



AFRICAN DEVELOPMENT BANK

**SEYCHELLES  
ECONOMIC GOVERNANCE  
REFORMS PROGRAM (EGRP)  
APPRAISAL REPORT**

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## TABLE OF CONTENTS

Loan information sheet .....	iv
Program Overview.....	v
I. – THE PROPOSAL .....	1
II. COUNTRY AND PROGRAM CONTEXT .....	1
2.1. Government overall development strategy and medium-term reforms priorities.....	1
2.2. Recent political, economic and social developments, perspectives, constraints and challenges.....	2
2.3. Bank group portfolio status .....	6
III. RATIONALE, KEY DESIGN ELEMENTS AND SUSTAINABILITY .....	7
3.1. Link with the CSP, country readiness assessment and analytical works underpinning.....	7
3.2. Collaboration and coordination with other donors .....	8
3.3. Outcomes of past and on-going similar operations and lessons .....	8
3.4. Bank’s comparative advantages .....	9
3.5. Application of good practice principles on conditionality.....	9
IV – THE PROPOSED PROGRAM .....	10
4.1 Program’s goal and purpose .....	10
4.2 Program’s pillars, operational policy objectives and expected results .....	10
4.3 Financing needs and arrangements .....	15
4.4. Program’s beneficiaries .....	16
4.5 Impacts on gender.....	16
4.6 Environmental Impacts.....	17
V. – IMPLEMENTATION, MONITORING AND EVALUATION .....	17
5.1. Implementation arrangements .....	17
5.2. Monitoring and evaluation arrangements .....	17
VI – LEGAL DOCUMENTATION AND AUTHORITY .....	17
6.1. Legal documentation .....	17
6.2. Conditions associated with the Bank’s intervention.....	18
6.3. Compliance with Bank Group policies.....	19
VII- RISK MANAGEMENT.....	19
VIII - RECOMMENDATION .....	20

## List of tables

Table 1: Results -based Logical Framework of FGRP .....	vi
Table 2: Program Timeframe and milestones .....	ix
Table 3: Linkages between the Government’s macroeconomic and financial reform program and the EGRP....	7
Table 4: Financing needs and sources of financing, 2009-2010 (millions SCR).....	15

## List of annexes

Annex 1 : Letter of Development Policy for EGRP (2009-2010).....	I
Annex 2: Operations Policy Matrix .....	X
Annex 3: Key development partners’ support in areas of the Bank’s EGRP focus .....	XIV
Annex 4 : IMF/Seychelles relations note.....	XVI
Annex 5: Seychelles – ADB loan conditions for disbursement under EGRP.....	XVII
Annex 6: Seychelles – Selected economic and financial indicators, 2005-2013 .....	XVIII
Annex 7: Seychelles – Consolidated Government Operations, 2007-2010 .....	XIX
Annex 8: Seychelles – Balance of payments, 2007-2013 .....	XX
Annex 9: Seychelles – External Debt as at end 2008 (millions of US dollars).....	XXI
Annex 10: Seychelles – Comparative Socioeconomic indicators.....	XXII
Annex 11: PEFA indicators: dimension ratings for Seychelles (December 2008) .....	XXIII
Annex 12: Investment Climate Regulatory Framework .....	XXIV
Annex 13: Map of Seychelles.....	XXVIII

## Currency Equivalents

April 2009

UA 1	SDR 1
UA 1	US \$ 1.49507
UA 1	Euro 1.12344
UA 1	SCR 25.5494

## Fiscal Year

January 1st – December 31st

## Weights and Measures

1 ton	=	2204 pounds (lbs)
1 kilogram (kg)	=	2.200 lbs
1 meter (m)	=	3.28 feet (ft)
1 millimeter (mm)	=	0.03937 inch (“)
1 kilometer (km)	=	0.62 mile
1 hectare (ha)	=	2.47 acres

## Acronyms and Abbreviations

AfDB	African Development Bank	SMB	Seychelles Marketing Board
BWI	Bretton Woods Institutions	SNP	Seychelles National Party
CBS	Central Bank of Seychelles	SPPF	Seychelles People's Progressive Front
CCA	Concessionary Credit Agency	SPTC	Seychelles Public Transport Corporation
COMESA	Common Market for Eastern and Southern Africa	TSA	Treasury Single Account
CPI	Corruption Perceptions Index	UA	Units of Account
CPPR	Country Project Portfolio Review	UN	United Nations
CSP	Country Strategy Paper	UNDP	United Nations Development Program
DPL	Development Policy Loan	USD	United States dollar
DSA	Debt Sustainability Analysis	UNECA	United Nations Economic Commission for Africa
EC	European Commission	VAT	Value-Added Tax
EGRP	Economic Governance Reform Program	VDS	Voluntary Departure Scheme
EPRCP	Enhancing Procurement Reforms and Capacity Project	WGI	World Governance Indicator
FDI	Foreign Direct Investment	YES	Youth Enterprise Scheme
GFS	Government Finance Statistics Manual		
GDP	Gross Domestic Product		
GoS	Government of Seychelles		
HDI	Human Development Index		
ICT	Information and Communication Technology		
IDC	Island Development Corporation		
IMF	International Monetary Fund		
IOC	Indian Ocean Commission		
ISN	Interim Strategy Note 2009-2010		
LDP	Letter of Development Policy		
MDGs	Millennium Development Goals		
MIC	Middle Income Country		
MoF	Ministry of Finance		
MTEF	Medium-Term Expenditure Framework		
MTFF	Medium-Term Fiscal Framework		
NDP	National Development Plan		
PEFA	Public Expenditure Financial Accountability Assessment		
PER	Public Expenditure Review		
PFM	Public Finance Management		
PFM-PR	Public Financial Management - Performance Report		
POU	Procurement Oversight Unit		
PPA	Public Procurement Act		
PRSP	Poverty Reduction Strategy Paper		
PUC	Public Utility Corporation		
SBA	Standby Arrangement		
SCAA	Seychelles Civil Aviation Authority		
SCCI	Seychelles Chamber of Commerce and Industries		
SCR	Seychelles Rupee		
SDR	Special Drawing Rights		
SEYPEC	National petroleum company		
SIB	Seychelles Investment Board		
SIDS	Small Island Developing State		
SLA	Seychelles Licensing Authority		

## Loan information sheet

<b>Client Information</b>	
<b>Borrower</b>	Republic of Seychelles
<b>Executing Agency</b>	Ministry of Finance (MoF)
<b>Name of Program</b>	Economic Governance Reforms Program (EGRP)
<b>Loan Conditions</b>	
<b>Loan Type</b>	Variable Spread Loan (VSL)
<b>Loan Denomination</b>	United States Dollars (USD)
<b>Loan Amount</b>	USD 20 million (UA 13.4 million)
<b>Lending Rate</b>	(a+b+c) a. Base rate: Fixed (swap rate) or Floating (based on 6 month libor) b. Funding margin: Calculated semi-annually (1 <sup>st</sup> January, 1 <sup>st</sup> July) c. Lending margin: 40 basis points (0.40%)
<b>Tenor</b>	up to 20 years
<b>Grace Period</b>	up to 5 years
<b>Number of tranches</b>	Two equal tranches of USD 10 million (UA 6.7 million) each to be disbursed in 2009 and 2010, when the borrower will satisfy the specific conditions of the loan agreement.

## Program Overview

<b>Context</b>	<p>Recurrent expansionary fiscal and monetary policies coupled with mismatched trade and exchange rate policies adopted by the Government of Seychelles (GoS), in the past, have produced long-standing macroeconomic imbalances that threaten future growth prospects and the safeguard of social gains. In order to redress the economic fundamentals, the Government defined an economic and financial reform program in late 2008, which is supported by a two-year IMF Standby Arrangement (SBA).</p> <p>The overarching goal of the GoS's reform program is to restore macroeconomic stability and sustainable growth in order to rebalance the economy. The reform program has four main thrusts: (i) achieving full convertibility of the Seychelles Rupee and introducing a market-determined floating exchange rate; (ii) adopting a comprehensive sustainable debt restructuring strategy; (iii) reducing the role of the State in economic activity, through a public sector reform program and promoting private sector development, and (iv) reinforcing Public Finance Management reforms and strengthening economic and financial governance.</p> <p>The heavily frontloaded nature of the economic and financial reform program, launched since October 2008, has brought a notable turnaround to the country's macroeconomic environment. The Government's record in implementing the program, albeit short, is commendable and has led to strong support from key development partners, notably the Bretton Woods Institutions. The exchange rate has stabilized and the parallel exchange market has disappeared. Interest rates have begun to ease from their peak, and inflation is declining rapidly, due to the tightened fiscal and monetary policies.</p>
<b>Program overview</b>	<p>The <b>Economic Governance Reforms Program (EGRP)</b> is the Bank's first general budget support operation in Seychelles and will be implemented over two fiscal years, 2009 and 2010. It was appraised in late April/early May 2009. It results from a request of the Government in January 2009 and is in line with the Bank's Interim Strategy Note 2009-2010.</p> <p>The program purpose is to promote macroeconomic stability and sustainable growth in order to rebalance the economy, by improving economic and financial governance. Its operational policy objectives are to strengthen Public Finance Management and enhance private sector development.</p>
<b>Program outcomes &amp; Beneficiaries</b>	<p>The EGRP has the following expected outcomes: (i) improved budget formulation process, and execution; (ii) reinforced budget oversight and transparency; (iii) improved efficiency and transparency in public procurement; (iv) improved public debt management and (v) improved business climate.</p> <p>The Seychellois population in general will reap the benefits of resumed growth and employment opportunities in the private sector. Further, a direct consequence of strengthened PFM will be that individual ministries and public bodies will become more efficient at delivering public services. Also by supporting a "holistic" review of the business regulatory framework, the EGRP should bring a benefit to economic agents who are presently unable to operate within the current private sector environment.</p>
<b>Needs assessment</b>	<p>The GoS is strongly committed to its reform agenda. However, given the rapidity in which the reforms are being implemented, it is also evident that its own funds will not be sufficient to close the budgetary financing gap.</p>
<b>Bank's Added Value</b>	<p>In general, the Bank plays an instrumental role in promoting governance and private sector development in Africa, which are also the areas of focus in the GoS's reform strategy.</p>
<b>Institutional Development &amp; Knowledge building</b>	<p>The Bank will capture the knowledge from this program through a continuous and regular monitoring and the Program Completion Report.</p>

Table 1: Results -based Logical Framework of FGRP

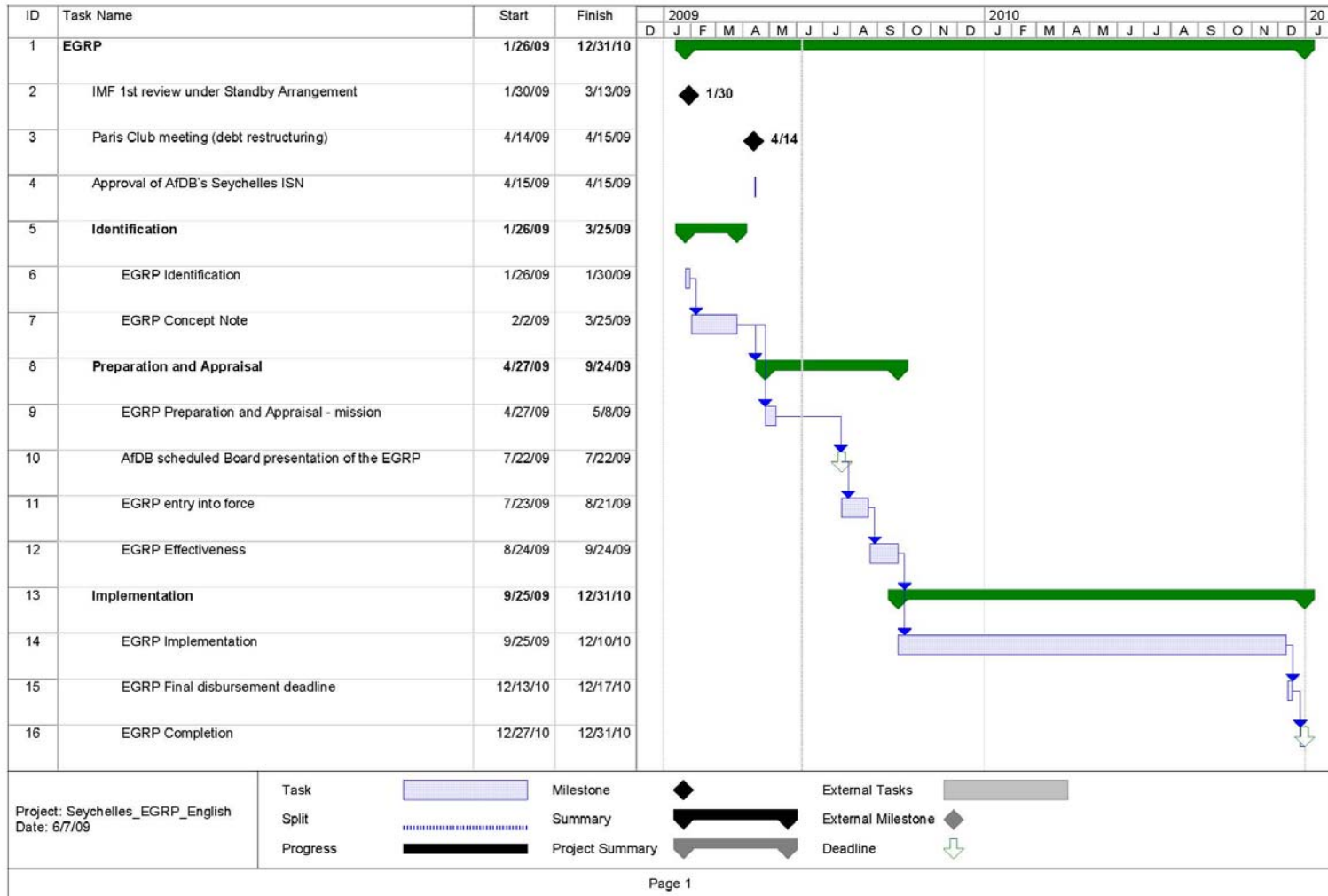
Hierarchy of objectives	Expected outcomes	Beneficiaries	Performance indicators	Indicative Targets and Time-frame	Assumptions/ Risks
<b>1. Goal:</b>	<b>Longer-term results:</b>			<b>Long-term expected progress</b>	
Achieve sustainable macroeconomic stabilization in order to rebalance the economy	Strong and sustainable economic growth rates  Private sector growth	Seychelles population	Real GDP growth rate  End-of-period Inflation rate  Foreign Direct Investment (FDI) as percentage of GDP  <i>(Source: IMF National Bureau of Statistics &amp; Ministry of Finance)</i>	Annual real GDP growth rate will be 2.6% in 2010 from 0.1% in 2008  Inflation rate to decline to less than 15% in 2010 from 63.3% in 2008  FDI as percentage of GDP will increase to 27.8% in 2010 from 24.6% in 2007	<b><u>Risks and mitigating measures:</u></b>  • <b>Risk:</b> External economic environment (international financial crisis) <b>Mitigating measure:</b> Government's continued efforts in ensuring support by development partners to its reform program  • <b>Risk:</b> Social impacts of economic and structural reforms on vulnerable groups <b>Mitigating measure:</b> Government's continued commitment to its social safety net policy and provision of social benefits to the vulnerable groups  • <b>Risk:</b> Unraveling of political and social consensus for the reforms <b>Mitigating measure:</b> Government's continued commitment to the reform and Government's effective communication to the population of the benefits of the reforms
<b>2. Program Purpose</b>	<b>2. Medium term Results:</b>				
<b>2.1 Strengthening Public Financial Management (PFM)</b>	2.1.1 budget formulation and execution are improved	<i>Public sector institutions</i>	National Budget formulation  Budget circulars establish ceilings for capital expenditures  <i>(Source: Ministry of finance/GAO)</i>	Enact 2010 budget within a medium-term macroeconomic fiscal framework by end 2009  Budget circulars establish ceilings for capital expenditures by June 2009	

Hierarchy of objectives	Expected outcomes	Beneficiaries	Performance indicators	Indicative Targets and Time-frame	Assumptions/ Risks
2. Program Purpose (contd.)	<p><b>2. Medium term Results (contd.):</b></p> <p>2.1.2 Budget oversight and transparency are reinforced</p>	<i>Public sector institutions</i>	<p>Treasury Single Account (TSA)</p> <p>Audit Act (Amendment) Bill</p> <p>Financial audits of public entities</p>	<p>Existence of a TSA by end 2009</p> <p>Audit Act (Amendment) Bill submitted to the National Assembly by 2009</p> <p>Financial audits are carried out for 3 public entities in 2009 and 4 public entities in 2010</p>	<ul style="list-style-type: none"> <li>• <u>Risk</u>: Ministry of Finance may not have sufficient human resources' capacity</li> <li>• <u>Mitigating measure</u>: Technical Assistance and support by development partners</li> </ul>
	2.1.3 Public procurement is more efficient and transparent	<p><i>Public sector institutions</i></p> <p><i>Private sector operators</i></p>	<p>New Standardized Tender bidding documents</p> <p>Public Oversight Unit (POU) Website</p>	<p>Finalization of new standardized tender bidding documents by 2009</p> <p>POU website is operational by 2010</p>	
	2.1.4 Public debt management is improved	<p><i>Financial and credit institutions</i></p> <p><i>Seychelles population</i></p>	<p>Amount of New External Debt</p> <p>Medium Term Debt Management Strategy</p> <p>Annual Borrowing Plan</p>	<p>Contracting of new external debt by the public sector will not exceed US\$ 35 million in 2009</p> <p>Elaboration of a Debt Management Strategy by 2010</p> <p>Preparation of Annual Borrowing Plan for Budget Year 2010 by September 2009 and for Budget Year 2011 by September 2010</p>	<ul style="list-style-type: none"> <li>• <u>Risk</u>: Resilience by private sector to proposed debt relief terms</li> <li>• <u>Mitigating measure</u>: Pressure from Paris Club and other public development partners; good-faith negotiations by the GoS.</li> </ul>



Hierarchy of objectives	Expected outcomes	Beneficiaries	Performance indicators	Indicative Targets and Time-frame	Assumptions/ Risks
<b>2.2 Enhancing Private sector development</b>	2.2.1 Business climate is improved	<i>Private sector operators</i>  <i>Seychelles population</i>	Financial Analysis Branch in Ministry of Finance  Financial Institutions Act (Amendment) Bill  Investment Code (Amendment) Bill	Financial Analysis Branch in Ministry of Finance is operational during 2009  Financial Institutions Act (Amendment) Bill submitted to the National Assembly by 2009  Investment Code (Amendment) Bill submitted to the National Assembly by 2010	
<b>4. Activities/Resources</b>					
Negotiate, approve and sign the Loan Agreement  Implementation of all the measures of the Program matrix of measures  Monitoring, Evaluation and Supervision  Audit of the Special Account	Satisfactory implementation of the Program matrix of measures.	Government	Matrix of Program reforms	100% of the measures are implemented by end 2010	
<b><u>Financial Resources</u></b>  ADB loan: <b>USD 20 million</b> of which: - USD 10 million to be disbursed in 2009 - USD 10 million to be disbursed in 2010					

**Table 2: Program Timeframe and milestones**



## I. – THE PROPOSAL

1.1. Management proposes the following Report and Recommendation for a loan to the Republic of Seychelles for USD 20 million (UA 13.4 million) to finance the **Economic Governance Reforms Program** (EGRP). It is the Bank's first general budget support operation in Seychelles and will be implemented over two fiscal years 2009 and 2010 whereby the loan will be disbursed in two equal tranches of USD 10 million (UA 6.7 million) respectively. It was appraised in May 2009. It results from a request of the Government of Seychelles in January 2009 and is in line with the Bank's Interim Strategy Note 2009-2010. The program purpose is to promote macroeconomic stability and sustainable growth in order to rebalance the economy, by improving economic and financial governance. Its operational policy objectives are to strengthen Public Finance Management and enhance private sector development. It has the following expected outcomes: (i) improved budget formulation and execution; (ii) reinforced budget oversight and transparency; (iii) improved efficiency and transparency in public procurement; (iv) improved public debt management and (v) improved business climate.

## II. COUNTRY AND PROGRAM CONTEXT

### *2.1. Government overall development strategy and medium-term reforms priorities*

2.1.1. **In March 2007, the Government of Seychelles (GoS) presented its National Development Plan - Seychelles Strategy 2017 - with the overarching objective of reducing the commercial activities of the State and stimulating private sector development.** Within this Strategy, the Government also envisaged doubling GDP by 2017 mainly through focused fisheries and tourism expansion programs. In light of the changing economic and social environment, Government has indicated that Seychelles Strategy 2017 will be revised accordingly to address the new economic challenges. In the meantime, it has formulated and is currently implementing a macroeconomic and financial reform program. The GoS has been commended by the IMF for the comprehensiveness and credibility of its reform program, in November 2008, when the Bretton Wood Institution approved a two-year Standby Arrangement (SBA).

2.1.2. **In the past several years Seychelles has recorded high growth rates, which has allowed the country to have already met most of the Millennium Development Goals (MDGs).** However, recurrent expansionary fiscal and monetary policies, coupled with mismatched trade and exchange rate policies have produced long-standing macroeconomic imbalances that threaten future growth prospects and the safeguard of social gains. By October 2008, Seychelles' economy was weakened to such an extent that the country defaulted on its foreign debt.<sup>1</sup> The heavily frontloaded nature of the Government's macroeconomic and financial reform program, launched since October 2008, has brought a rapid and notable turnaround to the country's macroeconomic environment. The Government's record in implementing the program, albeit short, is commendable and has led to strong support from key development partners, notably the Bretton Woods Institutions.

2.1.3. **The overarching goal of the GoS's reform program is to restore macroeconomic stability and sustainable growth in order to rebalance the economy.** This reform program has four main thrusts: (i) achieving full convertibility of the Seychelles Rupee (SCR) and introducing a market-determined floating exchange rate; (ii) adopting a comprehensive debt restructuring strategy; (iii) reducing the role of the State in economic activity, through a public sector reform program and

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<sup>1</sup> The coupon payment on the US\$ 230 million bond, borrowed in 2006, was not made.

promoting private sector development, and (iv) reinforcing Public Finance Management (PFM) reforms and strengthening economic and financial governance.<sup>2</sup>

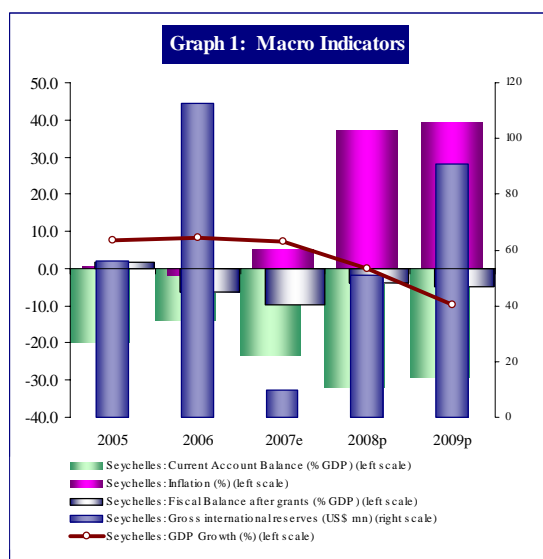
## 2.2. Recent political, economic and social developments, perspectives, constraints and challenges

### Political context

**2.2.1 Multiparty politics were re-introduced in Seychelles in 1992 and elections have been held regularly since then.** In the most recent Presidential elections of July 2006, the incumbent President James Michel of the ruling party, the Seychelles People’s Progressive Front (SPPF), was elected for a five-year term. Legislative elections followed in May 2007 with broadly similar results - the SPPF won over the Seychelles National Party (SNP) by 23 seats to 11. A bipartisan approach to address economic and financial problems has been adopted by the SPPF and the SNP since the launching of the reform program in late 2008. Legislation to enable key reforms, such as the lifting of exchange rate controls, secured unanimous passage at the National Assembly. Further, some opposition representatives have, for the first time, being appointed to the Boards of parastatal enterprises. Both political parties recognize the urgent need for reforms and are broadly in agreement with the general thrusts of the reform program. This augurs well for the reform efforts irrespective of which party is elected during the 2011 Presidential elections.

### Recent Economic and social developments

**2.2.2 Seychelles is a Small Island Developing State (SIDS) with an estimated population of 84,600 people (2006).** It is ranked as a Middle Income Country (MIC) and it registered one of the highest per capita incomes in Africa in 2008 (US\$ 8,960 at the pre-devaluation exchange rate). Seychelles remains a service-based economy and the key drivers of growth are tourism, fisheries and to a much lesser extent off-shore services.



Source: AfDB Statistics Department, 2008

2.1.4. In the last three years (2005 to 2007) Seychelles’ real GDP grew by an annual average of 7.7% (refer to Graph 1). Gross investment during this period averaged nearly 32% of GDP, while domestic savings averaged 12.6% of GDP. Most of the savings in the economy were generated by the private sector, which also accounted for about half of the private investment, Aggregate government savings during this three-year period were minimal,

and most of government investment was financed by borrowing. Inflation rates remained moderate, averaging less than 2% annually.

**2.2.3 However, most of Seychelles’ macroeconomic indicators, over the last several years, outline the underlying imbalances, which the Island has been facing.** This should have resulted in either economic stagnation or severe deterioration. Yet the country has registered high growth rates, in spite of the fact that the country suffered from acute shortages of foreign exchange; maintained a

<sup>2</sup> Source: Budget address by the Minister of Finance, December 11<sup>th</sup> 2008.

fixed and over-valued exchange rate<sup>3</sup>; operated under stringent price and exchange controls and maintained state-enterprises that enjoyed monopoly positions in production and trading sectors.

**2.2.4 The high growth rates may have been due to the fact that the two main drivers of growth, tourism and fisheries have remained insulated from the above-mentioned constraints.**

These two sectors are well developed and are operated mainly by Foreign Direct Investment (FDI) providers who benefit from various exemptions and foreign exchange privileges that have protected them from major constraints. Additionally, the Government was able to borrow from the international and domestic (banking sector) markets to finance its social welfare programs and investment projects. Private savings also held up fairly steadily during the period 2005-2007 as inflation remained low and social welfare measures left a majority of population with income to save.

**2.2.5 As from 2003, some corrective measures, such as fiscal adjustment, gradual liberalization of the economy, and step devaluations of the Seychelles Rupee (SCR) were introduced.**<sup>4</sup>

Nonetheless, the underlying imbalances remained large: in 2008, real GDP growth rate fell to 0.1%. Inflation reached a peak of 63% in December 2008, following the exchange rate adjustment and price liberalization in late 2008. As regards the government budget, the overall fiscal balance on cash basis (including grants) moved from a surplus of 1.7% of GDP in 2005 to a deficit of -6.2% in 2006, and stood at -9.7% in 2007. In 2008, although the fiscal deficit improved slightly, it remained negative at -3.7% of GDP. These deficits, associated mainly with high spending in the social sector and net transfers to the parastatal sectors (accounting for over 29% of total government expenditure and net lending in 2007), have been financed by external borrowing. As regards the country's external position, the current account deficit deteriorated to -32.1% of GDP in 2008 compared to -23.4% in 2007. Foreign exchange reserves dwindled so rapidly that import coverage fell to the equivalent of 0.1 month imports by end-2007, before increasing to 0.7 months import cover by end-2008.

**2.2.6 The goal of the Government's reform agenda is to restore macroeconomic stability and sustainable growth in order to rebalance the economy.**

In this context, one key measure, implemented in November 2008, was the liberalization of the exchange rate regime. The Government's fiscal reform agenda is a combination of expenditure restraints, revenue enhancement, strengthened PFM and public sector reforms, including further privatization of state enterprises. On the expenditure side, the Government has already eliminated a range of direct and indirect subsidies, notably to State Enterprises, and significantly reduced the real wage bill.<sup>5</sup> One of the key measures envisaged on the revenue side is the implementation of a comprehensive tax reform strategy, which includes the elimination of existing exemptions, a review of tax rates and the adoption of a Value-Added Tax (VAT).

**2.2.7 The fiscal reforms are supported by a tight monetary policy in order to reduce inflation, restore confidence in the SCR, following the float, and ensure stability of the domestic banking sector.**

Implementation of the frontloaded reform program has led to early positive results. In their first review of the SBA in March 2009, the IMF concluded that program implementation was broadly satisfactory, reflecting the authorities' strong commitment and ownership of the reforms. The exchange rate has stabilized and the parallel exchange market has disappeared. Interest rates have begun to ease from their peak, and inflation is declining rapidly.

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<sup>3</sup> Between 2003 and 2006, the SCR was pegged to the US dollar, which coupled with foreign exchange restrictions led to an overvaluation of the SCR and persistent foreign exchange shortages.

<sup>4</sup> These measures were implemented mainly to address growing shortages of foreign exchange and complex regulations that had encouraged the emergence of a parallel exchange market and evasion of price controls.

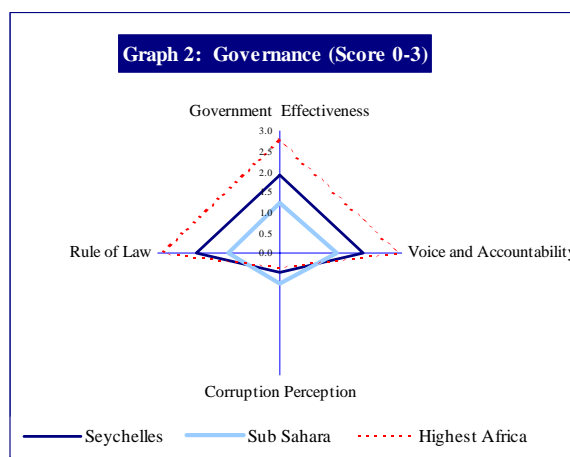
<sup>5</sup> During 2008, Government initiated several efforts to reduce the number of staff on its payroll through an early retirement scheme, a Voluntary Departure Scheme (VDS) and "new hiring" freeze.

**2.2.8 Debt unsustainability is a key problem in Seychelles that the GoS is addressing within its reform program.** In 2008, Seychelles’ total public debt stock (including arrears) was around 150% of GDP with external debt standing at 91.4% of GDP. The bulk of the external debt is to commercial creditors (63%). The Government has also made progress with the public external debt restructuring: in April 2009, Paris Club creditors formally agreed to provide Seychelles with a 45% nominal debt reduction<sup>6</sup>, and rescheduled the remaining amounts over 18 years with a five-year grace period. It was also agreed to defer part of the payments (amortization interest) due in the coming years. The Government is also engaged in “good-faith” negotiations with its external commercial creditors for an appropriate debt restructuring. Nonetheless, Seychelles’ debt burden remains critical to its growth efforts.

**2.2.9 In terms of governance, Seychelles is a good performer.** The World Bank’s Worldwide Governance Indicators (WGI) show that in most dimensions of governance (voice and accountability, political stability, government effectiveness and rule of law), Seychelles is above the 50 percentile rank among the 212 countries surveyed (refer to Graph 2). Furthermore, the 2008 Mo Ibrahim Index of African Governance<sup>7</sup> shows that between 2005 and 2006, Seychelles improved its overall score from 78.1 to 79.8 (out of 100). Its ranking remained unchanged at second place (behind Mauritius) out of the forty-eight Sub-Saharan African countries. Its most notable improvement was in the category “rule of law, transparency and corruption” where Seychelles’s score rose by 6.0 points (from 74.4 in 2005 to 80.4 in 2006). As regards the level of corruption, according to the Corruption Perceptions Index (CPI) of Transparency International, Seychelles was ranked 55 out of 180 countries in 2008, placing the country amongst the least corrupt countries in Africa.

**2.2.10 Seychelles’ Public Finance Management (PFM) system is generally robust.** It was evaluated recently through the 2008 Public Expenditure and Financial Accountability Assessment (PEFA)<sup>8</sup>. This assessment indicates that there is a fairly sound fiduciary environment since the country obtained satisfactory overall scores (refer to Annex 11). Recent legislation on debt management and public procurement set new standards for transparency and accountability of the executive branch. However, there are pending challenges in the PFM system, which relate notably to the credibility and transparency of the budget. In recent years, aggregate expenditure has exceeded the original approved budget mainly due to the fact that the macroeconomic assumptions underpinning budget preparation are not prepared systematically nor used in a consistent manner. The PEFA assessment also highlights limitations in the internal and external control of public finances.

**2.2.11 The State remains a major player in the economy although the private sector is expanding, especially in the tourism and services sectors, transport and cottage industry.** One



Source: AfDB Statistics Department using data from the WGI, WB, 2008

<sup>6</sup> This will be implemented in two stages: half in July 2009 and the remainder in 2010.

<sup>7</sup> The Ibrahim Index assesses national governance against 57 criteria. The criteria are divided into five overarching categories, namely: (i) safety and security; (ii) rule of law, transparency and corruption; (iii) participation and human rights; (iv) sustainable economic opportunity and (v) human development.

<sup>8</sup> Overall dimension ratings of the PEFA indicators are summarized in Annex 11.

key aspect of the Government's reform program relates to increasing the economy's market orientation and supporting private sector development. In this context, the Government is (i) accelerating its privatization program; (ii) taking measures to shift from direct controls to transparent regulation and (iii) improving the business climate by a comprehensive review of the legal and regulatory framework.

**2.2.12 According to the 2009 World Bank's "Ease of Doing Business Report", Seychelles was ranked 104 out of 181 countries.** However, that this ranking reflected partly the lack of a sound foreign exchange policy, which was a major constraint. In terms of the specific criteria, in the enforcement of contracts, the number of procedures and duration were cumbersome, as were procedures for hiring and firing workers.

**2.2.13 The development of the private sector remains a major challenge to promoting economic development.** Apart from the fisheries and tourism sectors and state enterprises that are being privatized, at present development in other sectors is likely to be a slow process, given the limited domestic market, capacity constraints, and hitherto insulated domestic enterprises that lack appropriate knowledge and expertise relating to export markets.

**2.2.14 Seychelles has a notable record in terms of social development.** The Island's Human Development Index (HDI) of 0.821 in 2006, which gives it a ranking of 51 out of a total of 177 countries, is the highest amongst African countries. The Island has also met the targets for most of the MDGs. Such notable results on the social front are due to Seychelles' comprehensive welfare system, introduced since 1977. Poverty incidence in Seychelles is estimated to be relatively low. The most recent national household expenditure survey of 2006/2007 indicates that around 13% of Seychellois are living below the national poverty line of SCR 50 (around USD 3.50) per day. In the context of the current reform program, given the large budget deficits, Government has acknowledged that universal social security assistance is unsustainable. In this context, in the second half of 2008, Government has moved from a universal to a targeted welfare system and a Welfare Agency has been established. This Agency has improved targeting of the most vulnerable groups of the Seychellois population.

### **Perspectives**

**2.2.15 The year 2009 will be a challenging one for Seychelles.** IMF projections indicate that tourism revenue will decline significantly, resulting in a sharp decrease in real GDP growth of -9.6%. GDP growth is however projected to improve in 2010 and 2011, averaging over 3%, reflecting the expected positive results of the implementation of the reform program. The balance of payments' current account, which deteriorated sharply from -13.6% in 2006 to -32.1% in 2008, is projected to improve slightly in 2009 to -29.0%. This improvement would reflect the effects of the devaluation and falling FDI-related imports as well as declines in prices of oil and food imports. However, the current account deficit improvement is subject to uncertainties as to the impact of the global financial crisis. The principal channel by which the crisis is affecting the Seychelles economy is through tourism earnings, which are projected to decline by some 25% in 2009. FDI is also expected to fall by over 40% in 2009 from its 2008 level, prior to resuming its upward trend in the following years. Foreign exchange reserves are also projected to increase to an equivalent of 1.7 months of imports in 2010 compared to 0.7 in 2008. The progressive stabilization of the macro-economy, observed in early 2009, will need to be monitored closely since it remains vulnerable to the international economic crisis.

**2.2.16 The recent reforms have already started to affect social conditions.** Real wages have been eroded by high inflation caused by the devaluation and the reduction of universal social security assistance. Employment is also falling with the slowdown in output and the downsizing of the public

sector through the Voluntary Departure Scheme (VDS).<sup>9</sup> The demands on the public sector for welfare assistance have been limited, as of April 2009, which is associated to several reasons including: (i) the ‘money illusion’ effect created by the granting of severance pay in two quarterly installments, which may have made those let-off feel temporarily well-off and (ii) a reduction in personal savings (the rate of private savings declined from 14.4% in 2007 to 8.5% in 2008 and is estimated at 4.4% in 2009). However, should the demands for welfare assistance rise during the remainder of 2009; the earmarked resources allocated for this purpose are adequate to meet those demands.

### **Principal Constraints and Challenges**

**2.2.17 Unsustainability of public debt.** The most recent Debt Sustainability Analysis (DSA) carried out by the IMF in March 2009 indicated that Seychelles’ public debt was unsustainable. Without a significant concessional debt restructuring, public external debt was projected to rise continually to 415% of GDP by 2018. As noted earlier, Seychelles has already obtained debt relief from the Paris Club creditors. It is important that the Government also obtains debt relief from its commercial creditors on terms needed to improve its longer-term debt sustainability of the country. Hence, commitment to constructive discussions with all external creditors will be critical, in addition to continued strong and sustained fiscal efforts.

**2.2.18 Limited scope for economic diversification and vulnerability to external shocks.** Seychelles suffers from inherent vulnerabilities as a SIDS. Its dependence on tourism and fisheries makes the Island highly vulnerable to exogenous shocks. One of Seychelles’ key challenges is to further optimize the potential value-addition in the fisheries industry as well as to develop new pillars of development in its private sector.

**2.2.19 Significant human resources capacity constraints:** There is a need for non skilled and skilled labor to respond to the job market demand. Professional and vocational workers will be needed by the private sector to sustain growth.

**2.2.20 Weaknesses in Public Finance Management (PFM):** Significant progress has been made by the Government to improve the country’s economic and financial management as part of its reform agenda. However, challenges still remain notably in areas of budget credibility and transparency (refer to para. 2.1.14).

**2.2.21 Constraining business climate for private sector growth.** Several limitations need to be addressed to promote private sector development. One fundamental constraint is the legal framework, which is not sufficiently conducive to creating a competitive business environment. Further and as indicated in the World Bank’s Ease of Doing Business Report (2009), there are also challenges in terms of access to credit coupled with relatively high interest rates. Labor market inflexibilities, in particular in terms of “hiring and firing” also remain a constraint. Moreover, there is need to create an “entrepreneurial attitude” in contrast to the prevailing culture of dependence on the State.

## ***2.3. Bank group portfolio status***

**2.3.1. There are currently no ongoing Bank investment operations in the Seychelles.** All ongoing operations were cancelled at the request of the Government, following the imposition of sanctions in 2000 in view of the arrears situation. However, there are three studies being funded by the Bank as follows: (i) Water Development Plan, financed under the African Water Facility for an

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<sup>9</sup> The VDS was launched in November 2008 with the objective of streamlining the Public Sector in order to facilitate the growth of the private sector. As at end March 2009, 3,300 employees (17% of civil service employees) have opted for the VDS.



amount of 955,000 Euros; (ii) Environmental and Social Impact Assessment study for the Submarine Cable System link of Seychelles to East Africa project (USD 500,000), under the Middle Income Countries' (MIC) Technical Assistance Fund; and (iii) study on human resources development (UA 600,000), also financed by the MIC Technical Assistance Fund.

### III. RATIONALE, KEY DESIGN ELEMENTS AND SUSTAINABILITY

#### 3.1. Link with the CSP, country readiness assessment and analytical works underpinning

3.1.1. **The Economic Governance Reforms Program (EGRP) is aligned with the Bank's Interim Strategy Note (ISN) 2009-2010, and consistent with the Government's macroeconomic and financial reform program** (refer to table 3). The Bank's ISN comprises of one pillar, namely "support the reform program to achieve sustainable growth" with the lending program focusing mainly on a policy-based operation.

3.1.2. **The design of the Bank's budget support loan has been guided by a number of studies** including: (i) the Bank's 2009-2010 Seychelles Interim Strategy Note (February 2009); (ii) the Bank's Country Project Portfolio Review Report (CPPR) for Seychelles (1998); (iii) the IMF Article IV Consultation and a Standby Arrangement Staff Report (2008); (iv) the IMF report "A Strategy for Strengthening Budget Management (2008); (v) the EC-financed "Seychelles Public Financial Management Performance Report" (PFM-PR) of 2008; and (vi) a UNECA report "State of Good Governance in the Republic of Seychelles" (2007).

3.1.3. Important conclusions from these upstream studies confirm that: (i) macroeconomic challenges are significant; (ii) the Government's commitment to economic reforms has remained constant and positive since mid-2008; and (iii) the fiduciary risk for Bank intervention is limited by the relatively good performance in many areas of PFM. In addition to this diagnostic work, program design also benefited from extensive consultations with stakeholders including government officials, donors, parliamentarians from both the ruling and the main opposition party, private sector and civil society organizations.

3.1.4. **The EGRP meets the eligibility criteria of budget support as stipulated in the "Guidelines on development budget support lending".**<sup>10</sup> Under the general prerequisite conditions, the country has a stable political environment as demonstrated by elections held in 2006 that were deemed to be free and fair by the international community and the strong political consensus for implementation of the reform agenda. In addition, considerable progress has been made towards stabilizing the overall macroeconomic environment, following the rigorous implementation of the frontloaded reform program since late 2008.

Table 3: Linkages between the Government's macroeconomic and financial reform program and the EGRP

Component of the FGRP	Seychelles Strategy 2017	Principal Reforms supported by the EGRP
Strengthening Public Finance Management	Reinforcing (PFM) reforms and strengthening economic and financial governance	<ul style="list-style-type: none"> <li>- Improvement of the budget formulation, process, execution and oversight;</li> <li>- Improvement of the public debt management;</li> <li>- Modernization of the public procurement process for more transparency;</li> </ul>
Enhancing Private Sector Development	Reducing the role of the State in economic activity	<ul style="list-style-type: none"> <li>- Review legislative framework relating to business activities</li> </ul>

Source: AfDB and Authorities of Seychelles, April/May 2009

<sup>10</sup> Ref: ADF/BD/WP/2003/182/Rev.2 (28 April 2004).

**3.1.5. The technical prerequisite conditions relating in particular to public finance are also satisfied**, as follows:

- **Existence of well designed PRSP or NDP and effective implementation mechanisms:** In March 2007, the GoS has formulated a NDP (Seychelles Strategy 2017). The Government has also formulated a comprehensive and credible macroeconomic and financial reform program to rebalance the economy. The latter is the basis on which the IMF has designed its ongoing SBA. Implementation of the GoS's reform program is coordinated by the Ministry of Finance. Moreover, progress on the reform agenda is reviewed by the IMF each quarter. The NDP will be revised accordingly to address the new economic challenges.
- **Viable macro-economic and financial medium term framework:** The Medium-term Fiscal Framework would be finalized in the context of the 2010 Budget. However, medium term fiscal projections made in the context of the IMF's SBA show that it is viable.
- **Strong partnership between RMC and donors and strong partnership among donors:** Following the approval of the SBA by the IMF in November 2008, a strong partnership arrangement between Seychelles and its development partners is emerging. Joint missions by the Bank, the IMF, the World Bank, the EC and UN agencies, since January 2009, demonstrate the strong commitment of development partners in coordinating their support to Seychelles' reform program. A donor forum was also organized in May 2009 to enable development partners, including the Bank to share their views on the ongoing reform program with the GoS.
- **Satisfactory fiduciary review of the public financial management system (use of country system):** Overall, the fiduciary environment is generally satisfactory as evidenced by the 2008 PEFA Assessment (refer to para. 2.1.14).

### ***3.2 Collaboration and coordination with other donors***

**3.2.1. The areas of focus of the Bank's proposed Program will complement efforts undertaken by the IMF and World Bank, as part of an agreed division of labor** (refer to Annex 3). In the recent past, donor presence in Seychelles has been limited due to arrear and due to the perception that the country did not require significant assistance. However, the donor community has reacted positively to Seychelles' reform program, which is considered as credible by key development partners. The IMF approved a two-year SBA of SDR 17.6 million in November 2008, with a frontloaded initial disbursement of 70% of the quota.

**3.2.2. The IMF's intervention has triggered a positive chain reaction by other development partners, including the World Bank.** It is within this coordinated framework that the Bank is proposing to support the Government's reform agenda. Whilst at this stage, a joint donors' common strategy framework has not been formalized, interventions of the key development partners, including the Bank, are being planned in a concerted and coordinated manner to ensure synergy and complementarity. To this end, a joint AfDB/World Bank preparation mission was carried out in January 2009 and coordinated with the EC. During the appraisal mission in April/May 2009, an IMF mission was carrying out the second review of the SBA. In terms of sequencing of intervention, the World Bank plans to grant a Development Policy Loan (DPL) of two tranches (USD 9 million each) in 2009 and 2010.

### ***3.3 Outcomes of past and on-going similar operations and lessons***

**3.3.1. This is the Bank's first budget-support operation to Seychelles.** However, there are useful lessons arising from past Bank interventions in the country. A Country Project Portfolio Review (CPPR), undertaken in 1998, highlighted the importance of domestic capacity for timely project

execution. Several projects were adversely affected by the shortage of adequately trained manpower in the country. Another issue that the Review recognized was the need for better co-ordination of Bank projects between Government departments, technical line Ministries and the executing agencies.

### ***3.4 Bank's comparative advantages***

**3.4.1. The Bank has been involved in Seychelles' reform process since 1999 when it completed a study on Seychelles' Macroeconomic Plan (July 1999) and a follow-up study on the reform of the social welfare system (November 2000).** Although the Bank's involvement in the country diminished due to Seychelles' arrears, vis-à-vis the Bank Group, the role of the Bank in inspiring the country's reforms is still well recognized. This is evidenced by the fact that critical issues highlighted in those studies have now been incorporated in the Government's reform program.

**3.4.2. Further, the Bank continues to play an instrumental role in promoting governance and private sector development in Africa, which are also the areas of special focus in the GoS's reform strategy.** By focusing on PFM and private sector development, the Bank can complement support already provided by the IMF in certain areas of macroeconomic policies and debt management. The Bank can also complement the support foreseen by the World Bank, which is focusing the public sector reforms, social safety net, and private sector growth. In addition, the inclusion of the Bank as an additional source of finance would help to diversify Seychelles' sources of finance and reduce the potential volatility of market sentiment relevant to its borrowing needs.

### ***3.5 Application of good practice principles on conditionality***

**3.5.1. Reinforce ownership.** The reform program is fully owned by the GoS and reflects the orientations of the Seychelles Strategy 2017, prepared by the Government through broad-based consultations with stakeholders. In implementing the reform policies since the last quarter of 2008, the Government has demonstrated its strong commitment in carrying out its agenda successfully.

**3.5.2. Agree on a coordinated accountability framework.** Although currently there is no formal coordinated framework, the Government, by encouraging development partners to calibrate their assistance within its reform program, has triggered the necessary coordination. The lead role taken by the IMF in providing financial and technical support to the Government and staff contacts between the IMF and other development partners, including the Bank, have also enabled the latter to fine-tune their interventions. The Government has also indicated that it is considering, and will propose to its development partners, a formal coordination mechanism, following the donors' forum in Seychelles in May 2009.

**3.5.3. Customize the accountability framework and modalities of Bank support to country circumstances.** The Bank's support reflects government expressed intentions and is appropriate for a country that is in the midst of restoring macroeconomic stability. The program implementation will use the country's own systems and monitoring mechanisms. In addition, the Government will use the newly established National Committee on Public Debt to monitor the use of the loan proceeds.

**3.5.4. Select only actions that are critical for achieving results as conditions for disbursement.** The policy actions chosen by the Bank as triggers for disbursement (Annex 5) are the ones critical for achieving results and have been derived from the operations policy matrix (Annex 2).

**3.5.5. Application of ADB policy on non concessional borrowing:** Since Seychelles is a MIC (category C country), this policy does not apply.

## IV – THE PROPOSED PROGRAM

### *4.1 Program’s goal and purpose*

4.1.1. **The Bank’s first proposed Budget Support operation in Seychelles – the Economic Governance Reforms Program (EGRP) – aims to support the Government in the implementation of its reform program as defined in the Government’s Letter of Development Policy** (Annex 1). The EGRP, which is articulated within the LDP, continues with, and builds upon, the Government’s current reform program. Thus, the ERGP’s goal is to support the Government’s efforts to promote macroeconomic stability and sustainable growth in order to rebalance the economy, by improving economic and financial governance. The EGRP is based on the Operations Policy matrix (Annex 2), which has been agreed with by the GoS and the Bank during the latter’s visit to Seychelles from April 27 to May 8 2009.

### *4.2 Program’s pillars, operational policy objectives and expected results*

4.2.1. **The EGRP supports the Government’s macroeconomic and financial reform program for 2009-2010 and in particular reforms related to Public Finance Management (PFM) and increasing the role of the private sector as a driver of growth.** The proposed Program will be implemented through two principal components, namely: (i) strengthening PFM, and (ii) enhancing private sector development. The first component aims at consolidating the gains achieved in reversing the fiscal deterioration through better management of public finances. The second component aims at further reducing the role of the public sector as a direct agent in economic production and trading activities and in becoming a facilitator for private sector development.

#### **Component A. Strengthening Public Finance Management (PFM)**

4.2.2. **This component will allow the Bank to maintain dialogue with the Government on matters relating to PFM.** The Government has flagged the strengthening of PFM as its priority since it will facilitate the fiscal consolidation, which has been initiated under the economic reform program. One of the objectives of the Government’s reform program is to ensure that public resources are allocated and used efficiently. Specific areas of PFM on which the dialogue of the Bank, would focus are: (i) budget formulation, and execution; (ii) budget oversight and transparency; (iii) public procurement and (iv) public debt management.

4.2.3. **With regards to the budget formulation and execution, the current budget process is of an incremental, bottom-up, approach and lacks a firm anchor within a macroeconomic framework.** Government accounting in Seychelles is performed mainly on a “cash basis”. Information on external and domestic debt, social security and pension funds as well as financial assets is kept on an “accrual basis”. Following consultations with individual ministries and agencies, the Ministry of Finance (MoF) prepares a consolidated budget with necessary adjustments to meet its fiscal objective (defined as a percentage of GDP). This consolidated budget is submitted to the National Assembly for approval in mid-November of each fiscal year in the form of an Appropriation Bill. Capital expenditure for major investment projects is budgeted separately from current expenditure and is not presented for approval by the National assembly.<sup>11</sup> In recent years, aggregate expenditure has exceeded the original approved budget mainly due to the fact that: (i) macroeconomic assumptions underpinning budget preparation were not prepared systematically nor used in a consistent manner and (ii) budgets did not include sector ceilings and thus ministries often exceed their allocations.

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<sup>11</sup> The capital expenditure is included in the summary of budget estimates in the budget document.

4.2.4. **The Government acknowledges the fact that the budget formulation process lacks credibility.** Thus, as a first step to improving budget credibility, for the 2009 budget, the GoS included indicative sector ceilings. The Government is also consolidating the budget in line with the definitions of the IMF's Government Finance Statistics (GFS) Manual. In addition, the MoF is currently setting up a new unit which will be responsible for the production of internally consistent projections of main macroeconomic aggregates for budget preparation. The GoS has thus decided to present the 2010 budget (including financing and debt) to the National Assembly on the basis of a Medium-Term Fiscal Framework (MTFF). The IMF is providing technical assistance for the 2010 budget preparation.

**Second tranche disbursement trigger:** Submission by Government of 2010 Budget on the basis of a MTFF

**Benchmark (to measure progress):** A macroeconomic forecasting unit is set up within the MoF in 2009.

4.2.5. **As part of its efforts to strengthen PFM, the Government is also reinforcing budget oversight and transparency by reinforcing internal controls.** On the basis of recommendations of the IMF<sup>12</sup> on strengthening budget management and the PEFA Assessment and, the Government is implementing various measures to improve expenditure controls within the line ministries and the Office of the Auditor General (OAG).

4.2.6. **One key aspect in improving budget oversight is for the Government to ensure an efficient cash management system.** Currently, most of the Government bank accounts, including the Consolidated Fund Account (CFA), are maintained at the Central Bank of Seychelles (CBS). The GoS cash balance is measured according to the CFA only, despite the fact that there are other Government accounts which also have significant cash balances. The Bank is thus placing special emphasis, through the EGRP, on the creation of a Treasury Single Account (TSA)<sup>13</sup> at the CBS. The TSA, which is a unified bank account that consolidates government liquidity, would improve cash management and the timeliness and regularity of accounts' reconciliation.

4.2.7. **The EGRP envisages strengthening the operational independence of the OAG and making provisions for performing management auditing.** The Audit Act (Amendment) Bill, prepared in consultation with the Auditor-General, addressing the above-mentioned limitations is currently being finalized and will be presented to the National assembly during the course of 2009.

4.2.8. **One further challenge that Government is addressing to ensure budget transparency is the reinforcement of financial discipline and accountability of public entities.** As part of its plan to improve expenditure controls of public entities, the Government intends to carry out management and financial audits of seven companies.<sup>14</sup> The Government has already carried out management audits for four out of these seven public entities (PUC, SPTC, SEYPEC and Air Seychelles). These above-mentioned policy actions, which are supported by the Bank's EGRP, are a clear indication of the Government's intention to introduce a comprehensive budget that would include the financial operations of these entities, and thus reinforce transparency. The results of the audited accounts should also help the authorities in executing their privatization program and enforcing management discipline on enterprises remaining within the public sector.

**Benchmarks (to measure progress):** (a) Creation of a Treasury Single Account in 2009; (b) Financial audits of 3 public entities (Air Seychelles, SEYPEC and PUC) are carried out in 2009; (c) Financial audits of 4 public entities (SPTC, SCAA, IDC and Nouvobanq) are carried out in 2010

<sup>12</sup> "Seychelles: A Strategy for Strengthening Budget Management", IMF, September 2008.

<sup>13</sup> This is an account or set of linked accounts through which the Government receives all revenues and transacts all payments;

<sup>14</sup> Public Utilities Corporation (PUC); Seychelles Public Transport Corporation (SPTC), national petroleum company (SEYPEC), Seychelles Civil Aviation Authority (SCAA), Island Development Corporation (IDC), Air Seychelles and Nouvobanq.

4.2.9. **The GoS is also strengthening public procurement within its PFM reforms.** In the recent past, the country had no specific procurement legislation. Instead there was a set of Ministerial Circulars and financial instructions with a component relating to public procurement, which was the basis to guide procurements. The Government is aware that this method of was inadequate. For instance, the system lacked a provision for settlement of disputes and responsibilities, and accountability throughout the procurement process was not clearly defined.

4.2.10. **The Common Market for Eastern and Southern Africa (COMESA) has been instrumental in improving procurement national systems in Seychelles.** Through COMESA's "Enhancing Procurement Reforms and Capacity Project" (EPRCP), for which the Bank Group provided an ADF grant of UA 1.17 million, the GoS has received the technical assistance to prepare a new legal framework. The Public Procurement Act (PPA), recently enacted in late 2008 is modeled according to COMESA's 2002 Public Procurement Framework Directive. The PPA standardizes procurement procedures within the public administration by harmonizing and modernizing regulations and procedures.

4.2.11. The challenge now for the GoS is to ensure full adherence to the PPA. In this context and in line with the PPA, a new National Tender Board and a Procurement Oversight Unit (POU) were set up in December 2008. The EGRP will support the GoS in ensuring that the new procurement system is fully operational, during the Program period. For the procurement system to be fully operational, the Government needs to: (i) establish standardized bidding documents, which will be used by all ministries and parastatals; (ii) set up a website by the POU whereby contract awards will be published and (iii) separate the functions of the budget officers and procurement officers by the creation of procurement officer posts for all line ministries, who will be in place as from 2010. A fully operational national procurement system will allow Seychelles to enhance regional integration by increasing intra-regional trade among COMESA Member States through harmonized procurement systems.

**First tranche disbursement trigger:** Submission by Government of a Public Procurement Bill to the National Assembly

**Benchmark (to measure progress):** (a) Standardized tender bidding documents are available in 2009; (b) Procurement Oversight Unit website is set up in 2010; (c) at least 1 procurement officer in place for all line Ministries by end 2010.

4.2.12. **As regards public debt management, in the past, Seychelles was able to finance its large budget deficits and maintain a generous social welfare system by contracting domestic and foreign debt.** However, this has resulted in an unsustainable debt situation and thus improving public debt management is a fundamental element of the GoS's reform agenda. The Government has already succeeded in obtaining debt relief from the Paris Club (refer to para. 2.1.12) and has also enacted a new Public Debt Law in late 2008. This new Law establishes procedures and defined roles and responsibilities of agencies involved in debt contracting and management. Further, the Law mandates the Ministry of Finance (MoF) as the only public body to contract debt. In spite of this notable progress in debt re-profiling, the bulk of the external debt remains to commercial creditors. Hence, as next steps in its debt re-profiling, the GoS has to arrive at a mutually satisfactory agreement with external commercial creditors on debt relief terms, during the early phase of the EGRP implementation. A first round of good-faith negotiations has already taken place between the GoS and its commercial creditors. The Government is also being required, within the IMF's SBA, to limit the contracting of new external debt within specific limits. Moreover, in the context of the new Public Debt Law, the Government is preparing a medium-term debt management strategy and annual borrowing plans as from the 2010 Budget, which shall be presented to the National Assembly.

4.2.13. **The Bank, through the EGRP, and together with the Bretton Woods Institutions, will strongly support the policy actions that the GoS will take to put the country's debt profile on a sustainable path.** Completion of these steps would fully accomplish one of the main objectives of the GoS's current reform program, help re-establish normal relations with creditors and reduce uncertainties regarding budget formulation and execution.

**Second tranche disbursement triggers:** (a) Submission by Government of a medium-term debt strategy to the National Assembly; (b) Submission by Government of the 2010 Annual Borrowing Plan to the National Assembly

**Benchmark (to measure progress):** Agreements on debt relief terms are reached with external commercial creditors by end 2009;

### **Component B: Enhancing Private Sector Development**

4.2.14. **This component will enable the Bank to pursue a dialogue with the GoS on issues relating to the enhancement of private sector development.** Under its current reform program, the Government is shifting from its previous paradigm of state-led development to private sector-led growth. The current difficulties, which the country is experiencing in promoting private sector growth, are associated to a fairly restrictive business climate. Hence, the specific area of private sector development on which the Bank's dialogue would focus is on the legal and regulatory framework.

4.2.15. **Under its current reform program, the Government is privatizing/liquidating various public entities, notably the Seychelles Marketing Board (SMB)<sup>15</sup>, to provide a larger and a wider space for private sector activities.** Specific measures aimed at improving the business climate were introduced in 2008. These latter measures include: the liberalization of the exchange rate regime and credit markets; removal of price controls; replacement of discretionary fiscal incentives regime for investment by a non-discretionary regime and improvements in general business taxation.<sup>16</sup> However, there is still large scope for making the business climate more conducive for private sector development. In the World Bank's "Doing Business 2009" Report, covering 181 countries, Seychelles ranked below average at 104, behind middle-income African countries such as Mauritius, South Africa, Botswana, Namibia, but also behind low-income countries including Kenya, Ghana, and Zambia. As per data from the "Doing Business 2009" Report, at least 38 days are required to start a business in Seychelles, which is considerably longer than in neighboring countries such as Comoros (23 days), Madagascar (7 days) and Mauritius (6 days). Further, Seychelles also obtains low scores in areas of labor market flexibility (hiring and firing of labor), access to credit, and closing business.

4.2.16. **The Government is aware that there is an urgent need to introduce a number of legal, regulatory, and institutional reforms to improve the business climate.** The legal framework is fairly outdated (some laws date back to the seventies and have not undergone any revision) and needs to be comprehensively reviewed in order to better attract private sector operators. Hence, under this component, the Bank's EGRP will support a review of the overall legal and regulatory framework governing private sector activities. During the Program period the Government will review and revise the Financial Institutions Act, the Investment Code, the Employment Act, and the Licensing

<sup>15</sup> Prior to its dissolution, SMB was engaged in a range of activities, including commercial trading, agro-industries, animal feed, and tea plantations.

<sup>16</sup> This includes: flat business tax rate, elimination of discretionary tax cuts, and reduction in social security contribution by employers (from 40% to 20%).



Act. Taken together, these actions should contribute to creating an improved and enabling business climate.

**4.2.17. Decades of state-controlled financial and credit markets have biased credit orientation towards the public sector.** This has not only undermined the soundness of the financial institutions but has also hindered the private sector's access to credit and increased the cost of credit. The Government is committed to redressing this situation. With technical assistance from the IMF, it is modernizing regulations and financial norms with a view to strengthening the stability, accountability, and transparency of the financial system. Accordingly, as a complement to the financial sector reforms already introduced since November 2008, during 2009, the EGRP will support the Government in preparing a Financial Institutions Act (Amendment) Bill that is in line with international best practices.

**4.2.18. The present Investment Code, adopted in 2005, abolished incentives that were granted under the previous Investment Promotion Act.** The current Investment Code also brought about the creation of the Seychelles Investment Board (SIB), and introduced new approval criteria for certain foreign and domestic investors. However, this Code has limitations, which are constraining to private sector growth. For example, the list of restricted domains of investment limits competition. The Code also lacks provisions on the institutional setup, mandate, and functions of the SIB. Revision of the Code, in consultation with the Seychelles Chamber of Commerce and Industries (SCCI) and other private sector stakeholders, has already begun. Under this component of the Program, the Bank will be engaged in dialogue with the Government so that during 2009 an Investment Code (Amendment) Bill will be completed and endorsed by the Government and thereafter submitted to the National Assembly in 2010.

**4.2.19. Current labor laws are considered to be too restrictive on employers, and are considered to be very protective on workers' rights.** Seychelles is assigned a value of 50 in the World Bank's Doing Business index<sup>17</sup> for the difficulty of firing workers and is estimated to cost business an average of 39 weeks of salary for firing a worker. The labor laws also appear to be biased towards potential to earning foreign exchange and not development goals. The new development orientation of the Government implies that laws need to be revised with a view to favoring employment of local labor, and increasing labor market flexibility. The EGRP will support the Government in undertaking its ongoing review of the current Employment Act in order to address these shortcomings. Thereafter, an Employment Act (Amendment) Bill will be prepared in 2009 and approved by the Government, prior to submission to the National Assembly in 2010.

**4.2.20. Concerning the licensing regime governing private companies, prior to 2005, the regime was designed to control almost all aspects of business.** In addition, the setup of the Seychelles Licensing Authority (SLA) grants SLA officials considerable discretion for issuance, renewal and withdrawal of licenses, leaving little room for appeal against their decisions. Since 2005, several steps have been taken to address the shortcomings in the licensing regime including: (i) certain business activities being removed from the licensing list; (ii) the duration of procedures shortened; and (iii) licenses not being used as instruments of monitoring and controlling foreign exchange outflows and price controls. In spite of these improvements, the licensing system remains a constraining factor to private sector development. For instance, the Act still encompasses an excessive number of small-scale activities that require a license to operate, and continues to provide a high degree of discretion to SLA officials in the issuance, renewal, and withdrawal of licenses. In order to remedy these and other limitations, a Licensing Act (Amendment) Bill is being prepared in

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<sup>17</sup> 0 being the least rigid and 100 being the most rigid.



consultation with the private sector, and will be submitted by Government to the National Assembly in 2010.

4.2.21. **Besides the legal and regulatory business framework, the Government is reviewing fiscal concessions on investment proposals.** It has included, as part of its institutional reforms, the setting up of a Financial Analysis Branch, within the Ministry of Finance. The Financial Analysis Branch will be mandated to assess the investment proposals of above SCR 10 million. Under this component of the Program, the Bank will support the Government in the setting up the Financial Analysis Branch during 2009.

**First tranche disbursement trigger:** Submission by Government of the Financial Institutions Act (Amendment) Bill to the National Assembly

**Second tranche disbursement trigger:** Submission by Government of the Investment Code (Amendment) Bill to the National Assembly

**Benchmark (to measure progress):** (a) The Financial Analysis Branch is set up in 2009; (b) the Review of the Employment Act (1990) is carried out in 2009 - this Review will be reflected within a Report, which will highlight the weaknesses of the current Act and provide recommendations for revisions; (c) the Review of the Licensing Act (1972) is carried out in 2009 - this Review will be reflected within a Report, which will highlight the weaknesses of the current Act and provide recommendations for revisions.

### 4.3 Financing needs and arrangements

4.3.1. **Table 5 hereunder presents the financing needs and sources of financing for the fiscal years 2009 and 2010.** For 2009, total revenues are estimated at SCR 3,410.5 million, while total expenditures (including net lending) are estimated at SCR 3,872.9 million. The budget projects clearing arrears totaling SCR 211.5 million thus projecting overall deficit, on cash basis, at SCR 674 million. The budget provides for both net foreign borrowing (project loan receipts less amortization payments) and net domestic borrowing to be negative, SCR -1,042.2 million and SCR -404.9 million respectively. On the other hand the budget would benefit from receipts from the sale and lease of fixed assets estimated at SCR 390 million. On this basis, the financing gap for 2009 is estimated at SCR 1,730.8 million. As shown in Table 5 below, the corresponding gap for 2010 is estimated at SCR 1,062.1 million. The 2009 gap will be covered by a drawing of UA 6.7 million (SCR 160 million) under the proposed budget support loan from the Bank, a drawing of US\$ 9 million from the World Bank under their Development Policy Loan, and projected debt relief.

Table 4: Financing needs and sources of financing, 2009-2010 (millions SCR)

	2009	2010
		Projec.
Domestic revenue (incl. grants)	3,410.5	4,038.7
Total expenditure and net lending	-3,872.9	-4,273.4
Change in Arrears	-211.5	0.0
<b>Overall balance (cash basis)</b>	<b>-673.9</b>	<b>-234.7</b>
Foreign borrowing (net)	-1,042.2	-626.8
- <i>Project loans</i>	320.0	307.3
- <i>Scheduled amortization</i>	-1,362.2	-934.1
Domestic borrowing (net)	-404.9	-400.0
Parastatals and lease of fixed assets	390.2	199.4
<b>Financing</b>	<b>-1,056.9</b>	<b>-827.4</b>
<b>Total financing gap, financed by:</b>	<b>-1,730.8</b>	<b>-1,062.1</b>
- <i>AfDB DBSL</i>	160.0	160.0
- <i>World Bank Development Policy Loan</i>	144.0	132.0
- <i>Projected Debt relief</i>	1,426.8	770.1

Source: Authorities of Seychelles and IMF, March 2009

4.3.2. **In its March 2009 review of the SBA, after taking into account the Bank and World Bank loans, the IMF concluded that the residual financing gap is expected to be closed by debt restructuring.** The Paris Club creditors have already agreed to provide Seychelles a 45% debt relief, and negotiations are in progress with commercial creditors where the authorities are confident of reaching an agreement before the end of 2009.

4.3.3. **Whilst it is recognized that the Government is strongly committed to its reform agenda and has obtained early positive results, given the rapidity in which the reforms are being implemented, it is also evident that its own funds will not be sufficient to close the budgetary financing gap.** Hence, access to quick-disbursing finance during such a period is of critical importance for Seychelles to support its debt re-profiling efforts.

#### ***4.4. Program's beneficiaries***

4.4.1. **The Seychellois population in general will reap the benefits of resumed growth and employment opportunities in the private sector.** In addition, they will benefit indirectly from the transparent and efficient management of public resources.

4.4.2. **A direct consequence of strengthened PFM will be that individual ministries and other public bodies will become more efficient at delivering public services.** Moreover, by supporting a 'holistic' review of the business legal and regulatory framework, the program should bring a benefit to economic agents who are presently unable to operate effectively within the current private sector environment. Combined with the efforts to restructure public debt in order to restore a sustainable debt profile, the immediate beneficiaries will be the sectors that could attract FDI. Liberalizing the economy also implies that opportunities for 'rent seekers' will diminish.

#### ***4.5 Impacts on gender***

4.5.1. **Seychelles is considered as a champion in gender equality.** Data from a recent "National Gender Report for the Elaboration of a sub-regional IOC Gender Strategy" indicates 27% female representation in the National Assembly, 30% at the ministerial level, 38% at chief executive and middle-management levels and 55% at the public service director level.

4.5.2. **The focus of the program on private sector development will bring particular benefits to the women population.** This is because in the more recent times, women have increased their participation in production activities, especially in the small and cottage industries sectors. Thus, as at end August 2008 out of 1,333 registered officially cottage industry enterprises, 605 were operated by women. Similarly, the number of women taking loans under the Government's various schemes financed through the Concessionary Credit Agency (CCA) to start a small business or expand an existing business represented 67% of total borrowers, and accounted for the highest number of loan under the CCA's Youth Enterprise Scheme (YES).

4.5.3. **The Program, by encouraging fiscal sustainability and improving public expenditure efficiency, should help assure the continued operation of the CCA and thus further assist gender development.** In addition, there should be other significant benefits for the female population through the Government's training programs in tourist and other service industries where the demand for female labor is relatively higher than for male workers. Additionally, the targeted, more efficient, welfare system, by focusing on the vulnerable sections of the population, should also be to the benefit of women who constitute a larger proportion of the vulnerable.

## ***4.6 Environmental Impacts***

4.6.1. **This program has been classified under category III of the Bank’s environment classification.** The programme is not expected to generate any negative impacts on the environment since it focuses on management of public finances and improving the business climate with a particular emphasis on the regulatory framework.

## **V. – IMPLEMENTATION, MONITORING AND EVALUATION**

### ***5.1. Implementation arrangements***

5.1.1. **Institution responsible for implementing the program:** Overall responsibility for the implementation of the loan lies with the Ministry of Finance (MoF).

5.1.2. **Disbursement of the loan:** The proceeds of the loan will be disbursed in two tranches, in equal amounts of US\$ 10 million (UA 6.7 million) in 2009 and 2010 respectively, following satisfactory achievement by the Government of specific disbursement triggers. The Government will also be required to open a special foreign exchange account exclusively for the Program, to which the funds will be disbursed. The equivalent amount in Seychelles Rupee (SCR) will immediately be transferred by the Central Bank of Seychelles to the Treasury and the Government will thereafter confirm receipt to the Bank.

5.1.3. **Audit arrangements:** The utilization of the proceeds of the Loan will be audited through country audit systems and structures, namely the Office of the Auditor General. The Government has undertaken to provide the Bank with the annual audit report of the Auditor General on the Financial Annual Statements of the Seychelles. The annual report will be presented to the Bank promptly after submission to the National Assembly, which is due nine months after the fiscal year in question. This confirms that the Bank will therefore have access to the Financial Annual Statements.

5.1.4. **Procurement arrangements:** Disbursement will not be linked to any specific rules since no procurement requirements are needed.

### ***5.2. Monitoring and evaluation arrangements***

5.2.1. **The monitoring and evaluation of the Program will be under the responsibility of the Ministry of Finance (MoF).** The Government will also use the newly established National Committee on Public Debt to monitor the use of the loan proceeds. The MoF will be in charge of collecting, from the appropriate sources, the data necessary to assess implementation progress.

5.2.2. **In addition, the EGRP implementation monitoring will rely on Bank supervision missions as well as continued country dialogue and the IMF periodic review of the SBA.** Reviews between the MoF and the Bank will aim to identify the main strengths and weaknesses of the reform program, and possible assistance needs to sustain the forward momentum toward the government’s planned medium-term outcomes and address possible downside risks.

## **VI – LEGAL DOCUMENTATION AND AUTHORITY**

### ***6.1. Legal documentation***

6.1.1. Loan Agreement between the Republic of Seychelles and the African Development Bank.

## **6.2. Conditions associated with the Bank's intervention**

### **A. Conditions precedent to entry into force of the Loan Agreement**

6.2.1 The entry into force of the Loan Agreement shall be subject to the fulfillment by the Borrower of the provisions of section 12.01 of the General Conditions Applicable to Loan Agreements and Guarantee Agreements of the African Development Bank.

6.2.2 In order to facilitate the disbursement and monitoring of the loan, the Government will open a special account in foreign currency at the Central Bank of Seychelles (CBS) into which the loan proceeds would be disbursed. This will be a condition precedent to the release of the loan.

### **B. Conditions precedent to the disbursement of the first tranche in 2009**

6.2.3 The obligation of the Bank to disburse the Loan shall be conditional upon the entry into force of the Loan Agreement and the fulfillment of the following conditions:

- i) **Satisfactory review of the IMF Standby Arrangement in March 2009**  
⇒ Required evidence:
  - a copy of the IMF's press Communiqué
- ii) **Submission by the Government of the Financial Institutions Act (Amendment) Bill to the National Assembly**  
⇒ Required evidence:
  - a copy of the current Financial Institutions Act 2004;
  - a copy of the Financial Institutions Act (Amendment) Bill
  - the letter by the [Cabinet] transmitting the Financial Institutions Act (Amendment) Bill to the [Speaker of the National Assembly]
- iii) **Submission by the Government of a new Public Procurement Act to the National Assembly**  
⇒ Required evidence:
  - a copy of the new Public Procurement Act
  - the letter by the [Cabinet] transmitting the new Public Procurement Act to the [Speaker of the National Assembly]

### **C. Conditions precedent to the disbursement of the second tranche in 2010**

6.2.4 In addition to the evidence of the satisfactory review of an IMF-supported program, via the IMF Press Communiqué, the disbursement of the second tranche will be carried out during the fiscal year 2010, if the conditions hereafter are fulfilled:

- i) **Submission by the Government of the 2010 Annual Borrowing plan to the National Assembly**  
⇒ Required evidence:
  - a copy of the 2010 Annual Borrowing Plan and
  - the letter by the [Cabinet] transmitting the 2010 Annual Borrowing Plan to the [Speaker of the National Assembly]
- ii) **Submission by the Government of a medium-term debt strategy to the National Assembly**

- ⇒ Required evidence:
  - a copy of the medium-term debt strategy and
  - the letter by the [Cabinet] transmitting the medium-term debt strategy to the [Speaker of the National Assembly]
- iii) **Submission by the Government of the 2010 Budget on the basis of a medium-term fiscal framework**
  - ⇒ Required evidence:
    - a copy of the 2010 Budget and
    - a copy of the medium-term fiscal framework
    - the letter by the [Cabinet] transmitting the 2010 Budget to the [Speaker of the National Assembly]
- iv) **Submission by the Government of the Investment Code (Amendment) Bill to the National Assembly**
  - ⇒ Required evidence:
    - a copy of the current Investment Code (2005);
    - a copy of the Investment Code (Amendment) Bill
    - the letter by the [Cabinet] transmitting the Investment Code (Amendment) Bill to the [Speaker of the National Assembly]

### ***6.3. Compliance with Bank Group policies***

6.3.1. This program fully complies with the Bank’s “*Guidelines on the Development Budget Support Lending*”.

## **VII- RISK MANAGEMENT**

7.1. **Sustainability of program impacts:** currently key development partners, including the Bretton Woods Institutions, are providing substantial technical assistance in various areas because the country lacks the capacity. The risk is that a void may be created once this technical assistance is completed with negative consequences for the implementation of the reform program.

- **Mitigation:** The Government is sensitizing development partners of their needs in capacity building for the medium-and long-term to ensure that such a void is not created. Local technical staff is being trained on the job by the current technical experts.

7.2. **External shock vulnerability and impact of the global economic slowdown may weaken commitment to the implementation of the reform program:** The global economic slowdown could be worse than anticipated, with adverse effects on tourism, growth and the banking sector. External financing availability may also prove more difficult to mobilize than anticipated.

- **Mitigation:** The authorities have shown strong commitment to implementing the reform program, as demonstrated by the upfront measures already taken. The authorities are willing to take additional measures to ensure program success if these risks materialize. A close dialogue with the IMF will enable the Bank to closely monitor such impact and have a concerted dialogue on how to adjust to global circumstances.

7.3. **Social and political consensus for reform could wane due to the severity of the adjustment.** Short-term social cost of adjustment could lead to social dissatisfaction with the

program if not managed carefully. Consequently, pressures for fiscal and monetary relaxation could emerge and policy reforms may halt or even be reversed. This would lead to failure to lift the reform process into the medium term. While presidential elections are not expected soon, there is a risk the government may be under pressure to ease out its discipline as the 2011 election will approach.

- **Mitigation:** Effectively communicating the reform agenda and its medium- to long-term advantages to the population would be critical to get the necessary internal buy-in. The Government has also introduced a social safety net targeting the most vulnerable groups to minimize the negative impact of the reform program.

7.4. **Debt insolvency by the country:** Despite the recent rescheduling with the Paris Club, debt remains unsustainable.

- **Mitigation:** The Government now needs to focus on obtaining appropriate rescheduling terms from commercial creditors. To this end, Government is presently engaged in constructive discussions with the creditors. The Bank will monitor the debt rescheduling negotiations.

7.5. **Slow response from private sector:** The private sector may have limited capacity to identify and therefore invest in new avenues of development. Further, there may be a lagged response from existing operators to the opportunities offered by an improved business climate.

- **Mitigation:** The Government intends to develop a medium-term private sector development plan, with the support of the development partners. The Government currently also has programs to train new entrepreneurs.

## VIII - RECOMMENDATION

8.1. It is recommended that the Government of Seychelles be granted a loan not exceeding USD twenty million (UA 13.4 million) from the resources of the African Development Bank (ADB) in the form of a general budget support, based on the conditions stipulated in the present report.

## Annex 1 : Letter of Development Policy for EGRP (2009-2010)



*Republic of Seychelles*

Ministry of Finance

*The Minister*

04<sup>th</sup> June 2009

Dr. Donald KABERUKA  
President of African Development  
Bank Group (ADB)  
Temporary Relocation B.P. 323 TUNIS

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### Subject: Letter of Development Policy

1. On behalf of the Government of Seychelles, I hereby write to request the approval of the first Economic Governance Reform Program (EGRP) Loan of USD 20 million. This loan will support the implementation of our wide-reaching economic and financial reform program, which is set to restructure our country's economy. Our comprehensive and frontloaded reform program, which started in late 2008, will help to rebalance the economy so as to achieve the long-term objectives of the Seychelles Strategy 2017. This letter reaffirms the commitment of the Seychelles Government to consolidate and pursue the reforms that we initiated since last year.

2. The Government's reform program is supported by an IMF Standby Arrangement (SBA). The budget support loan that would be provided by the AfDB would complement that of other development partners (such as World Bank, European Commission and United Nations Agencies), and assist us in implementing our reform program successfully.

### Context and Recent Developments

#### A. Macroeconomic Performance

3. Seychelles is Small Island Developing State (SIDS) with an estimated population of 84,600 (2006) and a per capita income of US\$ 8,960 (2008). It is ranked as a Middle

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Income Country (MIC) and in 2008 it registered one of the highest per capita incomes in Africa (US\$ 8,960). Yet the debt stock to GDP ratio is above 150 percent (2008). As with other island states, the overall size of the economy is small (US\$ 911 million GDP in 2007) and is predominantly service-based—tourism and offshore services. The limited land, capital and human resources restrict Seychelles' ability to benefit from economies of scale in production and economic diversification.

4. Recent economic growth has averaged 7.7 percent per annum over 2005-07, driven mostly by growth in the tourism sector. Unemployment has been low over the years: estimated at 2.3 percent in 2007. As a small open economy, Seychelles is highly vulnerable to the international environment, which affects for instance our main drive of growth - the tourism sector. Seychelles relies on imports for most of its raw materials, products, and specialized services.

5. Growth in 2008 slowed down considerably due to the economic crisis in Seychelles and increasingly on account of the deteriorating global environment. Unemployment remained in the low single digits, but inflation jumped to end the year 2008 at 63.3 percent. The 2008 fiscal performance was better than anticipated. Despite inflationary pressures, primary spending was kept close to our program targets, mainly due to public sector wage restraints.

6. The external current account deficit rose to 32 percent of GDP in 2008, primarily due to the impact of high petroleum and food prices and buoyant FDI-related imports. The growth rate of tourism earnings began to decline in mid year and turned negative in the fourth quarter, reflecting the global slowdown. Seychelles debt burden is a critical impediment to its growth efforts. Public external debt rose to 91.4 percent of GDP in 2008, of which 40.6 percent of public debt was in arrears.

## **B. Social Development**

7. Seychelles' economy is undergoing a major transition, from a welfare state to a market-based economy. Social security assistance, free education and primary health care, and social housing programs have contributed to a generous and comprehensive welfare system in Seychelles. But this state-driven development strategy, while attaining its social objective, has increasingly become unsustainable, resulting in large public debts and has proved unsustainable for private sector development in light of economic distortions created by persistent foreign exchange restrictions and controlled economy.

8. Thus, the Government started to implement social welfare reforms, primarily through a revision of the subsidy system and the implementation of Voluntary Departure Scheme (VDS) in the public sector. The VDS, initiated in November 2008, has brought about the downsizing of the civil service, and was greater than targeted- some 3,300 staff (17 percent of government employees). In order to address possible poverty and welfare issues, as Government moves from a universal to a targeted welfare system, a Welfare Agency has been established. This Agency facilitates improved targeting of the most vulnerable groups of the Seychellois population.



### **C. Economic, Financial and Structural Reform Program**

9. The severity of the macroeconomic imbalances and an unsustainable debt burden coupled with the external shocks from global commodity prices led to a near exhaustion of foreign exchange reserves in mid-2008. In order to resolve this critical situation, first, at the end of September 2008, the Government announced that it would restructure the country's external debt in a bid to clear accumulated arrears and place its debt on a sustainable path. Secondly, the Government concluded a Stand-by Agreement (SBA) with the IMF in November 2008 in order to support the implementation of our bold and significantly frontloaded reform program for 2008-2009.

10. The overall goal of the Government's reform program is to promote macroeconomic stability and sustainable growth. The reform program has four main thrusts: (i) achieving full convertibility of the Rupee and introducing a market-determined exchange rate; (ii) adopting a comprehensive debt restructuring strategy; (iii) reducing the role of the State in economic activity, which includes a public sector reform program, and (iv) reinforcing Public Finance Management (PFM) reforms and strengthening economic and financial governance.

11. The reform program has so far been implemented with determination and the early results are positive, as concluded by the IMF's first review of the SBA in March 2009. The foreign exchange regime was liberalized and the Rupee was floated, supported by a further significant tightening of fiscal and monetary policies. Interest rates were liberalized. A comprehensive debt restructuring plan was initiated, which aims at restoring public debt sustainability and closing external financing gaps.

12. Following the float of the Rupee in early November 2008 the exchange rate depreciated by about 60 percent against the U.S. dollar, and has since stabilized. Monetary policy has been tightened in line with the reform program objectives. Similarly after an initial jump of 28 percent in monthly inflation in November, following the exchange rate adjustments, monthly inflation has averaged about 1.4 percent between December 2008 and March 2009.

13. The Central Bank of Seychelles (CBS) has introduced several new monetary policy instruments to allow for a market-based monetary policy framework. In support of this, various laws and regulations that govern the financial system are being introduced and existing ones amended. So as to improve governance and internal controls the Central Bank of Seychelles in November 2008 appointed a new external auditor on a five-year contract and began addressing areas of concern identified in the IMF safeguards assessment.

14. The Government has made progress with the public external debt restructuring plan. In November 2008, together with our financial advisors, the Government held meetings with external creditors. Further, in April 2009, Paris Club creditors formally agreed to provide Seychelles with a 45 percent nominal debt reduction, that will be implemented in two stages: half in July 2009 and the remainder in 2010. Negotiations with commercial creditors and other creditors are ongoing.



15. As regards, Public Finance Management (PFM), in 2008, the Government has carried out a Public Expenditure and Financial Accountability (PEFA) study<sup>1</sup> with the assistance of the European Commission and a Public Expenditure Review (PER) with the World Bank. On the basis of the recommendations of these two studies, PFM reforms are being carried out as part of the Government's overall reform program.

### **Overview of the Program 2009 and 2010**

16. The objectives of the Government's reform program for 2009 and 2010 are to consolidate and extend reforms, which begun in late 2008. The focus of the Government's program will be on: (i) maintaining tight fiscal and monetary policies; (ii) implementing structural reforms in areas of Public Finance Management (PFM) and taxation (iii) improving the business climate.

#### **A. Improving Public Finance Management (PFM)**

17. The Government will continue to strengthen the Public Financial Management (PFM) framework and the budgetary process in order to facilitate fiscal consolidation. Budget formulation and execution processes will be strengthened to ensure that resources can be allocated and used efficiently and that established spending limits are respected. In terms of budget formulation, the Government will present the 2010 budget as a complete budget package to Parliament, including financing and debt for approval in replacement of the current Appropriations Bill. To this end, the Government is currently finalizing its multiyear macroeconomic framework and a mutually consistent fiscal framework. Emphasis will also be placed on capacity building of budget officers on the methods of budget preparation. With regards to budget execution, measures to be taken will include: (i) adoption of a Treasury Single Account to consolidate and optimize the use of Government cash balances in 2009; (ii) undertaking external audits of largest parastatals by reputable international audit firms, and (iii) centralizing public debt management in the Ministry of Finance.

18. Seychelles has also made significant progress with fiscal structural reforms. A Public Enterprise Monitoring unit in the Finance Ministry was established to reinforce parastatal monitoring, and reporting, and to better assess quasi-fiscal risks. A full cost recovery policy in the provision of public utilities was introduced, supported by more frequent adjustments of administered prices. The privatization and liquidation of former units of the Seychelles Marketing Board has progressed satisfactorily.

19. The Government is committed to further improving transparency in the use of public funds. One priority area is strengthening the operational independence (financial and personnel) of the Office of the Auditor General (OAG). A new Audit Act to meet this objective will thus be enacted during 2009. It is to be noted that this new Act will make

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<sup>1</sup> Seychelles Public Finance Management Performance (PFM-PR) Report, December 2008.



provision for greater independence in the management of the OAG's finances and personnel as well as making provision for performance auditing.

20. The Government will also undertake a fundamental reform of the tax system. The reforms of the taxation system will be announced during the course of this month and will be gradually introduced beginning 2010. The current system has many differentiated rates of tax, high overall tax rates for businesses, and a significant number of exemptions, particularly for the tourism and fishing sectors. The Government's objective is to have a simple, fair, and equitable system, featuring low, harmonized rates and a broader tax base, which will reduce incentives for evasion.

21. In terms of the public procurement system, the Government is committed to enforcing the highest standards of transparency and accountability in the public sector. To this effect, a Public Procurement Act was enacted in December 2008, making provisions for standardized provisions for procurement procedures and harmonized regulations. In line with the PPA the National Tender Board and a Procurement Oversight Unit (POU) have been set up in December 2008. The Government will now ensure that standardized procurement processes are carried out in all line ministries and parastatals. Therefore, standardized bidding documents are being finalized. Moreover, the Government intends, by 2010, to establish the POU's website whereby contract awards will be published, to increase transparency. In terms of capacity building Government intends to separate the functions of the budget officers and procurement officers. To this effect, Government intends to create procurement officer posts for all line ministries, who will be in place as from 2010.

#### **B. Public Debt Management**

22. Seychelles requires external financial support, including a restructuring of the country's external debt to sustain a strong fiscal effort over the medium term. Immediate and sizable cash flow relief in the short- to medium-term, sustained reduction of our debt service burden, and significant financial support from our international partners, will be necessary. Thus, strengthening public debt management will continue to be an integral part of the Government's agenda. As stipulated by the new Public Debt Act (2008), a medium-term public debt strategy will be formulated, aimed at achieving an optimal trade-off between cost and risk of public debt and consistent with long-run debt sustainability. Transparency and reporting of public debt will improve and the Ministry of Finance's debt management functions strengthened. As regards debt restructuring, discussions are currently underway with the bilateral and other commercial creditors and bond holders. It is expected that the negotiations may be concluded by the 3rd quarter of 2009.

#### **C. Financial Sector and exchange rate regime**

23. The liberalization of the exchange regime has lifted severe constraints on the development of the economy and the government is committed to the floating of the



rupee. The Government will continue to introduce measures to strengthen nascent foreign exchange institutions and promote efficiency and transparency in the market. Financial sector reforms will continue; measures to improve CBS governance, financial and accounting systems, and internal audit and control procedures are being implemented.

24. Structural reforms in the financial sector will also be pursued further. In April 2009 the National Assembly approved an amended CBS bill that among other things, strengthened the independence of the Central Bank, enabling it to further functions in conformity with international standards and practices, and made provisions for recapitalization of the Bank. Moreover, in June 2009 the Government will put two new pieces of legislation before the Assembly namely, (i) a new foreign exchange law that will replace the current Exchange Control Act, and (ii) an amended Financial Institutions Act, to bring this law more in line with current international best practices.

25. In order to further develop the financial sector and maintain stability, the CBS will implement measures to improve the efficiency and operations of the financial market. Outdated financial regulations underpinning the current system of administrative monetary policy instruments will be streamlined and gradually phased out. The operations and capitalization of the financial sector, in particular of state-owned financial institutions, will continue to be closely monitored. At the same time, a reassessment of the strategic role of public non-bank financial institutions will also be undertaken.

#### **D. Social Welfare**

26. In the light of the forecasted economic contraction and the removal of the distortion created by the old fixed exchange rate regime, some job losses and a rapidly rising cost of living, in November 2008 the Government created a welfare agency that was able to quickly roll out targeted assistance to the more vulnerable segment of the population.

27. The Government intends to use part of the multilateral assistance unlocked by its reform programme to further improve schools and hospitals, and firmly believes that these continued investments in human capital combined with the end of heavy intervention in the market- will spur the creation of meaningful, productive jobs for years to come.

#### **E. Private Sector Development**

28. The Government is committed to ensure that the private sector becomes the principal driver of the economy in Seychelles. Government is fast moving out of economic activity; subsidies to Government owned commercial enterprises have stopped and they compete on a level footing with the private sector now. Government has embarked on a privatization process of some of its largest public enterprise such as the Seychelles Marketing Board. Significant red tape has been removed in trade with removal of permits



except for limited items, e.g. vehicles and those food products requiring health certificates. The private sector participates actively in discussions with Government through its chamber of commerce and a good dialogue and rapport has been established. The Seychelles Tourism Board which is responsible for marketing Seychelles has also been strengthened in terms of private sector participation with a majority of its board of directors now from the private sector. Government however recognizes that substantial additional effort is still required especially when it comes to the reviewing and revising of the of existing legislations regulating private sector business activities, especially those pertaining to the Licensing Act, the Investment Code, and other schemes or guidelines related to interactions with any state administrative measures. Government also recognizes the need to review and improve its employment policies so as to allow for greater flexibility in labour movements.

#### **Expected Outcomes**

29. As outlined above, the objectives of Seychelles' reform program for 2009 are to consolidate and extend the reforms of late 2008, sustaining the tighter fiscal and monetary policies to stabilize the economy, and lay the foundations of a recovery in 2010. Since the program was put in place last November the global economic environment has deteriorated sharply, with implications for the program. The outlook is for a deeper decline in GDP and a less favorable fiscal and external performance in 2009. A progressive recovery is projected in 2010 and beyond under the impulse of rising foreign investment in tourism following the lifting of exchange restrictions and other bottlenecks, which hampered investment and growth.

30. Preliminary projections suggest a contraction of real GDP for 2009 of about 9.6 percent (revised from a forecast contraction of 0.5 percent at the time our program was put in place), with a gradual recovery expected from 2010. Tourism earnings are expected to drop significantly (by 25 percent), although the balance of payments effect will be offset to a large extent by reduced import volumes and much lower food and fuel prices.

31. The current account balance is projected to improve in 2009, to a deficit of about 27 percent of GDP, and to decline further through the medium term. Inflation, after a large one-time adjustment in prices in November 2008, is expected to decline steadily in 2009 due to weaker international prices, slower domestic demand, and tight monetary policy.

32. The current business environment will improve significantly by, ensuring that investment and other day to day approval processes are made efficient and customer friendly. In addition to that Government will encourage and support a policy of diversification and facilitate the development of any other non-traditional sector which could generate employment and growth.



### **Implementation of the Program and Medium Term Objectives**

33. The economic program will continue to be implemented in close collaboration with our development partners, notably the IMF, African Development Bank and the World Bank. However, to ensure full ownership of our economic program the Seychelles Government will continue to drive the reform process that will be spearheaded by the Ministry of Finance and the Central Bank.

34. Going forward, the Government intends to formulate a medium-term economic plan. This will include a new medium-term macroeconomic framework for which the Seychelles authorities will seek the support of the IMF through an Extended Funds Facility (EFF) for its implementation. It is the intention of the authorities to request this new facility at the time of approval of the 2010 budget.

35. This medium-term plan will include structural reforms that will continue to be pursued, including a major revamp of the tax system, and a new approach to public finance management.

36. Underpinning this new forward-looking approach will be the preparation and submission to the National Assembly of budgets based on a medium-term framework. This would include forward looking public expenditure frameworks.

### **Monitoring and Evaluation**

37. The Ministry of Finance shall have the overall responsibility for the implementation of the program. The day-to-day follow-up of the program will be carried out by the Ministry of Finance. In view of the small size of the Seychelles, and given the limited resource pool this approach has proven to be very successful and has been very effective.

### **Conclusion**

38. Through the USD 20 million loan, the Government of Seychelles would like to leverage and make full use of the AfDB's expertise and leadership role in promoting governance and private sector development in Africa, which are also the areas of special focus of our reform agenda. We would therefore welcome focused support in these areas.

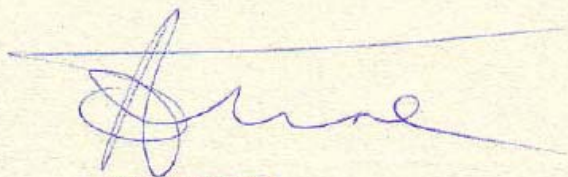
39. We are very appreciative that the AfDB joins the Government and the people of Seychelles in supporting our reform efforts. Such support is particularly welcomed given the key historical role the AfDB has played since the early stages of the country's development in the 1980's. Seychelles has indeed been inspired by the study on its Macroeconomic Plan and a follow-up study on the reform of the social welfare system funded by the Bank in 1999 and 2000 respectively. We are pleased to confirm that several



of the critical issues highlighted in those studies have now been incorporated in the Government's economic and financial reform program.

40. The reforms undertaken to date have profoundly changed some of the major misalignments in the Seychelles economy that for years have been characterized by parallel trading, persistent shortages in the goods market, price and other restrictive controls by the state. There is a consensus as a whole both within the population and the international community that the reforms are credible and Government will prove that these changes are irreversible. Indeed we are happy to note the positive endorsement we received from a large group of development partners, including the AfDB, and other stakeholders during the "Seychelles Forum" that was organized on May 18<sup>th</sup>, 2009. The Forum provided an opportunity for us to share information on issues related to rejuvenating the economy and we are confident that we can count on your continued support towards this end.

Please accept, Mr. President, the assurances of my highest consideration



**Danny FAURE**  
Designated Minister &  
Minister of Finance

## Annex 2: Operations Policy Matrix

Medium Term Policy Objectives	Policy Actions (outputs)		Indicators	Baseline data (year 2008)	Indicators' Targets		Responsible Institutions
	2009	2010			2009	2010	
<b>Component 1: Strengthening Public Finance Management</b>							
<b>Budget formulation and execution are improved</b>	Design a medium-term fiscal framework	Use of the medium-term fiscal framework for preparation of the Budget 2011	Medium-term fiscal framework	No medium-term fiscal framework	2010 Budget is designed using medium-term fiscal framework	2011 Budget is designed using the medium-term fiscal framework	Ministry of Finance
	Train 1 budget officer in use of new budget preparation methods	Train 2 budget officers in use of new budget preparation methods	Number of Budget Officers trained	0 Budget Officers trained	at least 1 Budget Officer trained	at least 2 Budget Officers trained	Ministry of Finance
	Prepare the 2010 Budget using the medium-term macroeconomic framework	Conduct mid-year review of 2010 budget	Mid-year review of 2010 budget	No mid-year review of 2010 budget	Not applicable	Mid-year review of 2010 budget	Ministry of Finance
	Set up a Macroeconomic Forecasting Unit		Macroeconomic Forecasting Unit	No Macroeconomic Forecasting Unit	Macroeconomic Forecasting Unit is set up and operational		Ministry of Finance
<b>Budget transparency is reinforced</b>	Introduce a Treasury Single Account (TSA)		Treasury Single Account	No Treasury Single Account	Treasury Single Account adopted		Ministry of Finance
	Prepare the Audit Act (Amendment) Bill  Approval of the Audit Act (Amendment) Bill by GoS and transmission to the National Assembly for approval		Audit Act (Amendment) Bill	Current Audit Act of 1973	Draft of the Audit Act (Amendment) Bill is completed  Final Draft of the Audit Act (Amendment) Bill is approved by GoS and submitted to the National Assembly for approval		Ministry of Finance
	Financial Audits of 3 public entities (namely Air Seychelles, SEYPEC & PUC)	Financial Audits of 4 public entities, (namely SPTC, SCAA, IDC, Nouvobanq )	Public Entities audited		Financial audits of 3 public entities, namely Air Seychelles, SEYPEC & PUC	Financial audits of 4 public entities, namely SPTC, SCAA, IDC, Nouvobanq	Ministry of Finance



## Annex 2: Operations Policy Matrix (contd.)

Medium Term Policy Objectives	Policy Actions (outputs)		Indicators	Baseline data (year 2008)	Indicators' Targets		Responsible Institutions
	2009	2010			2009	2010	
<b>Public Procurement is more transparent</b>	Prepare standardized tender bidding documents in the context of the new Procurement Act	Use of the new standardized tender bidding documents for all public procurement	Number of Ministries that published their tender proposal according using the new standardized bidding documents	No standardized tender bidding documents	Standardized tender bidding documents are approved and used for all new procurements	All Ministries	Ministry of Finance
	Set up Procurement Oversight Unit (POU) website		Number of contracts awarded and published on the website	0	0	All contracts awarded are published on the website	Ministry of Finance
		Create posts for procurement officers for all line ministries	Procurement officers	0	0	At least 1 procurement officer in place for all line Ministries	Department of Public Administration, All line ministries
<b>Public debt management is improved</b>	Negotiate and reach an agreement with external commercial creditors on debt relief terms	Negotiate and reach an agreement with external commercial creditors on debt relief terms	Debt relief Agreement	No Debt relief Agreement	Debt relief Agreement reached	Debt relief Agreement reached	Ministry of Finance
	Limit contracting of new public external debt	Limit contracting of new public external debt	Total new external public debt contracted	USD 95.5 million	USD 35 million	< USD 35 million	Ministry of Finance Central Bank
	Prepare the Annual Borrowing Plan for Budget Year 2010	Prepare the Annual Borrowing Plan for Budget Year 2011	Annual Borrowing Plan	No Annual Borrowing Plan	Draft Annual Borrowing Plan for Budget Year 2010 is ready	Draft Annual Borrowing Plan for Budget Year 2011 is ready	Ministry of Finance
	Approval of the Annual Borrowing Plan for Budget Year 2010 by Government and submission to the National Assembly	Approval of the Annual Borrowing Plan for Budget Year 2011 by Government and submission to the National Assembly			Draft Annual Borrowing Plan for Budget Year 2010 is approved by Government and submitted to the National Assembly for approval	Draft Annual Borrowing Plan for Budget Year 2011 is approved by Government and submitted to the National Assembly for approval	Ministry of Finance

## Annex 2: Operations Policy Matrix (contd.)

Medium Term Policy Objectives	Policy Actions (outputs)		Indicators	Baseline data (year 2008)	Indicators' Targets		Responsible Institutions
	2009	2010			2009	2010	
<b>Public debt management is improved</b> ( <i>concluded</i> )	Prepare a Medium-Term Debt Management Strategy		Medium-Term Debt Management Strategy	No Medium-Term Debt Management Strategy	Draft Medium-Term Debt Management Strategy is ready	Final Draft Medium-Term Debt Management Strategy is approved by Government and submitted to the National Assembly for approval	Ministry of Finance
<b>Enhancing Private Sector Development</b>							
<b>Business climate is improved</b>	Set up the Financial Analysis Branch		Financial Analysis Branch	No Financial Analysis Branch	Financial Analysis Branch is set up and operational		Ministry of Finance
	Review the Investment Code in collaboration with the Private sector representatives	Approval of the Investment Code (Amendment) Bill by GoS and transmission to the National Assembly for approval	Investment Code (Amendment) Bill	Current Investment Code of 2005	1 <sup>st</sup> draft of Investment Code (Amendment) Bill is completed	Final draft of Investment Code (Amendment) Bill is ready And approved by GoS which submits to National Assembly for approval	Ministry of Finance
	Prepare the Financial Institutions Act (Amendment) Bill  Approval of the Financial Institutions Act (Amendment) Bill by Government and submission to the National Assembly		Financial Institutions Act (Amendment) Bill	Current Financial Institutions Act of 2004	Draft Financial Institutions Act (Amendment) Bill is completed  Final Draft of the Financial Institutions Act (Amendment) Bill is approved by GoS and submitted to the National Assembly for approval		Ministry of Finance

**Annex 2: Operations Policy Matrix (concluded)**

Medium Term Policy Objectives	Policy Actions (outputs)		Indicators	Baseline data (year 2008)	Indicators' Targets		Responsible Institutions
	2009	2010			2009	2010	
<b>Business climate is improved</b> <i>(concluded)</i>	Review the Employment Act in collaboration with the Private sector representatives	Prepare the Employment Act (Amendment) Bill  Approval of the Employment Act (Amendment) Bill by GoS and transmission to the National Assembly for approval	Employment Act (Amendment) Bill	Current Employment Act of 1990	1 <sup>st</sup> draft of Employment Act (Amendment) Bill is ready	Final Draft of Employment Act (Amendment) Bill is ready  Final Draft of Employment Act (Amendment) Bill is approved by GoS and submitted to National Assembly for approval	Ministry of Labor
	Review the Licensing Act in collaboration with the Private sector representatives	Prepare the Licensing Act (Amendment) Bill	Licensing Act (Amendment) Bill	Current Licensing Act of 1972	Report on the review of the licensing act	Draft Licensing Act (Amendment) Bill is ready	Ministry of Finance

**Annex 3: Key development partners' support in areas of the Bank's EGRP focus**

Reform Area	Short-term measures (2009)	Medium-term measures (2010-2012)	Lead partner agency for policy dialogue
<b>Public Finance Management</b>			
<p><b>Expenditure policy:</b></p> <p>Budget preparation</p>     <p>Budget monitoring and execution</p> <p>Public Expenditure Reviews (PERs)</p> <p>New wage grid</p>	<ul style="list-style-type: none"> <li>• Prepare the 2010 budget on the basis of a Medium-Term Fiscal Framework</li>       <li>• PER will help the authorities address the challenges of reforming health and education sector.</li> <li>• Finalize impact study and proposal</li> </ul>	<ul style="list-style-type: none"> <li>• Present comprehensive budget submissions to the National Assembly</li> <li>• Prepare a Medium-Term Expenditure Framework</li> <li>• Set up working-group to analyze Program-Based Budgeting (PBB)</li>    <li>• Introduce Tax Administration Act governing all administrative issues</li>    <li>• Introduce new wage grid</li> </ul>	<p>IMF/ AfDB</p> <p>World Bank</p> <p>World Bank/EC</p> <p>Australia</p> <p>World Bank</p> <p>World Bank</p>
<b>Treasury Management</b>	<ul style="list-style-type: none"> <li>• Strengthen coordination with Central Bank of Seychelles on cash management and forecasts</li> <li>• Create a Treasury Single Account</li> </ul>		<p>IMF</p> <p>AfDB</p>
<b>Tax policy</b>	<ul style="list-style-type: none"> <li>• Establish action plan and provide Technical Assistance</li> </ul>		<p>IMF</p>
<b>Public Debt Management</b>	<ul style="list-style-type: none"> <li>• Elaborate terms of reference for National debt committee and technical committee</li> <li>• Reinforce capacity to debt management database</li> <li>• Prepare debt management strategy</li> <li>• Prepare Annual Borrowing Plans</li> </ul>		<p>IMF</p> <p>Commonwealth</p> <p>IMF/AfDB</p> <p>AfDB</p>
<b>Public Procurement</b>	<ul style="list-style-type: none"> <li>• Introduce a new Public Procurement Act</li>   <li>• Prepare standardized tender bidding documents in the context of the new Public Procurement Act</li> </ul>	<ul style="list-style-type: none"> <li>• Set up a public procurement website for POU</li> </ul>	<p>COMESA/AfDB</p> <p>AfDB</p>

**Annex 3: Key development partners' support in areas of the Bank's EGRP focus (concluded)**

<b>Reform Area</b>	<b>Short-term measures (2009)</b>	<b>Medium-term measures (2010-2012)</b>	<b>Lead partner agency</b>
<b>Public Finance Management (concluded)</b>			
<b>Civil Service Reforms</b>		<ul style="list-style-type: none"> <li>Civil service reform to create a more responsive public sector</li> </ul>	World Bank
<b>Monetary and Financial Systems</b>			
<b>Monetary System</b>	<ul style="list-style-type: none"> <li>Study options for new monetary regime</li> <li>Formalize CBS/MoF Liquidity forecasting unit</li> <li>Foreign Exchange Reserve management, forming foreign exchange reserve management unit with operational guidelines and manual</li> </ul>	<ul style="list-style-type: none"> <li>Refine study and elaborate a definitive choice and plan</li> <li>Finalize guidelines on for monetary and foreign exchange operations</li> </ul>	IMF IMF IMF
<b>Financial System</b>	<ul style="list-style-type: none"> <li>Promulgate regulation on capital, foreign exchange exposure and credit classification and provisioning</li> <li>Submit application to FIRST initiative for TA on Non-Bank Financial Institutions supervision and foreign exchange bureau regulation</li> <li>Introduce a Financial Institutions Act (Amendment) Bill</li> </ul>	<ul style="list-style-type: none"> <li>Integrate on-and off-site banking supervision functions</li> </ul>	IMF IMF AfDB
<b>Investment Incentives</b>			
	<ul style="list-style-type: none"> <li>Set up Financial Analysis Branch</li> <li>Assess the cost of doing business to address the challenges of private sector development</li> <li>Revise the current legal framework, including Employment Act, Licensing Act and Investment Code</li> </ul>		IFC/World Bank/AfDB IFC/World Bank AfDB

## **Annex 4 : IMF/Seychelles relations note**

### **IMF Executive Board Completes First Review under Seychelles' Stand-By Arrangement and Approves US\$1.3 Million Disbursement Press Release No. 09/102 March 31, 2009**

The Executive Board of the International Monetary Fund (IMF) has completed the first review of Seychelles' economic performance under the two-year Stand-by Arrangement. The approval enables Seychelles to draw immediately an amount equivalent to SDR 0.88 million from the IMF (about US\$1.3 million).

The Executive Board also granted waivers for the nonobservance of the performance criterion related to the primary balance of the consolidated Government budget and the continuous performance criterion related to the non-accumulation of external payment arrears by the public sector.

The two-year SDR 17.6 million (about US\$26.6 million) Stand-By Arrangement for Seychelles was approved on November 14, 2008 (see [Press release 08/282](#)).

Following the Executive Board discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

“The authorities are to be commended for their determination to implement the program despite difficult circumstances and a major deterioration of the external environment. The program has made a good start, reflecting the authorities' strong commitment and ownership of the reforms. Early signs of success of the macroeconomic stabilization efforts are encouraging and have strengthened confidence in the reforms. The establishment of the social welfare agency is an important element in the reform process, and it will be essential to ensure that the targeted social safety net protects the most vulnerable segments of society.

“Maintaining the tightened fiscal and monetary policies are critical to achieving the program's objectives. The rise in real interest rates to positive levels has been a key component of the program's progress so far. Further coordinated efforts by the Central Bank of Seychelles and Ministry of Finance on liquidity and treasury management need to be pursued as planned.

“The program includes an appropriate strengthening of public financial management, which is critical to support the fiscal sustainability effort and improved economic efficiency. A major program objective is to reinforce financial discipline and accountability of the parastatal sector through enhanced oversight by the Ministry of Finance.

“The authorities are committed to reinforce their debt management capacity and pursue their public external debt restructuring strategy, aimed at normalizing relations with creditors through good faith negotiation efforts. Given the impact of the deteriorating external environment on growth prospects, the program financing needs are now somewhat higher than previously expected, but the program is financed for 2009, assuming that a public debt restructuring consistent with Seychelles' more limited payments capacity can be achieved.

“Increased technical assistance, and project and program financial support by development partners, are important to the success of the program. Donor coordination has been initiated and is expected to be strengthened in the months ahead,” Mr. Kato said.

## **Annex 5: Seychelles – ADB loan conditions for disbursement under EGRP**

### **A. Conditions precedent to the disbursement of the first tranche in 2009**

- The obligation of the Bank to disburse the Loan shall be conditional upon the entry into force of the Loan Agreement and the fulfillment of the following conditions:
  - ⇒ Satisfactory review of the IMF Standby Arrangement in March 2009
  - ⇒ Submission by the Government of the Financial Institutions Act (Amendment) Bill to the National Assembly
  - ⇒ Submission by the Government of a new Public Procurement Act to the National Assembly

### **B. Conditions precedent to the disbursement of the second tranche in 2010**

- In addition to the evidence of the satisfactory review of an IMF-supported program, via the IMF Press Communiqué, the disbursement of the second tranche will be carried out during the fiscal year 2010, if the conditions hereafter are fulfilled:
  - ⇒ Submission by the Government of the 2010 Annual Borrowing plan to the National Assembly
  - ⇒ Submission by the Government of a medium-term debt strategy to the National Assembly
  - ⇒ Submission by the Government of the 2010 Budget on the basis of a medium-term fiscal framework
  - ⇒ Submission by the Government of the Investment Code (Amendment) Bill to the National Assembly



## Annex 6: Seychelles – Selected economic and financial indicators, 2005-2013

	2005	2006	2007	2008		2009		2010	2011	2012	2013
	Actuals			Prog. Est.		Prog. Proj.		Projections			
(Annual percentage change, unless otherwise indicated)											
National income and prices											
Nominal GDP (millions of Seychelles rupees)	4,861	5,342	6,113	7,878	7,925	9,970	9,650	11624	12741	13844	14957
Real GDP	7.5	8.3	7.3	3.1	0.1	-0.5	-9.6	2.6	3.8	5.4	5
CPI (annual average)	0.6	-1.9	5.3	32.2	37	33.8	39.2	17.9	5.8	3.2	3
CPI (end-of-period)	-1.1	0.5	16.8	38.8	63.3	21.6	16.3	11.5	3	3	3
GDP deflator average	-2.1	1.5	6.7	25	29.6	27.2	34.7	17.5	5.6	3.1	2.9
(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)											
Money and credit											
Net claims on private sector	1.9	0.4	9.3	12.5	25.3	7.4	13.1	...	...	...	...
Broad money (M2(p)) <sup>1</sup>	1.7	3.0	-14.9	2.6	3.2	30.4	28	...	...	...	...
Reserve money (percentage change)	3.4	32.7	-23.1	3.4	0.6	20.4	20.6	...	...	...	...
Velocity (GDP/average M2)	1	1.1	1.5	1.9	1.9	1.8	1.8	...	...	...	...
Money multiplier (M2/reserve money)	4.5	3.5	3.6	3.6	3.7	3.9	4	...	...	...	...
(Percent of GDP)											
External savings	19.7	13.9	23.4	28.8	32.1	20.9	29.3	24.6	25.8	23.2	22.5
Gross national savings	14.6	14.2	9.1	4.9	3.9	9.7	2.2	6.4	8.2	12	13.9
Of which : government savings	6	0.5	-4.9	3.1	4.6	0.3	-2.2	2.8	3.6	7.6	8.3
Gross investment	34.3	28.1	32.5	33.6	36	30.6	31.5	31.1	34	35.1	36.5
Of which : government investment	5.3	8.1	6.1	4.1	2.3	3.6	3.7	5.2	6.9	7.3	7.8
Government budget											
Total revenue, excluding grants	41.1	42	35.9	35.4	36.2	35.5	35.1	34.7	34.2	34.8	35
Identified expenditure and net lending	40.4	49.6	46	37.6	43.9	41.8	40.1	36.8	37.5	34.5	34.6
Current expenditure	35.1	41.5	40.8	32.2	31.6	35.3	37.3	32	30.6	27.2	26.8
Capital expenditure and net lending	5.3	8	5.1	5.4	12.4	3.6	-0.3	2.7	6.9	7.3	7.8
Overall balance, including grants	1.7	-6.2	-9.7	-1.8	-3.7	-6.1	-4.8	-2.0	-3.3	0.3	0.5
Primary balance <sup>2</sup>	7.3	-0.6	-2.3	7.1	4.2	6.2	9.8	8.2	4.5	4.2	4.0
Total public debt <sup>3</sup>	147.1	139.5	146	151.3	149.3	161.3	177.8	146.7	140.3	133.4	125.4
Domestic	100.5	85.8	74.1	53.5	57.8	41.5	44.2	33.2	28.4	24.7	22.2
External <sup>3</sup>	46.6	53.7	71.9	97.8	91.4	119.8	133.6	113.4	111.9	108.8	103.2
External sector											
Current account balance including official transfers <sup>4</sup>	-19.7	-13.9	-23.4	-28.8	-32.1	-20.9	-29.3	-24.6	-25.8	-23.2	-22.5
Total stock of arrears (millions of U.S. dollars)	184	123.5	160.4	330.6	309.6	...	...	...	...	...	...
Total stock of arrears	20.8	12.8	17.6	38.5	37.1	...	...	...	...	...	...
Total external debt outstanding (millions of U.S. dollars) <sup>5</sup>	486	521	710.2	840.5	762.6	879.6	805.6	858.2	898.2	933.5	943.6
Total external debt outstanding <sup>5</sup>	55	53.8	77.9	97.8	91.4	119.8	133.6	113.4	111.9	108.8	103.2
Terms of trade (= -deterioration)	4.4	-0.2	-1.2	2.1	0.4	2.4	-3.1	2.5	1.1	0.5	0.5
Real effective exchange rate (end-of-period)	-2.3	-4	-19.7	-8.5	-8.5	...	...	...	...	...	...
(Millions of U.S. dollars, unless otherwise indicated)											
Gross official reserves (end of year) <sup>6</sup>	56.1	112.7	9.8	18.7	50.9	79.7	90.9	140.9	190.9	240.9	270.9
In months of imports, c.i.f.	0.7	1.3	0.1	0.2	0.7	0.8	1.2	1.7	2.2	2.6	2.8
Exchange rate											
Seychelles rupees per US\$1 (end of period)	5.5	5.8	8	8	16.6	...	...	...	...	...	...
Seychelles rupees per US\$1 (period average)	5.5	5.5	6.7	8	9.5	...	...	...	...	...	...

Sources: Central Bank of Seychelles, Ministry of Finance and IMF staff estimates and projections, March 2009

<sup>1</sup> In 2007 and earlier, M2 plus domestic currency balances earmarked for pending import requests (pipeline).

<sup>2</sup> The CBS transferred SR 175 million (2.2% of GDP) in profit to the Government in March 2008. Of this amount, SR 118.7 million (1.5% of GDP) was revaluation gains.

<sup>3</sup> Including arrears.

<sup>4</sup> The 2005 current account balance reflects of the import of two tankers. High inflows of FDI associated with specific projects in 2005 and 2008 also contribute to high current account balances in those years.

<sup>5</sup> Includes external debt of the Central Bank.

<sup>6</sup> Starting with 2007 refers to CBS gross international reserves net of blocked deposits and project accounts.

**Annex 7: Seychelles – Consolidated Government Operations, 2007-2010**  
(millions of SCR)

	2007		2008		2008		2009								2009		2010
	Year		Q4		Year		Q1		Q2		Q3		Q4		Year		Year
	Act.	Prog.	Actual	Prog.	Actual	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
Total revenue and grants	2214.2	849.5	1147.5	2826.6	3189.7	826.2	917.0	759.4	726.3	925.2	848.6	1052.9	918.6	3563.6	3410.5	4038.7	
Total revenue	2197.5	845.5	866.7	2786.1	2868.5	821.2	912.0	754.4	721.3	920.2	843.6	1047.9	913.6	3543.6	3390.5	4038.7	
Tax	1896.4	711.2	758.9	2344.5	2456.3	695.8	779.2	702.8	622.8	848.8	711.6	886.0	740.9	3133.5	2854.5	3400.3	
Social security tax	301.3	64.4	77.7	320.8	294.9	77.4	77.4	88.0	88.0	91.5	91.5	95.0	91.5	352.0	348.4	419.7	
Trade tax	265.2	160.0	131.7	424.0	409.6	115.0	90.7	132.3	104.3	155.3	122.5	172.5	136.1	575.0	453.6	511.6	
Goods and services tax (GST)	799.6	292.3	300.4	916.2	950.6	336.4	256.3	343.5	286.1	352.5	293.2	409.6	323.0	1442.0	1158.6	1450.4	
Business tax	360.5	150.0	130.0	516.8	524.0	106.1	115.0	107.8	110.0	168.7	170.0	168.5	156.0	551.0	551.0	663.7	
Other	169.8	44.5	119.1	166.7	277.3	60.9	239.7	31.3	34.4	80.9	34.4	40.4	34.4	213.5	342.9	355.0	
Nontax	301.1	134.3	107.9	441.7	412.2	125.4	132.8	51.6	98.5	71.4	132.0	161.9	172.7	410.2	536.0	638.4	
Fees and charges	175.8	35.5	51.9	125.4	145.3	43.1	48.5	41.0	39.6	38.9	48.5	42.1	61.4	165.0	198.1	280.9	
Dividends from parastatals	94.8	89.6	47.7	111.8	64.1	0.0	0.0	0.0	0.0	16.0	16.0	107.0	94.0	123.0	110.0	110.0	
Other <sup>2</sup>	30.5	9.2	8.3	204.5	202.7	82.3	84.3	10.6	58.9	16.4	67.4	12.8	17.3	122.2	227.9	247.5	
External grants	16.7	4.0	280.7	40.4	321.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	20.0	20.0	0.0	
Expenditure and net lending	2810.2	1078.1	1114.6	2965.4	3482.9	1000.6	942.5	1145.7	1085.8	950.8	845.6	1073.8	999.0	4171.0	3872.9	4273.4	
Current expenditure	2497.2	896.0	836.8	2540.4	2503.5	829.1	864.2	963.6	999.1	804.7	797.7	917.2	942.6	3514.6	3603.5	3714.8	
Primary current expenditure	2041.4	526.5	537.2	1841.2	1874.6	581.7	546.6	561.7	544.8	568.3	545.8	573.5	558.3	2285.2	2195.5	2527.5	
Wages and salaries	699.7	238.0	185.5	720.6	688.1	206.9	184.4	180.1	168.6	180.1	168.6	180.1	168.6	747.2	690.3	704.1	
Goods and services	499.8	134.9	162.7	447.0	488.8	146.7	153.8	151.9	160.8	161.2	160.8	165.3	172.2	625.0	647.6	830.1	
Interest payments due	455.8	369.5	299.6	699.1	628.9	247.4	317.6	402.0	454.2	236.4	251.8	343.7	384.3	1229.4	1407.9	1187.3	
Foreign interest <sup>3</sup>	219.4	191.0	191.3	343.7	343.8	43.8	47.9	196.3	216.9	41.0	45.2	181.4	208.4	462.5	518.4	477.6	
Domestic interest	236.4	178.5	108.4	355.4	285.1	203.5	269.7	205.7	237.3	195.4	206.7	162.3	175.9	766.9	889.6	709.7	
Transfers	833.6	150.3	187.3	667.6	692.0	226.2	205.9	227.7	212.9	225.0	213.9	226.1	214.9	905.1	847.4	981.2	
Social program of central government	166.7	45.8	55.4	193.5	192.3	88.3	67.0	89.8	74.0	88.3	75.0	89.3	76.0	355.8	292.0	368.3	
Transfers to public sector from central government	375.6	29.6	66.3	182.3	220.5	45.6	46.5	45.6	46.5	44.4	46.5	44.5	46.5	180.1	186.1	168.1	
Benefits and programs of Social Security Fund	291.3	74.9	65.6	291.8	279.2	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	369.2	369.3	444.8	
Other	8.3	3.3	1.7	6.0	5.7	2.0	2.6	2.0	2.6	2.0	2.6	2.0	2.6	8.0	10.2	12.0	
Capital expenditure	375.7	167.5	30.5	324.2	183.2	71.5	74.3	82.1	82.7	96.1	94.0	106.7	102.4	356.4	353.4	600.7	
Externally financed																	
Net lending	-62.7	14.6	247.3	100.8	796.2	0.0	-96.0	0.0	-96.0	0.0	-96.0	0.0	-96.0	0.0	-384.0	-292.0	
Contingency <sup>3</sup>						100.0	100.0	100.0	100.0	50.0	50.0	50.0	50.0	300.0	300.0	250.0	
<b>Primary balance<sup>2</sup></b>	<b>140.2</b>	<b>140.8</b>	<b>332.5</b>	<b>560.3</b>	<b>335.7</b>	<b>72.9</b>	<b>292.2</b>	<b>15.7</b>	<b>94.7</b>	<b>210.8</b>	<b>254.8</b>	<b>322.8</b>	<b>304.0</b>	<b>622.0</b>	<b>945.6</b>	<b>952.6</b>	
Overall balance, commitment basis	-596.0	-228.7	32.8	-138.8	-293.2	-174.4	-25.4	-386.3	-359.5	-25.6	2.9	-20.9	-80.3	-607.4	-462.4	-234.7	
Change in arrears	59.4	-0.3	33.8	0.5	31.2	0.0	-61.5	0.0	-50.0	-181.4	-50.0	0.0	-50.0	-181.4	-211.5	0.0	
External interest	3.9	0.0	157.8	10.5	166.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Budget	55.5	-0.3	-124.0	-10.0	-135.6	0.0	-61.5	0.0	-50.0	-181.4	-50.0	0.0	-50.0	-181.4	-211.5	0.0	
Overall balance, cash basis (after grants)	-536.6	-229.0	66.6	-138.2	-262.0	-174.4	-87.0	-386.3	-409.5	-207.0	-47.1	-20.9	-130.3	-788.8	-673.9	-234.7	
Financing	536.6	229.0	-66.6	138.2	262.0	42.9	-35.2	-137.6	-312.8	-7.6	-126.8	-296.3	-278.1	-398.4	-752.9	-535.4	
Foreign financing	408.1	232.1	-152.7	147.3	141.6	-150.7	-171.1	-450.0	-515.5	64.4	139.1	-178.1	-190.8	-714.4	-738.2	-334.8	
Disbursements	859.4	60.8	0.3	232.6	580.6	70.0	80.0	70.0	80.0	280.0	384.0	70.0	80.0	490.0	624.0	599.3	
Project loans	859.4	39.2	0.3	211.0	580.6	70.0	80.0	70.0	80.0	70.0	80.0	70.0	80.0	280.0	320.0	307.3	
Program/budget support	0.0	21.6	0.0	21.6	0.0	0.0	0.0	0.0	0.0	210.0	304.0	0.0	0.0	210.0	304.0	292.0	
Scheduled amortization	-448.6	-260.3	-259.8	-1621.3	-1630.2	-220.7	-251.1	-520.0	-595.5	-215.6	-244.9	-248.1	-270.8	-1204.4	-1362.2	-934.1	
Change in amortization arrears	-2.7	431.6	106.8	1536.0	1191.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Domestic financing, net	-19.5	-144.4	-196.4	-218.6	-253.0	108.1	79.1	276.5	105.8	-174.0	-332.7	-289.0	-257.1	-78.4	-404.9	-400.0	
Bank financing	-50.3	-137.2	-292.4	-249.9	-282.8	102.7	75.1	262.6	100.5	-165.3	-316.1	-274.5	-244.2	-74.5	-384.7	-380.0	
CBS	27.9	-14.4	-278.0	-70.6	-186.6	10.8	23.7	27.6	31.8	-17.4	-99.8	-28.9	-77.1	-7.8	-121.5	-40.0	
Commercial banks	-118.9	-122.8	-14.4	-179.3	-96.2	91.9	51.4	235.0	68.8	-147.9	-216.3	-245.6	-167.1	-66.7	-263.2	-340.0	
Nonbank	30.7	-7.2	96.0	31.4	29.8	5.4	4.0	13.8	5.3	-8.7	-16.6	-14.4	-12.9	-3.9	-20.2	-20.0	
Privatization and long-term lease of fixed assets	134.3	141.4	94.2	256.0	219.4	85.6	56.8	36.0	96.8	102.0	66.8	170.8	169.8	394.3	390.2	199.4	
Statistical discrepancy	13.8	0.0	188.2	-46.4	154.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Fiscal financing gap	0.0	0.0	0.0	0.0	0.0	131.5	122.1	523.9	722.3	214.6	173.9	317.2	408.5	1187.2	1426.8	770.2	
<i>Memorandum item:</i>																	
External debt service due	667.9	451.3	451.1	1965.0	1974.0	264.5	298.9	716.3	812.4	256.6	290.1	429.5	479.2	1666.9	1880.6	1411.7	

Source: Ministry of Finance; Social Security Fund; Central Bank of Seychelles (CBS) and IMF staff estimates and projections, March 2009

<sup>1</sup> Includes the central government and the social security system

<sup>2</sup> The CBS transferred SR 175 million (2.2% of GDP) in profit to the Government in March 2008. Of this amount, SR 118.7 million (1.5% of GDP) was revaluation gains.

<sup>3</sup> This is created to cover potential losses in state-controlled financial institutions

**Annex 8: Seychelles – Balance of payments, 2007-2013**  
(millions of US dollars)

	2007	2008		2009		2010	2011	2012	2013
	Act.	Prog.	Proj.	Prog.	Proj.	Projections			
Current account	-213	-247	-267	-153	-177	-186	-207	-199	-206
(Percent of GDP)	-23	-29	-32	-21	-29	-25	-26	-23	-23
Trade balance	-175	-216	-235	-85	-105	-109	-113	-106	-94
Exports of goods	392	511	491	533	370	404	430	456	484
<i>Of which:</i> oil re-exports	190	293	260	307	132	164	187	209	233
<i>Of which:</i> tuna exports	184	198	215	202	219	222	225	227	229
Imports of goods	-734	-854	-868	-769	-555	-593	-637	-678	-719
Oil imports	-236	-337	-339	-327	-143	-175	-197	-218	-241
FDI-related imports	-153	-190	-237	-165	-156	-164	-184	-196	-211
Other	-345	-327	-292	-277	-256	-254	-256	-264	-267
Exports of services	481	505	523	517	383	401	435	480	529
<i>Of which:</i> tourism earnings	284	303	276	318	207	217	237	262	289
Imports of services	-313	-377	-381	-366	-303	-320	-341	-364	-388
Income, net	-72	-68	-84	-109	-118	-131	-148	-147	-167
<i>Of which:</i> transfers of profits and dividends	-33	-28	-39	-74	-74	-84	-101	-121	-142
<i>Of which:</i> interest payments	-33	-33	-33	-33	-32	-31	-31	-10	-10
Current transfers, net	33	37	51	41	46	53	54	54	55
General government, net	10	14	30	19	24	30	31	31	31
Other sectors, net	23	23	22	22	22	23	23	24	24
Capital and financial account	261	130	168	130	124	162	-7	256	254
Capital account	8	4	5	6	3	3	4	5	5
Financial account	254	126	164	124	121	158	-11	251	250
Direct investment, net	225	296	354	208	200	211	236	252	272
Portfolio investment, net	31	1	1	0	0	0	0	0	0
Other investment, net	-2	-171	-191	-84	-79	-52	-248	-1	-23
Assets	-66	-13	-78	-13	-16	-15	-10	-10	-10
Liabilities	63	-158	-112	-71	-63	-37	-238	9	-13
Government and government-guaranteed	34	-155	-109	-48	-46	-22	-219	27	9
Disbursements	101	26	73	35	39	39	40	41	21
Project loans	101	24	73	20	30	30	30	31	21
Program loans	0	2	0	15	9	9	10	10	0
Amortization	-67	-181	-181	-83	-85	-61	-259	-13	-12
Parastatals	42	-7	-7	-3	0	0	0	0	0
Disbursements	49	0	0	0	0	0	0	0	0
Amortization	-7	-7	-7	-3	0	0	0	0	0
Other	-12	5	4	-20	-17	-16	-19	-18	-22
Net errors and omissions	-8	14	-17	0	0	0	0	0	0
Overall balance	40	-104	-116	-23	-53	-25	-214	57	48
Financing	-40	104	116	-62	-36	-36	-50	-55	-39
Change in net international reserves (increase: -)	49	5	-27	-57	-36	-36	-50	-55	-39
Change in gross official reserves (increase: -)	49	-4	-36	-61	-40	-50	-50	-50	-30
Prospective liabilities to IMF, net	0	9	10	4	4	14	0	-5	-9
Other NFA (increase: -)	0	-54	0	0	0	0	0	0	0
Change in arrears (increase: +) <sup>1</sup>	-89	152	142	-5	0	0	0	0	0
Of which: public sector new arrears	6	170	154	0	0	0	0	0	0
Debt relief	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	85	89	61	264	-2	-9
<i>Memorandum items:</i>									
Exports growth, percent	-8.2	30.4	25.4	4.3	-24.7	9.1	6.5	6	6
Tourism growth, percent	25.1	6.6	-2.7	5	-25	5	9	10.5	10.5
Imports growth, percent	2.5	16.3	18.2	-10	-36	6.8	7.4	6.5	6
Exports, percent of GDP	42.9	59.4	58.9	72.6	61.4	53.4	53.6	53.2	52.9
Imports, percent of GDP	80.5	99.4	104.1	104.8	92.1	78.4	79.4	79	78.6
FDI, percent of GDP	24.6	34.4	42.4	28.4	33.1	27.8	29.5	29.4	29.8
Gross international reserves (stock, e.o.p.) <sup>2</sup>	10	19	51	80	91	141	191	241	271
Months of prospective goods and services imports	0.1	0.2	0.7	0.8	1.2	1.7	2.2	2.6	2.8
Scheduled public external debt service <sup>3,4</sup>	100	222	222	119	118	92	290	28	31
(Percent of goods and services exports)	11.4	22	21.8	11	15.6	11.4	33.5	3	3.1
Public external debt <sup>4</sup>	710	840	763	880	806	858	898	933	944
(percent of GDP)	77.9	97.8	91.4	119.8	133.6	113.4	111.9	108.8	103.2
(percent of GDP) <i>Of which</i> : arrears <sup>3,4</sup>	160	331	310	331	310	310	310	310	310
(percent of GDP)	17.6	38.5	37.1	45	51.3	40.9	38.6	36.1	33.9
Cash available for debt service	...	...	...	34.3	28.4	30.6	25.3	30.1	39.9
GDP	912	859	834	734	603	756	802	858	914

Source: Ministry of Finance; Central Bank of Seychelles (CBS) and IMF staff estimates and projections, March 2009

<sup>1</sup> In 2008, include accelerated promissory notes. In 2008/09, include repayment of a crude investor profit

<sup>2</sup> Starting with 2007, refers to CBS gross international reserve net of blocked deposits and project accounts.

<sup>3</sup> Debt service projections are based on existing stock of debt and identified new borrowing, assuming no debt restructuring and no repayment of arrears.

<sup>4</sup> Preliminary and subject to reconciliation with creditors. Includes CBS external debt.

**Annex 9: Seychelles – External Debt as at end 2008 (millions of US dollars)**

	End-2008
External debt stock <sup>1</sup>	764.7
Multilateral	52.2
Bilateral	245.3
Paris Club	139.8
Non-Paris Club	105.4
Commercial	467.2
External debt arrears	309.6
Multilateral	1.0
Bilateral	170.6
Paris Club	112.4
Non-Paris Club	58.3
Commercial	137.9

<sup>1</sup> Includes arrears.

## Annex 10: Seychelles – Comparative Socioeconomic indicators

	Year	Seychelles	Africa	Developing countries	Developed countries
<b>Basic Indicators</b>					
Area ('000 Km <sup>2</sup> )		0.5	30 323	80 976	54 658
Total Population (millions)	2008	0.1	985.7	5 523.4	1 226.3
Urban Population (% of Total)	2008	53.8	39.2	44.0	74.4
Population Density (per Km <sup>2</sup> )	2008	191.2	32.5	23.0	49.6
GNI per Capita (US \$)	2007	8 960	1 226	2 405	38 579
Labor Force Participation - Total (%)	2005	48.4	42.3	45.6	54.6
Labor Force Participation - Female (%)	2003	46.2	41.1	39.7	44.9
Human development index (HDI) value	2005	...	0.482	0.694	0.911
Human Develop. Index (Rank among 174 countries)	2006	54	n.a.	n.a.	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2004	...	34.3	25.0	...
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	2008	0.5	2.3	0.3	1.2
Population Growth Rate - Urban (%)	2008	1.3	3.3	2.5	0.5
Population < 15 years (%)	2007	19.9	40.9	16.6	27.4
Population >= 65 years (%)	2007	7.0	3.4	16.7	8.0
Dependency Ratio (%)	2007	463.0	79.5	47.7	53.9
Sex Ratio (per 100 female)	2007	99.5	99.3	94.3	101.5
Female Population 15-49 years (% of total population)	2006	...	24.2	24.3	25.8
Life Expectancy at Birth - Total (years)	2007	73.1	54.5	76.7	67.5
Life Expectancy at Birth - Female (years)	2007	77.7	55.6	67.5	80.3
Crude Birth Rate (per 1,000)	2007	17.6	35.7	11.0	20.1
Crude Death Rate (per 1,000)	2007	7.4	13.0	10.4	8.6
Infant Mortality Rate (per 1,000)	2007	10.7	83.9	7.1	48.5
Child Mortality Rate (per 1,000)	2007	9.5	137.4	8.8	72.3
Total Fertility Rate (per woman)	2007	2.1	4.6	1.6	2.5
Maternal Mortality Rate (per 100,000)	2007	...	683.0	450	9
Women Using Contraception (%)	2007	...	29.7	61.0	75.0
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	2007	123.5	39.6	78.0	287.0
Nurses (per 100,000 people)	2007	474.6	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2006	99.7	0.0	59.0	99.0
Access to Safe Water (% of Population)	2004	88.0	64.3	84.0	100.0
Access to Health Services (% of Population)	2004	99.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2004	97.8	37.6	53.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2004	...	4.5	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2006	33.0	315.8	275.0	19.0
Child Immunization Against Tuberculosis (%)	2007	99.0	83.0	89.0	99.0
Child Immunization Against Measles (%)	2007	99.0	83.1	81.0	93.0
Underweight Children (% of children under 5 years)	2007	...	25.2	27.0	0.1
Daily Calorie Supply per Capita	2004	2 426	2 436	2 675	3 285
Public Expenditure on Health (as % of GDP)	2007	3.5	2.4	1.8	6.3
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	2007	125.3	99.6	106.0	101.0
Primary School - Female	2007	124.6	92.1	103.0	101.0
Secondary School - Total	2007	111.8	43.5	60.0	101.5
Secondary School - Female	2007	119.1	40.8	58.0	101.0
Primary School Female Teaching Staff (% of Total)	2007	85.4	47.5	51.0	82.0
Adult Illiteracy Rate - Total (%)	2008	4.0	38.0	21.0	1.0
Adult Illiteracy Rate - Male (%)	2008	4.0	29.0	15.0	1.0
Adult Illiteracy Rate - Female (%)	2008	4.0	47.0	27.0	1.0
Percentage of GDP Spent on Education	2006	5.6	4.5	3.9	5.9
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	2005-08	2.2	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2000-08	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2000-08	...	10.9	...	...
Per Capita CO2 Emissions (metric tons)	2005-08	2.8	1.0	1.9	12.3

Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; March 2009

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

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

## Annex 11: PEFA indicators: dimension ratings for Seychelles (December 2008)

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
<b>A. PFM-OUT-TURNS: Credibility of the budget</b>							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	D				D
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	A				A
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				A
PI-4	Stock and monitoring of expenditure payment arrears	M1	D	D			D
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>							
PI-5	Classification of the budget	M1	C				C
PI-6	Comprehensiveness of information included in budget documentation	M1	D				D
PI-7	Extent of unreported government operations	M1	A	A			A
PI-8	Transparency of inter-governmental fiscal relations	M2	-	-	-		n.a.
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	n/a			C
PI-10	Public access to key fiscal information	M1	B				B
<b>C. BUDGET CYCLE</b>							
<b>C(i) Policy-Based Budgeting</b>							
PI-11	Orderliness and participation in the annual budget process	M2	B	D	A		B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	D	A	C	D	C
<b>C(ii) Predictability and Control in Budget Execution</b>							
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	A	C		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	B	C	A		B
PI-15	Effectiveness in collection of tax payments	M1	C	B	A		C+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	C	B		C+
PI-17	Recording and management of cash balances, debt and guarantees	M2	B	C	C		C+
PI-18	Effectiveness of payroll controls	M1	B	A	A	B	B+
PI-19	Competition, value for money and controls in procurement	M2	D	C	D		D+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	C	C		C
PI-21	Effectiveness of internal audit	M1	B	B	B		B
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	B			B+
PI-23	Availability of information on resources received by service delivery units	M1	A				A
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	A		C+
PI-25	Quality and timeliness of annual financial statements	M1	B	A	C		C+
<b>C(iv) External Scrutiny and Audit</b>							
PI-26	Scope, nature and follow-up of external audit	M1	B	B	B		B
PI-27	Legislative scrutiny of the annual budget law	M1	C	B	D	D↑	D+
PI-28	Legislative scrutiny of external audit reports	M1	C	A	D		D+
<b>D. DONOR PRACTICES</b>							
D-1	Predictability of Direct Budget Support	M1	n/a	n/a			n/a
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	D	D			D
D-3	Proportion of aid that is managed by use of national procedures	M1	D				D

Source: Seychelles Public Financial Management Performance Report (Dec. 2008)

Note: for information on the PEFA methodology, refer to [www.pefa.org](http://www.pefa.org)

### Annex 12: Investment Climate Regulatory Framework

Areas of Reform	Measures already Implemented (2008-2009)	Further changes required (2009-2010)
<b>Foreign exchange liberalization</b>	<ul style="list-style-type: none"> <li>• Before the Rupee was floated, administrative procedures were in place to monitor and allocate foreign exchange, including: foreign exchange retention limits and price controls on basic imported goods.</li> <li>• All these limits/controls have been abolished. This is a significant improvement in the business environment, and removes market distortions.</li> </ul>	Not applicable.
<b>Removal of customs duties, export permits and most import permits</b>	<ul style="list-style-type: none"> <li>• Import customs duties have been lowered from an average applied import duty of 28.3% (all products) in 2005 to 8.95% in 2007.</li> <li>• All permit requirements for the export of goods have been abolished. The list of products requiring an import permit before Customs clearance has been reduced.</li> <li>• The Customs clearance procedures have been modernized with the introduction of more appropriate and compatible software.</li> </ul>	<p>In spite of these improvements, average tariff rates remain high, while enterprises in certain sectors are granted substantial exemptions or reductions in import tariffs.</p> <p>There remains a need for reform, especially with regard to publication of the new Customs Management Act and the new Harmonized Systems Code.</p>
<b>Dismantling of state-owned Seychelles Marketing Board (SMB) abolishment of exclusive rights and removal of price controls</b>	<ul style="list-style-type: none"> <li>• The SMB used to have exclusive rights to import a long list of basic products and offer them for set prices. All price controls have now been removed.</li> <li>• However, the Seychelles Trading Corporation (STC), is still the major importer of most basic products. Removal of price controls was made in parallel to the dismantling of the SMB, which has been split into 5 companies (4 now privatized).</li> </ul>	The trading arm of SMB, the newly incorporated STC, is still state-owned.



**Annex 12: Investment Climate Regulatory Framework (contd.)**

Areas of Reform	Measures already Implemented (2008)	Further changes required (2009 onwards)
<b>Non-discretionary fiscal incentives</b>	<ul style="list-style-type: none"> <li>• Government has rationalized fiscal incentives in the two main sectors of the economy: tourism and fisheries; by abolishing the old incentive regime (negotiating individual investment agreements with investors) with the Tourism (Incentives) Act of 2008, and the Agriculture and Fisheries (Incentives) Act of 2005.</li> <li>• Features introduced by the two Acts are a set package of fiscal incentives, subject to an entitlement certificate.</li> </ul>	<p>Although this new incentive package provides a more level playing field for both local and foreign investors, old investment agreements (under the 1991 Investment law) need to be reviewed and re-negotiated where appropriate, otherwise, they will continue to distort the market.</p>
<b>Adoption of investment promotion legislation and institutions</b>	<ul style="list-style-type: none"> <li>• In 2005 a new Investment Code was adopted. Three new elements within the Code include: (i) abolishment of incentives under the old Investment Promotion Act; (ii) creation of the Seychelles Investment Promotion Board (SIB), and (iii) the introduction of a new investment approval for foreign investors and domestic investors of a certain size.</li> <li>• Review of this Code, with the participation of private sector representatives, has already begun.</li> </ul>	<p>Although the Investment Code of 2005 is a major improvement to the Act of 1991, the Code is still restrictive, unclear in some areas, and bureaucratic. For example, the list of restricted and strategic areas is long and limits competition. Several of the listed activities could attract foreign investors and inject new capital and know how to the economy. In addition the Code lacks provisions on the institutional set-up, mandate and function of SIB, and the role of the private sector.</p> <p>An <b>Investment Code (Amendment) Bill</b> is being prepared in consultation with the private sector. This legislation is expected to be submitted to the National Assembly by 2010.</p>

**Annex 12: Investment Climate Regulatory Framework (contd.)**

<b>Areas of Reform</b>	<b>Measures already Implemented (2008-2009)</b>	<b>Further changes to be implemented (2009-2010)</b>
<b>Licensing Regime</b>	<ul style="list-style-type: none"> <li>• Prior to 2005, the licensing regime was control-driven (private sector controlled in all aspects of business) and with revenue generation as one of the main objectives reflected in an obsolete Licensing Act. In addition, the Seychelles Licensing Authority (SLA) was not supervised independently, leaving decisions to the full discretion of SLA officers.</li> <li>• Since 2005, several steps have been undertaken to improve the licensing regime including: (i) some activities being taken off the licensing list, (ii) the duration of procedures shortened, and (iii) licenses not being used to monitor and control foreign exchange outflows and implement price controls.</li> </ul>	<p>Although there have been improvements, the licensing situation is still highly unsatisfactory. A long list of activities still needs to be licensed and the License Act of 2005 still favors a catch-all approach, and provides a high degree of discretion in the issuance, renewal and withdrawal of licenses.</p> <p>A <b>Licensing Act (Amendment) Bill</b> is being prepared in consultation with the private sector. This legislation is expected to be submitted to the National Assembly by 2010.</p>
<b>Labor Regulations</b>	<ul style="list-style-type: none"> <li>• Government recognizes that the country requires a level of both skilled and unskilled labor, and work is already underway to prepare a new set of guidelines for the recruitment of foreign workers.</li> <li>• Government is also aware that current labor laws are too restrictive on employers.</li> <li>• Review of the Employment Act, with the participation of private sector representatives, has already begun.</li> </ul>	<p>An <b>Employment Act (Amendment) Bill</b> is being prepared. This legislation is expected to be submitted to the National Assembly in 2010.</p>

### Annex 12: Investment Climate Regulatory Framework (concluded)

Areas of Reform	Measures already Implemented (2008-2009)	Further changes to be implemented (2009-2010)
<b>General business taxation</b>	<ul style="list-style-type: none"> <li>• Progress in improving the taxation environment, to make Seychellois businesses more competitive, has been achieved by the introduction of a flat business tax rate, elimination of discretionary tax cuts, and cutting the social security contribution of employers from 40% to 20%.</li> </ul>	<p>Numerous shortcomings of the general tax regime persist. For example, the tax laws explicitly favour certain sectors and sub-sectors over others. Enterprises that export, or otherwise earn revenues in foreign currency, receive a host of concessions, rebates and other preferences that non-exporting companies do not. In addition, certain companies or economic activities are exempted from paying social security contributions.</p> <p><b>A tax policy review</b> is currently being undertaken with the assistance of the IMF.</p>

Source: Seychelles: 2009-2010 Interim Strategy Note, AfDB (ADB/BD/WP/2009/51, April 2009)

### Annex 13: Map of Seychelles

