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INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY

FOR

THE REPUBLIC OF SEYCHELLES

FY 2012 - 2015

February 22, 2012

Indian Ocean Country Department
IFC
Africa Region

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REPUBLIC OF SEYCHELLES

COUNTRY PARTNERSHIP STRATEGY

CURRENCY EQUIVALENTS

Currency Unit: Seychelles Rupee (SR)
US\$1 = SR 12.40 (November 2011)

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

January 1 – December 31

ACRONYMS AND ABBREVIATIONS

AAA	Analytical and Advisory Activities	IDF	Institutional Development Fund
AFD	Agence Française de Développement	IFC	International Finance Corporation
AfDB	African Development Bank	IMF	International Monetary Fund
AIDS	Acquired immune deficiency syndrome	IOC	Indian Ocean Commission
ASP	Agency for Social Protection	IPP	Independent Power Producers
BOEMRE	Bureau of Ocean Energy Management, Regulation and Enforcement	IPSAS	International Public Sector Accounting Standards (IPSAS)
CEDAW	Committee on the Elimination of Discrimination against Women	ISN	Interim Strategy Note
CIS	Credit Information System	LUNGOS	Liaison Unit of Non Government Organization
CPI	Consumer Price Index	MDG	Millennium Development Goal
CPIA	Country Policy and Institutional Assessment	MIGA	Multilateral Investment Guarantee Agency
CPS	Country Partnership Strategy	MTEF	Medium-Term Expenditure Framework
CSO	Civil society organization	MTDS	Medium Term Debt Strategy
DBS	Development Bank of Seychelles	MTNDS	Medium-Term National Development Strategy
DeMPA	Debt Management Performance Assessment	NEC	National Economic Council
DFGG	Demand for Good Governance	NGMT	National Gender Management Team
DPO	Development Policy Operation	PBB	Performance Based Budgeting
EIA	Environmental Impact Assessment	PEFA	Public Expenditure and Financial Accountability
EE/CP	Energy Efficient and Clean Production	PEMD	Public Enterprise Monitoring Division
EEZ	Exclusive Economic Zone	PER	Public Expenditure Review
EFF	Extended Fund Facility	PFM	Public Financial Management
EI-TAF	Extractive Industries Technical Advisory Facility	PPA	Purchasing Power Agreement
EITI	Extractive Industries Transparency Initiative	PPP	Public-private partnership
ESW	Economic and Sector Work	PSIA	Poverty and Social Impact Analysis
EU	European Union	PUC	Public Utility Company
FDI	Foreign Direct Investment	REF	Resource Efficiency
FIAS	Foreign Investment Advisory Service	RTA	Reimbursable Technical Assistance
FSAP	Financial Sector Assessment Program	SACMEQ	Southern and Eastern Africa Consortium for Monitoring Educational Quality
FY	Fiscal Year	SADC	Southern African Development Corporation
GDP	Gross domestic product	SME	Small and Medium Enterprise
GFDRR	Global Facility for Disaster Reduction and Recovery	SOE	State Owned Enterprise
GINI	Gross national income	SSB	Seychelles Savings Bank
GOP	Gainful Occupational Permit	SCCI	Seychelles Chamber of Commerce and Industry
GOS	Government of Seychelles	STATCAP	Statistical Capacity Building
GPF	Governance Partnership Facility	SWIO	South West Indian Ocean
HFC	Housing Finance Company	UNFPA	United Nations Population Fund
HIV	Human immunodeficiency virus	UNDP	United Nations Development Program
IBRD	International Bank for Reconstruction and Development	USD	United State Dollar
ICT	Information and communication technologies	WGI	World Governance Indicator

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Foreword

This Country Partnership Strategy (CPS) has been prepared together with the Government of the Republic of Seychelles. This strategy document has been produced at a time when the Government was drafting the Medium Term National Development Strategy (MTNDS) for Seychelles. Country-wide consultations took place between November 2011 and January 2012. Besides the authorities, other stakeholders consulted were the private sector organizations, Members of the National Assembly, and the civil society organizations. The Government of Seychelles and World Bank have agreed that a CPS mid-term review will take place in the first quarter of FY14.

EXECUTIVE SUMMARY

1. **This proposed Country Partnership Strategy (CPS) outlines the strategic direction for the World Bank's program for Seychelles for FY12-15.** This strategy builds upon the FY10-11 Interim Strategy Note (ISN) which laid out a work program to develop the analytical underpinnings for a full CPS for the World Bank Group (WBG). Since the ISN was successful, it is fitting that CPS is naturally the next level of engagement by the WBG. Drawing on this work, this strategy aligns with the draft Seychelles Medium-Term National Development Strategy 2013-2017 (MTNDS), which based on a participatory approach, sets out the vision and goals for the country. The core aim of the MTNDS is to reduce Seychelles vulnerability and to provide the basis for long term sustainable development. This strategy reassesses Strategy 2017 which was launched in 2007. Strategy 2017 has been only partly implemented as the economic environment of Seychelles and that globally have changed, and Seychelles needs to adapt to the new world environment and thrive in it.

2. **External economic conditions call for accelerated reforms.** In light of the uncertainties in the global economic environment, and especially developments in Europe to which Seychelles remains vulnerable given the weight of tourism in its economy and the still predominant share of European tourists, the Government of Seychelles has decided to accelerate structural reforms designed to improve public sector effectiveness, enhance competitiveness and reform its extensive social protection programs to better cushion the poor and vulnerable people.

3. **The Government's commitment to reform is proven by its track record of the last three years.** Through strong ownership of the reform agenda at the highest level, and leveraging on support from the IMF and other bilateral and multilateral partners, the Government has made commendable progress towards achieving macro-economic stability, emerged from a period of debt distress to debt sustainability with improved credit-worthiness, and successfully weathered the shocks of the 2008-09 global financial crisis. In 2010 and 2011, the Seychelles registered primary surpluses of 4.5 percent. While the reform momentum is maintained, the Government created the National Economic Council (NEC) chaired by the President, with members from the public and private sector, which has as core function to advise Government on the best economic policy for sustainable national growth and development.

4. **Macroeconomic performance is satisfactory and outlook broadly positive but contingent on external economic environment.** The Seychelles economy rebounded remarkably well. It grew at 6.7 percent in 2010 and revised estimates show that real GDP growth rate for 2011 is at 5 percent. This achievement was underpinned by improved macroeconomic policies that emphasized strong fiscal consolidation and prudent monetary policies. However, for enduring results, the reform momentum must be maintained and binding constraints to growth streamlined. The economic outlook for the medium term is broadly positive, although Seychelles remains vulnerable to external shocks. Real GDP forecast for 2012 has been revised downward to 4 percent from 4.7 percent forecasted in June 2011, reflecting the anticipated impact of the unfolding sovereign debt and banking crisis in Europe. Given the importance of the tourism sector in the economy, prospects for that sector will remain central to the Seychelles' medium-term economic prospects. This said, the Seychelles require a stronger growth path, in order to consolidate its progress on debt and fiscal sustainability. Linked to that is the core aim of the MTNDS, that is reduce vulnerability and enhance sustainable development. Inflation increased from near zero in 2010 to about 5 percent in 2011, on account of higher international food and oil prices, but is expected to decline to about 3.5 percent for 2012

5. The reform program supported in this strategy is organized in two pillars and one foundation: competitiveness and employment, vulnerability and resilience, and governance and public sector capacity. These pillars have two key objectives in mind: reduce vulnerability and build long term sustainability. Analytical underpinnings for the reform program will be provided both by existing and programmed analytical work. Existing analytical work that has shaped Government's on-going reform agenda includes Public Expenditure Reviews (PERs), a Strategy for Strengthening Budget Management, a Public Financial Management Performance report, a review of Administrative Barriers to Private Sector Development and Business Environment in the Seychelles, and the Review of the Policy Regulatory and Administrative Environment.

6. The World Bank Group's support to Seychelles will be implemented using the three core instruments: partnerships, knowledge and finance. Partnership with key stakeholders (the Governments, the Seychelles Chamber of Commerce and other members of the private sector, the University of Seychelles, the civil society represented by Liaison Unit of Non-Governmental Organizations (LUNGOS), and other development actors like AfDB, EU, UNDP, and IFC will play a primary role in coordinating the implementation of the strategy. Building partnerships will become even more critical in supporting Seychelles in case oil extraction is found to be commercially viable. The Bank Group's strategy is to partner with Seychelles in the implementation of the reform program in areas for which it has a comparative advantage, and deepen cooperation with a wider range of partners at the regional and global levels. The Bank Group will therefore focus on a subset of Seychelles' development challenges, and will reinforce other partners' engagement to support the Government's priority reforms in other ways.

7. The IFC and MIGA engagement might be expanded during the course of the strategy period. The IFC will complement the WBG's engagement with Seychelles by continuing to explore demand and expand their investment primarily focused on financial sector (SMEs), capital market development, tourism and fisheries related projects and infrastructure development that will create employment opportunities. There are possibilities for both IFC and MIGA to explore possibilities for technical assistance in the creation of Public-Private Partnerships (PPPs) for infrastructure projects. Although MIGA does not have any project in Seychelles, it stands ready to join IFC's initiatives.

8. The Bank will generate analytical work to underpin the reform program, as well as to help identify areas of weaknesses and binding constraints to sustainability beyond the medium term agenda. The reform program supported under the ISN FY10-11 was based on critical ESWs developed by the Bank and other partners. Those analytical pieces were focused on the critical needs of the on-going short-term reform agenda. While the Bank will continue to produce focused knowledge work to support evidence-based policy changes in the medium term reform program, based on the request from the Government, the Bank will also undertake ESWs to generate discussions and debates, and build consensus, on longer term sustainability constraints. This specific request from the Government is based on the fact that the country has limited local capacity for analytical work, and it recognizes the Bank's role as a strategic advisor and honest broker.

9. The main instrument to support implementation of reforms is a three-year programmatic series of Development Policy Operations (DPO). This programmatic series will consolidate and reinforce reforms achieved during the previous years, while shaping the way to a sustainability path. The areas of the programmatic DPO series is embedded in the strategic approach highlighted in this strategy for Seychelles. In the competitiveness and employment

pillar, this series will support improving the business environment. The main policy reform centers on the private sector to become the source of economic growth. In the vulnerability and resilience pillar, this series will support improving efficiency of selected state owned enterprises (SOEs), enhance the social protection system, and consolidate fiscal discipline (budget management and efficiency in health spending). In the governance and public sector capacity foundation, this series will support the establishment of institutions to prepare for the development of the country's petroleum resources, and improve transparency and accountability in the fisheries sector. Based on lessons learned from past DPOs, the Bank will support a selective and targeted program while maintaining high emphasis on design and implementation. The Bank will also make use of trust funded operations and reimbursable technical assistance to complement the DPO in supporting the reform agenda.

10. This CPS is being prepared at a time when the Government awaits the finding of evidence of commercially viable oil reserves from the on-going exploration. Initial exploration data acquired in the Seychelles marine EEZ and results from drilling in the East Africa region have been encouraging. However, at this stage, there are no clear indications that oil or gas production would be economically viable or of when, if it was, exploitation may begin. If exploration activities are successful, the economic impact for the country would be dramatic, with Government revenue generated from a single development project potentially ranging from \$500 million to \$2 billion annually over a period of 10-15 years. The country is preparing for a bidding process to further allocate exploration licenses in 2012 in order to increase the level of foreign investment in exploration operations. The Bank will monitor closely the evolution of exploration activity and, if warranted by results, will deepen the Bank's engagement in strengthening the Seychelles' regulatory and revenue management capacity in this area. Given the risk associated with such a development the Government is also very conscious of its impact of the environment. In parallel, the Government is in the process of commissioning a study to evaluate the benefits over the economic and ecological costs.

11. The main risks to implementing the CPS derive from national macroeconomic factors, institutional capacity, societal resistance and changes in climatic conditions. Macroeconomic stability is vulnerable to exogenous shocks such as volatile commodity prices, threats of piracy, and economic shocks like the Euro Zone crisis. To mitigate risks associated with external shocks, the Bank will support reforms to improve public finance management, in particular enhance the allocative efficiency of expenditure and accelerate medium-term expenditure planning. In case of need, the Bank will also scale up its financial support to the country. Capacity is an issue at all levels of the public sector in Seychelles, which must contend with a serious lack of technical expertise in some areas and limited human resources owing to its small size. To mitigate this risk, the Bank will provide technical assistance and strengthen implementation capacity in areas with skills gap. The Bank also selected to be involved in a limited number of policy areas to ensure that the authorities are not overstretched in the implementation process. The reform program may be delayed, especially since the new round of reforms calls for significant ownership and drive needed from a range of ministries and agencies, unlike the first-generation reforms, driven mainly by the Ministry of Finance. Erosion of political support (especially for reforming state-owned enterprises) and social dissatisfaction with the reforms' potential short-term impacts on social groups may also slow critical reforms. The Bank will use change management mechanisms, including communications strategy to address societal concerns. The Bank will also support in improving the social protection programs to ensure that the poor and vulnerable are well targeted. In the implementation process of sensitive

reforms (including changes in utility tariff structure and housing finance), the Bank will adopt slow process built on consultations and consensus. Seychelles remains vulnerable to several natural hazards including floods, rising sea levels, landslides, and tsunamis, and these pose serious risks to the country. These risks should be mitigated by the strong commitment, leadership, and ownership of the Government in implementing the current reform program. The Government has also committed itself to improving social safety net programs properly targeted on the poor and vulnerable. To mitigate risks to disaster and climate change, the Bank will support in the development of a master plan for disaster risk management which will be build on the assessments of geological risks, and provide technical expertise to develop risk financing tools. Finally, the Government has a strong record of comprehensive communication and consultation to gauge public willingness to pursue the reforms.

Seychelles Country Partnership Strategy FY12-15

I INTRODUCTION

12. **The Republic of Seychelles is a service-based, highly concentrated, middle-income economy.** Seychelles has an estimated population of 88,311 (2010) and comprises 115 tropical islands spread over 45,166 hectares in the Indian Ocean.¹ The population inhabits 10 of the islands, with around 90 percent concentrated on the largest island, Mahé. The country is blessed with natural beauty of unique appeal, an asset that has drawn and will continue to draw a growing number of tourists. With a GNI per capita of US\$ 9,420 (2009), Seychelles is classified as a high middle income country.

13. **Given its small size and insularity, Seychelles faces a number of development challenges.** The limited land, capital, and human resources restrict its ability to benefit from economies of scale in production and economic diversification. Seychelles has a high dependence on external markets because of its small domestic market, high vulnerability to external factors, and has limited institutional capacity. Tourism and fisheries (fishing and fish processing) are the economy's two major pillars. Seychelles enjoys an exclusive economic zone of almost 1.4 million square kilometers in one of the world's major tuna fishing grounds. Tourism accounts for 25 percent of GDP, 25 percent of employment, and 70 percent of foreign exchange earnings. Tuna fishing and processing combined accounted for more than 30 percent of GDP in 2005 and still account for close to 5 percent of GDP, about 7 percent of jobs, and around 35 percent of export goods, despite impacts of piracy, environmental factors and increased regional competition between fishing ports and processing plants. Limited backward linkages to the rest of the domestic economy from both sectors, however, implies that the potential for spillover effects remains untapped. The small manufacturing sector (8 percent of GDP) includes the tuna cannery, small food and beverage enterprises, and a modest construction sector that provides 5 percent of GDP. The artisanal fisheries and agricultural sectors are small, accounting for less than 3 percent of GDP combined, but of great socio-economic significance as illustrated by the piracy impact on the livelihood of fishing communities and on the availability and price of fish for the consumers. With a concentration index of 0.5, Seychelles exports remain highly undiversified compared to those of comparator small island economies.

14. **Following a sharp policy turnaround initiated in 2008, the macroeconomic situation has improved.** The risk of debt default is reduced and economic outlook is positive. The Seychelles grew by 6.7 percent and 5 percent (revised estimates) in 2010 and 2011, registered a primary surplus of 4.5 percent, a further decline in public debt to GDP ratio to 78.5 percent, but increased inflation from near zero in 2010 to about 5 percent in 2011, on account of higher international food and oil prices. Despite global economic uncertainties, real GDP growth is projected to be around 4 percent in 2012. This said, the Seychelles require a stronger growth path, in order to consolidate its progress on debt and fiscal sustainability. Linked to that, the core aim of the MTNDS is to reduce Seychelles vulnerability and to provide the basis for long term sustainable development.

15. **The authorities are highly committed to addressing the critical development challenges to growth and sustainability.** In light of the uncertainties in the global economic

¹ Beaches are not included in the calculation of land area.

environment, and especially developments in Europe to which Seychelles remains vulnerable given the weight of tourism in its economy and the still predominant share of European tourists, the Government of Seychelles has decided to accelerate structural reforms designed to improve public sector effectiveness and to harness private sector growth and create wealth and employment, while at the same time reform the social protection programs to better cushion the poor and vulnerable people. The reform program supported in this strategy is organized in two pillars and one foundation: competitiveness and employment, vulnerability and resilience, and governance and public sector capacity, respectively. These pillars and foundation have the Government's two key objectives in mind: reduce vulnerability and build long term economic sustainability, and social stability.

16. Consistent with the new Africa Strategy, the World Bank Group's support to Seychelles will be implemented using the three core instruments: partnerships, knowledge and finance. The Bank will be the leading partner for reforms in those areas, in which it has comparative advantages, and generate and disseminate analytical work in key strategic areas to guide reforms. The main lending instrument supporting the reform agenda will be a programmatic series of Development Policy Operation (DPO), but also grants from trust funds and reimbursable technical assistance (RTAs).

17. This CPS is being prepared at a time when the Government awaits the finding of evidence of commercially viable petroleum reserves. Only a small portion of its large marine exclusive economic zone has been evaluated through drilling. Recent exploration activity has been sparse and largely confined to the acquisition of seismic data in the confines of two petroleum license areas. However, recent discoveries in the marine shelf area between the Seychelles, Tanzania and Mozambique have heightened petroleum industry interest in the East Africa offshore region and several prominent exploration and production companies have enquired about licensing opportunities in recent months. In response, the Government is preparing for a bidding process to further allocate exploration licenses in 2012 in order to increase the level of foreign investment in petroleum exploration operations. Given the possibility of environmental risk associated with such a development, although potential for oil exploration is only offshore, the Government is very conscious of its impact of the environment. Thus the Government is in the process of commissioning a comprehensive Environmental Impact Assessment (EIA) study to evaluate the benefits over the economic and ecological costs. The Bureau of Ocean Energy Management, Regulation & Enforcement (BOEMRE) of the U.S. Department of Interior is also engaged in this area and has plans to continue a program of technical assistance with the Seychelles authorities.

II COUNTRY CONTEXT

18. Seychelles has come a long way since the 2008 crisis, but a number of weaknesses and challenges remain to be addressed. Seychelles has a high per capita income, high standard of living, and high levels of human development and better governance indicators than many comparator countries. It has also been strongly pursuing reforms under the Bank and IMF programs and has managed to secure generous debt relief, which together with fiscal consolidation has led to a much better macro and debt picture than a few years ago. Nevertheless Seychelles has a number of weaknesses that remain to be addressed, in addition to the challenge of its small size, remoteness, and vulnerability to shocks. A bad track record with debt management and poor public finance management led to a default in 2008 and public debt

figures are still relatively high. After the debt crisis reserves have recovered somewhat but remain low, particularly given Seychelles vulnerability to external shocks. Below, in more details the following are elaborated: social context, political developments, public sector governance and economic developments.

Social Context

19. **The Seychelles has better social indicators than comparator small countries.** It has already achieved most of the Millennium Development Goals (MDGs), especially for education, health, poverty eradication, and the environment. Gross enrollment in primary and secondary education is high (above 100 percent). Education is free to the secondary level and subsidized at the tertiary level. Additionally, the state provides free access to healthcare—the Seychelles has better indicators of health outcomes (such as life expectancy and child mortality rates) than many other small island states. For instance, the country's life expectancy at birth is 73 years, equal to that of Mauritius. The maternal health MDG is largely achieved. Infant mortality was at 14 per 1,000 live births in 2010. For many years the Seychelles has recorded zero maternal mortality²; births attended by skilled health staff hovers between 99 and 100 percent; and proportion of women receiving prenatal care has consistently been over 99 percent.

20. **Although Seychelles has remarkably achieved most of the health MDGs, challenges remain.** In the last three years, the Government has introduced a number of changes in the health sector as part of the overall economic reform program. Some of the major reforms were: (a) organizational restructuring with the Health Service Agency being absorbed and the functions merged to the Ministry of Health core functions, (b) staff downsizing through an early voluntary departure schemes, and (c) outsourcing of ancillary services. However, there exist no evidence that these reforms have resulted in cost saving, efficiency gains or quality improvement. Key challenges in the health sector include: (1) low coverage of some important services, (2) the burden of disease in Seychelles has shifted to non-communicable diseases, injuries, and mental health problems, (3) a noticeably inefficient sector, particularly in the size, organization and management of health infrastructure³, (4) long term fiscal sustainability challenges, and (5) high turnover rate of medical practitioners. Contraceptive use remains low⁴, teen pregnancy is a big problem⁵, and HIV and AIDS continue to rise. Non-communicable diseases, injuries, and mental health have been the main causes of death in recent years. Over the years, Seychelles has developed a robust network of health facilities. However, bed occupancy rate is low⁶. The constitution grants free access to primary care services, but in practice all services are provided free of charge, creating additional fiscal pressure. The health sector recurrent budget allocation has more than doubled in the last five years⁷. Cost of health care provision will certainly continue to rise, particularly because of: (a) the increase in the demand for expensive tertiary care treatment, including overseas treatment, from the high burden of non-communicable diseases; (b) the population structure, which shows an upward movement from a younger to an

² Since 2000 a total of four maternal deaths are registered, one maternal death in each year for 2002, 2004, 2005 and 2008

³ World Bank, Seychelles Public Expenditure Review, June 2009.

⁴ Less than 50 percent

⁵ 32 percent of all first pregnancies occurring among the 15-19 age groups. Although medical abortions are possible through a medical board for very specific reasons many women still opt for illegal abortions

⁶ 50 percent on Mahé and even much less in Praslin and La Digue

⁷ In 2011 the health sector budget was over SR400 million including allocation for capital investment. It is the second highest item in the overall Government budget.

older population; and (c) being small island state, Seychelles has low economies of scale particularly for capital investment – unit cost of service provision will remain high. Sustaining the current health financing arrangement will present a major fiscal challenge in the medium to long term. At present over 50 percent of the medical officers (GPs), consultants and other specialists are provided through the bilateral cooperation program with high turnover that presents operational challenges in continuity of services and maintaining standard of care.

21. Despite having achieved universal education, there are critical issues in that sector as well. Learning outcomes have been disappointing, and skill gaps are increasingly visible as Seychelles further modernizes its economy. Learning achievement in mathematics, as measured by the SACMEQ III assessment, showed that Seychelles's students had a mean mathematics score well below the level reached in Mauritius.⁸ In learning achievements in mathematics and reading, boys significantly underperform girls. This said, reasons for the low performance of primary schools include a shortage of qualified teachers and inadequate teacher training. Notwithstanding efforts to develop technical and vocational training institutions, the low percentage of professionals with technical training has led to a skill gap in some sectors, including tourism and construction, filled by a large number of expatriate workers. The recently created University of Seychelles will produce its first graduates in 2012 and will help to reduce the skills shortage. The authorities are cognizant of the importance of a skilled population for stimulating national growth and employment, and have recently implemented several policy and institutional changes, enacting a Higher Education Bill, giving greater management autonomy to schools, and taking other steps. In the medium term, the Ministry of Education will be working towards a renewed Education Strategic Plan, aligned with the MTNDS.

22. Gender equality prevails in school enrollment and other areas. There is little or no difference between net primary/secondary enrollment rates for male and female children; the Gender Parity Index was close to 1 in 2008 (World Development Indicators).⁹ To mitigate the impact of girls drop outs from school due to the teenage pregnancy issue, the Government has introduced a legislation permitting girls to return to school and continue their studies after delivery. Seychelles society is in fact largely matriarchal, and women enjoy the same legal, political, economic, and social rights as men. There is no officially sanctioned discrimination in employment, women are well represented in business, and inheritance laws do not discriminate against women. The participation of women in decision making processes is quite good and improving (table 1). In Seychelles, rape, spousal rape, and domestic abuse are criminal offenses punishable by a maximum 20 years' imprisonment. The law prohibits sexual harassment. Seychelles ratified the SADC Gender and Development Protocol, the newest gender human rights treaty for the sub-region, setting legally binding targets for 2015. Seychelles has a Gender Secretariat which has as main objective to facilitate gender mainstreaming in all policies, programs and activities of the Government, private sector and civil society¹⁰. A National Gender Management Team (NGMT) was put in place in 2009 as a platform to bring together several gender related institutions to finalize a national gender policy and plan of action. Although constitutional guarantees for equality before the law exist, the Seychelles CEDAW state party report (2011) reveals that the judiciary is largely gender blind and there are no sex disaggregated

⁸ See Southern and Eastern Africa Consortium for Monitoring Educational Quality (SACMEQ) Third Assessment (2007). .

⁹ Although as noted boys underperform girls in learning achievement, as shown by SACMEQ data.

¹⁰ This Secretariat is funded through the budget and grants from UN Population Fund (UNFPA)

data available to effectively assess the situation. In this context, the EU is providing support to address these constraints under its 10th EDF for Seychelles. The Government is committed to promote greater attention to gender issues throughout the Program activities and place the matter at the centre of its development. With the financial support of the Government, the Gender Commission (civil society gender organization) is implementing a capacity building program to empower Seychellois women and youth for concrete actions gearing towards full productive employment. Through the project it is aimed to train some 200 people, helping them to enter the world of work in a prepared manner.

Table 1: Gender parity at decision making levels

Posts	2008	2009	2010
Cabinet of Ministers	2/8 (25%)	2/8 (25%)	2/8 (25%)
Principal Secretaries	8/19 (42.1%)	8/16 (50%)	8/16 (50%)
Parliamentarians	8/34 (23.5%)	8/34 (23.5%)	8/34 (23.5%)
District Administrators	15/25 (60%)	13/25 (52%)	13/25 (52%)
Ambassadors	1/7 (14.3%)	1/7 (14.3%)	1/7 (14.3%)
Judges	0/8 (0%)	0/8 (0%)	0/8 (0%)
Magistrates	2/3 (66.7%)	2/4 (50%)	2/4 (50%)

Source: Seychelles Gender Secretariat

Political Developments

23. **The Seychelles enjoys a stable political system.** It is a relatively young democracy, independent since 1976. A year after independence, a coup d'état established a one-party socialist state. In December 1991, President René of the Seychelles People's Progressive Front announced a shift to multiparty pluralism. The first multiparty presidential election was held in 1993, after the adoption of a new constitution. Seven presidential elections have been held since then. In the last election (May 2011), the incumbent president (James Michel) was reelected for another five-year term with a comfortable majority (55 percent of votes). With this new mandate, the President has renewed Seychelles' commitment to continuing the basic direction of structural reforms, consolidating the economy, boosting productivity, and encouraging innovation, while giving special attention to the social sector (particularly to improving health services and maintaining the continuity and sustainability of the housing program). Parliamentary election was held end September 2011 and resulted in the ruling party winning almost all seats (one seat went to the opposition). The main opposition party boycotted this election; principally on arguments of electoral reforms are needed and pressing. A new opposing team stood for the elections got 10.8 percent of the valid votes and one seat in Parliament. Discussions on electoral reforms have accelerated between the electoral Commissioner and all the political parties. New Parliamentary election may take place once the Electoral Commissioner concludes its report and the recommendations implemented. However, it is unclear when this might happen, and is not foreseen to take place before FY14, a time at which the CPS will be reviewed. At this stage, changes in the direction of overall economic policy are not foreseen. The pace of implementation of bold economic reforms may slow down in case if a new election is precipitated.

Public Sector Governance

24. **The Seychelles has made significant progress in public sector governance, yet requires further strengthening to leverage and reap the benefits of recent reforms.** Since 2008, Government has implemented a series of reforms to address public sector governance issues, including (i) modernizing the public sector with an improved alignment of institutions

with their policy/service delivery mandates; (ii) rolling back the role of Government in commercial activities by reducing the large number of parastatals, improving their management, and introducing a new wage bill together with the private sector; and (iii) redefining the accountability structure between arms of Government responsible for service delivery.

25. Public sector management reform efforts have focused on public financial management, human resource management and public enterprise management. In public financial management, the Government has approved a public finance law, developed a revised financial instruction and an accounting manual. Human resource management reforms include the downsizing of the number of public servants to 7,500 from 10,000; the review of service and retention schemes and adjustments to the salary structure, the removal of non-core public service functions to be absorbed by private firms; and restructuring of and capacity-strengthening for public sector institutions. Regarding public enterprises, the Government approved a detailed work plan for the public enterprise monitoring division, which has been created to strengthen the governance of public enterprises, while managing the public sector wage bill. To accelerate reforms, a more strategic approach to public sector governance is needed, including a solid analysis of the most compelling public sector governance opportunities and challenges, from both the supply- and the demand-side, with a view to spur growth. On this basis, a public sector governance strategy needs to be designed, focusing on the selection of feasible, actionable cross-cutting reforms in high impact areas and addressing the underlying incentive framework and support new forms of capacity-strengthening.

26. The reforms undertaken by Government have been reflected quite positively in a number of governance indicators. For example, of 212 countries surveyed in 2011 for the World Bank's Worldwide Governance Indicators (WGI), Seychelles ranked above the 50th percentile for most dimensions of governance, including political stability, Government effectiveness, and control of corruption. The WGI for regulatory quality remains quite low, however, about the 25th percentile, although it is improving. In the 2011 Corruption Perception Index (CPI), Seychelles ranked 50th among 178 countries, down from 49th in 2010. Seychelles ranks 4th in the Mo Ibrahim Governance indicators among 53 sub-Saharan African countries in 2011, down from the 2nd position that it maintained from 2008 to 2010. The performance in public management remains low, with a score of 52.5 and a ranking of 35. The Seychelles' score on Reporters without Borders' World Press Freedom Index improved from 16.00 in 2009 to 18.0 in 2010, placing it 65th out of 178.

Economic Developments

27. The Seychelles' post-independence state-led development model, proved financially unsustainable, and by 2008, had to confront a debt crisis. Under the early economic model, the public sector owned most of the corporations and productive resources and was heavily involved in economic activities, funded by borrowing. The state's welfare system was extensive, offering virtually free education and healthcare to all, free transport for students and the elderly, and a munificent social protection system, albeit with elements of discretion and political interference. The catalyst for the debt crisis was provided by the global shocks in 2007-08, as commodity prices increased rapidly, leading to depleted stocks of foreign exchange and the public debt reached an unsustainably high level of 140 percent of GDP. As a result Standard and Poor's downgraded Seychelles credit rating from B to "selective default" in July 2008.

28. The crisis reached a high point in 2008, as a result of rising energy and food prices. The external deficit widened further to 20.3 percent of GDP. Foreign exchange shortages became the norm, a number of state-owned enterprises operated well below efficiency, and foreign exchange reserves fell to less than one month of imports. The country's repayment capacity worsened further in late 2008, as the global economic crisis hit the tourism sector. In this context, GDP growth dropped sharply from 9.7 percent of GDP in 2007 to –1.3 percent in 2008. Unable to honor a coupon payment, the authorities sought the support of the IMF to initiate debt restructuring discussions with the Paris Club under the 2003 Evian approach to debt relief and other official and private creditors, and launch a comprehensive reform program, also with support of other multilateral partners. Alongside comprehensive restructuring of the public debt, the Government quickly moved to liberalize the exchange rate in November 2008, abandoning an overvalued fixed dollar exchange rate and foreign exchange controls. The economic reform program also focused on significant and sustained tightening of fiscal policy backed by a reduction in public employment, reform of the monetary policy framework, and a reduction of the state's role in the economy to boost private sector development. In the event, prudent monetary policy managed to stabilize inflation to single digits already by the end of the first quarter of 2009, a level at which it has since remained.¹¹

29. Fiscal performance in 2010 and 2011 were strong, exceeding expected targets. Driven by exceptionally high foreign direct investment (FDI) and renewed tourism, the Seychelles economy rebounded strongly already by late 2009. Revenues exceeded original projections by 18 percent, and the primary surplus exceeded the budgeted balance by 2 percentage points of GDP, to reach 9.4 percent of GDP. The income tax base was broadened in 2010 with the introduction of a Personal Income Tax, which replaces social security contributions and removes special, sector-specific tax treatments. The fiscal space created allowed the Government to create a stabilization fund by the end of 2010 intended to dampen the effects of any sudden future increase in key commodity prices. The civil service has been right sized and the wage grid modernized to enhance transparency and predictability of the wage bill, to remove the system of extensive allowances, and to foster efficiency gains. As a result, the wage bill fell to 6 percent of GDP in 2010 from 10.3 percent in 2007. Fiscal prudence continued in 2011. Primary balance as a percentage of GDP reached 4.5 percent. Due to over-performance of Excise and Business Tax, revenue collections were 5 percent higher than forecasted.

30. The economic outlook for the medium term is broadly positive, although Seychelles remains vulnerable to external shocks. Real GDP forecast for 2012 has been revised downward to 4 percent from 4.7 percent forecasted in June 2011, reflecting the anticipated impact of the unfolding sovereign debt and banking crisis in Europe. Given the importance of the tourism sector in the economy, prospects for that sector will remain central to the Seychelles' medium-term economic prospects. Although overall tourist arrivals are expected to increase in 2012, arrivals from Europe are likely to contract by about 4 percent. Despite a 1 percent increase in tourist arrivals in January 2012, arrivals from Europe decreased by 6% compared to the same period in 2011. The same trend is observed for the first week of February. Although it is too early to conclude the exact causes of this decreased in arrivals, discussions with the authorities and private sector tend to indicate that this may be partly due to disruption caused by

¹¹ Inflation shot to 60 percent immediately after the foreign exchange liberalization in 2008.

discontinued activities by Air Seychelles and partly due to the uncertainties in Europe¹². An analysis of arrivals by country of residence shows significant decreases in visitors from the main European markets – a reduction of 32 percent from France, reduction of 38 percent from UK and Italy, all of which are the main market for Seychelles tourism industry. This presents a clear risk to Seychelles' public finances. The country is actively promoting its tourist sites in diversified markets, mainly in Asia, and increasing its tourist accommodation facilities (for example, the average number of beds increased by 9 percent between 2008 and 2010). Having said this, it is important to note that the Seychelles is becoming better placed worldwide and could benefit from the expected growth in global tourism.¹³ However, being a small open island, the Seychelles remains sensitive to other external factors such as threats of piracy which affects competitiveness by increasing production costs, though higher freight charges and insurance premiums¹⁴, and impacts of changes in climatic conditions which may affect the fishing sector considerably and well as impact on the tourism sector.

31. Additional depreciation of the Seychelles rupee may render debt servicing difficult. While the floating exchange rate regime will help cushion external shocks, the recent changes in the Euro Dollar parity have been a major cause of concern in Seychelles. The Seychelles rupee depreciated to SR 14.3 to a US dollar by end January 2012 from SR 12.7 to a US dollar in November 2011. Continued depreciation is likely to put additional pressure on the import bill and debt servicing. For the authorities to achieve the objective of bringing public debt below 50 percent of GDP by 2018, the fiscal consolidation path should be maintained, if not strengthened. The authorities realize that the country is not enjoying the same set of circumstances as during the 2008 financial crisis when the country attained major debt relief, and therefore the fiscal space to cushion the potential effects of the European crisis is limited. In this context, the Government has decided to intensify and accelerate reforms with a focus on spending more efficiently to increase resilience. To ease fiscal pressure, the authorities decided to downsize the loss-making national airline. To maintain the fiscal sustainability path, other major short to medium term structural reforms in the public sector will include increase in utility tariffs to cost recovery rates, restructuring state-owned housing finance company, public finance management reforms and improved financial governance.

32. Medium-term policies will be geared to sustain progress on improvement in macro-economic indicators. The fiscal policy will pursue a full return to debt sustainability aiming at reducing debt to GDP ratio to 50 percent by 2018. Progress in debt restructuring and improvements in debt management led to a more sustainable debt level. IMF's debt sustainability analysis projects a long-run path toward sustainability, provided the Seychelles maintains sound policies and severe external shocks do not throw its debt off path.¹⁵ The current account deficit is expected to decline in the medium term, in line with FDI. Balance of payments estimates for

¹² At this stage the team does not have data on tourist earnings for January 2012 and forward bookings for the first quarter.

¹³ According to a World Trade Organization forecast, international tourist arrivals are projected to increase by some 4-5 percent in 2011 and by an average of around 4.1 percent annually until 2020, with all regions, except Europe and the Americas, growing faster than 5 percent annually.

¹⁴ To fight piracy, the Government allocated US\$3 million (0.7 percent of the national budget) in 2011, an increase of 16 percent over 2010. In view of the increasing piracy risk assessed in April 2011 for the Indian Ocean region, shipping lines increased the Piracy Surcharge on Indian Ocean services. For example, one company increased it from €67 per twenty-foot equivalent unit (TEU) to €105/TEU.

¹⁵ Published in January 2011.

2011 show a current account deficit to 22.3 percent of GDP compared to 9.8 percent of GDP in 2009, reflecting an expansion in imports in line with the recovery of the domestic economy, which was stronger than the smaller uptick in export earnings, and significant growth in FDI boosting imports. FDI inflows increased from a deficit of 9.8 percent of GDP in 2009 and 22.7 percent in 2010. Going forward, the balance of payments though comfortably financed through FDI remains vulnerable to rising import costs and potential declines in tourist arrivals. The rate of inflation is estimated to be around 5 percent for 2011 on account of rising international prices for food and energy, but is expected to decline to about 3.5 percent for 2012. Monetary policy should remain cautious and keep inflation under control. Seychelles faces a persistent liquidity overhang and accumulated excess reserves by domestic financial institutions, reflecting in part higher than anticipated domestic debt servicing over 2009-10

Table 2: Selected Economic Indicators, Seychelles, 2007-12

Indicator	2007	2008	2009	2010	2011	2012 (forecast)
Real GDP growth (%)	9.6	-1.3	0.7	6.2	5.0	4.0
Percentage of GDP						
Current account deficit	-20.9	-20.3	-9.8	-22.3	-22.3	-20.9
Revenue (excl. grants)	32	31.5	33.1	31.5	37.5	36.6
Expenditures	40.9	38.3	32.0	32.8	39.5	37.8
Overall balance (incl. grants)	-8.7	-3.2	5.2	2.5	1.5	2.0
Primary balance	-2	3.7	14.3	8.7	4.5	4.8
Public debt	129.8	131.1	124.1	83.0	18.5	16.9

Source: National Bureau of Statistics, Ministry of Finance, IMF, and Seychelles Central Bank

III GOVERNMENT STRATEGY AND PROGRAMS

33. **Since 2008 the Government has undertaken major structural reforms to secure macroeconomic stability and create conditions for sustainable, private sector-led growth.** The primary reforms involved a complete shift to a liberalized foreign exchange regime (with the Central Bank intervening only to smooth out volatility), a significant tightening of the role and size of the state through sales of state assets and down-sizing of the state workforce, and public debt restructuring.

34. **The Government of Seychelles is currently drafting its new medium-term national development strategy (MTNDS).** The core aim of the MTNDS is to reduce Seychelles vulnerability and to provide the basis for long term sustainable development. The overarching goal of Seychelles fiscal policy aims first to put public finances on a sustainable path, while creating the fiscal space to raise public investment and support targeted social safety nets. The five main goals of the MTNDS are: (i) to address development planning for vital infrastructure and utility needs; (ii) to develop a strong human resource base by improving basic education and productivity; (iii) to improve economic infrastructure through modernized ICT infrastructure (including greater connectivity and bandwidth); (iv) to improve food security and the business and investment environment by creating a transparent, predictable trading system and diversifying the economy (by developing the services sector); and (v) to further develop national statistics to improve evidence-based policy making.

35. **The Government is aware of the challenges and is committed to bold reforms.** There is broad acceptance within Seychelles of the need to speed structural reforms that will support private sector development and to redefine the role of the Government to ensure that Seychelles

reaps long-lasting benefits from the reforms of the past three years. The reform program tries to strike a balance between measures necessary for sustainable growth and measures to improve the welfare of the poor and families in lower income brackets. It aims at further improving public sector efficiency, creating a more business friendly environment, and improving resilience.

36. In the last two years, several measures have been implemented to improve public sector efficiency. These include improving public finance management by increasing discipline in expenditure, strengthening revenue collection, and raise the efficiency and transparency of public finance. The Government's objective is to stabilize tax revenue to a lower level, consistent with its strategy to reduce the weight of Government in the economy, and intends to improve operational efficiency of state owned enterprises. Efficiency gains while reducing fiscal pressure may also provide opportunities for re-allocation of resources to better uses. The Government also intends to conduct a strategic assessment of public entities to address duplication in the delivery of essential public services, and in case needed, divest from nonstrategic entities that do not serve policy purposes. The Government intends to further improve PFM and transparency by introducing policy/program-based budgeting (PBB) embedded in an improved Medium-Term Expenditure Framework (MTEF). This will help in improving fiscal planning and accountability, and promote good governance in the public sector. The Government intends to address existing PFM weaknesses, especially those set out in PEFA 2011 that relate to weaknesses in multi-annual budgeting planning and classification; execution of capital projects; accounting, recording and reporting; and Parliament oversight. To undertake more meaningful reforms, the authorities will focus on deepening and broadening outcome focused reforms to particularly (i) institutionalize the fiscal discipline, improve development of policy and performance oriented budget by strengthening planning at sector level, making the budget strategy paper more policy focused, and link capital to recurrent budget, (ii) further improve budget execution and reporting processes by improving effectiveness of capital commitment control and improving quality of financial statements, and (iii) strengthen institutions by legislating the roles of the Internal Audit Division and the National Audit Committee and strengthen the Financial and Public Accounts Committee.

37. There remain significant gaps in the availability and management of public infrastructure. The Seychelles' water supply capacity is unsustainable in the long term. About 40 percent of the water supply is estimated to be lost due to pipe leakages. In the last two years, due to exceptionally long dry periods. Water was rationed for about five months each year (June to October) and, depending on the available water volume, is delivered by tankers in certain areas. The Government intends to invest massively in this sector to address the challenges¹⁶. Annual increases in demand of 6.5 percent are adding to the pressure on the limited water supply. As regards power, the high fuel content of energy costs is a source of efficiency and financial problems. Ninety percent of the primary energy supply comes from imported fuel, which accounts for 23 percent of total merchandise imports. Fuel price variations are not always passed on to the consumer, causing the Public Utility Company to depend on subsidies from the state. The Government intends to revise the utility tariffs upwards to the market determined cost recovery rates and introduce systems of indexation and adjustments. As regards to telecommunications, mobile penetration is high, but costs are high and bandwidth capacity remains limited, hampering the development of electronic transactions and services (such as e-

¹⁶ Agreements have already been reached for financial assistance with AfDB and EIB, based on the water sector master plan

payments) that facilitate business. The development of this infrastructure is a vital step for Seychelles as it moves to deepen its financial services and other service sectors. Strengthening the legal and institutional environment for the telecommunications sector and supporting regional investment projects could reduce telecommunications costs and enhance ICT capacity. The submarine cable that is being laid will connect Seychelles more efficiently to the global telecommunications network through Dar-es-Salaam and enable it to move away from the current restrictive satellite-based technology.

38. The Government is keen on improving its social protection system. The current system of welfare assistance absorbs considerable staff resources, program monitoring is rudimentary and requirements beneficiaries to seek employment are not strictly enforced. The assistance could benefit from efforts to strengthen evidenced-based policy making. The authorities plan to introduce activation measures for beneficiaries of welfare assistance to reduce welfare dependency and work disincentives. Clear and measurable performance indicators are needed for all programs and corporate functions. The authorities also plan to upgrade to enhance program efficiency and support better monitoring and evaluation. The objective would be to develop an MIS that provides more user friendly access to the range of modules required by a cash transfer system (e.g., application, targeting, enrollment, verification, payment, compliance, recertification, household changes, appeals, referrals). The Government also aims to streamline and tighten disability benefits, and reduce incentives to remain disabled. The objective is to ensure that most of the beneficiaries of disability benefits remain employed or return to work as soon as possible. For children with disabilities, the Government wants to ensure educational inclusion to enable their labor force participation in adulthood. In view of the recent impact of piracy on local fishers, given that they are not going too far at sea for catch and some of them have relocate fishing activities to areas that are less productive and are turning over-exploited due to the activity concentration, the Government intends to introduce an emergency assistance scheme. The Government also intends to professionalize, give responsibility and make accountable the fishers in the sector management and the social welfare system. Government also intends to tackle the fiscal risks that Seychelles Pension Fund poses. The fund is partially funded, defined benefit system offering approximately a 50 percent replacement rate which is clearly not sustainable and accumulating significant uncovered liabilities that would require Government transfers in the near future. Government also plans to address the very high administrative expenses that the fund incurs - 20 percent of contributions.

39. The Government places special attention on the youth to better prepare them for the labor market. As such, an Apprenticeship Scheme is in place to develop young people with required skills and qualifications to join the labor market. Apprentices are placed in organization where they receive on the job training for specific period during which they attend the polytechnic or any institution center or any institution center for the theoretical input of one day per week and three to four weeks full time during school holidays. A strict monitoring system is maintained by the organization centre of skills Development and the Polytechnic. A Youth Training Scheme is also in place. This scheme aims at training unskilled young school leavers, mainly girls. Trainings under this scheme are district based, aimed at youth who are identified as having the potential and are interested in acquiring skills in sewing/craft work and others related activities in view to start their own business. Also students studying at polytechnic schools are entitled to bursaries, contingent on household's income. Finally an on-the-job training scheme (called Refund Fiscal Incentive) is in place whereby the Government and the employer share the

wage bill on a 40/60 percent basis. Arrangement is made by the authorities to place a candidate in a workplace for a definite period time, not exceeding one year.

40. Emphasis on education, besides skills development, remains the highest priority of the Government. To meet the human resources requirements of the economy, Seychelles promotes vocational, managerial and service skills, and since 2008, Early Childhood Development (ECD) and tertiary education have been much emphasized. The National Education and Training Strategy Committee 2008 (NETSC) made recommendations to “transform” the education and training system. Several of the recommendations have been successfully implemented, but due to capacity constraints and lack of planning culture as well as mobility of leadership, some of the recommendations remain to be implemented. A number of reforms are being implemented in the education sector with the support of UNESCO and the EU. The authorities’ aim to enhance efficiency and effectiveness in the Educational Planning, Policy and Management Processes, set up an Education Information Management System (EMIS), develop a medium to long term education sector strategy, and put further emphasis on development from early childhood, while at the same time addressing challenges in the education sector mentioned in the section ‘social context’ of this document.

41. Fiscal risk management strategies will be put in place, given high and increasing vulnerability to exogenous shocks. Rising commodity prices, especially food and fuel, carry high risks for Seychelles, which almost entirely depends on imports of these products. This exposure is exacerbated by natural risks, as well as threats of piracy. In particular, weather variability strongly impacts tuna catches and the near-term economic contribution of the tuna industry. Because shocks affect households as well as, directly or indirectly, fiscal accounts, the Government wants to improve fiscal risk assessment in the face of different types of risk. To insure against short-term price upswings, market-based approaches (such as hedging) will be considered for some commodities. The Government also plans to develop a Master Plan for Disaster Risk Management which will integrate all the existing contingency plans and build on the planned geological risk assessment at the national level, and planned community preparedness plans, to strengthen its capacity to respond to adverse natural events in a fiscally sustainable manner. Seychelles could enhance its ability to cope with increased climatic variability through mechanisms like early warning systems and better coordination with other agencies, such as metrological center. Social safety nets could be tied to early warning systems and scaled up when needed.

42. The centerpiece of the effort to improve competitiveness is to make the regulatory framework more transparent and less burdensome. The Seychelles is ranked at 103 out of 183 countries in the Doing Business 2012 indicators, up from 109 in 2011. A range of administrative procedures will be revised. A review of procedures for issuing Gainful Occupational Permits (GOP) should streamline approval for foreign workers by setting out transparent guidelines and criteria; customs clearance procedures will be improved through the introduction of risk management and post-clearance audit procedures; procedures for registering a business will also be streamlined, and a new bankruptcy regime will ease the exit of unsustainable businesses. A credit information bureau will be created to improve credit information. Reforms in the judiciary will be undertaken and particularly specialized commercial court will be set up and court rules and procedure reviewed to shorten the lengthy process for resolving disputes in commercial cases.

43. A vibrant private sector relies on a developed and transparent financial market. To further develop the financial system, the Government intends to establish a Credit Information System (CIS), set up a commercial court, establish Seychelles Stock Exchange, further develop mortgage finance, strengthen the insurance regulatory framework, and improve the infrastructure to introduce Electronic Clearing House and Electronic Funds Transfer and Real Time Gross Settlement system. The introduction of the CIS will help in creating a more efficient risk-pricing mechanism for financial products, and the establishment of the court is expected to reduce the significant backlog of commercial cases due to capacity constraints and speed up resolutions of financial disputes. Both the CIS and the Commercial Court complement the Government's efforts in improving the overall business climate. With the objective of reducing the role of the state in commercial activities and facilitate financial sector development, the Government intends to redefine the role of the Housing Finance Corporation (HFC) such that commercial banks will be called upon to play a prominent role in housing finance and mortgage products. Regulations of new financial products (leasing, hire purchase, Islamic banking) will be introduced that should help deepen capital markets, and the efficiency of the insurance sector will be improved.

44. Further improvements in the public sector would benefit from addressing some underlying governance challenges. Given the weak opposition in parliament, and weaknesses in the judiciary to hold the state accountable, there is a need to strengthen checks and balances to fully leverage the potential of on-going and planned reforms. Beyond reforms on PFM, human resource management and state-owned enterprises, there is a need to strengthen an integrated strategy and package of reforms on the supply-and demand-side. On the supply-side, the Government intends to further strengthen the justice sector by improving management systems, such as e-justice systems, linked to the overall e-Government systems to enable the justice sector to fulfill its oversight mandate. The Government's commitment to fighting corruption and building a more independent judiciary has been publicly iterated, and the Government is committed to the design and implementation of a strategy and concrete policy measures. On the demand side of governance, civil society is broad and diverse and contributes to design and implementation of Government programs. Government intends to further deepen its partnership with civil society so that the latter can play an enhanced role in promoting accountability and transparency. Civil society, including the media benefit from freedom of expression, although citizen would benefit from being further involved in the formulation of public policy, and independent observers of the presidential and parliamentary elections have provided recommendations for improvements in looser control of private media. The Government intends to study further the recommendations and take necessary actions.

45. In case further exploration confirms viable oil extraction and the Government decides to start production, it has expressed commitment to good governance and transparency. The Government has expressed intention to adopt a best practice petroleum revenue management law which will set a high standard for control on petroleum revenues and which will focus on creating mechanisms to promote transparency in the management of oil revenue. The Government has also indicated its willingness to increase transparency and accountability by implementing the Extractive Industries Transparency Initiative (EITI) process. The Government also recognizes the need to establish strong institutions, with the necessary capacity to ensure that the petroleum sector is successfully managed. As there is neither a fully functional petroleum regulatory authority, nor a fully developed system of regulations that would apply to petroleum operations, this will require a significant program of capacity building

assistance. To mitigate the risk of Dutch disease and unstable budgetary pattern and economic performance, the Government is considering the eventual establishment of a petroleum wealth fund. However, the nature of the fund and how to integrate it with the overall fiscal policy and institutional framework is still at an early stage of discussion. Since Seychelles is largely a tourism-based economy, the authorities are concerned with the potential impact that oil production may have on the environment, and would have in place legislations in relation to environmental assessments associated with oil related activities so as to maintain high international standards of environmental practices.

IV THE WORLD BANK PROGRAM AND THE DONOR COMMUNITY

46. **The last Interim Strategy Note (ISN) for Seychelles covered FY10-11.** The ISN defined the Bank's reengagement and partnership with the Republic of Seychelles after a 17-year hiatus and aimed to generate a robust policy dialogue. The ISN focused on three key objectives: (i) supporting the economic stabilization program; (ii) removing constraints to private sector development; and (iii) addressing the challenge of climate change and natural disaster risk management. The ISN set out the planned lending and non-lending activities and its intended results for FY10-11. The ISN was successfully implemented with the support of the Bank.

47. **The ISN objectives were supported with a mix of demand-driven advisory activities, analytical work, and financing.** Bank operations included grants, lending, and fee-based advisory services. The lending program included two DPOs amounting to US\$18 million. The first DPO aimed at helping Seychelles establish a stable and sustainable fiscal stance through fiscal adjustment underpinned by public administration and civil service reform and a reduction of the state's role in commercial activities. The operation also supported establishment of a targeted social safety net. The second DPO supported reforms to improve public sector effectiveness and the business environment. The Bank provided financing of about US\$4.5 million through four Trust Fund grants. Two of the four projects remain active (see Box 1).

Box 1: Seychelles Trust Fund Projects

National Disaster Preparedness and Response Project (P111474) [Grant amount: US\$ 900,000]. This project to build capacity for disaster preparedness and response in Seychelles involves several components: capacity building, early warning systems, emergency planning, and national and community disaster preparedness. The project closed on November 30, 2011. Disbursement by the closing date was US\$ 430,481.

Transport Infrastructure Project (P106471) [Grant amount: US\$ 1,960,000]. This project financed the repair of one of three artisanal fishing quays damaged by the December 2004 tsunami with a view to helping boat-owners, fishers, and traders to improve livelihoods constrained by the tsunami. It also improved the sanitary conditions and marketability of fisheries products. The project closed on June 30, 2011.

Public Administration Reform and Fiscal Impact Capacity Building Project (P112358) [Grant amount: US\$ 425,800]. This project enhances the capacity of the Government of Seychelles to effectively manage the implementation of the Public Sector Reform Program. The closing date for the project is September 25, 2013. Disbursement as at November 10, 2011 was nil. Contract to a supplier who will deliver all project activities has been negotiated and is in the process of being finalized.

Building Statistical Capacity Project (P116997) [Grant amount: US\$ 376,200]. This project aims to improve the organizational structure of the National Statistics Bureau and build its capacity to develop and produce new economic data series as part of the National Strategy for the Development of Statistics. The project consists of three parts: addressing deficiencies in key macroeconomic data, improving social statistics, and strengthening institutional capacity. The closing date for the project is November 30, 2012. Disbursement as at November 10, 2011 was 200,000.

Source: World Bank documents

48. Provision for technical assistance in areas identified by the Government has been provided under a Reimbursable Agreement for Advisory Services framework. This framework is still active. Assistance fell under three broad areas: social protection, public enterprise, and health financing. In social protection, the Bank supported Government efforts to improve efficiency in service delivery and advises on policy options with respect to enhancing the targeting system. In health financing, the Bank was involved in building capacity for National Health Accounts and will support the Government in revising and costing its medium term health strategy. In the public enterprise area, the Bank supported drafting of the Board Appointment and Remuneration Policies and will support a capacity building exercise to improve monitoring and evaluation by public enterprises (PEs) and the Public Enterprise Management Division (PEMD).

49. IFC reengaged with the Republic of Seychelles in 2010. In 2010, IFC made a commitment for a US\$20 million senior loan in a hotel project. Due to issues associated with the lease of the land IFC disbursement did not take place. IFC and the Government of Seychelles (GoS) were engaged in discussions related to the privatization model to be adopted for two majority-owned Government banks, Seychelles Savings Bank (SSB) and Nouvobanq. In both cases, IFC advised on a three -steps approach: (i) divesting a substantial minority to clients and private institutional investors (ii) inviting a strategic partner to acquire a majority stake (iii) issue new shares to shore up capital base, where strategic partner will retain majority stake. In the case of SSB, a substantial minority has been sold to the clients of the bank and the public but progress has been halted. In the case of Nouvobanq, GoS informed IFC that it will need to re-think the approach for introducing a strategic partner. The In November 2011, GoS and IFC have signed an Energy Efficient and Clean Production (EE/CP) Service Agreement. Under this agreement, IFC will undertake to carry out a study to recommend the renewable energy technology best suited both in terms of technical and financial viability for households, SMEs and unincorporated business entities. IFC will also have discussions with commercial banks to find and propose the appropriate lending mechanism to encourage them to lend to households, small and medium enterprises (SMEs), and unincorporated businesses to invest in EE/CP goods, appliances, and equipment. Banks will also be offered technical advisory support to adopt the methodology and process best suited for the targeted borrowers. IFC is also supporting the Central Bank in reviewing the new leasing legislation which is currently under preparation. IFC's engagement in Seychelles also aims to bring about capital market reforms and promote private sector development by improving the country's investment climate by simplifying administrative processes, reducing the cost of doing business, and further attracting FDI. IFC's Advisory Services and the Bank are jointly working with the Government to address critical components of the Doing Business Surveys. Currently the Multilateral Investment Guarantee Agency (MIGA) has no active projects in Seychelles.

50. The Bank's program has been coordinated closely with the IMF since 2008. A Joint Management Action Plan ensures complementarity in Bank and IMF activities. The IMF has supported the authorities' efforts to fundamentally reform the economy and address severe internal and external macroeconomic imbalances, initially with a Stand-By Arrangement for 200 percent of quota approved on November 14, 2008. That arrangement was followed by a three-year program under the Extended Fund Facility (EFF) for 225 percent of quota (about US\$31 million), approved on December 18, 2009. Building on the success of the Stand-By Arrangement, the EFF-supported program aims at consolidating macroeconomic stability and addressing deep-rooted structural imbalances over the medium term, by strengthening public

financial management, institutionalizing higher governance standards, rationalizing the public sector, reforming taxation, bolstering the financial system, and improving the business environment. The fourth review of the program was completed in January 2012, and the program remained on track. The EFF program will come to an end in December 2012. The Government has expressed interest in maintaining a close relationship with the Fund post EFF expiry, probably through a precautionary arrangement, but formal discussions has not yet started between the authorities and the Fund. The Bank and IMF teams have maintained a close cooperation throughout.

51. Seychelles' multilateral and bilateral donors provide support to a wide range of areas (see Annex 2). Together with the Bank Group, the African Development Bank (AfDB), the European Union (EU), and the United Nations Development Program (UNDP) are the most active multilateral partners in Seychelles. The first formal donor coordination meeting lead by the Government was held in October 2011 when the Government presented to all donors the MTNDS. The donor community tries, to the extent possible, to meet at least twice a year in Seychelles during the Fund's EFF review missions. This provides the opportunity to coordinate activities of the various donors. The EU and UNDP covers Seychelles from the Office based in Mauritius and the Bank's office in Mauritius facilitate further dialogues among these institutions. Multilateral institutions have played a key role in supporting Seychelles' reforms since the 2008 crisis, with programs in the areas of economic policy, fiscal reform, public finance management, institutional development, social protection, and infrastructure development. Going forward, the AfDB will support Seychelles to enhance the environment for private sector activity and investment, as well as to improve the competitiveness of the country through investment lending programs (submarine cable, water supply and sanitation, mariculture development, line of credit for SMEs, institutional support project), and non-lending technical assistance (infrastructure action plan, PPP framework, human resource development strategy and statistical capacity program). The UNDP's medium term engagement is anchored in the on-going macro- economic reform program and will help develop and strengthen national capacities of institutions and individuals in the public sector and civil society to promote good governance, environmental protection, energy efficiency, water resources management, climate change adaptation and poverty alleviation. The European Union is providing support to Seychelles on regional integration, trade facilitation, and corporate governance and to mitigate the risks of piracy attacks, in the context of its regional program. Specific to Seychelles, the EU has an education budget support operation to help in the preparation and the implementation of the Education Medium Term Strategy (with a focus on both basic and post-basic education up to the secondary level) in order to improve the alignment between the country's training and manpower needs in an evolving national, regional and international environment. Bilateral cooperation with Abu Dhabi, China, Kuwait, France, and India has led to advances in various areas, including the fight against piracy, efforts to combat HIV/AIDS and drug abuse, improvements in health, building institutional capacity, assisting the fisheries sector, and supporting improvements in critical infrastructure such as schools, hospitals, the airport, and road networks. The United States Department of Interior's Bureau of Ocean Energy Management, Regulation & Enforcement (BOEMRE) has also engaged and plans to continue a program of technical assistance to Seychelles authorities, particularly with respect to their environmental and petroleum operation monitoring responsibilities.

V WORLD BANK PARTNERSHIP STRATEGY

A Lessons from ISN

52. **The Bank's engagement as outlined in the FY10-11 ISN was fully relevant in supporting the country's program of reforms in the last two years.** The engagement during the ISN period has been successful. The main instrument for Bank's engagement was two stand alone single tranche DPOs. Both the DPOs have been rated satisfactory in their completion reports. The areas of reforms supported by these operations are highlighted in table 3 below. The medium term second generation reform agenda for the Government is clear. Building on the reforms already implemented, the Government's agenda going forward further deepens and broadens areas of reforms.

53. **Engagement during the ISN provides important lessons that have informed the preparation of the proposed strategy.** These include the need to ensure: (i) alignment with Government priorities; (ii) strong coordination with development partners; (iii) appropriate timing and flexibility; and (iv) a realistic assessment of implementation capacity.

Table 3: Areas of support under ISN Period

Areas of support common to both DPLs	Areas of support under DPL1	Areas of support under DPL2
Public Financial Management	The adoption of the standard Government Finance Statistics (GFS) classification for preparing and monitoring budget performance	The preparation of the Budget Strategy and Outlook Paper for the year 2011 which provided a medium-term budget framework consistent with the macroeconomic forecasts
Public Administration and Civil Service	Reducing excess staff, including the voluntary departure and early retirement schemes and the contracting out of non-core Government functions	Contracting out process been expanded to cover all budget dependent institutions and non-core public functions
Public Enterprise	The restructuring of the Seychelles Marketing Board into 16 commercial units and the subsequent privatization of eight units and the liquidation six non-viable units; The elimination of all subsidies to the Seychelles Trading Corporation, and a sharp decline overall in subsidies to public enterprises	The establishment of the Public Enterprise Monitoring Division (PEMD), and staffing this division to oversee the implementation of the Public Enterprise Act; The restructuring of L'Union Estate to lease the commercial activities to private operators
Social Protection	The introduction of a new means-tested social welfare policy and the establishment of the Social Welfare Agency	-----
Business Environment	-----	Approval of a revised Investment Bill to provide the framework for the promotion, regulation and protection of investors and investments; Enactment of the Licensing Act, 2010 to set out transparent procedures for the issuance and renewal of all licenses

Source: World Bank Documents

54. **Alignment of the Bank's assistance to the Government's medium-term priorities proved effective.** The Government was clear in the direction, objectives and priorities of its medium-term reform program, which was guided by upstream policy dialogue with the IMF, Bank, and other development partners, and underpinned by analytical works. Leadership and

political commitment have been critical factors in the successful implementation of reforms. Momentum of reform remained strong during the ISN period. Learning from this lesson, the proposed CPS is aligned to the Medium Term National Development Strategy of the country, which sets clear direction on the objectives of the Government in the medium term.

55. Knowledge products and technical assistance to guide the reform agenda proved crucial. Given limited capacity on the Government's side to undertake economic and sector work (ESW), the IMF, Bank, and other development partners supported the Government through analytical inputs that helped define and sequence the reform agenda. The Bank's ESW was considered to be of high quality and has informed policy changes. Some of the economic and sector studies were produced jointly by the Government and development partners, which helped build capacity within ministries and agencies for critical analysis, for benchmarking in relation to practices in other countries, and for defining their own weaknesses. The Government sees enormous value addition in building local capacity to undertake ESW on its own, going forward. Reforms have been the most successful in areas of continuous engagement, and thorough TA and ESWs by partners – for example in budget management where the PEFA rating improved from a D to an A. During the implementation of the program outlined in this CPS, the Bank will emphasize on capacity building, knowledge sharing (S-S cooperation and peer learning events), technical assistance to close skills gap, and joint production and dissemination of AAAs.

56. Donor coordination and flexibility reduce administrative costs to the Government. Donor coordination helped harmonize policy dialogue and support to the Government, and proved essential to avoid duplication of assistance. The Bank's flexible approach has also added to the considerable progress made. It is expected that donor coordination will be further strengthened in this new strategy to ensure continued success. The Bank will explore possibilities for joint analytical works. The Bank and the AfDB has agreed to try and conduct the Mid-term review of their respective CPS together. This strategy has been produced in close collaboration with the IMF, and these two institutions will continue to work closely to support the Seychelles.

57. Close supervision and knowledge of Bank rules helps to smooth implementation. After the Bank's extended period of disengagement from Seychelles, knowledge of Bank procedures was limited to the authorities, which combined with the limited local capacity, at first constrained the pace of implementation. Capacity at all levels is an issue in the country, and the Bank should realistically assess implementation capacity to be effective. The Bank plans to make use of its missions in the country to conduct seminars which may build capacity to better understand and implement Bank's FM and procurement rules.

B A Strategic Approach

58. Seychelles has demonstrated that it is committed to addressing the challenges it now faces. The authorities, at the highest level, are dedicated to implement the second-generation reforms needed to attain a sustainable high-growth path and increase the welfare of the country's population. To make this possible and building on the momentum of reforms undertaken to date, the Government wants to create an environment of solid institutions and a supportive regulatory framework for business, with the support of the Fund, the Bank and other multilateral development partners. Yet, going forward, some reforms, especially those towards improving efficiency in public enterprises should be expected to be politically sensitive and test the Government's resolve. Moreover, while the first phase of reforms, focused on exiting from

imbalances and imparting a new strategic direction, was driven mostly by the Ministry of Finance, there is now a need to broaden ownership to the Government at large.

59. The Government highly values the support it has received from the Bank during the ISN period, and has requested continued support for moving forward. Over the past three years of engagement, the Bank has built a very good relationship with the Government, both at the technical and policy-making level. As Seychelles embarks on bolder reforms in critical areas in which the Bank has a comparative advantage as a knowledge institution, the Government has requested the Bank's continued assistance. Building on this strong relationship, the Bank's strategic approach will be structured around the two pillars and foundation of its Africa Strategy, a strategic approach that resonates particularly well at the current juncture of economic direction in the Seychelles—the two pillars being (i) Competitiveness and Employment, and (ii) Vulnerability and Resilience—and the one foundation being Governance and Public Sector Capacity.

60. The Bank's engagement is selective and complements other partner's support. The Bank's strategic approach takes into account the Government's medium term reform program and the areas of engagement by other partners. As such, the number of areas that the Bank covers is limited. In areas where other donors are taking the lead, the Bank will step in as a partner as and when required. In areas where the Bank has comparative advantages, it will take the lead in assisting the Government to implement the reforms. The same selectivity filter has been used in deciding about Bank-led AAAs. In what follows, the areas of engagement are highlighted in some more details. The complementarities between Bank's engagement and other partners' engagement are also pointed out.

Competitiveness and Employment Pillar

61. The investment climate needs to be strengthened to harness private sector growth. The private sector has led economic growth in Seychelles. It employs 70 percent of the labor force. The two strategic sectors are tourism and fisheries, which accounted for about 20 percent of GDP in 2004, now account for 30 percent of GDP and employ 32 percent of the labor force. Even so, a number of factors constrain private sector growth and limit its potential to generate employment, create wealth, and reduce poverty. To ensure sustainable private sector led growth, the (i) infrastructure bottlenecks, (ii) still poor business environment and (iii) inadequate domestic human resources and limited technical skills need to be addressed in an accelerated manner:

62. Bottlenecks in infrastructure remain critical constraints for the country. In the ICT sector, the AfDB is supporting the Government to improve its infrastructure with the objective of reducing telecommunication costs and increase bandwidth capacity. The Government is currently laying a submarine cable to connect to the world cheaper and quicker. In the utilities sector, crucial policy measures and institutional reforms are needed to address inefficiencies. These include improved utility management, greater cost recovery, and better asset management. In the water sector, the Government has developed a water sector development plan and the AfDB and the EIB are supporting the Government to implement this development plan. The Government is also discussing with other bilateral partners to support in this area. The Bank's program would emphasize sustainable energy and fiscal sustainability in utilities. The Bank will take the lead in supporting the Government's reform program in the energy sector. In this area, the Government's objective is to introduce energy efficiency and develop renewable sources of

energy. The Seychelles Energy Commission has prepared an Energy Bill which has already been approved by Cabinet (to be enacted in 2012). This Commission is working with UNDP to develop a legal framework to encourage private sector investment in Independent Power Producers (IPPs) and auto-producers. The development of sustainable/renewable energy sources would not only protect the environment but also reduce the import bill and fiscal vulnerability. The IFC is supporting the country to implement sustainable and cost-effective Resources Efficiency (REF) measures, including Energy Efficiency (EE), Renewable Energy (RE) and Cleaner Production (CP) by promoting the adoption of EE/CP to residential goods, appliances, and equipment. By the end of the CPS period, at least one follow-on project will have benefited from the EE/CP project, and assessments for viable REF technologies will have been completed for 5 technologies. To support this work, the IFC will undertake a study on constraints to growth and development of the Energy Efficiency and Renewable Energy in the residential sector of Seychelles. To help the Government to implement cost recovery rates for utilities in order to ensure long-term sustainability of the utility company and reduce fiscal pressure on the national budget, the Bank will support in the development of a tariff study. This study will provide a few options to the authorities on tariff levels and structure, as well as welfare impact on the poor and vulnerable of the different options. The Bank will also support the Government in the implementation of the option decided by the Government. Along the same line, the Bank will also support in designing and implementing appropriate indexation and cost-adjustment mechanisms and related tools to allow transparent future tariff adjustments. It is expected that governance will be strengthened and independence of the utility company attained and interference of the state in setting up tariffs will be substantially reduced. The Seychelles does not yet have a strategy for the energy sector. The Bank will provide assistance to develop an energy sector strategy, based on feasible alternatives of renewable energy, implementation costs and the required investments, and an action plan for implementation. Given the high external debt for Seychelles, the margin for huge public investment in renewable energy is limited and the authorities would support investment by private producers. The Bank will support the Government in the development of tools and capacity to evaluate purchasing power agreements (PPAs) of independent power producers (IPPs). The Government intends to explore potential for diversification in the tourism industry. Tourism from Africa and Asia remains limited and could be diversified towards emerging markets, particularly those with larger growth prospects, such as Russia, India, and China. Wider air access and the creation of a larger common aviation area with neighboring countries may be helpful in achieving this goal. At the request of the Government, the Bank, as part of its ESW on regional air access policy, will prepare policy note specifically on Seychelles. In light of the long term outlook of the tourism industry and the potential for Seychelles, the uncertainties in Europe, and the recent decisions of the Government (i.e. the cancellation of all long-haul routes for Air Seychelles, and the co-management agreement with Etihad Airways) this note will focus on the possible strategic role for Air Seychelles. The Bank will be responsive to the client by providing more such just-in-time demand driven support during the CPS period.

63. An improved financial, regulatory and institutional environment is needed to boost private sector growth. Cumbersome regulations and red tape discourage the emergence of a vibrant and diversified private sector. A range of reforms need to be pursued to make the regulatory environment more transparent and less burdensome. The IFC Advisory Services and the Bank will work closely to support the Government in its objective of improving business regulatory environment and improving access to justice for the business and private sectors and

speeding up hearings for commercial cases. In this context, the Bank has initiated a technical assistance program on improving the business environment. Procedures for registration of business will be simplified and streamlined, and an online single point of entry for registration that combines business registration, and registration for taxes and as an employer at the Revenue Commission will be set up. The goal is to register companies within a day. In the judiciary, a commercial division under the Supreme Court will be set up, and court rules and procedures will be reviewed to shorten process for resolving disputes in commercial cases (this is also part of the governance agenda of the Bank's support, see below). The goal of the authorities in the medium term is to reduce substantially the number of backlog commercial cases, as well as reduce the time line for processing new cases. This technical assistance of the Bank will also support the Government to adapt labor regulations to the rapidly changing economic landscape by reviewing regulations on redundancy and severance pay (these regulations generate considerable administrative costs and uncertainty for employers about the ability to lay off workers when necessary and force compensation payments even to employees who terminate contracts of their own free will). Besides the business environment, the authorities want to create an enabling financing environment to expand support to SMEs. In this context, the AfDB will be supporting the Government by providing a line of credit for SMEs development. There are plans for the EIB to provide technical assistance to help the Development Bank of Seychelles (DBS) improve its risk-management framework to sustain the government decision to refocus its lending activities to SMEs. The authorities will further develop the financial/capital market. The objectives are to increase competition among financial institutions and to facilitate private sector development. In this context, the authorities have initiated several measures and actions. A credit information bureau to enhance assessments of creditworthiness will be launched and the Seychelles Stock Exchange will be established in 2012. The Bank will support to further develop the mortgage market and broaden sustainable access to housing finance. The Bank will help the authorities to design and implement a smart subsidy strategy which will be based on three building blocks: a demand-side subsidy, a financing package that combines the subsidy with market-priced loans, and home ownership savings scheme. The goal is to increase the relative share of real estate mortgage through banks compared to the state-owned Housing Finance Company (HFC) lending. This is in line with the Government's aim of reducing the role of the state in commercial activities and helps strengthen the institutional framework necessary for the private sector to function. The Bank through the FIRST Initiative will provide technical assistance in this area. Through the FIRST Initiative, the Bank is also providing technical assistance to support the Government in improving the regulatory framework in the insurance sector, and strengthen supervision to encourage a sound and efficient insurance sector that promotes policyholder confidence. The outcomes of this technical assistance will be an upgraded regulatory framework, particularly focusing on the regulation of financial aspects through an effective solvency regime that is sensitive to insurer risk profiles, and in-house insurance supervision capacity at the Central bank of Seychelles. The IMF will continue to take the lead in provision of assistance to the Central Bank of Seychelles and in financial stability issues (covering foreign exchange market, monetary markets, financial supervision), and the Bank will take charge in providing assistance on the development of financial markets (real estate, pension, insurance, stock exchange, and legal issues among others). In this context, the Bank will undertake analytical work on the development of financial market.

64. Human resource and capacity development will both improve public sector service delivery as well support private sector development and entrepreneurship. With a tiny

population Seychelles faces the problem of manpower. It also faces skills shortages in some areas and the gap is filled with recruitment of expatriates. Around 20 percent of the labor force is made up of expatriates (only around 4 percent in the public sector). The WHO is supporting the Government to address some of the challenges with respect to quality of health highlighted earlier. In the education sector, the EU is providing support to Seychelles to help in the preparation and the implementation of the Education Medium Term Strategy (with a focus on both basic and post-basic education up to the secondary level) in order to improve the alignment between the country's training and manpower needs in an evolving national, regional and international environment. While the EU is taking the lead in the education sector, the Bank will complement by supporting the authorities in the ECD area. Seychelles will be one of the participating countries in the Bank's SABER-Early Childhood Development (ECD) initiative which will help to develop measures to improve ECD policy in the country. The AfDB is supporting the development of priority skills to enable a private sector-driven economy and for an effective delivery of public services. The AfDB support will be informed by a Human resource development strategy that it will undertake. The Bank, through its assistance in the area of social protection, will provide support to the Government in introducing activation measures for beneficiaries of welfare assistance to reduce welfare dependency and work disincentives and introduce activation measures related to school attendance to address the problem of drop-outs at secondary school level.

65. Bank's engagement will have a particular focus on gender. The Bank's engagement in supporting the authorities in introducing activation measures will have a particular focus on design of programs for single mothers. Participation in community services (flexi-time) as opposed to finding full time jobs may be more suitable for this category of beneficiaries. Along the same line, the introduction of co-responsibilities in the education sector may help address the relatively high rate of boys drop outs from secondary schools. The Bank team is discussing several approaches with the authorities to ensure effectiveness based on the potential causes of these drop outs. Incentives structure (benefit termination/ reduction in case of non-compliance, or a system of top-up bonuses upon graduation) may be part of the solution while a more feasible option seems to consist in involving the social services for referrals and monitoring and this will also provide opportunities for a more integrated case management approach. Although much improved in the last years, capacity at the National Bureau of Statistics can be further strengthened, and the Bank is playing a leading role in this. As part of the engagement of the Bank with the statistics office is to support in improving the design of survey questionnaires to capture disaggregated data needed for policy making, as well as to improve the collection of sex disaggregated data for effective assessments by gender. In particular, the Bank has already started providing support to improve the Household Budget Survey questionnaire to capture the different types of incomes (including disaggregated welfare schemes) and expenditures (disaggregation on health and education) to undertake deeper gender-based analysis. The Bank team will also build capacity at the statistics office to undertake such analysis which will help in evidence-based policy making. Enterprise surveys are conducted in an ad hoc basis and not always by the statistics office which results in almost non-existent data on enterprises including gender aspects of small and medium enterprises. The Bank will provide support to design enterprise survey questionnaires (one small and medium firm, and one for large firms) which will also be useful to capture gender aspects of enterprises. As mentioned below (in the section vulnerability and resilience pillar) the Bank will support the authorities to professionalize the fishing sector. Given that Seychelles has a large number of women artisanal fishers,

professionalizing this sector will empower and give more responsibility to these fishermen. Currently there is a lack of basic data like number of fisherman (gender-disaggregated), catch and income in this sector. The Bank's support in the area of Early Childhood Development is another key area where gender issues will be important. There are increasing discussions in Seychelles about productivity of employees and the firms and the competitiveness challenges that the country faces. However, this discussion is far from being supported by evidence as analytical work in this area is limited. To close this gap, and support the Government in this debate, the Bank will undertake an ESW on earnings and productivity with a gender disaggregated focus. The gender angle gives an interesting entry point to look at the external efficiency of the education system and the structure of the labor market.

Vulnerability and Resilience Pillar

66. Seychelles' economic structure and geographic location make it vulnerable to specific economic and climatic shocks. As noted above, macroeconomic vulnerability arises from four key factors: the high concentration of economic activity on tourism and fisheries; its high import dependency, especially for commodities such as fuel; exposure to disaster and climate change; and, more recently, the development of piracy in its area of the Indian Ocean. To the extent that several shocks are exogenous, and vulnerability can only be mitigated somewhat or over the long term, an immediate focus should be on avoiding that macroeconomic policy responses magnify other shocks. Tsunamis and rising sea levels represent important fiscal contingent liabilities. These liabilities can be explicit (for example, public property is damaged) as well as implicit (the public, especially the poor, may expect some compensation from the Government after a natural disaster). To reduce vulnerability and build resilience to absorb the impact of exogenous shocks, the authorities should (i) strengthen PFM and improving allocative efficiency of expenditure, (ii) strengthen the social safety net system as an instrument to respond to shocks and (iii) strengthen institution and capacity for disaster risk management. Point (i) is clearly a governance issue as well and will be dealt with in the Governance section. The section on governance elaborates further Bank's engagement in this area.

67. Improved mitigation measures are needed to absorb the impact of disasters and climate change. Only limited possibilities exist to insure against such shocks. The authorities intend to put in place better mitigating measures and improve institutional capacity to sensitize and monitor implementation of risk management measures. With the financial support provided through the GEF, the UNDP is supporting the Government to increase capacity for effective environmental management to address national and global environmental issues. The Bank's role will be to assist financially and technically when shocks occur and, more important, to support policy and capacity development for crisis prevention and preparedness. The Bank will support Seychelles in developing a Master Plan for Disaster Risk Management, to be implemented across various sectors and by all stakeholders at various levels (from national to community). The starting point for the master plan will be to conduct a National Risk Assessment which will include a Geological Risk Assessment and other hazards. This master plan will integrate all the existing contingency plans and strategy to give an umbrella roadmap¹⁷. This will strengthen the Government's capacity to respond to an adverse natural event, evaluate the impact of disaster while protecting fiscal stability through risk-financing tools, such as risk sharing, risk pooling,

¹⁷ To provide assistance in this area, the Bank will seek the support of the Global Facility for Disaster Reduction and Recovery (GFDRR) Trust Fund

contingent financing, and catastrophe-related bonds and insurance. The Bank will also support in the development of a community preparedness plan to ensure the effectiveness of all the equipment purchased. Additionally, considering the weak capacity in disaster impact assessment, the Bank will support training on the disaster impact assessment so the country will generate a quick economic loss evaluation results when disaster happens, which will provide strong base for assistance. When the capacity increased, more regional risk sharing financing tools will be explored.

68. Seychelles is exposed to increasing piracy activities. Piracy is a serious threat to the economy as well as security, adding to the vulnerability of the country. Seychelles received assistance from a number of partner countries to help combat the threat of piracy in the Indian Ocean. Pirates operating in the Indian Ocean have contributed to income losses from economic activities such as maritime tourism, fisheries, and trade within and outside Seychelles and have added to the costs of freight and insurance. Traders and fishing operators (both domestic and foreign) have incorporated practices to address piracy risks, and activity in these sectors is picking up to pre-2008 levels. Government has included a contingency appropriation in the 2012 budget which will activate in the case of unforeseen expenses related to budget risks associated with piracy, natural disasters, and further sharp increases in international food and fuel prices. Seychelles is receiving assistance from a number of partner countries to help combat the threat of piracy in the Indian Ocean. The EU, through the Indian Ocean Commission¹⁸ (IOC) is providing assistance to enhance capacity on several fronts, including the development and implementation of joint legislative frameworks, enhancing regional capacity to address economic impacts, creation of effective systems of information sharing on maritime safety and security, and establishment of a network for exchange of information and coordination. There exists currently a knowledge gap concerning the economic costs of piracy to the international and national communities. At present economic analysis has been constrained by fragmented and unreliable data and has therefore failed to contribute to effective policy dialogue at a time when the piracy industry is booming and anti-piracy measures failing. The Bank will undertake a regional ESW which aims at measuring the cost of piracy off the coast of Somalia and in doing so look at the mechanisms through which world trade in general and local economies in particular cope with this phenomenon. And this study will look at the effects of piracy on local economies of two countries, namely Kenya and Seychelles.

69. Climate change, disasters and piracy impacts primarily the fishing industry. Promoting better regional integration for fisheries management and development, and supporting the growth of a sustainable and profitable local fishing industry will help improving resilience in this sector. Proactive management of the regional tuna fisheries, including judicious arrangements with other South West Indian Ocean (SWIO) riparian states and tuna industry operators, is imperative for insuring that the benefits of utilizing the tuna resource is sustainable and shared equitably, to benefit the regional coastal economies and the various stakeholders. In this context, the Bank will support regional cooperation in the fisheries management and development of the SWIO riparian states and targeted capacity building and investments in Seychelles. At the national level, the Bank will support the authorities to improve the sector's monitoring and analysis capacity to ensure adequate information for policy design and implementation. The Bank will also support the country in the implementation of co-management mechanisms. Sector co-management will include the preparation of a joint public-

¹⁸ The members of IOC are Mauritius, Seychelles, Reunion Island, Comoros and Madagascar

private led prioritized process to remove critical constraints to profitable and sustainable fisheries business development and to identify the complementary public and private investments; the process will result in strategic investment to maintain the port attractiveness and industry competitiveness while reducing its ecological footprint. The Bank will support the authorities to explore synergy between the tourism sector and the fisheries sector to promote the national maritime culture and heritage, and the marine environmental assets.

70. Exogenous shocks, while presents serious fiscal risks may have serious impacts on the poor. These shocks may substantially affect the purchasing power of low-income households and immediately reducing living standards. The Bank will support the authorities to improve the social protection system to respond to these shocks and cushion the poor more effectively. Along these lines the Bank will assist the authorities in the establishment of effective, well-targeted social protection system which offers powerful protection for groups that are most vulnerable to the effects of macroeconomic and some idiosyncratic shocks. Such a system can strengthen resiliency and help to smooth consumption following shocks. As mentioned above, piracy is affecting the business of local fishers. These fishermen are constrained in the distance that they could go at sea for catch and some of them have relocate fishing activities to areas that are less productive and are turning over-exploited due to the activity concentration. The Bank will support the Government in designing and implementing an emergency assistance scheme, as part of its assistance in the area of social protection, to compensate (partly may be) the fisherman whose catch is affected due to piracy acts. The Bank will also support the Government to professionalize this sector. The objective is to give responsibility and make accountable the fishers in the sector management and the social welfare system. The Bank's support in this area is through a social protection technical assistance project. As the country is moving into second generations of reforms, the Bank will undertake a Poverty and Social Impact Analysis (PSIA). The PSIA will be accompanied by public dialogue and discussions to help mitigate social and political resistance to reforms. The PSIA will be conducted together with the political economy analysis which will be part of the Governance for Growth AAA as outlined in the governance section below. Policy/focus areas of the PSIA might include social protection system reform, housing finance reforms and utility tariff change reforms.

The Governance and Public Sector Capacity Foundation

71. The Bank would approach governance and public sector capacity from both the demand and supply side. On the demand side, the Bank would work towards improving social accountability by strengthening citizens' voices and access to information. The program will support initiatives by civil society organizations (CSOs) to enhance Government transparency and accountability. A political economy analysis will help to better understand governance constraints, help to identify which reforms are likely to have most political traction and which may get blocked, and help deepen Bank's engagement for greater development effectiveness. Strategic support and tools will be informed by the proposed public sector governance analytical work (see supply-side governance section).

72. Supply-side governance measures would focus on strengthening public sector institutions and systems to improve the environment in which good governance and capacity development are nurtured. On the basis of a careful assessment on strengthening public sector strategy and implementation, support would focus on four main areas, PFM, including statistics, human resource management, anti-corruption and justice. First, regarding

PFM, further improvements in the allocation and execution of public expenditures, including the preparation of budget programs and evaluation of Government programs, are needed. The PEFA 2011 identifies some weaknesses in managing public finances, particularly improving multi-annual budgeting planning and classification; execution of capital projects; accounting, recording and reporting; and Parliament oversight. Public debt is high and demands for social spending are increasing. A key area for Bank engagement would be to support the development of fiscal planning and monitoring capacities. The Bank will support in deepening and broadening outcome focused reforms to particularly (i) institutionalize the fiscal discipline, improve development of policy and performance oriented budget, (ii) further improve budget execution and reporting processes, and (iii) strengthen institutions¹⁹. The institutional design for capital spending needs to be strengthened to ensure that investment programs are based on national priorities and implemented cost-effectively. In this context, the Bank will conduct a Public Expenditure Review (PER) focusing on capital expenditure and also provide assistance to the Government on the public sector investment program that it wants to put in place. As part of building the public expenditure management system, the Bank will support to establish the BOOST tool – a tool which permits improving public sector spending efficiency. The Bank and the IMF will support the authorities in the development of the policy and performance oriented budget (linking capital and recurrent budget, implementation of program based budgeting, etc.). By the end of the CPS period, the objective is to support the Government to fully include recurrent costs of capital projects into the recurrent budget and to implement, as pilot cases, PBB into two sector ministries. The Bank will help the authorities to achieve greater efficiency in public health expenditure by explore sustainable health financing policy options and improving the management of service delivery. Proposed strategic support will be informed by a health sector note. This analytical piece will provide a comprehensive review and analysis of health sector performance and efficiency in the organization and delivery of services looking into the supply side determinants (i.e. human resources for health, supply chain management, governance and expenditure management, infrastructure and ICT), demand side determinants (household resources, health seeking behavior and risk factors, and community factors), and quality of service delivery. The Bank will also support the authorities on pension reforms with the objective to improve sustainability of the system. The contribution rate (and therefore unfunded liabilities) to the Seychelles Pension Fund is low and the Government's objective is to increase it to a total of 5 percent by 2014. Old age pensions managed by the SSF (now ASP) are not means-tested and universal. This also has fiscal sustainability implications as the population of Seychelles is ageing. In fact a re-thinking of the mode of operation in the public sector from efficiency and sustainability perspectives will be important for long term fiscal sustainability. While the country has made enormous progress in right sizing the public service, outsourcing non-core activities, divest in some public enterprise which do not serve policy purposes, yet more progress is needed. Education and health services at all levels are almost free, old age pensions and some assistance are not means tested, universal subsidies still exist, and transport is free for students and pensioners. At the request of the Government, the Bank will produce a Country Economic Memorandum (CEM) to identify key sector-specific policy reforms to attain long term fiscal sustainability. While Seychelles reduced its debt substantially following the restructuring program with the Paris Club, yet it needs consolidate progress on debt sustainability and in the context the Bank will support the country in improving its debt institutional

¹⁹ Empower the Public Enterprise Monitoring Division, legislate the roles of the Internal Audit Division and National Audit Committee and strengthen the Financial and Public Accounts Committee

framework and build institutional capacity in this area. The Bank will assist the authorities with a debt management assessment and a medium term debt strategy (DeMPA/MTDS).

73. Since initial exploration data acquired in the Seychelles marine EEZ have been encouraging, the authorities wants to put in place governance structure for this sector upfront. In this context the Bank would provide technical assistance to create the institutional framework that needs to be in place to support oil production and make sure that the appropriate benefits accrue to the country. The Bank will support the Government to establish an Independent Regulatory Authority (IRA) for this sector, support in the revision of petroleum legislation and supplementary regulations, and support in the adherence to the extractive industry transparency (EITI) validation program. The Bank will monitor closely the evolution of exploration activity and, if warranted by results, will deepen the Bank's engagement in strengthening the Seychelles' regulatory and revenue management capacity in this area. In such circumstances, the existing Reimbursable Advisory Services framework would continue to be useful, since it would allow the mobilization of support from Bank staff.

74. Reliable and timely statistics is essential for evidence base policy making. On this front, on the basis of the National Strategy for the Development of Statistics, the Bank, through the Trust Fund for Statistical Capacity Building, provides technical assistance to the National Bureau of Statistics to improve capacity to compile national account statistics and tourism statistics. The Bank would continue to support the development of national statistics to improve planning and monitoring and evaluation, by tapping Multi-Donor Trust Funds²⁰, and encourage the use of statistical information to foster greater accountability between Government and its citizens. The Government will field a new Household Budget Survey in the second quarter of 2012. In this context, the Bank will provide technical assistance to the statistics office to improve the survey instrument to ensure that more disaggregated and essential data are collected which will be useful to inform future policy decisions, based on evidence²¹. One of the key areas where collection, analysis and disclosure of key information are needed, to improve governance, is the fisheries sector. The Bank will assist the authorities and build capacity to collect and disclose fishing licenses and agreements, and regularly disseminate key aquaculture and fisheries statistics, including catch and effort per fishing vessel category, and aquaculture production per species.

75. As part of the efforts to greater public sector performance to enhance growth, the Bank will support several on-going reforms in human resource management, anti-corruption and justice. To lay the analytical foundation to accompany governance reforms in the Seychelles and to advise Government in the selection, design, implementation and sequencing of reforms, an ESW on Governance for Growth will be undertaken to take stock of public sector Government reforms, explore public sector reform options, and help design a public sector strategy to support the selected core areas of reforms in line with Government demands. This analytical piece will also include work on the demand side. It will consist of a Demand-for-Good-Governance (DFGG) Assessment that will take stock of demand-side governance, identify complementarities with supply-side governance and select possible entry-

²⁰ For example the Trust Fund for Statistical Capacity Building (STATCAP), and Statistics for Results Facility – Catalytic Fund.

²¹ Broadly the following changes will be made: in the income module, the source of income section will be elaborated to include income from welfare assistance, pensions, disability benefits etc. In the expenditure module, health expenditure will be disaggregated, and utilities expenditure will be disaggregated.

points for targeted support, including the consideration of political economy considerations. It will help to lay the basis in designing and implementing activities across sectors to support civil society for greater development effectiveness. The ESW would be closely tailored to specific Government requests and provide sequential, just-in time support to client needs. As part of a broader focus on strategic planning and management, support to human resource management will be continued. This will include support to improved human resource management systems for hiring, managing and monitoring staff, a greater performance-orientation in the public sector and the incorporation of a greater service-culture, including measures to enhance transparency and accountability in the civil service. These efforts will be undertaken as part of the broader Government efforts in strengthening results-management and M&E while promoting governance and anti-corruption, and will be closely supplemented by the relevant demand-side governance areas mentioned above. They will also be closely coordinated with efforts on public enterprises. The Bank will also respond to client demands supporting the legal and judicial sector to strengthen governance and improve investment climate (the investment climate component is dealt more extensively in the competitiveness and employment pillar). Strengthening governance will be achieved by strengthening accountability, improving access to justice for citizens, and making use of ICT facilities and technology in the judicial sector. The judiciary's capacity is constrained by the backlog of cases and the lack of an adequate case management system integrated across the key justice institutions. The Judiciary in 2010 adopted a Strategic Plan in which its immediate priorities are to strengthen its capacity and improve operational efficiency by streamlining court processes; up-grading infrastructure and addressing case backlog through the introduction of an innovative case management system. Key priorities include strengthening both civil and commercial courts with a judicial strengthening program and the need for an e-justice system to effectively manage and monitor cases, for which design and implementation the authorities have requested strong support. With regard to case management system, with the support of the British High Commission the Computerised Case Administration System for Seychelles CCASS will be launched in 2012. This represents a significant milestone in towards modernising and automating case processing. To better support the judicial sector, the Bank will undertake a Rapid Judicial Sector Assessment. The Bank will endeavor to work with the Judiciary and other stakeholders in the legal and judicial sector to provide this support and to anchor reforms in the broader anti-corruption efforts by Government.

C CPS Implementation

76. This strategy will be implemented using the traditional instruments of the World Bank Group: (i) partnerships with stakeholders; (ii) knowledge generation to inform policy changes; and (iii) finance.

Partnership

77. **The Bank's engagement will strengthen partnerships with national, regional, and global players.** The public and private sectors share a good relationship and quite often interact on policy matters. The civil society umbrella organization—the Liaison Unit of Non-Governmental Organizations (LUNGOS)—also interacts with Government to promote its views in policy formulation. In its engagement, the Bank will support stronger dialogue between the public and private sector. The private sector conveyed its wish for greater dialogue with the state on issues, regulations, and decisions that may affect its operations. A durable relationship between these two partners, based on transparency, credibility, and trust, can positively influence

firms' productivity through more efficient policies and institutions, improved quality and relevance of Government expenditure, and reduced policy uncertainty. The private sector, through the Seychelles Chamber of Commerce and Industry (SCCI), is open to further participation in discussions with the Government (formal and informal) to help increase the effectiveness of Government support for private sector activities.

78. In the past three years, the Bank has generated a few knowledge products in consultation with stakeholders, but dissemination could be expanded. Going forward, the Bank will engage with civil society, the private sector, academia, donors, and the media to leverage policy changes, and it will organize the dissemination of knowledge products jointly with stakeholders. Knowledge products will be generated in partnership with the Government to ensure ownership and leadership for reforms, as well as build capacity to undertake policy relevant research. Consultation with stakeholders will continue, and the possibility for joint work with other donors will be explored. The Bank will mobilize resources from trust funds to support CSOs in designing and implementing activities to enhance Government transparency and accountability.

79. The Bank's engagement will reinforce other donors' interventions in line with Government priorities. A relatively small number of donors and development partners are engaged in Seychelles. As discussed, after a long hiatus, the Bank and AfDB reengaged with Seychelles in 2008 to support the Government's comprehensive reform program with the assistance of the IMF. Such donor coordination, which has helped to harmonize policy dialogue in the past three years, will be maintained and if possible strengthened. While the Bank will mobilize partners to deepen and accelerate support to Seychelles, the Bank's engagement will be based on greater selectivity: Bank resources will be channeled to areas in which the Bank has a comparative advantage and will support areas in which other donors are leading. The Bank and the AfDB will jointly conduct mid-term review for their respective strategies in the first quarter of 2014 to better harmonize their engagement. Annex 2 presents a matrix of donor engagements by sector.

Knowledge program

80. The Bank's support for reforms in Seychelles in the past few years was largely informed by analytical work. Because the reform program was intended mainly to consolidate macroeconomic stability and address deep-rooted structural imbalances, analytical work concentrated on governance, particularly expenditure management in social sectors and publicly owned enterprises. This work helped to identify areas for support under the two DPOs delivered to the Government.

81. Going forward, knowledge will be generated to further assist Seychelles in governance and public capacity building as well as the two pillars of the Bank's strategic approach. Although Seychelles reduced its debt and its economy grew at a higher than expected rate in 2010, it needs a strong growth path to consolidate progress on debt sustainability, build resilience and prepare for long term fiscal sustainability. It is crucial to speed the pace of structural reforms that aim at developing the private sector, redefining the role of the Government, and improving economic resilience to shocks. To guide such reforms, strong knowledge is needed in key strategic areas.

82. The Bank will ensure that results of analytical work will contribute to the public debate on major policy issues. This effort will pursue broader dissemination through a variety

of media and platforms, including the local press, university, and organized debates with civil society, the private sector, donor partners, and other stakeholders. The University of Seychelles was established only recently (2008), and the Bank expects that partnering with the university will help to develop a policy research culture among academics. Based on demand from the authorities, the Bank will develop a seminar series to be delivered by VC or by staffs on mission to improve knowledge of the staffs of the Ministry of Finance in some key areas: PFM, budget management, accounting standards, auditing, M&E, and others²². Greater participation of the Seychelles in South-South (S-S) knowledge sharing and peer- learning events will be explored. For example, the Parliamentary Network will invite the Speaker of the National Assembly to participate in the private sector development conference in March 2012. The South-South Knowledge Exchange Program of the World Bank Institute will be explored for S-S cooperation in the judicial sector. To assist in reforms in the competitiveness and employment pillar, analytical pieces will need to be developed and technical assistance provided to inform policy makers on further regulatory and institutional barriers to business, more knowledge is required to understand the financial market so as to support the Government to deepen and broaden this market to facilitate business operations and become another pillar for the economy, assistance will be provided to develop the energy sector, better understanding is needed on earnings and productivity gaps, more knowledge is needed to understand the evolution of the tourism industry for the region to devise strategies for open skies by national authorities from a regional perspective, and assistance will be provided to develop the right structure and levels of utility tariffs. In light of these, the Bank plans to undertake five ESWs and three technical assistance projects in the CPS period: a *development of financial market* and a *regional study on air access policies*, a *gender-disaggregated analysis on earnings and productivity gaps*, a *study on constraints to growth of the EE and RE*, a *tariff study*, a TA on *improving business environment*, a TA to *strengthen the housing mortgage market*, a TA to develop the *energy sector strategy*, and a TA to *strengthen the insurance regulatory framework and supervision*. As part of the Bank's *SABER-Early Childhood Development (ECD) initiative*, Seychelles will be one of the participating countries. This will help design effective measures in the area of early childhood development for the country. To improve resilience to shocks and pave the way for long term growth and sustainability, establishing backward linkages from the tourism industry to domestic industry is essential, as well as diversification between sectors, but also within established sectors, better understanding of the economic costs of piracy is needed for informed policy decisions, understanding of the effects of policy changes on different segments of the population is required to better target the poor and vulnerable, and the Government also needs to have in place contingency plans to mitigate specific risks. In this context, the Bank will undertake a *Poverty and Social Impact Analysis (PSIA)* of recent and on-going reforms; support the development of a *Master Plan for Disaster Risk Management* (including geological risk assessment), a *study on the economic impact of piracy*, and a *social protection TA*. On the governance and public sector capacity foundation, the Bank's analytical work will focus on improving institutional capacity and governance with respect to capital expenditure and subsidies, good governance and accountability, strengthen debt management capacity, prepare for oil sector management, re-thinking of the mode of operation in social sectors from an efficiency perspective will be important, for example improve efficiency and sustainability of health service provision, and building capacity at the National Bureau of Statistics (NBS). In this

²² The first such seminar will take place in March 2012 during the DPO identification mission. The topic for discussion will be risk management tools/ instruments of the Bank and its application in different countries.

context, the Bank will produce a *Country Economic Memorandum* identifying key sector-specific policy reforms to attain *long term fiscal sustainability*, provide assistance to produce a *health sector status report*, undertake a *public expenditure review (PER)* focusing on capital expenditures and subsidies, a *Medium Term Debt Strategy (MTDS)* and a *Debt Management Performance Assessment (DeMPA)*, an ESW on *Governance for growth* which would combine assessments and analysis on demand and supply side of governance and help design a public sector reform strategy, a TA to support dialogue with Government on *oil sector governance and revenue management*, and a *statistical capacity building assistance* to support improving the household survey (including assistance to improve collection of gender-differentiated data), build capacity for undertaking distributional incidence analysis for long-term sustainability. In the legal and judicial sector, the Bank will support a rapid *judicial sector assessment* which will provide the basis for Bank interventions in the sector. Annex 3 lists the proposed analytical work under this CPS. Besides the planned AAAs, the Bank will also respond to demand driven just-in-time requests to the Government to support the reform agenda.

Finance

83. **The Bank will use its financing instrument to support policy and institutional changes that will influence development.** A programmatic series of three Development Policy Operations (DPOs) will be the main financing instrument and will assist in policy reforms informed by analytical works. This series will support second-generation of reforms that are natural continuation of support that the Bank provided through two stand alone DPOs in 2009 and 2010 which had as objectives to (i) establish a stable macroeconomic environment, (ii) establish a sustainable fiscal framework, (iii) to improve public sector effectiveness and (iv) improve the business environment. This programmatic series will consolidate and reinforce reforms achieved during the previous years, while shaping the way to a sustainability path. The indicative IBRD lending program of \$21 million for the FY12-FY15 CPS period is expected to finance a programmatic series of three DPOs of US\$ 7 million each. This lending program is indicative, and actual lending levels would continue to depend on country performance, IBRD's lending capacity, demand by other borrowers, and general economic developments.

84. **The areas of the programmatic DPO series is embedded in the strategic approach highlighted in this strategy.** In the competitiveness and employment pillar, this series will support improving the business environment. In the vulnerability and resilience pillar, this series will support enhancing the social protection system, and strengthen institutions to respond to natural events. In the governance and public sector capacity foundation, this series will support the establishment of institutions to prepare for the development of the country's petroleum resources, and improve transparency in the fisheries sector, and improve public finance (incl. health sector efficiency, and SOEs).

85. **Improved business environment will be achieved through expediting business registration, easing business exit, and facilitating settlement of commercial disputes, among others.** The Bank will support the introduction of a bankruptcy system to (i) save viable businesses that can continue contributing to the economy and (ii) support unviable businesses to exit the market so that resources can be efficiently redistributed. The Bank will support establishment of simpler procedures to attract investment and enhance the development of a competitive market economy. The Bank will assist in the setting up of a specialized commercial

court and the development of its rules of procedure as well as developing the technical specifications of a pilot case management system.

86. Improving expenditure efficiency will build the economy's resilience to shocks. The Bank will support policies and actions to reduce subsidy allocation to state owned enterprises and limiting the role of the state in commercial activities. As such, amongst others, the Bank will assist the Public Utility Company (PUC) in determining and charging market tariff for utilities to cover full cost, support Government to assess purchase power agreements, support the Housing Finance Company (HFC) in designing and implementing a market based social housing finance strategy which would include a system of 'smart subsidies'. To enhance the social protection system, the Bank will support in merging the two agencies for welfare assistance into one, build a robust MIS system, establish appeals mechanisms, to introduce assessment based on functioning capacity for disability benefits, introducing activation measures, improve the targeting system, address the problem of sustainability of the Seychelles Pension Fund and assist in designing a piracy-related emergency scheme for fishermen.

87. Strengthening institutions, building capacity and enhancing transparency and accountability will help improve governance. The Bank will help review and update of the legal, regulatory and model contract framework applicable to the petroleum sector, build capacity to evaluation and negotiation of licensing round proposals, establish an independent petroleum regulatory authority, and assist in the EITI validation program. The Bank will also help improve transparency and accountability in the fisheries sector by disclosing fishing agreements, licenses information (number and type of licenses issued, duration and fees paid) and other key sector statistics such as fleet composition, activity (fishing days - or "effort" - and catches) and subsidies. Such approach will support setting up civil society and stakeholders' participation in the debate on sound policy design. To improve PFM, the Bank will support in strengthen planning at the sector level, linking capital and recurrent budgets, review non-tax revenue policies, processes and forecasting, improve quality of financial statements and legislate the roles of the Internal Audit Division and the National Audit Committee. To improve efficiency in the health system, the Bank will help undertake an elaborated health sector status (HR, Infrastructure, supply chain management, quality of service delivery) to inform policy choices, bring efficiency gains by revisiting and re-enforcing the referral system and task shifting, explore health financing options and develop sustainable health financing strategy. This will be supported by the analytical underpinning of the Governance for Growth ESW.

88. Knowledge products and provision of technical assistance will be financed by the Bank, by partnering with other donors, by leveraging trust funds, or under the fee-based framework. Trust funds will be used to address climate change challenges, build capacity in development, analysis and dissemination of statistics, support to improve the financial and accounting sectors, and support to in improving governance. The Bank will support in improving disaster management by tapping on the Global Facility for Disaster Reduction and Recovery (GFDRR), support capacity building by tapping into the Statistical Capacity Building Program (STATCAP) and the Institutional Development Fund (IDF), support to improve housing finance, insurance regulatory framework, and accountancy profession through the FIRST Initiative, support for the evaluation and negotiation of licensing rounds by tapping into the Extractive Industries Technical Advisory Facility (EI-TAF) program, and support for improving public sector governance by tapping into the Governance Partnership Facility (GPF). Since the Bank response to the Government's request is constrained due to limited Administrative Budget (BB)

and limited possibilities of grants from trust funds, to expedite implementation of reforms, the authorities have requested fee-based support in three broad areas: social protection, public finance management and public sector efficiency. This will provide the Government with specialized technical assistance and advisory services (policy choices and implementation options) to meet the inevitable skills gaps that exist in the country to advance the comprehensive economic reform program. The Bank will also use flexible and innovative financing alternatives to provide possible solutions against vulnerability, such as commodity price hedging, and debt management. Financial assistance will be assessed in the context of the country's macroeconomic situation, including debt dynamics and the international economic context, which would be key factors in the determination of the financing gap. The IFC and the Bank will jointly leverage on the WBG engagement to support the authorities to bring in strategic partners on board in the reform program of SOEs. MIGA will explore opportunities to offer its insurance coverage to potential clients seeking political risk insurance in line with Government's endeavor to attract more Foreign Direct Investments (FDIs).

VI RISK AND MITIGATION

89. The success of this strategy may be hampered because of the foreseeable risks mentioned below. Risk mitigating measures are also discussed.

90. **Macroeconomic stability is vulnerable to exogenous shock.** Volatility in commodity prices associated with the slow global economic recovery and threats of piracy could exert pressure on fiscal balance and debt sustainability and affect the Government's ability to continue its reforms. To mitigate these risks, reforms need to be accelerated for medium-term expenditure planning. While Bank's financial support may scale up to respond to external shocks, the country should also collaborate with other institutions such as the IMF and AfDB in the face of such shocks. The risk management strategy that the Government plans to adopt would also contain contingency plans to mitigate specific risks.

91. **Capacity constraints are an issue at all levels of the public sector.** During the ISN, the lack of expertise in some technical areas limited implementation of some Bank operations. The first-generation reforms related to restructuring the economy for macroeconomic stability were led by the Ministry of Finance, which has higher capacity than other ministries. Second-generation reforms must be owned and driven by other ministries and agencies, however, where a lack of technical capacity or human resource could delay implementation of the reform program. To mitigate this risk, the Bank will provide technical assistance and strengthen implementation capacity, AfDB will support the Government in developing a Human Resource Strategy and a statistical capacity building program, and UNDP will assist in developing a capacity development plan and provide technical assistance to build capacity. The risks related to limited capacity will also be mitigated by: (i) sustaining reforms that will generate stronger capacity in PFM and governance; (ii) concentrating on a limited number of policy areas; and (iii) agreeing on critical technical assistance required to overcome weaknesses identified in Bank institutional capacity assessments.

92. **Political and social resistance to reforms may arise.** Reforms of state-owned enterprises may pose moderate to substantial political risks, and other reforms could be stymied by their potential impact, including on the poor. For example, it might be difficult to further increase utility tariffs given that from May 2009, utility tariffs have increased 7 times. The political

commitment to charge cost-recovery rate exist, but implementation might be difficult. During the process of the tariff study, consultation needs to build consensus among the various stakeholders. However, possibility of resistance from the general public cannot be understated. Implementing the new housing finance policy is also politically sensitive. Here too consensus building on this highly politically and socially sensitive area is very important, and a slow process built on consensus and taking into repayment capacity in the immediate to short term. To mitigate these risks, the Government will continue its strong and successful communication about its reform program. Specific reforms will be advanced through public consultation and awareness programs to gather public opinion and gauge public willingness to reform. The Government is improving its social safety net programs to ensure that they reach the poor and vulnerable. The Bank will use change management mechanisms, including communications strategy to manage this risk.

93. **Seychelles is exposed to climatic changes.** Seychelles remains vulnerable to several natural hazards including floods, rising sea levels, landslides, and tsunamis, and these pose serious risks to the country. To mitigate these risks the Bank will support the country in the development of a Master plan for Disaster Risk Management which will be build on the assessments of geological risks and other hazards, provide technical expertise to develop risk financing tools, and support in the setting up of an emergency assistance scheme for fishermen, the most vulnerable sector to climate change risks.

VII MONITORING AND EVALUATION

94. **The results framework presented in Annex 1 of this CPS will be used as a monitoring tool both by the Government of Seychelles and the Bank.** Since the Bank's engagement is flexible and will adapt to priority needs on an annual basis, it is also possible that the Bank will contribute to outcomes that are not reflected in the results framework. A mid-term review of the CPS will be undertaken during the first quarter of 2014 to evaluate the performance of the CPS and shape the agenda until 2015. In addition to the results framework, the CPS program will be monitored and evaluated through the planned programmatic DPO, which will also include a results matrix covering specific outcomes in the different areas of support envisaged in the DPO.

VIII CONCLUDING REMARKS

95. **The design of the CPS is based on the understanding that Government ownership of the reform program is strong and that it is committed to drive reforms just as it has in the last three years.** The CPS is timely, as the president was reelected in 2011 for another five-year term, and the strategy reflects the Government's program. The country is also updating its long-term strategic framework, and development of the CPS benefited from a draft version of that strategy. The CPS is designed to be flexible and allow the Government and the Bank to adjust the program to the country's changing medium-term needs and priorities. The overall reform agenda also fits well with the Bank's strategy for Africa. Although sector ministries will have to play an important role as the reform agenda expands from macroeconomic structural reform to more wide-ranging reforms, the Ministry of Finance will play the coordinating role and ensure that the reform program is implemented as planned.

Annex 1: Results Framework FY12-15

Medium Term Objectives	Main Constraints to Achieving Medium Term Objectives	Possible Strategy Outcomes	Milestones / Process Indicators
Strategic Objective: Reduce vulnerability and provide the basis for long term sustainable development			
<i>Government overall indicator: Economic growth at 5 percent on average per annum</i>			
Pillar 1: Competitiveness and Employment			
<i>Introduce energy efficiency and develop renewable sources of energy</i>	Power generation is currently provided only by diesel and fuel and energy efficient consumption is almost nil	Number of assessments for viable REF technologies completed increased to 5 by 2015 from 0 in 2011; Market based utility rates applied by 2014 compared to ad hoc subsidized rates in 2011	Study on constraints to growth and development of the EE & RE in the residential sector launched; Tariff study, including a component of indexation and adjustments launched
<i>The business environment will be improved, and procedures to register business streamlined</i>	Cumbersome and lengthy procedures to register business	Number of days to register business falls from 39 in 2011 to 1 in 2015	An online system for registration of companies is set up
<i>Competition in the banking system increased and capital products developed</i>	The HFC performs multi tasks, inefficiently and the private sector mortgage market under-developed	Transparent and smart subsidies for housing finance introduced by 2014	Cabinet decision to reduce the role of the public sector in the mortgage market
Pillar 2: Vulnerability and Resilience			
<i>Disaster risk mitigation strategy and capacity in place</i>	High exposure to changes climatic conditions and lack of geological risk assessment	Country risk profile established by 2015	Development of a Master Plan for Disaster Risk Management
<i>Improve the efficiency and effectiveness of the social protection system</i>	Welfare assistance program not effectively targeted and pension system not sustainable	Multiple agencies providing welfare assistance merged into a single Agency for Social Protection by 2012 and a single robust MIS system in place by 2013; Increasing the pension contribution rate to a 5 percent by 2014 from 3 percent in 2011	Introduction risk assessments and automatic cross-checks and verification with other databases; Actuarial study on Seychelles Pension Fund completed
Foundation: Governance and Public Sector Capacity			
<i>Policy and performance oriented budget developed</i>	Capital and recurrent budgets are disconnected, and budgeting not link to sector strategies which are indeed missing for many ministries	Full inclusion of recurrent costs of capital into the recurrent budget by 2015 compared to no linkages in 2011	Cabinet decision to link capital and recurrent budgets
<i>Improve efficiency in health expenditure</i>	Weak management of health service delivery and current health financing arrangement presents fiscal challenges	Government expenditure on health as a share of total health expenditure falls from 87 percent (2009 baseline) to 80 percent by 2015.	Development of sustainable health financing strategy
<i>Put in place governance and transparent framework and structures for the oil sector</i>	Legal and regulatory framework for the petroleum sector is underdeveloped and a fully functional petroleum regulatory authority is not in place;	Petroleum Regulatory Authority is established and petroleum legislations revised by 2014;	Policy decision for the creation of a petroleum regulatory authority;
<i>Improved statistical capacity</i>	Capacity at the statistic bureau is limited	Quarterly National Accounts is released to the public by 2014;	Capacity at the NBS is strengthened
<i>Improving access to justice for the business and private sectors and speeding up hearings for commercial cases</i>	No bankruptcy regime in place, and manual system for case registration	All backlog commercial cases registered by December 2011 are processed by December 2015.	Commercial Division at the Supreme court established and operational by 2013

Annex 2: Donor Engagement Matrix by Sector

	AfD B	BADEA	EC	IMF	OFID	China	UNDP	WHO	DOI	WB
Competitiveness and Employment Pillar										
Environment			X				X		X	
Tourism		X								
Water and sanitation	X	X								
ICT	X									
Transport infrastructure	X	X			X	X				
Private sector/financial sectors	X			X						X
Health Quality					X		X	X		
Education		X	X		X					
Energy					X	X	X			X
Vulnerability and Resilience Pillar										
Climate change and disaster management							X			X
Piracy			X				X			X
Social protection							X			X
Health system infrastructure and management		X			X			X		X
Governance and Public Sector Capacity Foundation										
Public sector capacity building & M&E	X	X		X			X			X
Public sector governance	X		X				X			X
Judicial and legal reform	X						X			
Statistics	X		X				X			X
Macroeconomic framework	X			X						X

Note: BADEA = Arab Bank for Economic Development in Africa; OFID = OPEC Fund for International Development; EC = European Commission, DOI = US Department of Interior.

Annex 3: Proposed Analytical Work by FY

	FY12	FY13	FY14	FY15
Competitiveness and Employment Pillar				
Study on Constraints to Growth of the EE&RE (IFC - RTA)				
Tariff Study (RTA)				
TA Energy sector strategy (RTA)				
Regional Access Policy ESW				
Business Environment TA				
Housing Finance/ Mortgage TA (FIRST)				
Insurance Sector Regulatory Framework TA (FIRST)				
Financial Market ESW				
SABER-ECD Initiative				
Earnings and Productivity: Gender Focus ESW				
Vulnerability and Resilience Pillar				
Social Protection TA				
TA Master Plan for DRM (GFDRR)				
Economic Cost of Piracy ESW				
PSIA				
Governance and Public Sector Capacity Foundation				
Public Expenditure Review - Capex & Subsidies				
Health Sector Report (RTA)				
CEM: Long Term Fiscal Sustainability				
DeMPA/ MTDS				
Oil Sector Governance and Revenue Management TA (EI TAF)				
Statistical Capacity Building TA (STATCAP)				
Rapid Judicial Sector Assessment				
Governance for Growth (GPF/GAC)				

Note: In the parentheses are mentioned the Trust Funds that will be tapped into to mobilize funding for the analytical works, besides the seed funding that will be provided from Bank's Budget. RTA refers to Reimbursable Technical Assistance

Annex 4: Areas covered by the DPO programmatic series

Pillars and Foundation	FY10	FY11	FY12 - FY15 (DPO Programmatic)
Competitiveness and Employment Pillar		Improve the business environment	Improving the business environment;
Vulnerability and Resilience Pillar	Establish a stable macroeconomic environment; Establish a sustainable fiscal framework	Improve public sector effectiveness	Enhancing the social protection system; Strengthen institutions to respond to natural events;
Governance and Public Sector Capacity Foundation			Establishment of institutions to prepare for the oil development; Improve transparency and accountability in the fisheries sector; Improve public finance (incl. health sector efficiency, and SOEs);

CPS Annex A2: Country at a Glance

Seychelles at a glance

2/25/11

POVERTY and SOCIAL		Sub-Saharan Africa	Upper-middle-income	
	Seychelles			
2009				
Population, mid-year (<i>millions</i>)	0.09	840	1,002	
GNI per capita (<i>Atlas method, US\$</i>)	8,480	1,126	7,495	
GNI (<i>Atlas method, US\$ billions</i>)	0.75	946	7,508	
Average annual growth, 2003-09				
Population (%)	1.0	2.5	0.9	
Labor force (%)	..	2.9	1.7	
Most recent estimate (latest year available, 2003-09)				
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	55	37	75	
Life expectancy at birth (years)	73	52	71	
Infant mortality (per 1000 live births)	11	81	19	
Child malnutrition (% of children under 5)	..	25	..	
Access to an improved water source (% of population)	..	60	95	
Literacy (% of population age 15+)	92	62	93	
Gross primary enrollment (% of school-age population)	131	100	111	
Male	131	105	111	
Female	130	95	110	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
	1989	1999	2008	2009
GDP (US\$ billions)	0.31	0.62	0.93	0.76
Gross capital formation/GDP	27.1	43.3	25.4	24.2
Exports of goods and services/GDP	65.1	67.7	117.8	119.3
Gross domestic savings/GDP	29.8	25.6	6.0	15.9
Gross national savings/GDP	..	22.2	14	9.2
Current account balance/GDP	0.6	-19.8	-25.4	-18.6
Interest payments/GDP	3.2	16	4.3	2.4
Total debt/GDP	52.1	40.4	1618	212.5
Total debt service/exports	11.4	6.2	7.8	4.7
Present value of debt/GDP	..	..	..	222.6
Present value of debt/exports	..	..	..	128.6
	1989-99	1999-09	2008	2009
(average annual growth)				
GDP	4.5	1.6	-0.9	-7.6
GDP per capita	3.0	0.7	-3.1	-8.7
Exports of goods and services	4.4	10.9	31.0	10.8
STRUCTURE of the ECONOMY				
	1989	1999	2008	2009
(% of GDP)				
Agriculture	4.2	3.1	2.1	2.0
Industry	15.6	27.1	20.2	19.7
Manufacturing	8.3	15.1	12.0	11.8
Services	80.1	69.8	67.7	45.3
Household final consumption expenditure	37.3	47.4	80.7	71.9
General govt final consumption expenditure	32.9	26.9	13.3	12.2
Imports of goods and services	62.5	85.3	137.2	127.6
	1989-99	1999-09	2008	2009
(average annual growth)				
Agriculture	-0.5	1.2	6.0	5.0
Industry	11.7	3.5	-2.5	-2.5
Manufacturing	8.4	-0.9	6.8	6.3
Services	2.8	1.1	5.7	-155.6
Household final consumption expenditure	11.2	9.9	0.7	-131.7
General govt final consumption expenditure	2.3	-1.0	-10.4	0.1
Gross capital formation	14.4	4.5	-7.3	4.2
Imports of goods and services	10.9	11.3	15.4	1.7

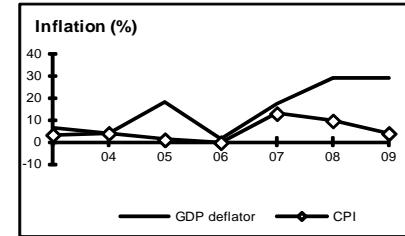
Note: 2009 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

*The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

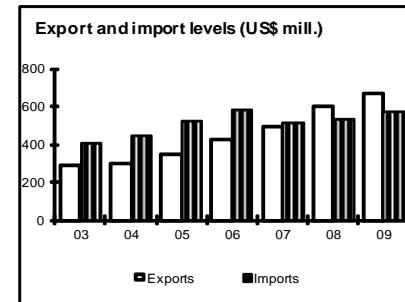
PRICES and GOVERNMENT FINANCE

	1989	1999	2008	2009
Domestic prices				
(% change)				
Consumer prices	1.6	6.3	9.5	3.8
Implicit GDP deflator	2.5	2.1	28.5	28.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	48.1	45.3	32.0	30.2
Current budget balance	7.4	2.8	1.3	1.7
Overall surplus/deficit	..	-8.5	-2.0	-1.6



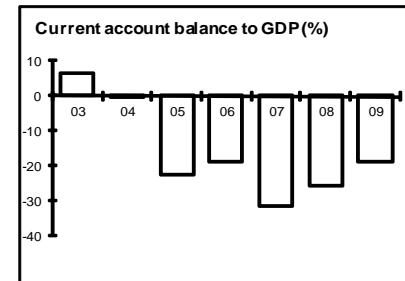
TRADE

	1989	1999	2008	2009
(US\$ millions)				
Total exports (fob)	15	146	601	667
Fish (fresh and frozen)	2	5	6	7
n.a.	1	0	0	0
Manufactures	9	102	231	253
Total imports (cif)	165	434	528	567
Food	30	81	135	138
Fuel and energy	30	43	190	210
Capital goods	45	193	75	88
Export price index (2000=100)	65	106	245	253
Import price index (2000=100)	106	107	109	108
Terms of trade (2000=100)	61	99	225	235



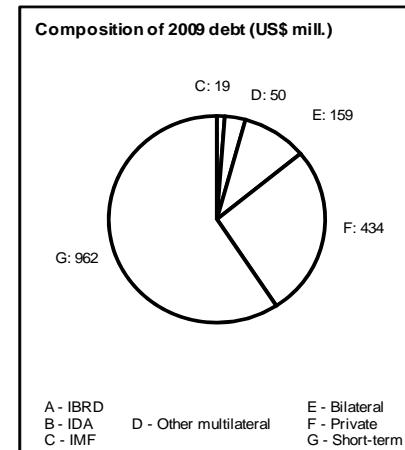
BALANCE of PAYMENTS

	1989	1999	2008	2009
(US\$ millions)				
Exports of goods and services	201	422	1,171	1,306
Imports of goods and services	193	524	1,364	1,397
Resource balance	8	-102	-193	-91
Net income	-15	-25	-103	-109
Net current transfers	..	4	..	..
Current account balance	2	-124	-235	-142
Financing items (net)	2	125	288	202
Changes in net reserves	-4	-1	-53	-61
Memo:				
Reserves including gold (US\$ millions)	..	30	131	191
Conversion rate (DEC, local/US\$)	5.6	5.3	9.5	13.6



EXTERNAL DEBT and RESOURCE FLOWS

	1989	1999	2008	2009
(US\$ millions)				
Total debt outstanding and disbursed	161	252	1,498	1,624
IBRD	5	4	0	0
IDA	0	0	0	0
Total debt service	23	27	92	63
IBRD	1	1	0	0
IDA	0	0	0	0
Composition of net resource flows				
Official grants	7	7	8	21
Official creditors	7	1	-10	11
Private creditors	-7	22	42	-15
Foreign direct investment (net inflows)	22	55	241	249
Portfolio equity (net inflows)	0	0	0	0
World Bank program				
Commitments	0	0	0	9
Disbursements	1	1	0	0
Principal repayments	1	1	0	0
Net flows	0	0	0	0
Interest payments	0	0	0	0
Net transfers	0	0	0	0



CPS Annex B6: Key Economic Indicators

	2009	2010	2011	2011 F2	Fwd	2012	2013
	Actual	Actual	Act.	Actual	Fwd	Act.	Fwd
External balance and prices							
Marketed (billions of US dollars, except)							
Imports	9,381	11,103	11,003	12,000	12,000	12,000	11,400
Exports	-18	-25	-27	-30	-28	-25	-25
GDP (at market prices)	22.5	22.5	22.5	22.5	22.5	22.5	22.5
Current surplus	62.3	62.5	62.5	62.5	62.5	62.5	62.5
GDP at market prices	22.5	22.2	22.0	22.0	22.0	22.0	22.0
(Percentages, unless otherwise indicated)							
Marketed	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Imports	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
GDP	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Current surplus	27.5	27.5	27.5	27.5	27.5	27.5	27.5
GDP at market prices	27.5	27.2	27.0	27.0	27.0	27.0	27.0
Interest rates							
Interest rates in private sector							
Bank money	1.5	1.5	1.5	1.5	1.5	1.5	1.5
House money	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Money (commercial money)	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Money in simpler form (non-financial money)	2.5	2.5	2.5	2.5	2.5	2.5	2.5
(Percentages, unless otherwise indicated)							
Bank	1.5	1.5	1.5	1.5	1.5	1.5	1.5
House	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Money	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Money in simpler form	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Foreign exchange reserves							
Official holdings							
Gold	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Other official holdings	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Official : government holdings	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Official : bank	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Official : central bank	2.5	2.5	2.5	2.5	2.5	2.5	2.5
(Percentages, unless otherwise indicated)							
Gold	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Other official holdings	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Official : government	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Official : bank	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Official : central bank	2.5	2.5	2.5	2.5	2.5	2.5	2.5
General budget							
Total revenue, including grants							
Capital and net lending	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Current transfers	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Capital and net lending and net lending	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Contribution, including grants	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Net capital	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Net lending	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Net lending	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Net lending	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Net lending	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Net lending	32.5	32.5	32.5	32.5	32.5	32.5	32.5
(Percentages, unless otherwise indicated)							
Revenue	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Expenditure	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Contribution	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Net lending	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Net lending	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Net lending	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Net lending	32.5	32.5	32.5	32.5	32.5	32.5	32.5
External debt							
External debt (billions of US dollars, except)							
Total debt service	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Total debt service (billions of US dollars)	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Total debt service remaining (billions of US dollars)	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Interest on debt	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Principle on debt	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Debt service, current price	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Debt service, real price	1.5	1.5	1.5	1.5	1.5	1.5	1.5
(Percentages, unless otherwise indicated)							
Debt service	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Debt service, current price	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Debt service, real price	1.5	1.5	1.5	1.5	1.5	1.5	1.5

Note: 1. Current account balance; current transfers, current transfers and payments.

* external debt data for 2010-2013 are not comparable with the one month before the meeting in October in 2009.

* interest rate data based on 100 million Euro denominated projects 2011, 475.0 million Euro PBC for water projects 2011-12 and 402.0 million Euro PBC for energy projects 2011.

* total debt service in 2011 is actual value for mid-year.

* change rate for 2011 are actual values about September.

Source: IMF, September 2011

CPS Annex B8: Operations Portfolio (IBRD/IDA and Grants)

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 1/20/2012

Closed Projects 5

IBRD/IDA *

Total Disbursed (Active)	0.00
of which has been repaid	0.00
Total Disbursed (Closed)	17.68
of which has been repaid	2.69
Total Disbursed (Active + Closed)	17.68
of which has been repaid	2.69
No Applicable Data Found.	0.00
0.00	0.00
0.00	0.00

Active Projects

Last PSR

Supervision Rating

Original Amount in US\$ Millions

Difference Between
Expected and Actual

Disbursements^{a/}

Project ID	Project Name	<u>Development Objectives</u>	<u>Implementation Progress</u>	Fiscal Year	IBRD	IDA	GRANT	Cancel.	Undisb.	Orig. Frm Rev'd
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CPS Annex B9: Statement of IFC's Held and Disbursed Portfolio

Seychelles
Committed and Disbursed Outstanding Investment Portfolio
As of 12/31/2011
(In USD Millions)

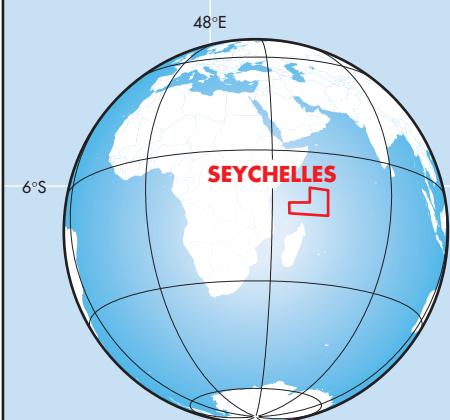
FY Approval	Company	Committed					Disbursed Outstanding				
		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>	<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>
2010	Universal hotels	20	0	0	0	0	0	0	0	0	0
	Total Portfolio:	20	0	0	0	0	0	0	0	0	0

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

SEYCHELLES

- SELECTED CITIES AND TOWNS
- ★ NATIONAL CAPITAL
- MAIN ROADS



OUTER
CAR

ALDABRA
GROUP

Aldabra
Atoll

Assumption I.

Cosmolédo Is.

Astove I.

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48°E

50°E

0 50 100 150 Kilometers
0 50 100 150 Miles

52°E

54°E
56°E

SEYCHELLES Inner (Granitic) Islands

INDIAN
OCEAN

