

AFRICAN DEVELOPMENT BANK



SEYCHELLES

COUNTRY STRATEGY PAPER 2011-2015

REGIONAL DEPARTMENT EAST A

MARCH 2011

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CURRENCY EQUIVALENTS

Currency 15 March 2011

UA 1.00 = USD 1.57

UA 1.00 = SCR 18.71

1USD = SCR 11.89

WEIGHTS AND MEASURES

Metric System

GOVERNMENT FISCAL YEAR

January 1- December 31

ACRONYMNS AND ABBREVIATIONS

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

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

I. INTRODUCTION

1.1 The Bank Group's Strategy for Seychelles, covering the period 2009-2010, was articulated in an Interim Strategy Note approved by the Board in April 2009. The strategy was designed to guide the Bank Group's re-engagement with Seychelles after a long period of absence¹ and to support the Government's comprehensive reform program launched in October 2008. During this period the Bank Group adopted a cautious approach with its lending program limited to the provision of much-needed budget support and assistance for debt restructuring. In addition, several grants were offered to provide technical assistance to help underpin, over the medium and longer term, more substantial engagement. All this has led to a remarkable turnaround of the country's macroeconomic performance, so much so that the Bank is now ready for more substantial lending interventions, which will be guided by a Country Strategy Paper. The CSP for 2011-2015 seeks to guide the Bank Group's response to Seychelles' emerging development priorities, as the authorities embark on what is commonly termed the second generation of reforms.

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

II. COUNTRY CONTEXT AND PROSPECTS

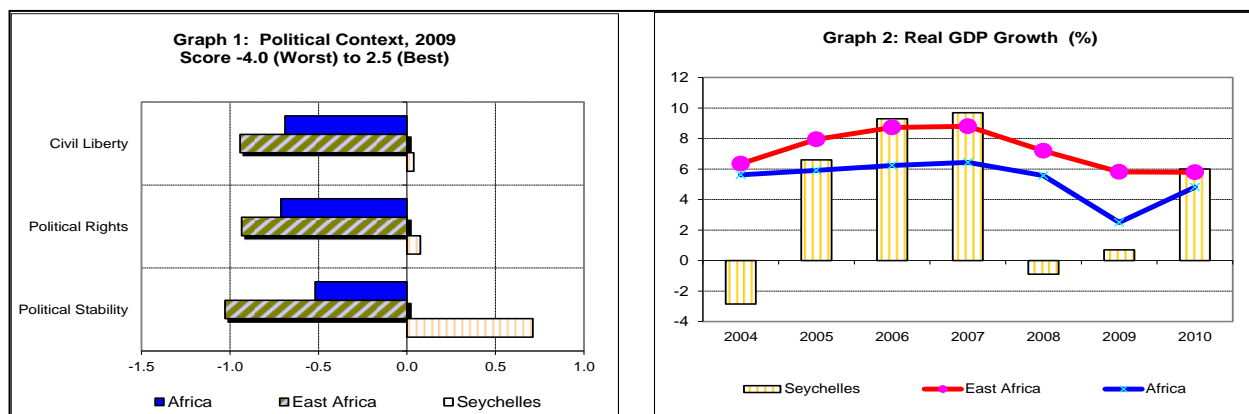
2.1 Political, Economic and Social Context

Political Context

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

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

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



Source: ADB Statistics Department, Data from WEF, 2009

ADB Statistics Department, African Economic Outlook, March 2011

Economic Context

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

Growth and Growth Drivers

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

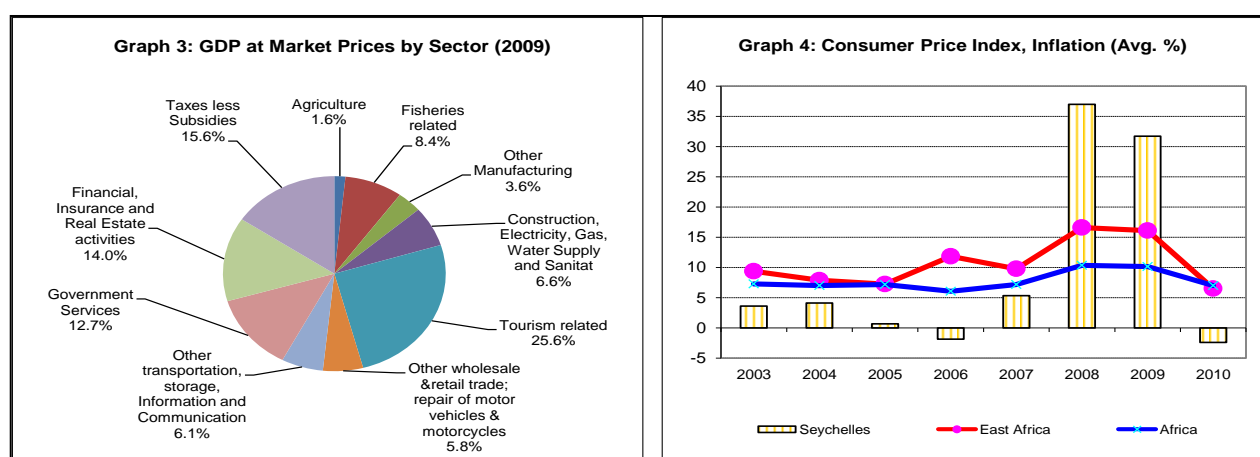
2.1.4 By end-2009, tourist arrivals were down by only about 1 percent compared to numbers in the previous two years, and then grew by a record 10 percent in 2010². Compared to 2009, tourists from Europe (which account for about 75 percent) increased by 8 percent in 2010; African and Asian tourist arrivals grew even faster-- at 58 percent and 24 percent respectively. This happened because of a combination of factors including a rebound in the global economy, a weaker Seychelles Rupee (SCR) and price discounting by tour operators. In addition to tourism, the other major growth driver has been Foreign Direct Investment (FDI). The latter increased due mainly to the completion of several high-end hotels, largely financed by foreign investors, and the construction of a residential project in Ile Perseverance.

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

² As a comparison, Mauritian tourism grew by 7% in 2010.

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

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



Source: Seychelles National Bureau of Statistics

ADB Statistics Department, African Economic Outlook, March 2011

2.1.7 Given its limited land size of just 455.3 sq kilometre and options for diversification, Seychelles relies heavily on imports for oil, food, almost all raw materials, and specialized services. The country is thus highly vulnerable to global economic and/or terms-of-trade shocks. Agricultural production is constrained by the limited availability of arable land, which is estimated to be only about 600 hectares. As a result, the country is a net food importer and the

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