i>	Extended Fund Facility					
<i>World Bank</i>	Development Policy Loan	Capacity building in Statistics; Technical Assistance in public enterprise reform, social security reform & health reform; Technical assistance in Fisheries				
<i>European Union</i>	General Budget Support		Budget Support for Fisheries Policy		Solid waste management	Capacity building for NGOs; enforcement of human rights; grant for combating piracy
<b>Bilateral Donors</b>						
<i>Italy</i>		Scholarships				
<i>Germany</i>		Scholarships; Community Dev. Projects				
<i>France</i>		Training/ TA in health			Technical assistance in environment & natural disaster management	
<i>Netherlands</i>		Training				
<i>Sweden</i>		Training/Scholarships				
<i>Australia</i>		Training/ Scholarships				
<i>Canada</i>		Training/ Scholarships				
<i>Cuba</i>		Scholarships/ TA				
<i>China</i>		Capacity building		Health facility		
<i>India</i>		Training/ Scholarships, Medical supplies				
<i>Japan</i>		Training/ Scholarships	Fisheries (TA/Grants)			
<i>Russia</i>		Scholarships				
<i>Singapore</i>		Scholarships				
<i>USA</i>		Training				Grants for NGOs
<b>Other Donors</b>						
<i>BADEA</i>		Maritime Training Center		Praslin Sewerage		
<i>FAO</i>		Technical Cooperation				
<i>OPEC Fund</i>				Education		
<i>UNDP</i>					Capacity building; integrated water management; biodiversity conservation	

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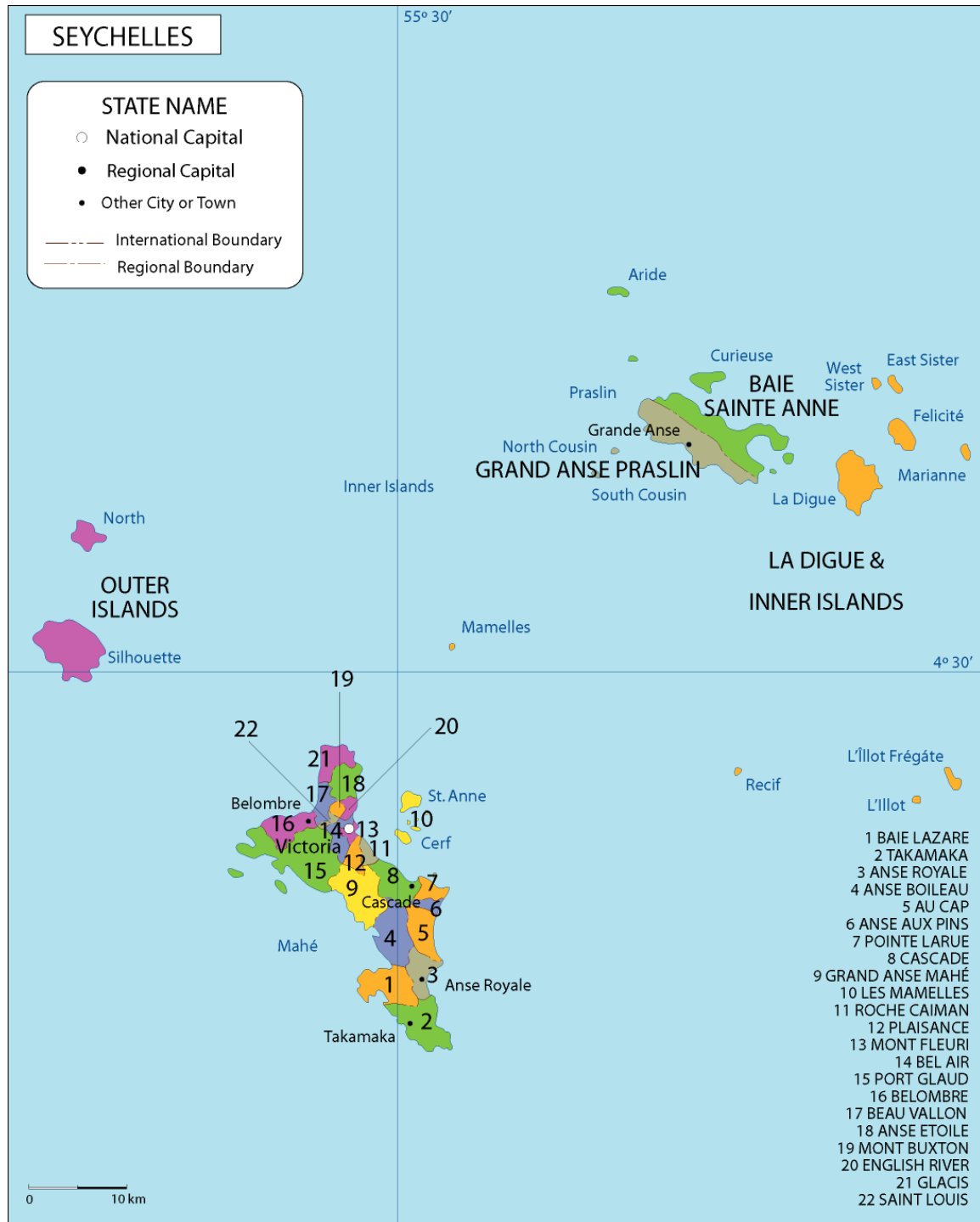
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## ANNEX X: ADMINISTRATIVE MAP OF SEYCHELLES



Disclaimer: This map has been provided by the ADB Group's staff exclusively for the convenience of the readers of the report. The denominations used and the boundaries shown on this map do not imply, on the part of the Bank Group and its affiliates, any judgement on the legal status of any territory or any endorsement or acceptance of such boundaries.