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SYSTEMATIC COUNTRY DIAGNOSTIC (P155250)

June 23, 2017



## Seychelles Government Fiscal Year

January 1 – December 31

### Currency Equivalents

(Exchange Rate Effective as of June 22, 2017)

Currency Unit = Seychellois Rupee (SCR)

US\$1.00 = SCR 13.51

### ABBREVIATIONS AND ACRONYMS

AAL	Average Annual Loss	ITZ	International Trade Zone
AKI	Availability of Key Indicators	JMZ	Joint Management Zone
AML	Anti-Money Laundering	LFS	Labor Force Survey
ASP	Agency for Social Protection	M&E	Monitoring & Evaluation
B40	Bottom Forty	MSC	Methodology, Standards and Classifications
CBS	Central Bank of Seychelles	MSME	Micro, Small, & Medium Enterprises
CJS	Crime & Justice Statistics	NBS	National Bureau of Statistics
CS	Censuses and Surveys	NHRDC	National Human Resources Development Council
DPO	Dissemination Practices and Openness	PEFA	Public Expenditure & Financial Accountability
ECD	Early Childhood Development	PEMC	Public Enterprise Monitoring Commission
EEZ	Exclusive Economic Zone	PIM	Public Investment Management
EITI	Extractive Industries Transparency Initiative	PPBB	Program Performance Based Budgeting
FDI	Foreign Direct Investment	PPP	Purchasing Power Parity
GDP	Gross Domestic Product	RBM	Results-based Management
GNI	Gross National Income	S&P	Standard & Poor's
GOP	Gainful Occupation Permit	SCAA	Seychelles Civil Aviation Authority
GOS	Government of Seychelles	SCD	Systematic Country Diagnostic
HDI	Human Development Index	SCI	Statistical Capacity Indicator
HH	Household	SCR	Seychellois Rupee
HIE	High-Income Economy	SFA	Seychelles Fisheries Authority
IBC	International Business Company	SIDS	Small Island Developing States
ICT	Information & Communication Technology		
IEG	Independent Evaluation Group		
IMF	International Monetary Fund		
IOM	International Organization for Migration		

SOE	State-Owned Enterprise	TVET	Technical & Vocational
SP	Social Protection		Education & Training
SPF	Seychelles Pension Fund	UN	United Nations
SPI	Statistical Performance Index	UNWTO	United Nations World
SSA	Sub-Saharan Africa		Tourism Organization
STB	Seychelles Tourism Board	WDI	World Development
STC	Seychelles Trading Company		Indicators
SWA	Social Welfare Assistance	WEF	World Economic Forum
SYC	Seychelles	WTTC	World Travel & Tourism
TFP	Total Factor Productivity		Council

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## I. INTRODUCTION

### *1. Overview: the approach of the Seychelles SCD*

1. **The Seychelles Systematic Country Diagnostic (SCD) aims to identify the most pressing constraints to inclusive, sustained growth in Seychelles**, based on a comprehensive search for, and analysis of, evidence. The SCD is presented using a slide deck which lays out the analysis and results. This document provides a brief overview of the approach taken, and sets the stage for the SCD. It also provides additional information: six selected supplementary topical notes, and annexes (data diagnostic, summary of consultations, and sources).

2. **The approach to preparing and presenting the Seychelles SCD has aimed to contribute to the World Bank Group’s corporate streamlining and simplification (“agility”) agenda.** In line with guidelines provided to the team, the agile approach has sought to build a strong dialogue with the Client through two scoping missions, and multiple sector team visits that served to update background materials. A presentation of the SCD analysis and the draft priorities that were identified was made to the President and the Cabinet of Ministers. A dialogue has also been maintained with Parliament. A high priority has been assigned to making the results from the SCD accessible and available to stakeholders during a time of rapid political change in Seychelles. A continued reflection on the choices available to the country will help to prioritize and address major information gaps; this SCD seeks to contribute a first step in this process of reflection and search.

3. **The framework adopted by the SCD takes as its starting point that Seychelles is a successful, high-income, small island state.** The country now seeks to secure the sustainability of its development progress to date, to accelerate this progress, and to address a high level of public concern being reflected in political discourse over disparities in incomes and opportunities. The SCD examines Seychelles’ economic growth characteristics, the characteristics of poverty and income distribution (inclusion), and the risks to environmental, social and macroeconomic sustainability. The approach is systematic in that it attempts to be as comprehensive as possible, within the constraints of the available data, by harnessing the existing evidence and conducting new analysis where feasible, informed by consultations.

4. **Regarding growth, achieving more productivity-based growth is Seychelles’ key challenge.** Economic growth performance has been strong, both over the long term and recently, and employment rates are high. Structural change in Seychelles’ economy has been limited, however. The SCD growth analysis therefore focuses on historical growth accounting and simulation, to examine the drivers of growth at the factor input level and the implications for future prospects. This analysis shows that growth has been driven by factor accumulation, pointing to raising productivity growth as Seychelles’ key growth challenge. This finding resonates with Seychelles having recently joined the ranks of high-income economies, a stage where economic theory and the international empirical evidence show that sustained economic growth is fueled by rising productivity. The SCD focuses on identifying the constraints to productivity growth and to introducing change in the economy.

5. **Regarding inclusion, increasing Seychellois’ direct participation in an increasingly skills-intensive, sophisticated economy is the paramount challenge for the social sectors.**

Absolute poverty levels in Seychelles are low, but inequality is significant. Assessing rigorously the recent incidence of growth is not possible due to data constraints, but the available evidence does suggest that gains for households at the bottom of the income distribution have lagged the considerable increase over the past decade in average income.<sup>1</sup> Since available household survey-based analysis showed that market labor income is the most important source of income even for the poorest households, the SCD identified that understanding better the structure and performance of the labor market was a knowledge gap, and one that could be addressed using recent labor force survey data. The SCD therefore commissioned a background paper to fill this gap. Amongst its key findings: skills premia in the labor market are already high, and increasing, at the top end, consistent with rising relative demand for more skilled workers.<sup>2</sup> At the same time, there is evidence of inequity of opportunities and challenges in the quality of outcomes in the education system. A share of the population is therefore at risk of falling behind. The current social protection system, although it reduces poverty, is not positioned to counter growing pressures on equity and social cohesion; spending on social transfers is already at comparatively high levels, and is heavily concentrated on the elderly.

**6. Regarding sustainability, increasing state performance is the third key challenge for Seychelles to accelerate progress towards shared prosperity.** Seychelles' path to high-income status has been marred by volatility and painful setbacks, which can be traced to domestic policy and an excessive accumulation of national resources in the state. In conjunction with the need for Seychelles to shift to a more productivity-centered growth model and to equip its citizens to participate directly in emerging economic opportunities, this leads the SCD to focus on the challenge of lifting state performance.

**7. Arguing that the “3 Ps” discussed above—productivity, participation and performance—are the major challenges for Seychelles, the SCD identifies thirteen priority areas to address in order to make additional progress.** Constraints are considered based on the evidence from household, labor force and business environment surveys, cross-country benchmarking, and the results of available sectoral and overall public financial management, and fiscal policy, analysis. Initially, nineteen candidate constraints were identified, which were narrowed down to a final group of thirteen constraints through additional analysis and aided by consultations.

**8. Finally, the SCD sorts the 13 constraints identified into five top priorities, five additional priorities, and a further three areas which should be considered for priority action, subject to confirmation from additional analysis (“likely priorities”).** This prioritization was based on an assessment of how important each constraint was, directly, to meeting the relevant challenge, indirectly, through its potential impact in helping to loosen other constraints (complementarity), the strength of the evidence base on the importance of the constraint, and, finally, the attainability of addressing the constraint (reflecting factors such as cost, technical difficulty and timeframe).

**9. Table 1 summarizes the constraints and prioritization identified by the Seychelles SCD.**

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<sup>1</sup> See Topical Note: Historical welfare trends in Seychelles

<sup>2</sup> See Topical Note: Labor market profile of Seychelles

**Table 1: Summary of constraints and prioritization**

		Prioritization criteria					
		Shared prosperity impact (numbers in parentheses indicate likely direct impact on other, numbered constraint)				Evidence base	Attainability
Overall prioritization: Top 5, Additional Priority, or Likely Priority (needs more analysis)	Constraint (numbers are labels only, not a ranking)	Growth impact	Inclusion impact	Sustainability impact	Complementarity (impact across growth, inclusion, sustainability; links to other constraints)	Evidence of importance	Implementation cost, technical difficulty, timescale
TOP 5 PRIORITY	1. <b>Shortfalls in the private sector enabling environment:</b> aspects of opening & operating a business are difficult (e.g. in the vertically integrated tourism sector): limited state capacity to regulate, monitor and evaluate strategically where productive resources are allocated, and the historical dominance of SOEs, have reinforced the high concentration of resources.	High (6)	High (2)	High (4) (12)	Strong	Strong	Medium
TOP 5 PRIORITY	2. <b>Education and skills development:</b> the system produces a large share of the youth lacking in necessary academic or vocational skills and there are insufficient opportunities for continuing education.	High (1)	High	High (4) (5)	Strong	Strong	Medium
TOP 5 PRIORITY	3. <b>Social assistance:</b> focused on the elderly and not on the youth, and it is not tied systematically to accessing economic opportunities for those who could work, affecting the structure of incentives.	Low	High (2) (8)	High (4) (5)	Strong	Strong	High
TOP 5 PRIORITY	4. <b>Macroeconomic and fiscal policy stability:</b> challenge to prioritize public expenditure within a consistent and sustainable macro framework, and avoid the build-up of fiscal pressures and risks, including from SOEs.	High (1)	Medium	High (5) (10) (12)	Strong	Strong	High
TOP 5 PRIORITY	5. <b>Public (government and SOE) spending efficiency:</b> capacity to track and monitor the efficiency of government programs and sustain continuous improvements.	High (1) (7) (11)	Medium (2) (3) (9)	High	Strong	Strong	High
ADDITIONAL PRIORITY	6. <b>Credit:</b> high cost and limited availability.	High (1)	High	Medium	Medium	Medium	Medium
ADDITIONAL PRIORITY	7. <b>Energy:</b> high electricity prices, particularly for businesses.	High (1)	Low	High (4) (5)	Medium	Medium	Medium
ADDITIONAL PRIORITY	8. <b>Labor market functioning:</b> job flexibility is limited and the structure of the labor market constrains opportunities.	High	High (2)	Medium	Medium	Strong	Medium
ADDITIONAL PRIORITY	9. <b>Health:</b> rising non-communicable disease prevalence is weighing on life expectancy (especially for men); spending risks becoming unsustainable.	Low	High	High (4) (5)	Medium	Medium	High
ADDITIONAL PRIORITY	10. <b>Capacity to absorb environmental and global economic shocks:</b> financial and technical capacity to manage global economic and environmental risks, and the growing impact of climate change.	High (1)	Medium	High (4)	Medium	Strong	Medium
LIKELY PRIORITY	11. <b>Transport and other input costs:</b> high logistics, and domestic and international connectivity, costs, impede tapping international markets, while options to produce for the domestic market limited by small size.	High (1)	High (8)	Medium (4)	Medium	Weak	Low
LIKELY PRIORITY	12. <b>Governance:</b> transparency and accountability of public action.	Medium (1)	High	High (5)	Medium	Weak	Medium
LIKELY PRIORITY	13. <b>Water &amp; sanitation:</b> seasonal water scarcity is intensifying and sanitation coverage is predominantly on-site.	Low	Low	High (4) (5)	Weak	Weak	Medium

Key

High/strong	Medium/neutral	Low/weak
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10. **The remainder of this overview sets the stage for the SCD, discusses emerging challenges and opportunities, and previews the top priorities identified.** It provides a narrative description of the country and historical economic development context, and the threads of the argument that lead the SCD to characterize Seychelles’ interlinked growth, inclusion and sustainability challenges as the “3 Ps” – productivity, participation, and performance.

11. **Following this introduction, the Seychelles SCD is presented as a slide deck, which includes the detailed evidence base supporting the conclusions and the constraints identified.**

12. **Finally, following the SCD slide deck, a set of six short notes provides additional detail on selected topics,** aiming to enrich the information provided by the slides, on a selective basis as warranted by topics’ relevance to the overall findings: key economic sectors and actors (tourism, state-owned enterprises), emerging policy frameworks (blue economy), priority policy areas (social protection), and methodology (growth incidence analysis). The sixth and final topical note provides a brief summary of the report on the Seychelles labor market, which as mentioned above was commissioned by the SCD to fill a knowledge gap, and which informed results. Information on consultations, data diagnostic results, and sources, is provided in the annexes.

## ***2. Country context and historical economic development***

13. **Seychelles, an island state in the western Indian Ocean, is one of the smallest countries in the world in terms of both its population (about 95,000), and its land surface area (about 500 km<sup>2</sup>).** The country comprises a total of 115 islands, but almost all of the population lives on just three of the inner granitic islands of Mahé (home to 86 percent of people), and Praslin and La Digue (11 percent combined). Seychelles is very land-scarce, having little land in absolute terms, but also amongst the smallest amount of arable land per person of any country. Seychelles has also been dubbed a “large ocean state”, however, as it has an exclusive economic zone (EEZ) of approximately 1.4 million km<sup>2</sup>, about 3,000 times the size of its land territory or 2.5 times the size of France.

14. **Despite the intrinsic challenges that come with being a small, relatively isolated island nation, Seychelles has already achieved a remarkable level of economic development.** Gross national income per capita was US\$14,760 in 2015 (Atlas method). This is an order of magnitude higher than the regional average for Sub-Saharan Africa (US\$1,637), and makes Seychelles the only High-Income Economy in Sub-Saharan Africa, a classification it attained in 2015. Seychelles has performed well by global standards as well. Of 42 small states (with populations of 1.5 million or less), Seychelles already ranks 12<sup>th</sup> in per capita income (US\$25,810, at purchasing power parity). Of the 26 very small states with populations of 500,000 or less, Seychelles ranks 5<sup>th</sup>, behind Brunei, Bermuda, Iceland, and Malta. In considering the prospects for Seychelles, therefore, the salient comparators are nearby island states with relevant similarities (e.g., Mauritius, an upper middle-income economy with a population of 1.3 million and historical links to Seychelles; Maldives, for high-end tourism), and other states around the world that have managed to achieve even higher income levels despite their size: such as Bermuda (US\$66,670) and Iceland (US\$46,500).<sup>3</sup>

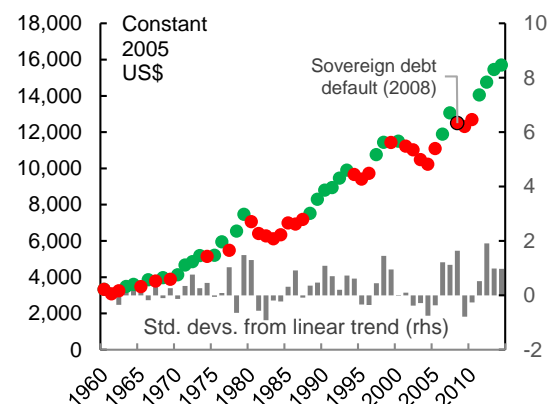
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<sup>3</sup> Figures for rankings are GNI per capita converted at PPP rates to international dollars (WDI, 2015). The sample excludes 20 small countries and territories for which the WDI database does not capture income statistics, including for example the high-income countries of Aruba and Monaco.

15. **Seychelles’ economy has grown off a low base to achieve its current high-income status, based on services, especially tourism.** Seychelles became independent in 1976, from the United Kingdom, when the population was about 62,000. Over the subsequent four decades, the permanently resident population has increased by about half, and output has increased by two and a half times, in real US dollar terms.<sup>4</sup> Reliance on the plantation-based activities of the colonial period (copra, and cinnamon and other spices) has long since faded into relative unimportance, and now generates about two percent of Gross Domestic Product (GDP). Instead, Seychelles’ economy has evolved increasingly to benefit from its rich environmental endowment in a different way, by supplying tourism, which accounts directly for about a quarter of GDP and employment.<sup>5</sup> Seychelles has developed a strong tourism brand that places the country at the high end of the global tourism market.<sup>6</sup> Overall, the economy is services-based; services activity accounts for about three-quarters of GDP. Industry contributes almost all of the rest of output, mainly fish processing (a tuna cannery is the largest single employer on the main island of Mahé); in addition, utilities and construction account for approximately 5 percent of output.<sup>7</sup> Primary sector activities account for only about 3 percent of output, down from (an already modest) 10 percent at the time of independence.

16. **The growth path has been volatile, however, driven to a large extent by internal factors.** Seychelles has been fortunate in that it has not been exposed to the sharp and often brutal environmental shocks that have beset many other small island states. Nevertheless, the volatility of growth has been high (Figure 1) and characterized by pronounced cycles, including periods where progress in lifting per capita incomes has stalled or reversed. A key event crystallizes our understanding of Seychelles’ recent, volatile path to economic development, and continuing challenges: an economic crisis and sovereign debt default in 2008. This crisis defines two broad periods: before and after 2008/2009. The following discussion focuses on the economic characteristics of these periods, which are salient for understanding Seychelles’ current priorities. Politics in Seychelles, and its impact on the role of the state, is summarized in Box 1.

**Figure 1: Seychelles GDP per capita** (green dots show new highs; red dots show levels below previous highs – “lost years”)



Source: Staff calculations based on WDI data

17. **In the two decades prior to the 2008 crisis, economic growth was driven by Foreign Direct Investment (FDI) and public expenditure.** In the 1990s, the country undertook an aggressive privatization drive, which spurred foreign investment attracted by government policies, and incentives. The state undertook complementary investments such as the airport, domestic

<sup>4</sup> Sources: Population from first post-independence population census (1978) as cited in IOM (2013), and UN Population Statistics.

<sup>5</sup> This understates tourism’s importance to the economy given its indirect contributions to other sectors via derived demand, but current national accounts statistics are insufficient to quantify these by means of a Social Accounting Matrix. World Tourism Council Statistics place tourism’s overall GDP and employment contributions at well above 50 percent.

<sup>6</sup> See Topical Note: Tourism in the Seychelles - recent trends and key issues.

<sup>7</sup> Source: WDI.

transportation, telecommunications, and training. The fishing industry was fostered through the development of an International Trade Zone (ITZ), including a major tuna cannery, and state support to semi-industrial fishing. Other sectors did not receive the same level of attention. The economy grew, but Seychelles' growth performance was not exceptional in global terms; it was similar to the average of a peer group of small economies.<sup>8</sup>

#### **Box 1: State and Development**

Until very recently, one party has dominated politics in Seychelles, and followed a state-centric development model. Since 1977 a single political party, the Seychelles People's Progressive Front (SPPF) has governed Seychelles. The country returned to a multiparty system under a new constitution approved in June 1993. The SPPF has won every presidential election since. However, political competition has increased. In December 2015, President James Michel won a third and final term, with an extremely narrow majority (193 votes). Confirming the trend towards greater political competition, an opposition party coalition took control of the legislative branch in the September 2016 parliamentary elections. In October 2016, President Michel resigned and Vice President Danny Faure assumed the presidency.

The SPPF's development model assigned to the state a strong role, including (free) provision of key public services, a large public enterprise sector, and a generous welfare system. At the center of the approach has been the capacity of the state to (1) foster an environment conducive to investment in the key strategic sectors, mainly fishing and tourism, and (2) to mobilize fees and taxes, the revenue sources that have financed social programs and public investments (including in infrastructure and land reclamation).

**18. Meanwhile, the extensive presence of the state led to problems; the economy became prone to instability, culminating in an economic crisis and debt default in 2008.** Public expenditure pressures mounted during the 1980s and 1990s, and state spending came to absorb around 65 percent of GDP. Efforts at mobilizing commensurate revenues proved unsustainable, on account of the use of preferential tax treatments in the 1990s. Large and fluctuating public sector deficits, which reached up to 22 percent of GDP in 1998, jointly with a pegged and increasingly overvalued exchange rate, generated large current account deficits. The country was unable to service its external debt and arrears accumulated. During the 2000s, the debt to GDP ratio escalated rapidly to reach around 160 percent by the middle of the decade, and close to 200 percent with the inclusion of accumulated external arrears.<sup>9</sup> Servicing this level of public debt put extreme pressure on the fiscal accounts. Domestic borrowing by the public sector affected the health of the local banking system and crowded out its capacity to lend to the productive sectors. These unsustainable economic policies came to a head in mid-2008, precipitated by the surge in global petroleum and food prices beginning in 2007, which caused import costs and inflation to spike. The authorities missed payments on commercial foreign debt, and Standard and Poor's (S&P) downgraded the sovereign credit rating to selective default.

**19. The Government responded to the 2008 crisis by embarking on a comprehensive program of economic policy and institutional reforms.** The key components were (1) floating the Seychellois Rupee; (2) adopting a new, independent monetary policy framework; (3) tightening fiscal policy, backed by a reduction in public employment and replacing indirect subsidies with a social safety net; and (4) structural measures to redefine the role of the state, including through privatizations to refocus state-owned enterprises on correcting market failures and supplying public goods. The reform measures reestablished macroeconomic stability and economic

<sup>8</sup> IMF, December 2008, "Seychelles: Selected Issues".

<sup>9</sup> This section draws on World Bank, 2013, "Seychelles: How Classic Policies Restored Sustainability", and IMF, December 2008, "Seychelles: Selected Issues".

performance, beginning in 2009, and meant a departure from the traditional approach to economic policy and from the established perception of the role of the state in society. The authorities relied on direct and continuous communication that informed the public about the aim of, and the expected results from, the policy initiatives, an approach that facilitated the implementation of the reform program.

20. **The reforms were highly successful at getting the country back on track towards shared prosperity.** Macroeconomic conditions stabilized rapidly and economic growth resumed, despite the challenging post-crisis global economic backdrop. Income per person recovered to its pre-crisis level by 2012 (having plunged by 20 percent from 2006-2009) and kept rising. The Central Bank of Seychelles (CBS) has built up approximately US\$500 million worth of foreign exchange reserves (sufficient to cover about 4 months of imports). Government debt/GDP has declined to below 70 percent (Figure 2; see also data appendix, slide 101).

21. **Positive economic growth and stability outcomes, sustained until today, have lent credence to the new approach to policy launched in 2009, but there has been limited structural economic change and innovation, and Seychelles remains a society and an economy in transition.** Tourism has played an important role in the recovery, including as Seychelles has successfully tapped new markets when the established ones came under pressure from the global crisis and its aftermath in the Euro Area. The number of annual tourist arrivals has doubled since 2008, and exceeded 300,000 for the first time in 2016 (over three times the local population). The fishing industry also remains a bulwark of the economy. However, innovation has been low in these two key sectors. Tourism centers on large hotels that offer comprehensive packages, with a high degree of vertical integration that limits the participation of local operators in offering complementary services (beyond small-scale accommodation and taxi services). In fishing, the model remains roughly unchanged, with limited local value added.

22. **Seychelles' baseline macroeconomic outlook remains favorable,** in view of the ongoing robustness of tourism, although the current pace of real GDP growth, above 4 percent, is expected to moderate to 3.5 percent in coming years, as construction activity linked to new tourism capacity development slows (a moratorium on new large hotel permits was extended recently to 2020). The baseline scenario assumes continued fiscal consolidation, as the government targets a 50-percent government debt-to-GDP ratio by 2020. The latest Debt Sustainability Assessment (DSA) indicates a sustainable path for the public debt, though Seychelles remains “very vulnerable to exogenous shocks”.<sup>10</sup> Amongst the major global credit ratings agencies, Fitch currently rates Seychelles at BB-/stable (three notches below investment grade).<sup>11</sup>

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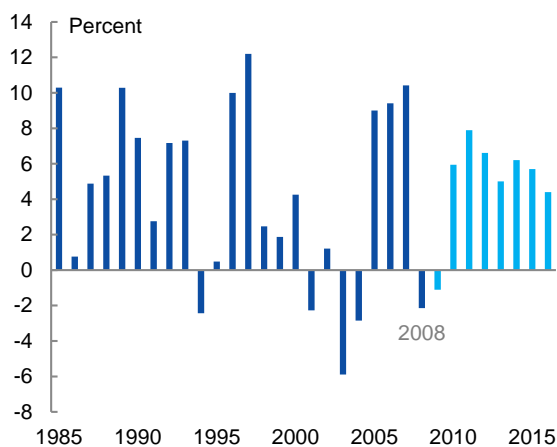
<sup>10</sup> IMF, February 2017, Country Report No. 17/51.

<sup>11</sup> Long-term foreign currency rating, last affirmed on July 29, 2016.

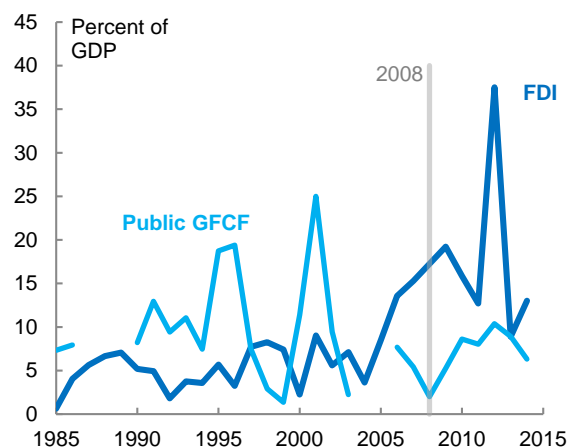
**Figure 2: Key macroeconomic indicators before and after the 2008/9 crisis**

*Seychelles' economic crisis and debt default in 2008, followed by macroeconomic policy and institutional reforms, marked the start of a new era. Seychelles now faces the challenge of entrenching and extending reforms.*

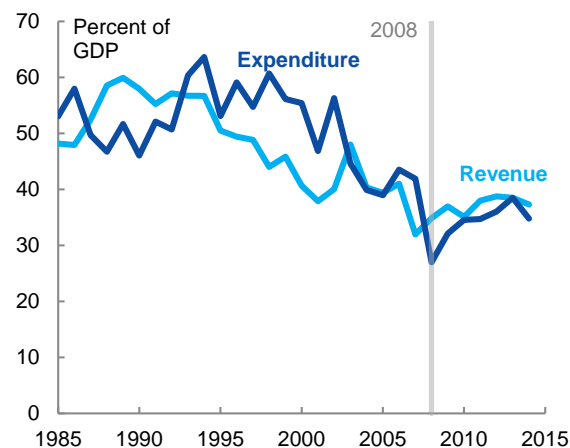
**A. Real GDP growth has been strong and less volatile since the crisis...**



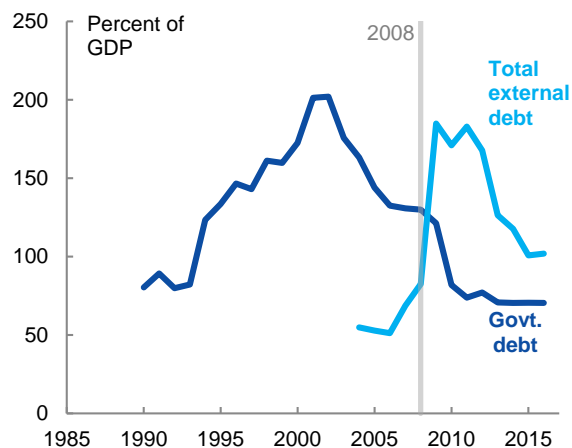
**B. ... FDI has surged and public investment has been more stable**



**C. Government spending has been reduced and kept below revenues...**



**D. ...and both government and total external debt have been consolidated**



Notes: B: GFCF: Gross Fixed Capital Formation; gaps due to missing data. D: Govt. debt includes monetary debt, and guarantees; external data data begin in 2004.

Sources: IMF; World Bank.

### 3. Emerging concerns...

23. **Rapid economic growth since the 2008/9 crisis and recovery has propelled Seychelles to high-income status, but this has been accompanied by continuing vulnerabilities, and some new, growing concerns.**

24. **First, macroeconomic vulnerabilities remain, and the need to secure the sustainability of the fiscal and the macroeconomic accounts remains paramount in view of continuing pressures on, and risks to, public expenditures.** Although the recent pace of fiscal consolidation has been strong, additional permanent measures will be needed to achieve the government's target of a 50-percent debt/GDP ratio by 2020 (pushed back from the previous target of 2018). Demands on public investment will continue, with major projects under consideration. Transfers to some

public enterprises will be needed given constraints on borrowing and the limited use of Public Private Partnerships (PPP) to carry out infrastructure projects. Moreover, the State Owned Enterprises (SOEs) continue to pose a fiscal risk, given their significant debt levels (around 30 percent of GDP), coupled with weak governance and monitoring, and risks arising from expansion into new areas due to blurry mandates. There is a web of cross-subsidies and transfers across SOEs, and the SOEs and government, that needs to be clarified to achieve better operational performance and risk management. For example, some SOEs receive oil free of taxes, and some carry out social mandates without corresponding compensation.<sup>12</sup>

25. **A growing source of macroprudential risk is Seychelles' offshore corporate sector, affecting the banking system where further progress on anti-monetary laundering (AML) regulation and enforcement is needed.** Comprehensive offshore sector statistics do not exist, but the sector emerged in Seychelles in the 1990s and grew rapidly, with over 180,000 offshore companies (known as International Business Companies, IBCs) now registered in Seychelles. The industry and its regulators face a challenge to ensure compliance with tighter global regulations, especially since several Seychelles-registered entities have been implicated in recent international scandals. The sector thus needs to shift away from its current “mass market” model of registering and providing basic company secretariat services to IBCs. This will require further steps to develop a robust domestic regulatory framework and enforcement system, of the offshore sector and of AML systems and procedures across the financial sector as a whole. Otherwise, Seychelles is likely to be further negatively affected by the global trend of banks “de-risking” their correspondent relationships, hampering the financial transactions needed for international trade, and further financial sector development.

26. **Second, extreme poverty has been eliminated, but inclusion is lagging, despite already generous social spending.** Poverty in Seychelles, as defined for international comparison purposes, is very low: 2.5 percent at the US\$3.10 per day (2011 Purchasing Power Parity, PPP) line. In contrast, the national poverty rate is significant, at 39.3 percent (as of 2013). This results from a much higher national poverty line, equivalent to about US\$13 per person per day (in 2011 PPP dollars), and so does not indicate that poverty in Seychelles is high in absolute terms. Seychelles' human development attainment is high and is as predicted by its national income, with a UNDP HDI score of 0.782 (ranking 63rd/188; 2015). Income inequality is significant, however, as measured by an income Gini coefficient of 0.47 (2012). Cross-country comparisons of inequality are difficult, but this measure does indicate that income inequality in Seychelles is considerably higher, for example, than in Mauritius (Gini coefficient: 0.36), and very much higher, for example, than in Iceland (Gini coefficient: 0.27).

27. **The need to orient policy and implementation to bolster inclusion is pressing.** The persistently unequal distribution of income, despite Seychelles' long-standing policy focus and high spending on public services, social protection<sup>13</sup> and housing, points to constraints in accessing economic opportunities. These constraints could well intensify as the economy develops further, and demands higher and more specialized skills. If not addressed, the constraints could cause increasing pressure on state spending, and become a source of social tension. That this concern is already important and high on the political agenda is evidenced by the actions taken by the then-

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<sup>12</sup> See Topical Note: The role of SOEs in growth, inclusion and sustainability

<sup>13</sup> See Topical Note: Social protection - challenges and potential reforms

president immediately after the 2015 presidential elections to redress the perception of poverty and inequality: increasing the minimum wage (by about 25 percent), increasing pensions (by about 40 percent), and other measures with a total fiscal cost of about 3 percent of GDP.<sup>14</sup>

28. **Third, the sustainability of the resource base of the economy raises some concerns.** Seychelles has grown while facing labor and land constraints, and a fragile environment. No comprehensive evaluation of the impact of current or projected economic activity on the marine environment has yet been made, but in Seychelles, as globally, there are growing worries about sustainability. In tourism, the government has frozen new approvals for large establishments (with 20 rooms and above) through 2020, reflecting concerns about the impact of the recent, rapid pace of development. In the industrial fishing sector, a regional authority sets seasonal ceilings to protect the tuna stock, but some species are deemed overfished. Catch rates of many of the other main species of fish are declining, reflecting pressures from overfishing in the artisanal, recreational and sport fishing sub-sectors, and from an increasing environmental footprint of the tourism industry. The artisanal, recreational and sport fisheries are open-access, which impedes measures to limit the volume of fishing and thereby ensure sustainability.

#### *4. ...and opportunities*

29. **To bolster environmental sustainability, the government has embraced the “Blue Economy” concept as an organizing principle to drive growth further, while not only preserving but building the natural endowment.**<sup>15</sup>

30. **Seychelles has considerable opportunities to continue climbing the income ladder, especially given its natural wealth, which is of global significance.** Seychelles has built a powerful brand name linked to the abundance and beauty of its natural environment and resources, including its tropical islands, beaches, and the ocean. The country supports some of the world’s most pristine, diverse and productive marine ecosystems, though their full extent and condition are yet to be fully explored; its exclusive economic zone ranks 7th/221 on the Ocean Health Index.<sup>16</sup> Most of Seychelles’ 115 islands are surrounded by coral reefs. Large sea grass beds exist and are an important nursery for reef fish, invertebrate sea turtles, and manatees. Fishing grounds are abundant and home to a wide variety of species. The opportunity is for Seychelles to consolidate its regional, and even global, leadership status in the management and sustainable use of these resources. Government is aware of this opportunity and is moving ahead with an ambitious “blue economy” agenda. A National Blue Economy Roadmap is under preparation, in line with the UN Sustainable Development Goal 14: “Conserve and sustainably use the oceans, seas and marine resources for sustainable development”.

31. **A further source of opportunities for Seychelles arises from its strategic location in the western Indian Ocean.** This is well-aligned with the emerging global focus on sustainable ocean resource use and management. The country already has a successful oil bunkering industry, including five oil tankers to refuel ships at sea (operated by the state-owned SEYPEC), which benefits from the country’s location on major shipping routes, and Seychelles could play more of a role in providing services for international transport. In the port, a quay extension is underway,

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<sup>14</sup> Growth and revenue outperformance meant that a primary surplus target of 3 percent of GDP was still comfortably exceeded in 2016 (as agreed under an IMF Extended Fund Facility).

<sup>15</sup> See Topical Note: Developing the “Blue Economy” for shared prosperity

<sup>16</sup> <http://www.oceanhealthindex.org/region-scores/scores/seychelles>.

and a PPP investment project for additional fish processing has been proposed. An airport expansion is underway as well.

32. **ICT is a small but established sector, and there is considerable scope to develop it further.** Seychelles' relative isolation could perhaps be turned into an advantage by offshore data storage and ICT services providers. A feasibility study for a second submarine cable is underway; such a cable would supply the necessary redundancy in international connectivity for this sector to grow, and notably for the price of voice and data services to drop into line with international benchmarks. More generally, further ICT development—which has been substantial but not yet “transformative” for Seychelles—could play a major role in reducing business costs and supporting government efficiency. Public sector modernization through the provision of eGovernment services to citizens and businesses, already underway, could be strengthened by addressing gaps and investing in continued reforms.

33. **Looking ahead, the favorable growth prospects for Seychelles offer an opportunity to build on the progress made since the 2008/9 crisis.** This positive baseline economic growth view is predicated on the continued strength of tourism demand, and assumes that major exogenous shocks do not occur. The solid growth expected should provide a conducive environment in which to address the constraints that have been emerging, and to chart a higher productivity growth path. The good prospects afford also the opportunity to strengthen the institutions that support economic management, improve governance, and build buffers to withstand both economic and environmental shocks, and the effects of climate change. The experience since 2008 has been commendable in delivering close to a decade of macroeconomic stability and strong growth, but the supporting reforms and institutional strengthening are still under implementation and critical goals are yet to be achieved. No major exogenous economic or natural shocks have occurred since 2009, and hence the sturdiness of the current arrangements has not been tested.

##### ***5. Questions addressed, and top priorities and knowledge gaps identified***

34. **The preparation of the SCD has taken place during a period of reflection and discussion in Seychelles on achievements, gaps and opportunities.** This reflection has been driven by examination of post-crisis economic and social progress, as well as by increased political competition. The questions that the SCD explored resonate with national concerns, which, in turn, has facilitated the dialogue with stakeholders in the country.

35. **How to sustain growth and move further into the high-income range?** Seychelles has grown its economy in the face of severe land, labor and environmental constraints. Pressure on these resources will intensify with further economic growth. The SCD considers the drivers of economic growth, using growth accounting methodologies and assessing the development and performance of the key sectors of the economy: tourism, fishing and state-owned enterprises. It identifies the main constraints to investing and operating in Seychelles and the impact of the limited development of the local private sector. Given the fundamental place of the environment in the development of Seychelles, special attention is placed on possible constraints to the flagship, emerging program of the government: the “Blue Economy”. A few important growth-related issues are highlighted as knowledge gaps.



36. **How to foster sustainable social inclusion?** The SCD explores the limitations to the inclusion of the B40, within severe data constraints.<sup>17</sup> Given that labor income is the main income source for households from the lowest to highest household income decile, the SCD studies the recent evolution of the labor market, including wages.<sup>18</sup> It also examines the role of labor market rules, the policies on importing labor, and the evolution of opportunities for the B40. Perceptions that earnings for younger, less experienced workers have been growing less quickly than earnings at the top may be feeding back into education and work incentives, with business surveys highlighting “poor work ethic” and absenteeism challenges. Furthermore, the SCD considers the impact of the main social programs—Social Housing and Social Assistance—on the B40. The performance of the healthcare sector (which is mainly public) is examined, and the need for strategic changes, and important contribution of efficiency improvements in the sector to the wider state spending efficiency agenda, are identified.

37. **How to enhance sustainability and resilience?** Given that domestic policies have been an important driver of economic volatility, the SCD examines progress that has been made in building fiscal and macroeconomic institutions and identifies remaining gaps to achieve a strong and resilient macroeconomic platform for growth and inclusion. Also, the SCD considers the challenges and constraints to improving governance in a small society. It compares Seychelles with other small and successful economies and highlights gaps. The SCD also explores the constraints to the management of natural disasters, which, although contained in the past, could well escalate with climate change.

38. **By seeking answers to these questions, the SCD identified 19 constraints, that were narrowed down to 13, aided by internal and external consultations (Table 1). To prioritize amongst the constraints identified, three prioritization criteria were applied.** First, how much does the constraint impact on achieving the Twin Goals? For Seychelles, with low absolute poverty, the focus is on increasing shared prosperity by addressing the “3Ps”: productivity, participation, and (state) performance. This assessment includes how complementary addressing the constraint would be to support the resolution of other constraints. Second, how strong is the evidence base on the nature and magnitude of the constraint? Are additional data and analysis needed (i.e., are there knowledge gaps)? Third, what is the feasibility of removing constraints (cost, time scale and technical difficulty)?

39. **Five top priority constraints were identified. A preview of these (priorities and options to address them, and comments on key interlinkages), followed by a summary of high priority additional analytical work, concludes this introduction to the Seychelles SCD.**

40. **First, removing the barriers that impede businesses from opening and operating in Seychelles is at the root of launching a productivity agenda and empowering the domestic entrepreneurial sector.** The impact of past efforts has been muted, and greater and more concerted efforts are needed. Streamlining the administrative requirements to opening a business

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<sup>17</sup> Data limitations make it impossible to make reliable inferences on the consumption path of the B40, the drivers of inclusion and the dynamics of the labor market. Existing Household Surveys are not compatible (2007, 2013). A new household survey scheduled for 2018 will help deepen the understanding of the dynamics of growth and inclusion, and the role of the labor market and public policy in determining social outcomes.

<sup>18</sup> The significant inequality today found in the distribution of income derives fundamentally from how labor income is distributed across the economy; the latest estimated labor earnings Gini coefficient (2014) is essentially identical to the latest estimated Gini coefficient for all (gross) income (2013): 0.47.

would help, as Seychelles' ranking in the 2017 Doing Business remains below its peers. Several additional measures are required. First, addressing constraints or limitations that emerge from the current market structures (notably in tourism, fishing, ICT, banking and finance, and retail) that block entry. Second, a tightened mandate for SOEs could curtail opportunistic behavior that creates an uneven playing field. Third, SOEs could also create opportunities by unbundling activities and opening opportunities for private sector participation. Fourth, the rules of the game in areas where further economic deepening is sought (e.g., the blue economy) need to be spelled out and implemented in a transparent manner. Fifth, regulatory and enforcement steps to address the challenges posed by bank de-risking should be prioritized, as this problem may otherwise grow to impede the legitimate, needed financial transactions of current and prospective private sector participants. Lastly, land management and allocation could be used strategically for investments that foster productivity gains.

41. **Second, a resilient macroeconomic framework provides the foundation for productivity, participation, and performance.** Past cycles and fluctuations in economic activity have resulted in part from the lack of a consistent institutional framework for macroeconomic management. Since 2009, Seychelles has advanced in building such an institutional framework. The process, however, is incomplete, while the macroeconomic stance remains exposed to setbacks. Multi-year budgeting can help reduce discretion and reduce reliance on ad hoc solutions that can destabilize the macroeconomic stance over time. Fiscal risks need to be assessed and mitigating measures taken. Here, progress has been made in building up international reserves, but SOEs remain a source of fiscal risks despite recent improvements in operational performance. The tax revenue base needs to be protected and strengthened. Explicit macroeconomic anchors are needed to guide policy and implementation, such as the public debt/GDP target currently in place, but could be bolstered to include, for example, the rating of the government debt in international markets, and the building up of financial buffers to withstand future shocks. Seychelles could consider setting up a fiscal rule, or instituting a fiscal council, to institutionalize this approach.

42. **Third, public sector spending efficiency is critical both to the productivity agenda and to the state performance agenda.** Alongside attending to sector-specific issues, public sector spending efficiency can also enhance service delivery and have a further secondary and indirect impact on both Productivity and Participation (inclusion). Several related constraints need to be tackled. First, an articulated and realistic National Strategy can help set priorities that guide the allocation of budgetary resources, policy decisions and institutional improvements. This should include a sharp prioritization of public investment. Second, the country needs a good monitoring and evaluation system to track progress on program implementation and impact of the efforts. The supporting statistical system needs an overhaul and can benefit from the use of modern techniques to produce timely information. The state agencies provide a good share of the needed information, and efforts need to be consolidated to integrate and modernize the information base for the state and country. Third, the state-owned enterprises can benefit from greater efficiency that increases their capacity to undertake priority investments with their own resources. Fourth, Seychelles needs to benchmark its most critical development outcomes against relevant comparators. Lastly, a “smart state” agenda could increase effectiveness in service delivery, and release critical human resources from the public sector, to advance the productivity drive.

43. **Fourth, taking a more strategic and sustainable approach to social protection is paramount to meeting the participation challenge.** The urgency of this task is evidenced by the one-off fiscal measures taken in 2016. The constraints that limit inclusion now are well

documented and can be implemented readily. First, realigning resources from the current focus on the elderly towards mothers and children will help to prevent the emergence of inter-generational poverty. Attention to the children of the poor will help reduce the initial learning impediments that can have lifelong effects. Second, efforts must be made to support mothers by removing barriers that limit their access to services (transportation, child care, working modalities). This is especially critical given the high share of working mothers amongst the poor. Third, the current criteria for eligibility for social assistance could be revised so that those in need are covered. Fourth, the administrative support for the management of social assistance can improve efficiency by introducing modern information management tools and integrating data sets to related activities. Fifth, programs for the elderly can be streamlined and targeted to be more effective.

44. **Fifth, higher quality education and skills development at all levels is fundamental to meeting the productivity and participation challenges.** The opening and widening of opportunities in a higher productivity economy could leave the local population behind if they do not have the education and skills required to participate. The shortfalls and key performance drivers of current educational outcomes are well identified. Addressing the constraints requires a long-term focus to achieve and sustain the needed transformations, with efforts starting now, as the government seeks to do. Constraints must be removed in three key areas. First, improving foundational skills beginning at an early age. Second, providing the population with the relevant skills for employability. Third, ensuring equal access to skills development. For education to contribute the most to the Productivity and Participation agendas, it is important to move away from the current approach of focusing efforts on producing a small and select group of educated Seychellois, to broadening the presence of highly educated and skilled members of future generations.

45. **The specific priorities identified are highly interlinked, and many relate to Seychelles' continuing efforts to strengthen economic governance.** The finding of the SCD that there is a need to improve the enabling environment for the private sector, for example, rests on the evidence from business surveys and international benchmarking that businesses in Seychelles face significant operating challenges that government policies and implementation of regulations can tackle. At a deeper level, however, the strong emphasis on the need to expand and enhance the role of the private sector relies on evidence and feedback from consultations on Seychelles' continuing transition away from the state-centric approach to development. This shift began in the 1990s with the rise of foreign investment in tourism and fishing, and has gained further momentum in the reformist post-2008 period. The domestic private sector remains small, however, which points to remaining constraints that limit opportunities. The contemporary political debate considers how best to open space for a dynamic domestic private sector to emerge that contributes to the productivity agenda, and enhances the resilience of the economy and its capacity for inclusion. At the same time, the agenda to build sturdy macroeconomic institutions is underway, and emphasizes efficiency gains and greater transparency of the state and its enterprises. This agenda is, in turn, fundamental to achieving rapid productivity gains and building incomes and employment opportunities. Table 1 highlights these and other linkages by including numbers (in parentheses) showing direct interlinkages amongst constraints.

46. **The priorities identified also show the room for continued policy reforms and institutional improvements to support individuals' capabilities and abilities to tap economic opportunities, including the youth.** The priorities identified should be placed in the context of Seychelles' success to date in building a high-income economy and state services which support a

high level of human development, overcoming many challenges, including those inherent in the small size of the country. Yet, conversely, the very smallness of the population places into focus the need to address urgently the factors that constrain opportunities for Seychellois; every person constitutes an unusually large share of the citizenry, and their welfare and capacity to contribute are critical to all. Thus, youth unemployment is a concern, since this is significant at about 14 percent (albeit not exceptionally high by international standards); about half of all the unemployed are aged 15-24. Furthermore, the low overall visible unemployment rate, of about four percent, is likely flattened by government employment in the large home-care program (employing about six percent of the domestic labor force). The prison population is also relatively large, equivalent to about two percent of the labor force. In addition to these indicators of participation challenges, income growth appears increasingly concentrated amongst the most highly skilled. Maximizing individuals' capabilities and potential is highly interlinked with increasing opportunities and removing obstacles to them. Amongst the 3Ps, the "participation" pillar captures the interlinked challenges of providing a solid education for all and strengthening skills, reforming the social protection system, as well as addressing constraints to accessing high-quality jobs, and reforming and securing the sustainability of health services.

**47. There are several knowledge gaps which, if filled, could further inform policy reform and implementation priorities and help assess progress towards achieving the "3Ps".**

**48. First, for effective public policies to back the efficient, sustainable use of Seychelles' economic factors of production, quantification and scenario analysis of the stocks and flows of natural (environmental) capital will be essential.** A system of permanent monitoring, including involving the population as active participants, is needed to guide analysis and policy, as Seychelles continues to base its prosperity on its environmental endowment, especially marine resources, which are under extreme stress globally. In addition, more data are needed regarding Seychelles' other factors of production. An integrated view of labor allocation, migration, and skills development (for example, a World Bank Skills Measurement Program, "STEP"), can help meet the challenges of sustaining rapid productivity growth and avoiding bottlenecks due to skills shortages, while ensuring that Seychellois participate directly in emerging opportunities. Analysis of the availability of land for sustainable, productive purposes (i.e., Seychelles' land and property market functioning), and urban planning priorities including land reclamation strategy, deserves to be a priority considering the general scarcity of usable land, expanding real estate development activity, and increasing congestion on Mahé.

**49. Second, for effective overall economic management, there is a need for more primary and administrative data in both the private and public sectors.** This includes enterprise survey data, market structure (including contracts) and performance analysis, and analysis of how best-practice sector management could be applied in strategic areas for Seychelles, especially blue economy (tourism, fisheries), logistics prices and performance (especially of the port), and in financial sector development. In the public sector, efforts to digitize and consolidate administrative data and deploy this information to inform policy are also important.

**50. Finally, for evaluating social outcomes, ensuring a high-quality Household Budget Survey (due for publication in 2018), and consolidated statistics and assessment of the overall public effort on inclusion, are required,** since income inequality is relatively high, but the extent to which tax incidence and public services and social transfers reduce inequality in overall welfare is not clear.

# SEYCHELLES

SYSTEMATIC COUNTRY DIAGNOSTIC

*PRODUCTIVITY, PARTICIPATION, AND PERFORMANCE*



**WORLD BANK GROUP**

June 2017

# Seychelles SCD

1. **Country context**
2. **Growth: the need for more productivity-based growth**
3. **Inclusion: equipping Seychellois to participate in a changing, high income economy**
4. **Sustainability: enhancing state performance to support productivity and participation, and to meet environmental and economic risks**
5. **Summary and prioritization of constraints identified**
6. **Data appendix**

# 1.1 COUNTRY CONTEXT: A SNAPSHOT OF SEYCHELLES

## ▪ **Geography & location:**

- Small island state: 115 islands (granitic and coral) with a total land area of only 500 km<sup>2</sup>
- Large ocean state: exclusive economic zone (EEZ) of approximately 1.4 million km<sup>2</sup> (ocean territory 3000x the size of land territory; 2.5x the size of France)
- Environmental vulnerabilities due to small island sizes, narrow coastlines
- Strategic location: at the center of the western Indian Ocean and its tuna migration; crossroads of Asia, Middle East and Africa
- Relatively isolated: 1,500km from nearest neighbors

## ▪ **Population:**

- 95,000 people of mixed heritage: Creole (African, Asian, European, Indian)
- Concentrated on inner islands of Mahe (86%), Praslin and La Digue (11% combined)

## ▪ **History & politics:**

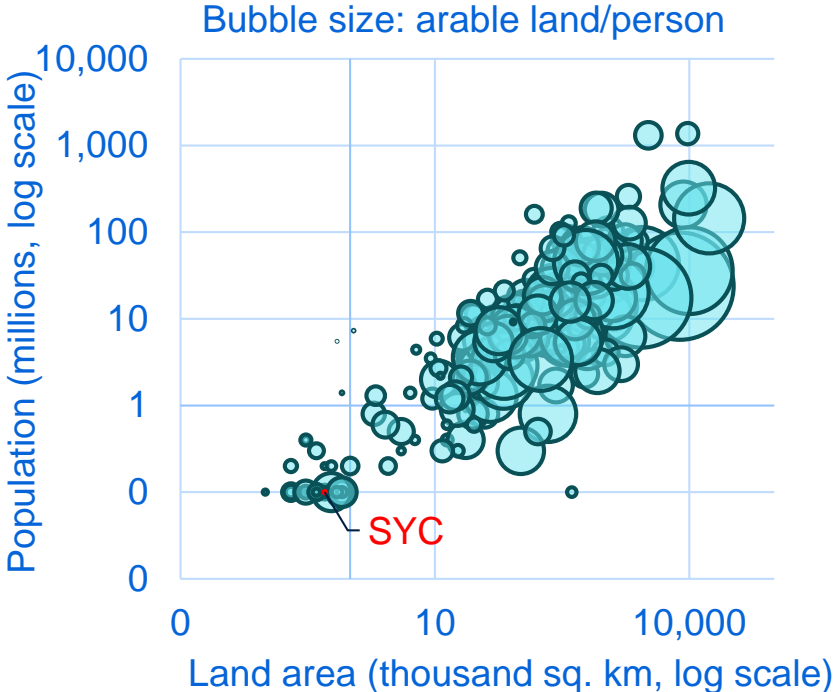
- First inhabited in the 18<sup>th</sup> century, French and then British colony
- Independent since 1976
- Multiparty democracy since 1993
- Rising political competition: opposition coalition won parliamentary majority in 2016

## ▪ **Economy:**

- High income economy (since 2015); only HIE in SSA
- Per capita GNI of US\$14,760 (Atlas method, 2015)

# Seychelles in global context: small, land-scarce, and on the higher end of the income range amongst small states

SMALL POPULATION, SMALL LAND TERRITORY, LAND-SCARCE (LITTLE ARABLE LAND/PERSON)

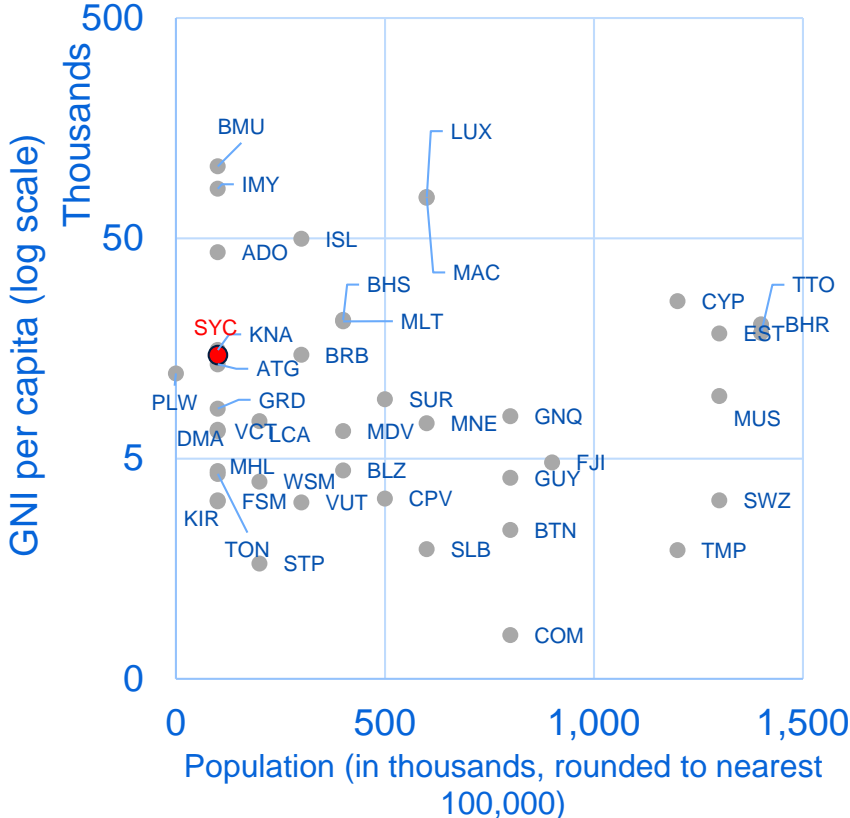


○ Global sample of 214 countries & territories

● SYC

Sources: WDI.

HIGHER INCOME COUNTRIES/TERRITORIES WITH SIMILARLY VERY SMALL POPULATIONS INCLUDE ANDORRA (ADO), ICELAND (ISL), BERMUDA (BMU), ISLE OF MAN (IMY)

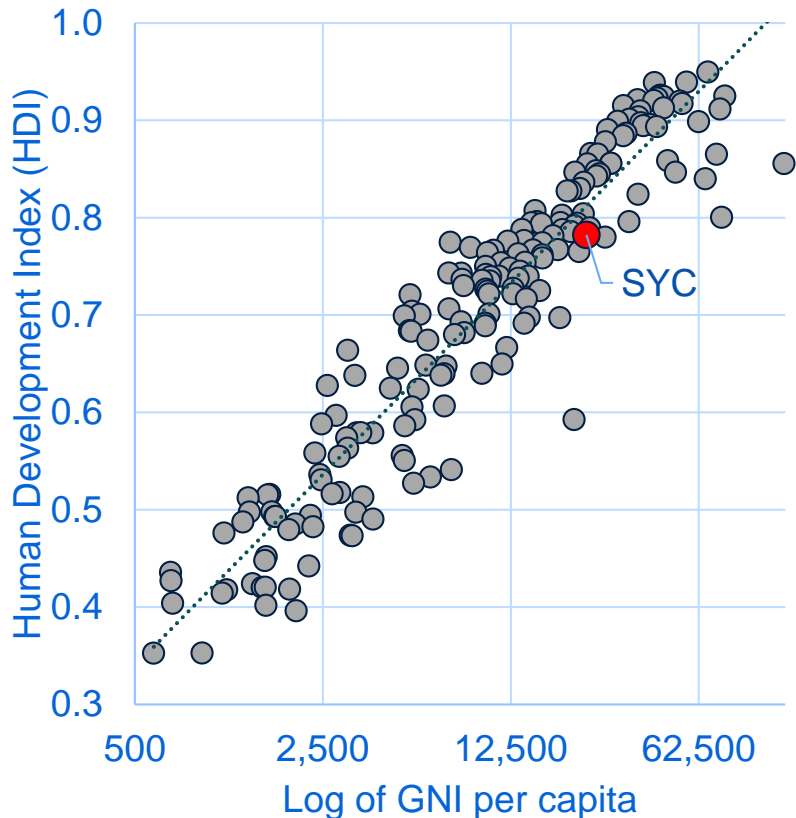


Notes: sample of all Small States (populations ≤1m). Sources: WDI.



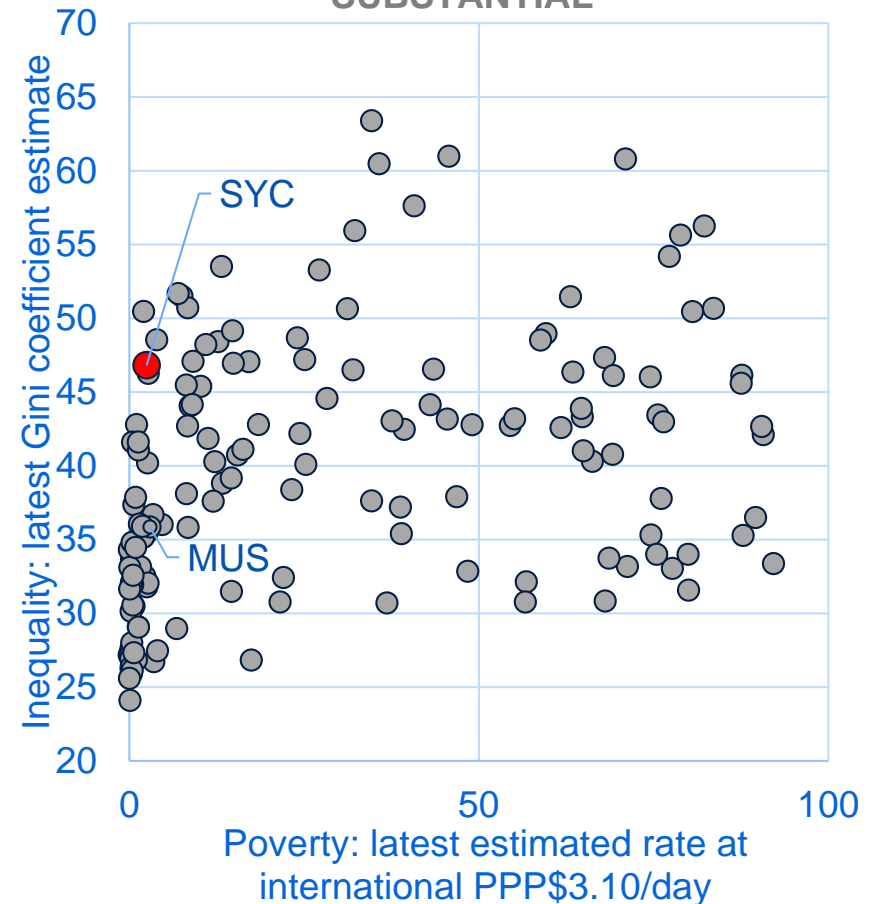
# Seychelles in global context: human development indicators are broadly in line with income, extreme poverty is low, but income inequality is substantial

HDI IS HIGH AND IN LINE WITH NATIONAL INCOME LEVEL



Notes: Full global sample, 2015. SYC: 63<sup>rd</sup>/188.  
Sources: UN HDI.

POVERTY IS LOW BY INTERNATIONAL STANDARDS BUT INEQUALITY IS SUBSTANTIAL



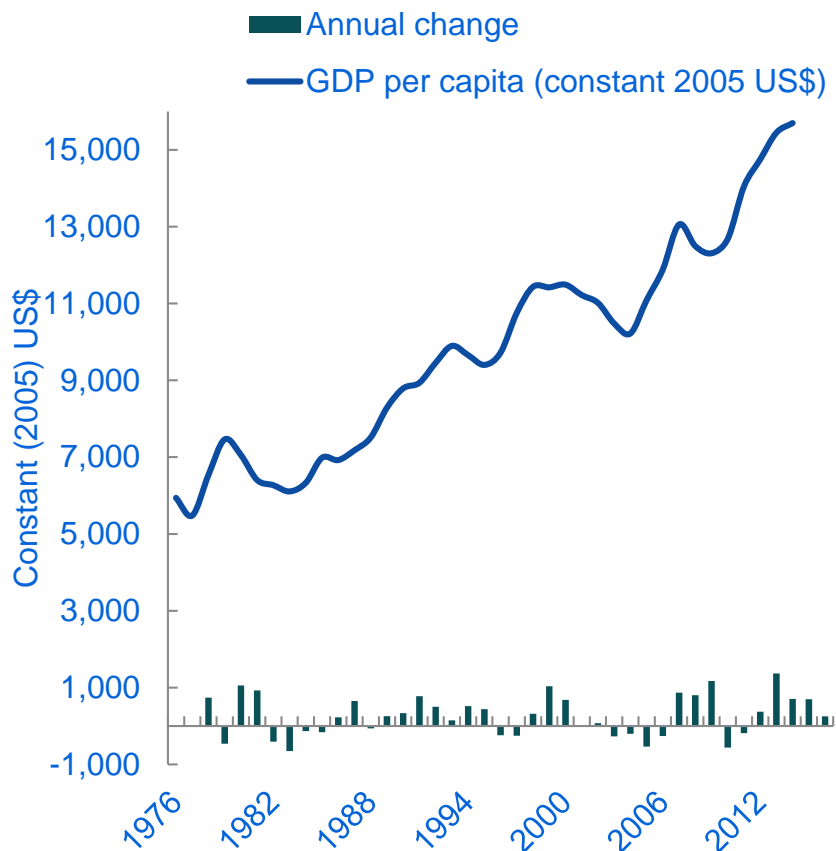
Notes: "MUS" is Mauritius. Sample of 157 national estimates. Due to differences across countries in the year of estimation and basis of Gini coefficient (income or consumption), this chart provides only an indicative view as to poverty and inequality in Seychelles in global context.  
Sources: PovcalNet.

## Seychelles' historical economic development

- High income level achieved but growth has been volatile.
- State-led model ran into constraints that came to a head in 2008 with a debt default and economic crisis, following which Seychelles embarked on major reforms.
- Now, there are concerns that the less well off are being left behind.
- Seychelles' environment remains pristine but has fragilities (small, isolated islands, with generally narrow coastlines) and faces long-term climate-change pressures.

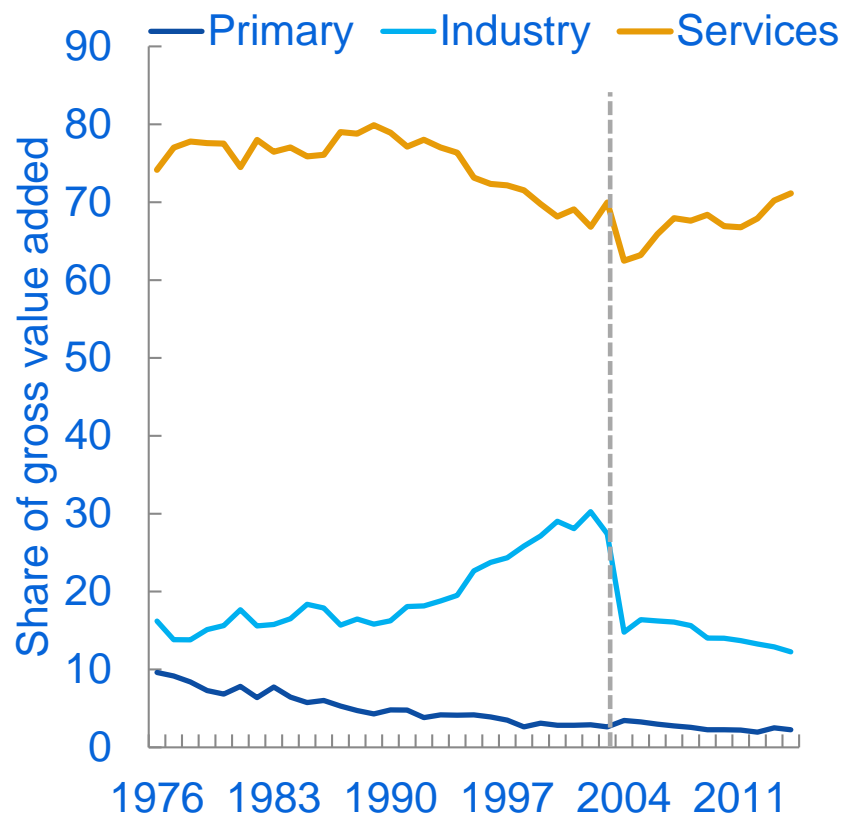
# Seychelles' historical economic development: strong output growth in an economy with a long-standing services sector predominance

**NATIONAL INCOME GROWTH HAS BEEN STRONG OVER THE LONG RUN**



Notes: Per capita GDP in constant (2005) US dollars.  
Sources: WDI.

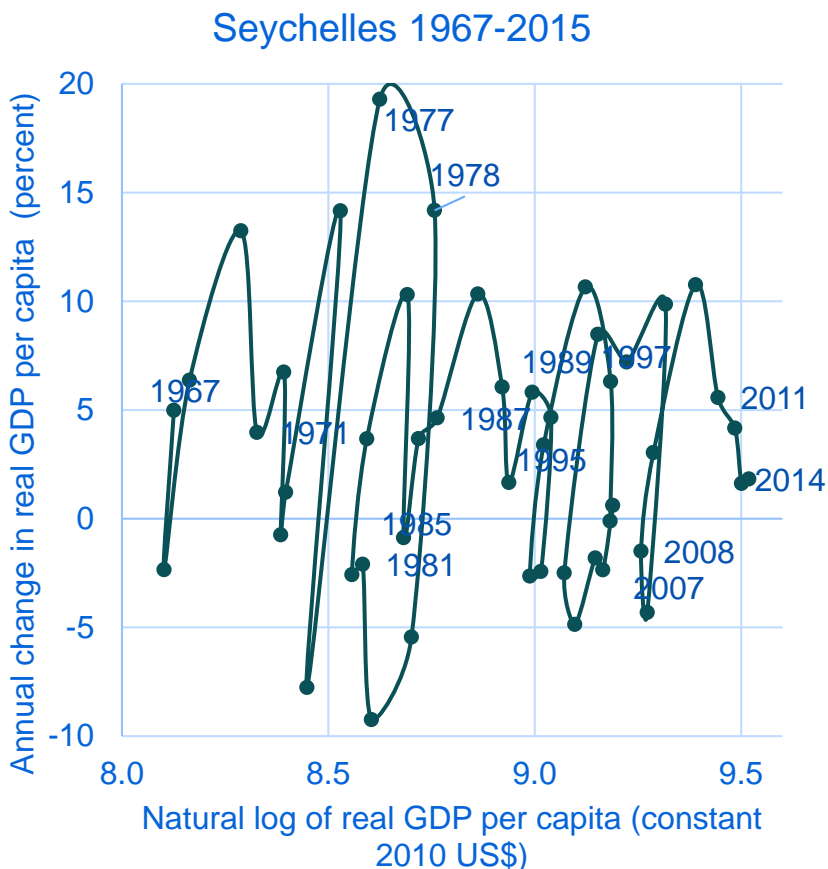
**SERVICES SECTORS HAVE LONG PREDOMINATED IN THE ECONOMY**



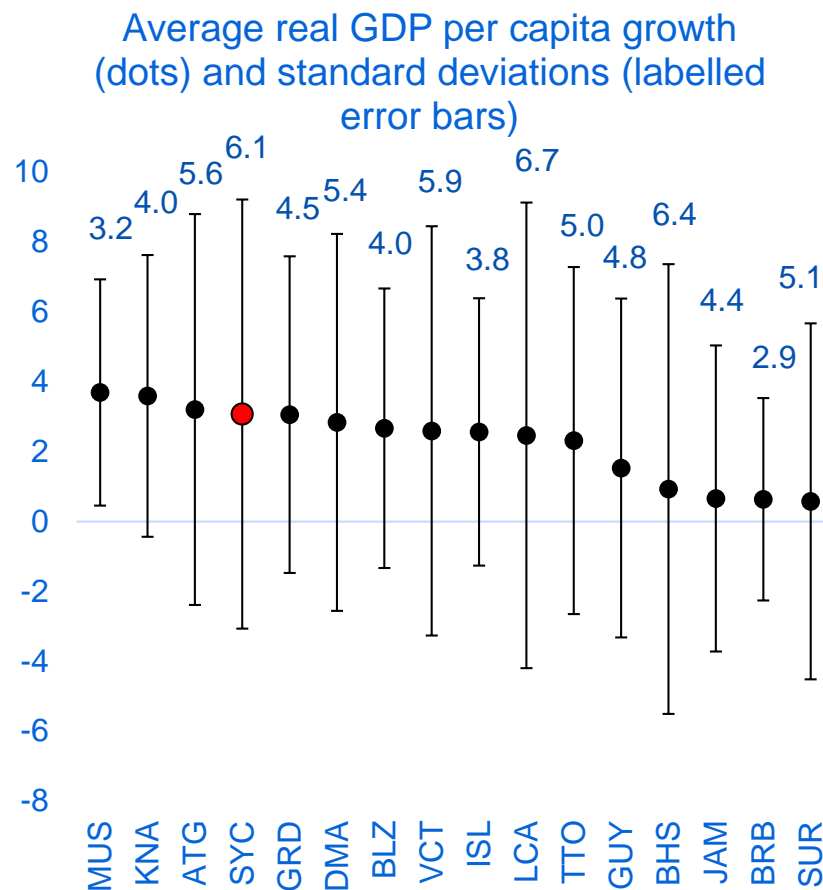
Notes: Industry comprises manufacturing, construction and utilities. Data have structural break in 2003 (dotted line).  
Sources: WDI.

# Seychelles' historical economic development: output growth, while strong over time, has been volatile

## A HIGHLY VOLATILE GROWTH PATTERN



## GROWTH HAS BEEN RELATIVELY STRONG, BUT ALSO VOLATILE, VS. PEERS



Notes: Sample of Seychelles, Mauritius, Caribbean small states, and Iceland. Statistics calculated for full available time series.

Sources: Staff calculations based on WDI data.

## 1.2 KEY QUESTIONS FOR THE SEYCHELLES SCD

How does Seychelles:

- Maintain growth?
- Address shared prosperity (inclusiveness) concerns?
- Protect the gains and reinforce social and economic resilience?

# Seychelles SCD

1. Country context
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## 2. Growth – the need for more productivity-based growth

2.1 Main finding and implications

2.2 Overview of growth drivers and key sectors

2.3 Constraints to more productivity-led growth

## 2.1 MAIN FINDING AND IMPLICATIONS: HOW CAN SEYCHELLES MAINTAIN GROWTH?

**Key finding:** growth has been factor-driven (high investment and, increasingly, imported labor) with only moderate increases in overall productivity.

**If this continues:** maintaining current growth rates will require ever-increasing investment effort and imported labor.

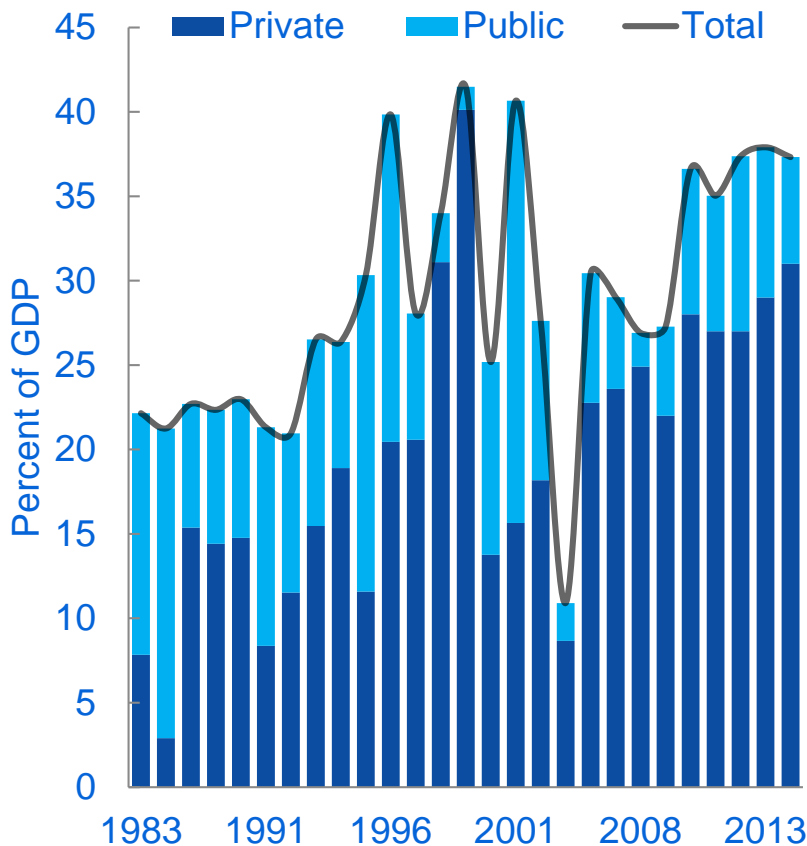
**Implication:** there is a need to shift to a more productivity-led growth model (Seychelles is now a high income economy, and for these economies long-run growth is based on productivity gains).

**How?** Addressing the constraints that prevent more value-addition in tourism and fishing, and to the expansion of other private sector opportunities.



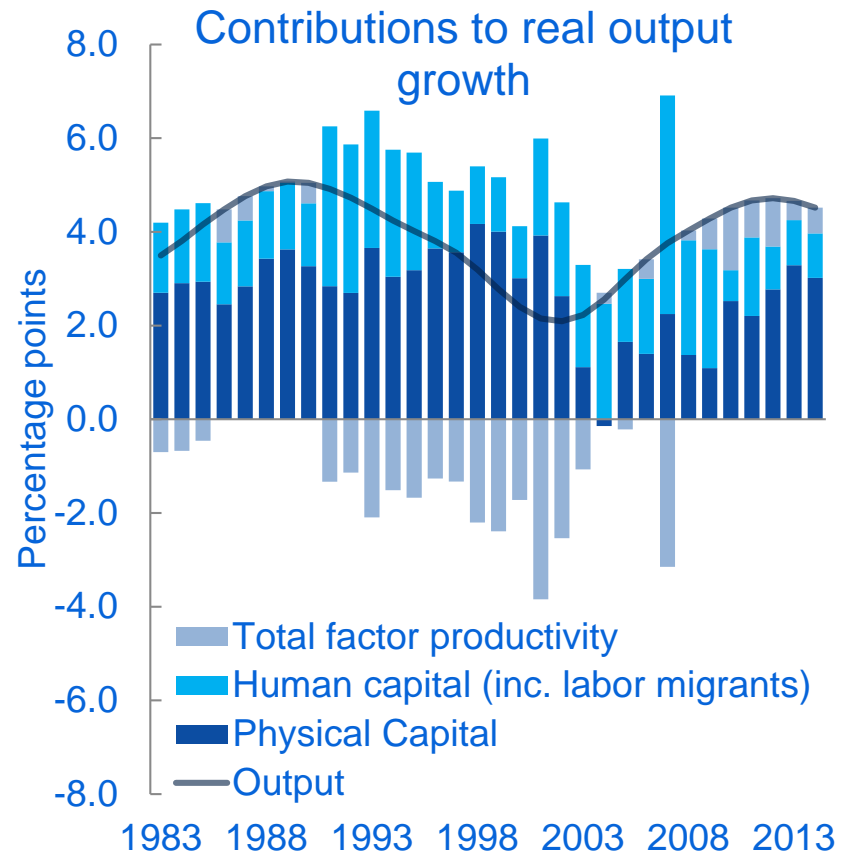
# Growth has been factor-driven, characterized by high investment rates and low total factor productivity growth

INVESTMENT RATES HAVE BEEN HIGH AND, UNTIL THE 2000S, MUCH OF THE INVESTMENT WAS BY THE PUBLIC SECTOR



Notes: Gross Fixed Capital Formation; excludes 1987-9 and 2004-5 due to missing data.  
Sources: WDI.

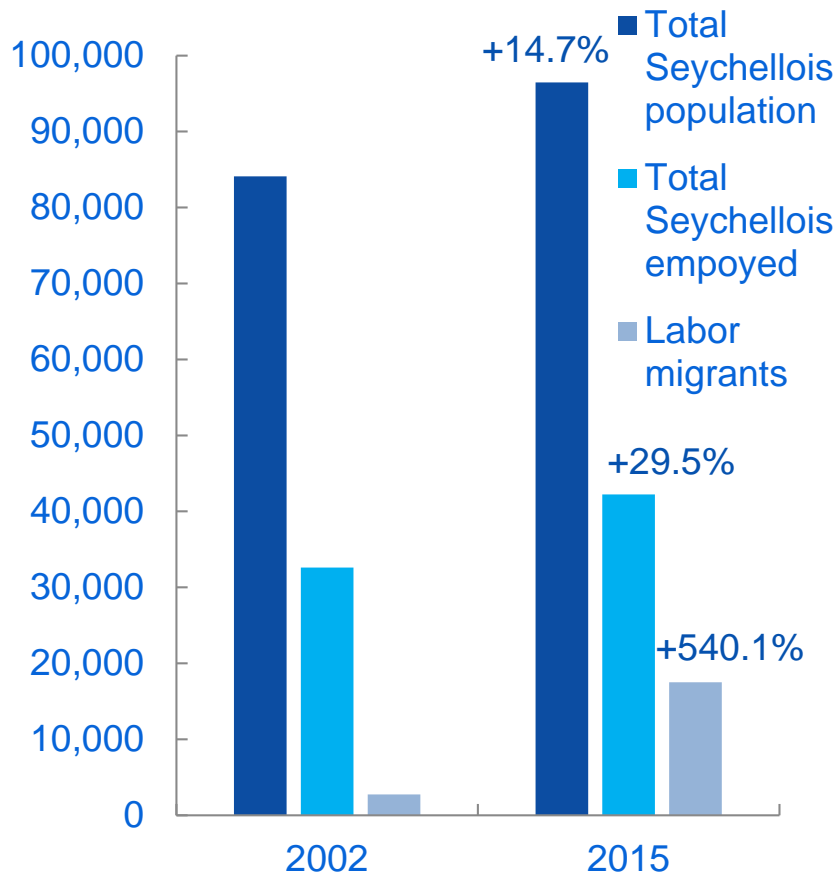
TOTAL FACTOR PRODUCTIVITY HAS BEEN LOW/NEGATIVE, CONTRIBUTING TO GROWTH ONLY IN THE LAST FEW YEARS



Sources: Staff estimates.

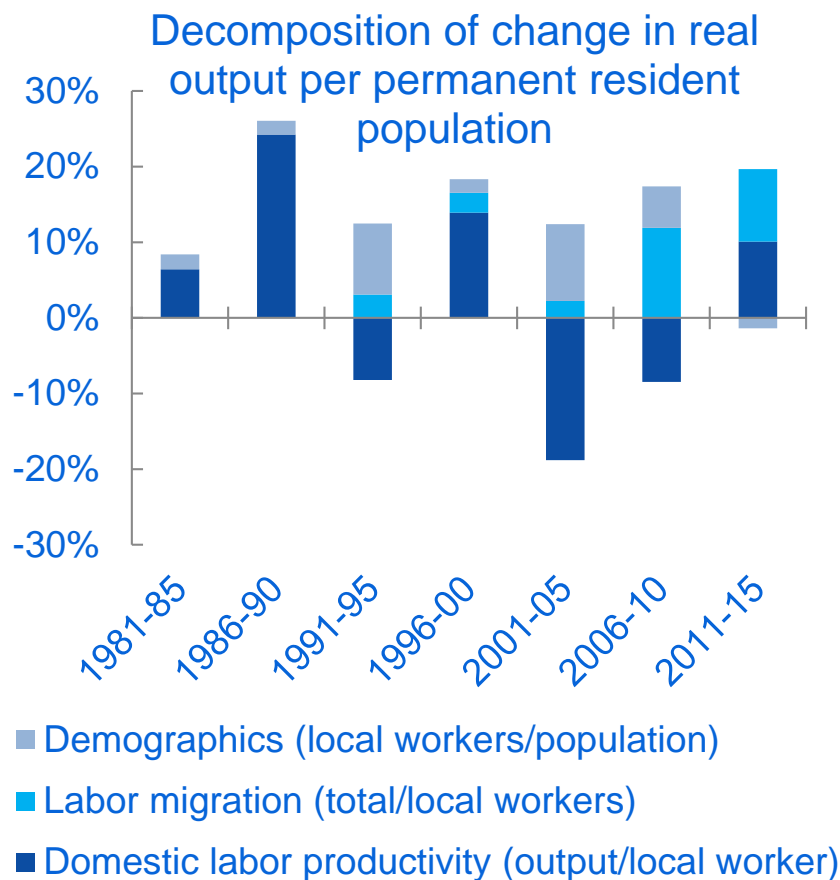
# Imported labor has increased rapidly, linked with much of the output growth achieved since the mid-2000s

SEYCHELLES HAS BEGUN IMPORTING A LARGE AMOUNT OF FOREIGN LABOR...



Sources: Staff estimates based on data from NHRDC, Ministry of Home Affairs, UN.

...ASSOCIATED WITH MUCH OF THE INCREASE IN TOTAL OUTPUT OVER THE LAST DECADE

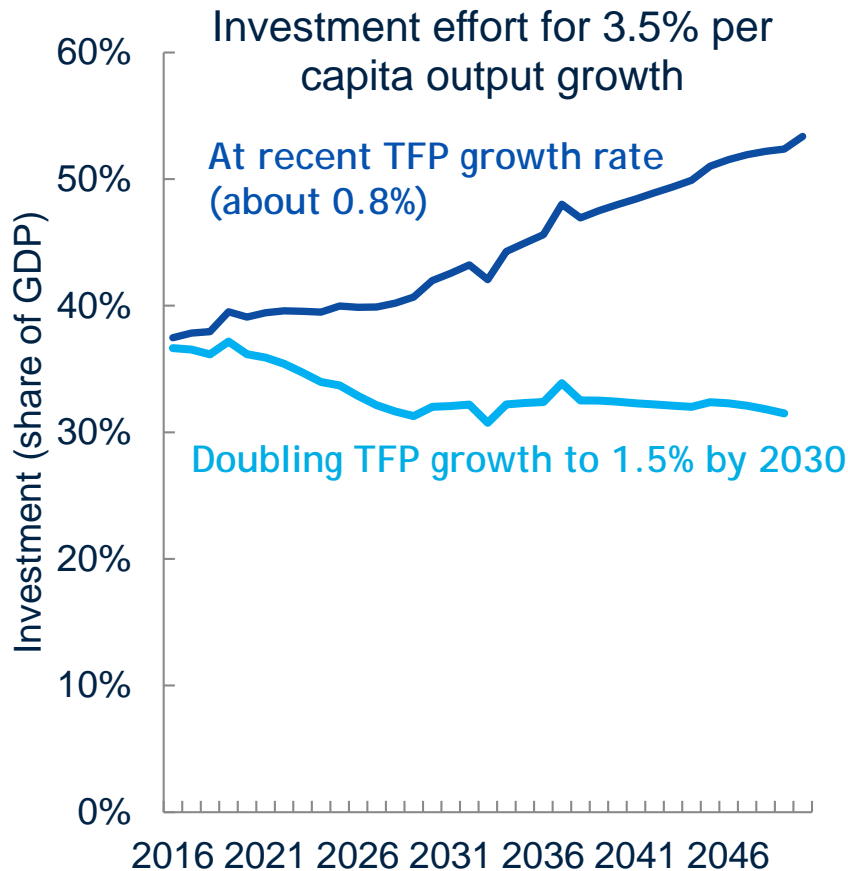


Notes: Chart shows associations – not causal relationships - between changes in real output, local demography, labor migration, and labor productivity.  
Sources: Staff calculations.

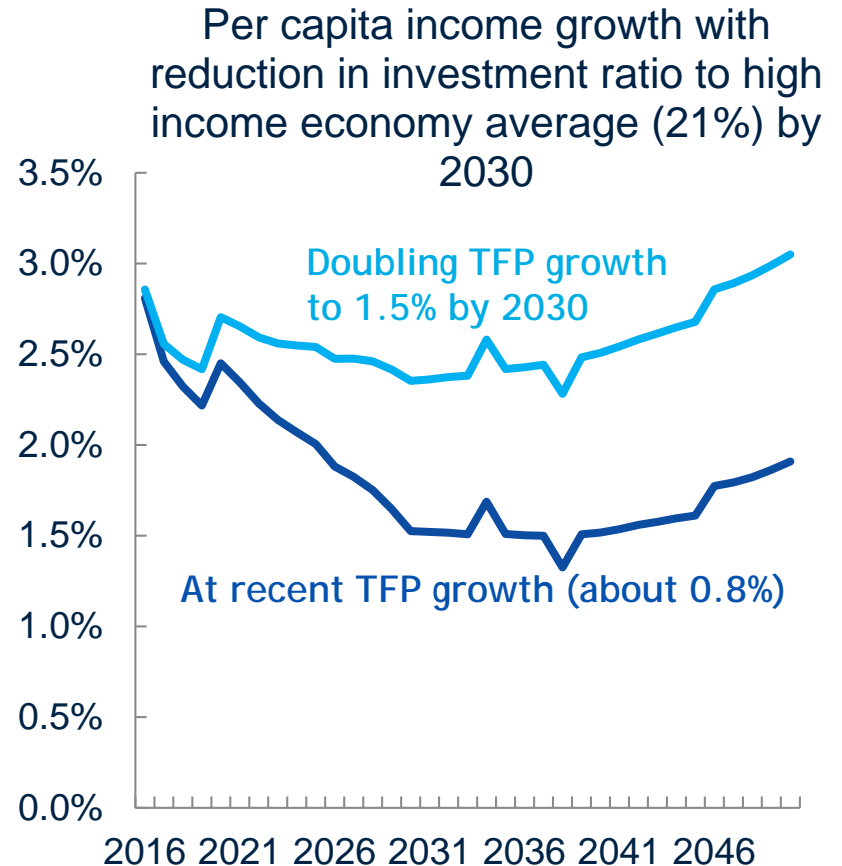


# Implication: maintaining strong per capita income growth will require a shift towards faster productivity growth

WITHOUT A RISE IN PRODUCTIVITY, INVESTMENT WOULD EVENTUALLY HAVE TO RISE TO UNREALISTIC LEVELS TO MAINTAIN GROWTH...



...AND STRONGER PRODUCTIVITY WOULD HELP SHIELD PER CAPITA INCOME GROWTH SHOULD INVESTMENT RATES NORMALIZE TO THE HIE NORM



Notes: Given large number of assumptions made, these are indicative projections for a stylized economy similar to Seychelles. Kinks in investment and growth rate paths are due to population projection changes.  
 Source: Staff calculations using World Bank, DEC/MFM Long Term Growth Model (LTGM).



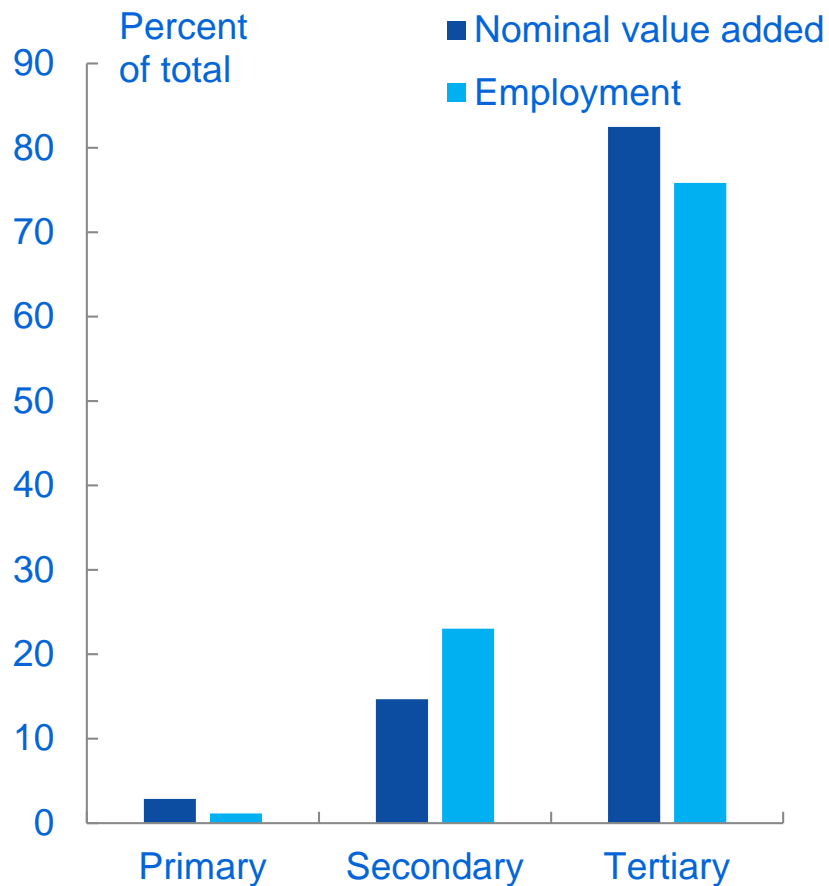
## 2.2 OVERVIEW OF GROWTH DRIVERS AND KEY SECTORS

### **The following sub-section examines:**

- Export sector: a narrow goods production base; strong tourism
- Growth contributions: services (tourism but also ICT)
- Key sector overview: tourism
- Key sector overview: fishing
- Key sector overview: SOEs
- Overall business environment
- Opportunity: ICT
- Offshore financial sector

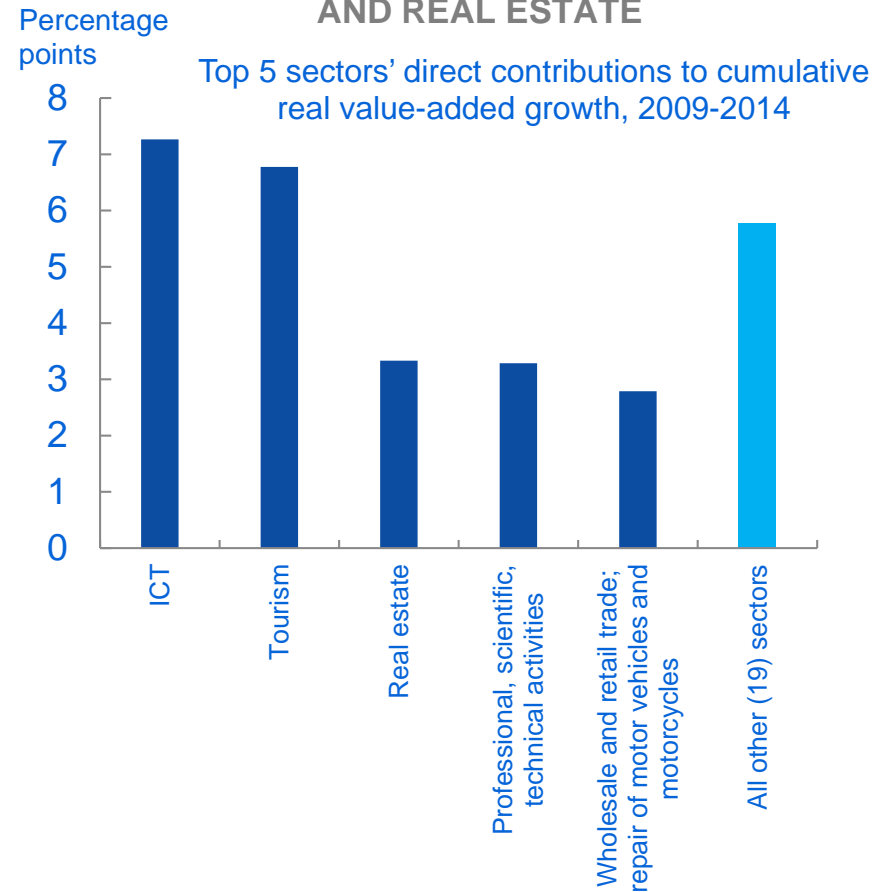
# Seychelles' economy is primarily services-oriented, led in recent years by ICT, tourism and real estate activities

THE ECONOMY IS HIGHLY SERVICES-ORIENTED...



Notes: Latest available figures for output (2014) and employment (2015); direct contributions.  
Sources: NBS (National Accounts Statistics; Seychelles in Figures).

...SINCE 2009, RECORDED SECTORAL OUTPUT HAS INCREASED THE MOST IN ICT, TOURISM, AND REAL ESTATE

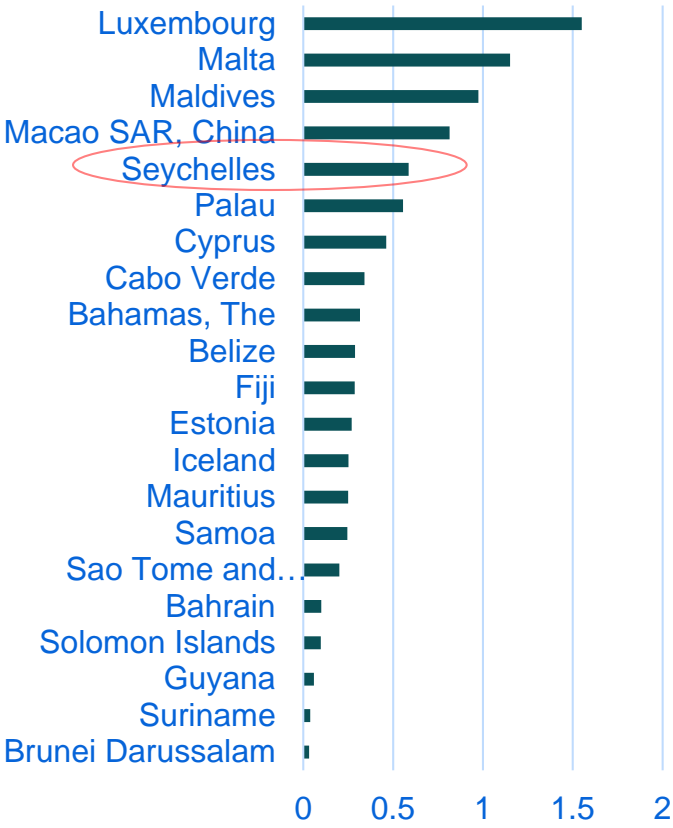
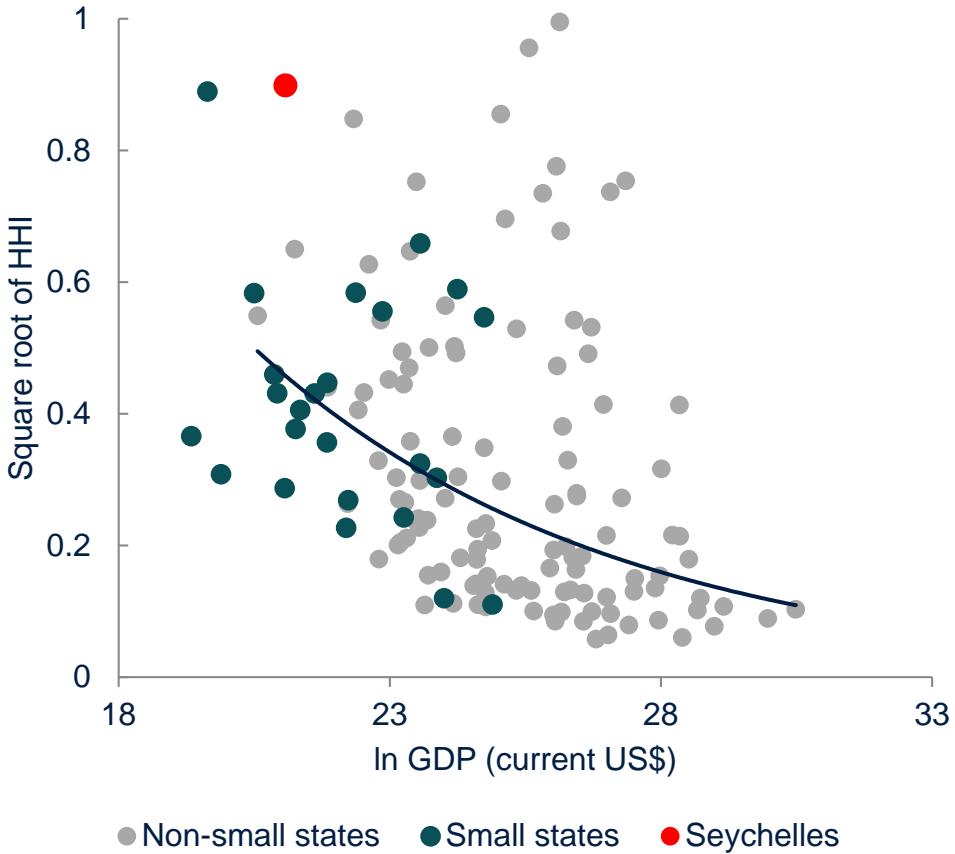


Notes: "Tourism" denotes accommodation & food services.  
Sources: Staff calculations based on NBS data.

# Export sector: Seychelles exports few products (mainly canned tuna); tourism makes services exports relatively large for a small island state

SEYCHELLES HAS ONE OF THE MOST CONCENTRATED GOODS EXPORT BASKETS...

...BUT DUE TO TOURISM, SEYCHELLES' SERVICES EXPORTS ARE LARGER THAN AVERAGE FOR SMALL STATES



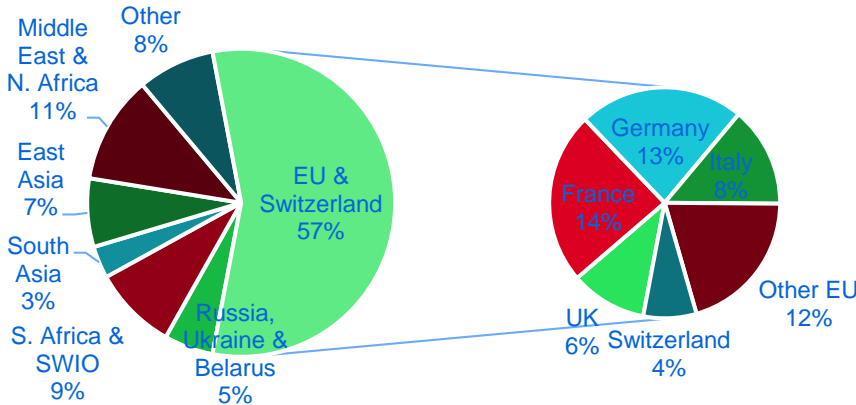
Notes: y-axis is Herfindahl-Hirschman index normalized, with higher values indicating more concentration.  
Sources: UN COMTRADE data.

Notes: Sample of small states; x-axis is services exports relative to GDP.  
Sources: WDI data.

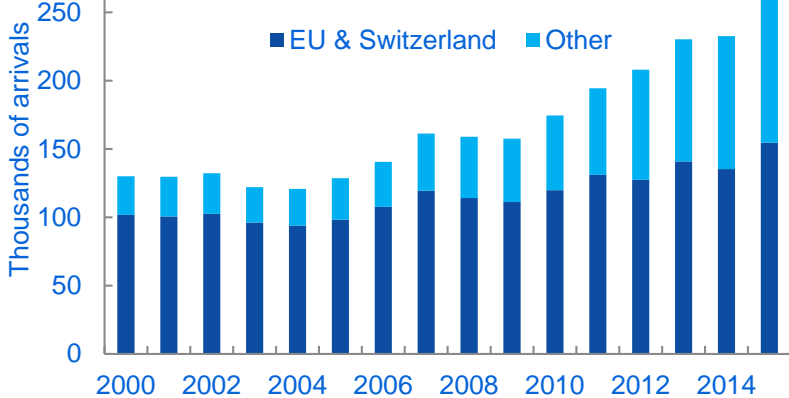


# Tourism: numbers have boomed, due mainly to Seychelles tapping new markets and rising airline connectivity...

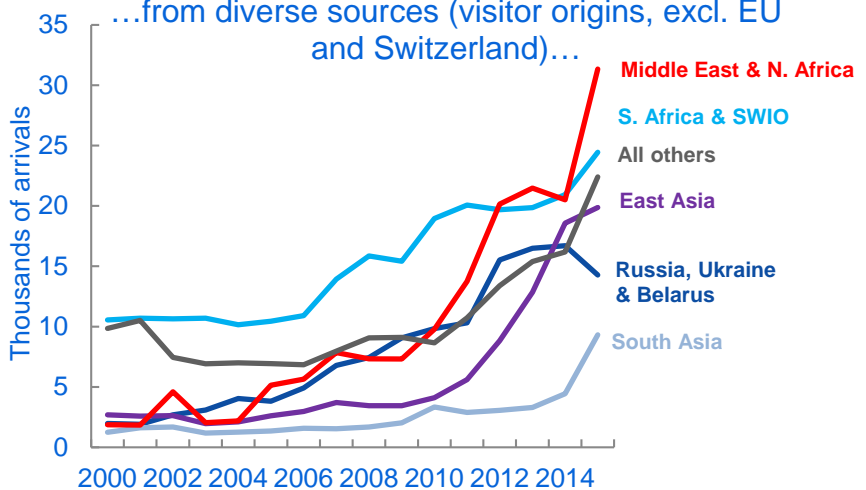
Europe remains the most important tourism market (share of visitor arrivals, 2015)...



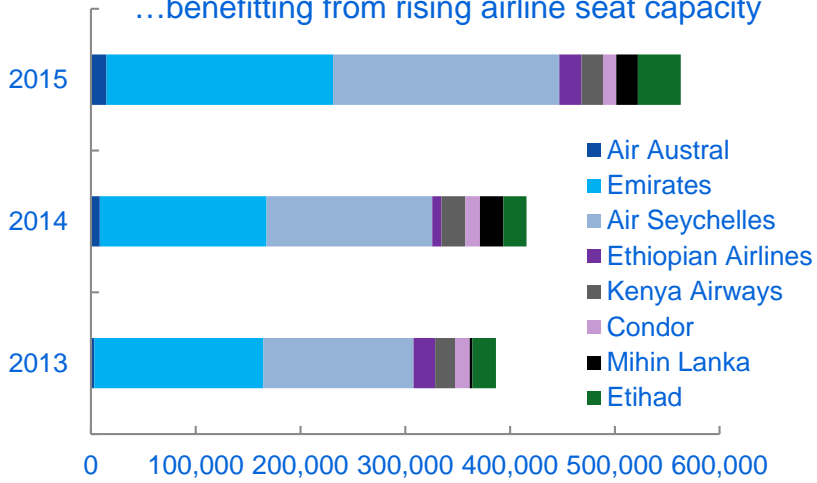
...but other markets have been growing rapidly...



...from diverse sources (visitor origins, excl. EU and Switzerland)...



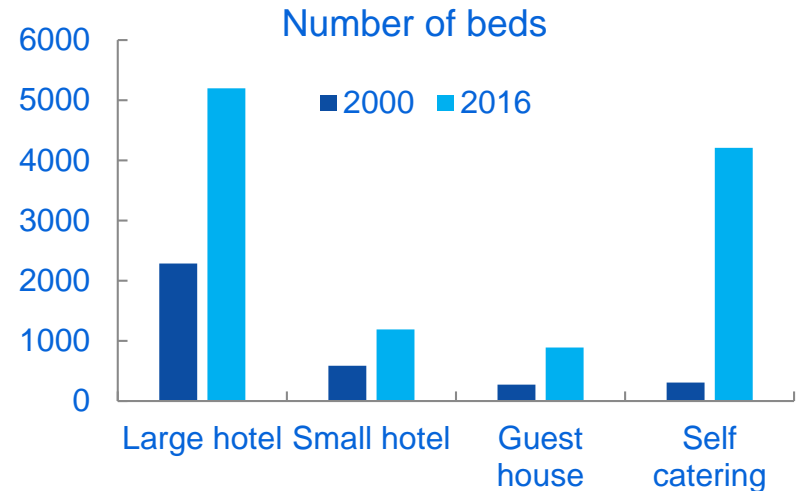
...benefitting from rising airline seat capacity



Notes: "Market" refers to arrival data on visitors' "country of residence".  
Sources: Staff calculations based on NBS and WDI data.

# Tourism:...but as small-scale accommodation has boomed, quality concerns have increased, and spending per tourist (yield) has declined...

- Small-scale (self-catering) accommodation supply has increased rapidly.
- Growth has included an informal sector of unregistered accommodation, including those marketed directly through shared economy platforms.
- Service standards are highly variable.
- Spending per tourist (yield) appears to be under downward pressure.
- The government's policy focus is now shifting towards preserving Seychelles' global brand as an upmarket destination.
- A moratorium on new permits for large hotels was recently extended until 2020.



Yield = gross tourism receipts / tourist arrivals; data begin 2009 and should be treated as indicative only.

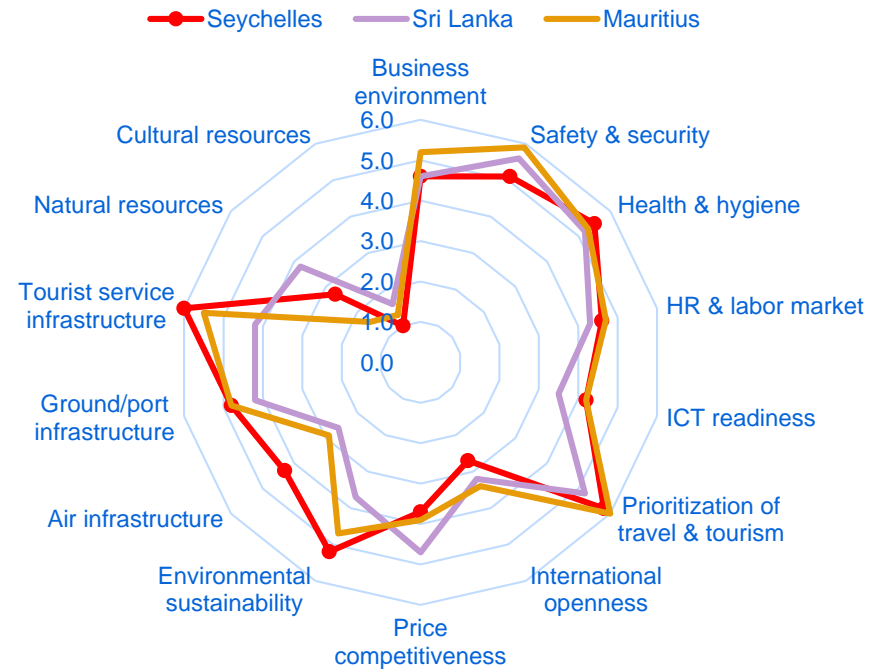
Sources: Staff calculations based on NBS and WDI data.



# Tourism: ...and the sector faces a challenge to further enrich the tourist experience and address competitiveness shortfalls

- International benchmarking points to key sector strengths being world class natural assets, infrastructure, and the prioritization of travel and tourism.
- However, the Seychelles is ranked a low 123/141 countries for price competitiveness and 138 for cultural and business travel.
- The business environment is hampered by bureaucracy and high costs, particularly surrounding recruitment of expatriate staff. There are also unofficial trading practices and competition issues that create barriers to entry for smaller enterprises.
- More needs to be done in terms of increasing the proportion of protected areas, and in increasing the depth and breadth of products in natural areas, in addition to access to them.

**TOURISM COMPETITIVENESS:  
STRONG IN ENVIRONMENT, TOURIST INFRASTRUCTURE;  
WEAK IN PRICING, CULTURAL RESOURCE USE**



Notes: Subindex scores shown (1-7, best).  
Sources: World Economic Forum Travel & Tourism Competitiveness Report (2015).

# Fisheries: there is scope to significantly increase the sector's value-added contribution and a need to place fishing on a sustainable footing

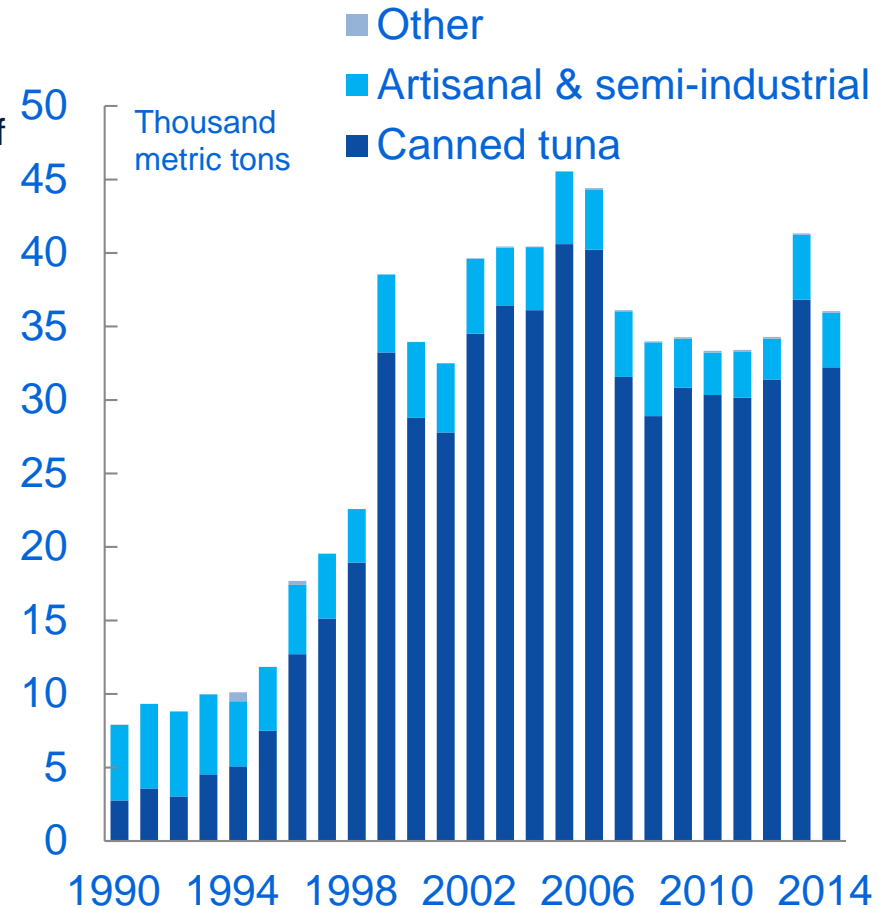
## Limited local value addition:

- Fish production is dominated by canned tuna (approximately 90 percent by volume), a low value product processed in a free-trade zone.
- Limited value is added locally: Seychelles is a major global tuna hub for the EU fleet, but more than 75% of the fish landed is immediately transshipped.
- Asian fleets fish the EEZ for high-value products (e.g. sashimi-grade) but have limited links to the economy other than paying license fees (fishing license fees from all sources are approx. 1% of GDP).
- The artisanal fisheries value-chains are mostly very short and involve minimal handling, processing and marketing.

## Sustainability concerns:

- Yellowfin tuna is being overexploited in the western Indian Ocean and catches are declining. Yellowfin tuna is the leading catch for the industrial purse-seine fishery and the second-leading for semi-industrial fisheries in Seychelles.
- Decreasing catches in some key species of the demersal fisheries (bourgeois, bonite, carangues, sea cucumber, lobster) are a worrying sign of overexploitation.

## FISH PRODUCTION: ALREADY AT HIGH LEVELS; LITTLE VALUE-ADDITION



Sources: Seychelles Fisheries Authority (SFA).

# State Owned Enterprise (SOE) sector: houses a significant share of Seychelles' financial and human resources, provides basic public services, and also includes commercial operations

- 19 SOEs operate across much of the economy: utilities, public bus and inter-island transport, remote island management, port, air (airport & airline), wholesale & retail trade, finance (banking & pension fund), oil.
- Employ about 11 percent of the workforce and about 20 percent of degree-holders (lower-bound estimate). Average earnings in SOEs are 45 percent above the average in the private sector.
- No consolidated, official value-added statistics exist. A crude estimate places the SOE contribution to gross value-added at 10-15 percent.

## SOE AGGREGATE FINANCIAL STATISTICS

% GDP	2013	2014	2015
Assets	118%	127%	122%
Liabilities	53%	60%	59%
Net income	2%	4%	6%

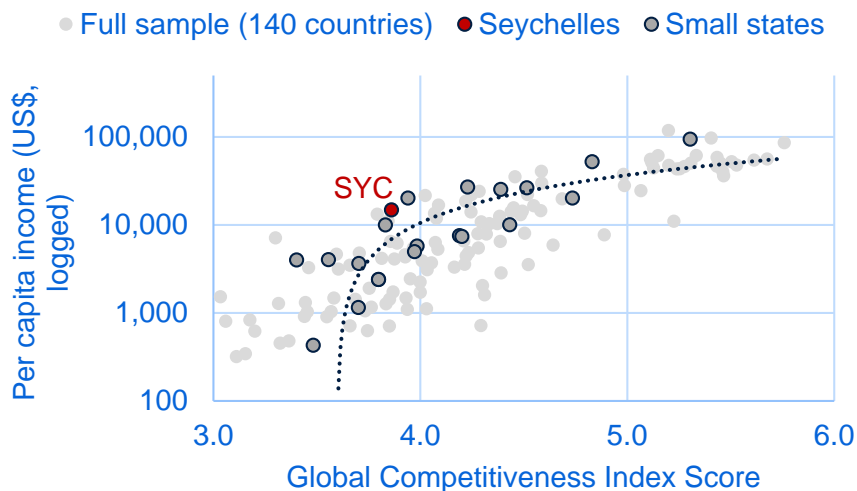
Notes: Results are sector aggregates. There are large differences amongst SOEs.  
Sources: PEMC via Ministry of Finance, Trade and Economic Planning.

- Operational and governance performance is variable but overall the sector currently has a net operating surplus, helped by lower energy costs in recent years.
- Mandates are blurred and oversight has been weak. Some SOEs have diversified their operations considerably, and there are important transfers within and amongst SOEs.
- Fiscal risks from government's explicit and implicit contingent liabilities to the sector are significant.

# Overall business environment: the economy is less internationally competitive than would be expected from income level

- Seychelles fares worse in global competitiveness rankings than would be expected based on its income level.
- Some slippage in recent years: from 76<sup>th</sup> rank in WEF Global Competitiveness Index when first included in 2012/13, to 97<sup>th</sup>/140 in 2015/16.
- Aside from small market size, Seychelles' competitiveness is hampered by shortfalls in its “efficiency enhancers”, especially finance and skills.

## Seychelles' comparative performance and subindex scores in World Economic Forum Global Competitiveness Index (GCI)



	Rank/140 (1-7, best)	Score
<b>Overall GCI</b>	<b>97</b>	<b>3.9</b>
<b>Basic requirements</b>	<b>52</b>	<b>4.8</b>
Institutions	61	4.0
Infrastructure	47	4.5
Macro environment	61	4.8
Health and primary education	92	3.8
<b>Efficiency enhancers</b>	<b>108</b>	<b>3.5</b>
Higher education and training	92	3.8
Goods market efficiency	65	4.3
Labor market efficiency	43	4.5
Financial market development	106	3.4
Technological readiness	71	3.8
Market size	140	1.4
<b>Innovation and sophistication factors</b>	<b>70</b>	<b>3.6</b>
Business sophistication	62	4.0
Innovation	87	3.2

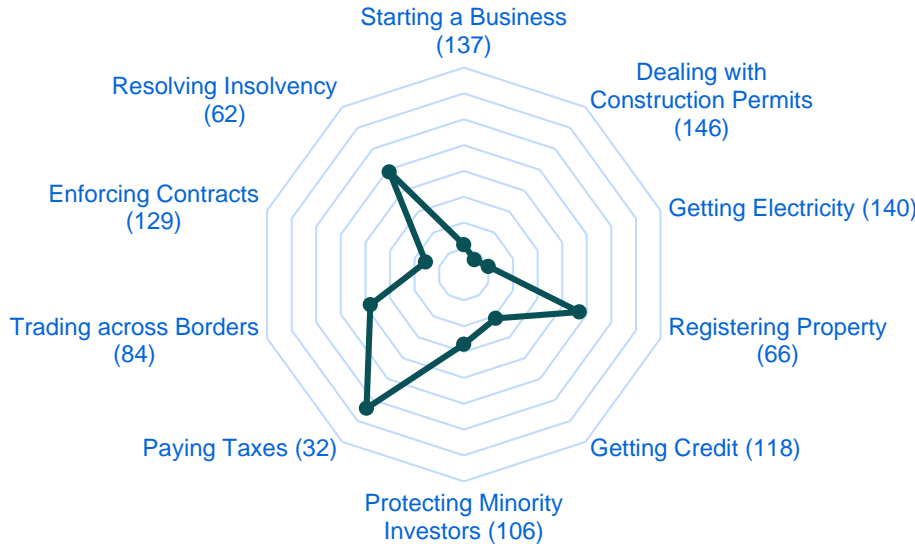
Notes: “Small states” comprise all countries in the sample with populations under 1.5m.  
Sources: Staff calculations based on IMF WEO; World Economic Forum (WEF).

# Business environment: key challenges include credit, electricity, contracting issues, and labor productivity

## Rankings on Doing Business topics

Overall rank: 93<sup>rd</sup>/190

Scale: Rank 190 center (lowest), Rank 1 outer edge (best)



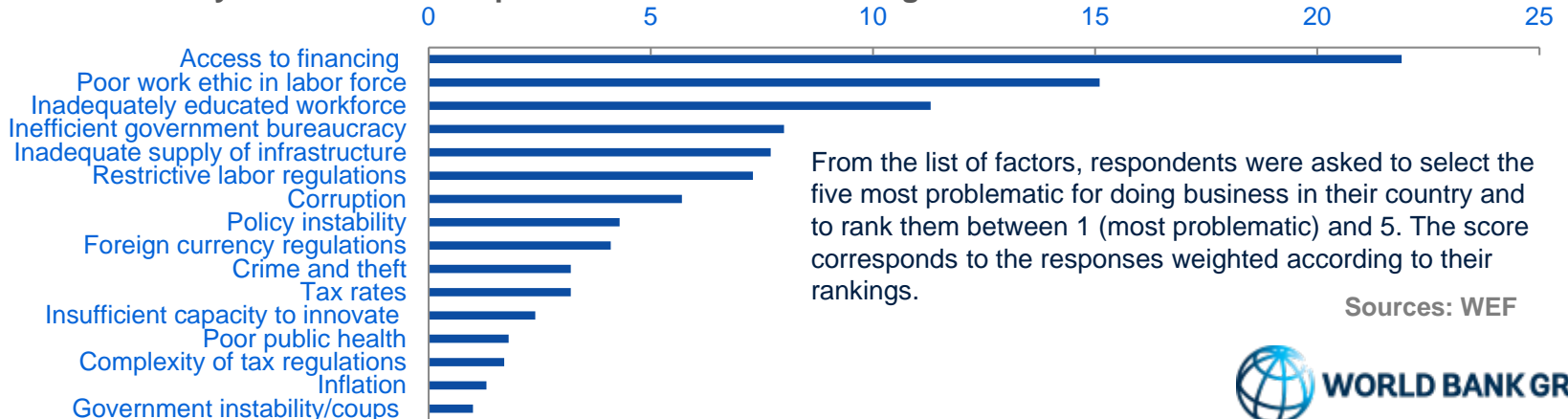
## Distance to Frontier scores on Doing Business topics

Scale: Score 0 center (lowest), Score 100 outer edge (best practice)



Sources: World Bank.

## WEF survey results: the most problematic factors for doing business

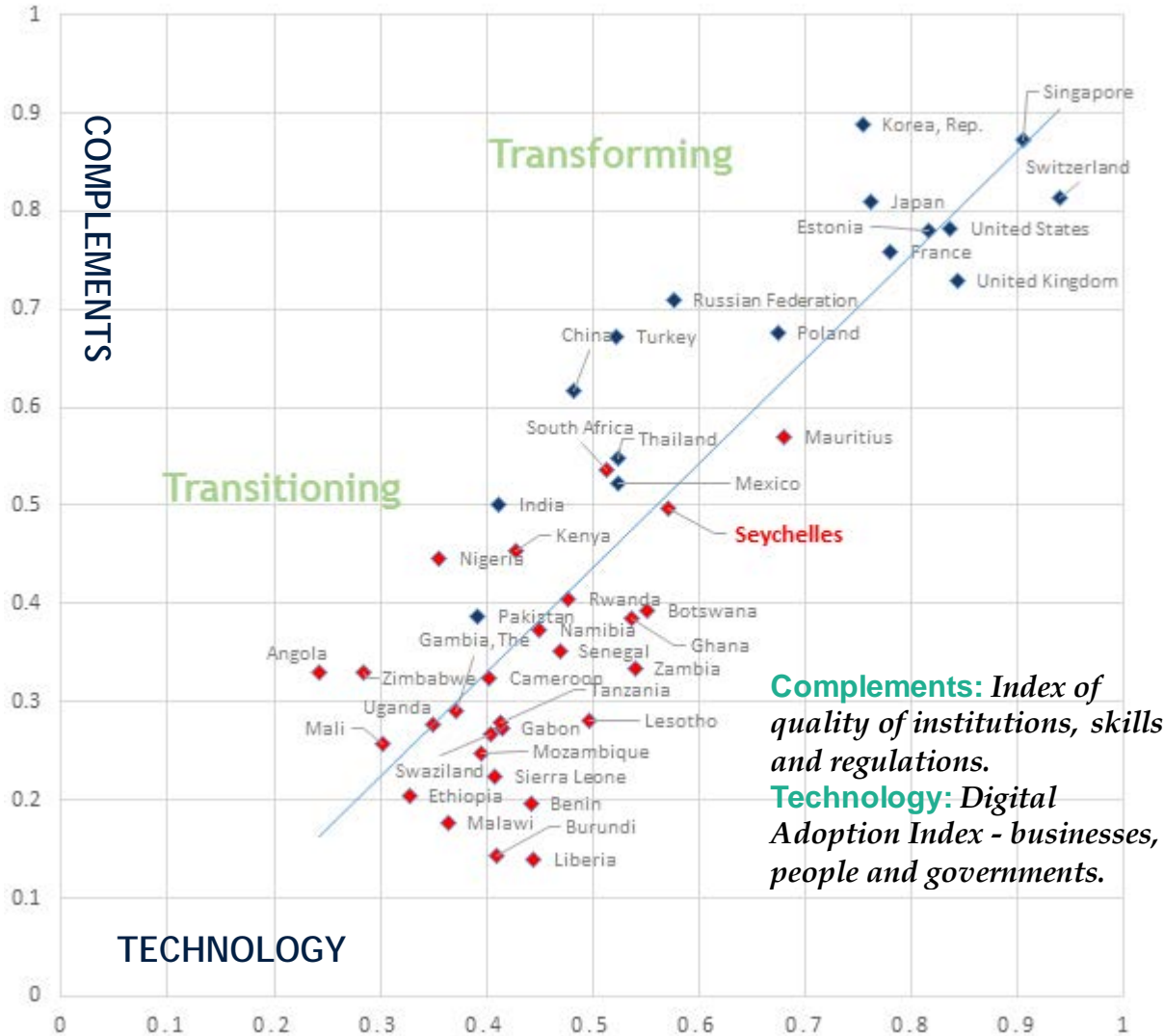


Sources: WEF



# ICT: Seychelles is doing well but still below potential

Seychelles' ICT successes include that it has multiple operators (4), connectivity to international submarine cable (since 2012), its use of PPPs (SEAS consortium) and effective regulation of the sector.



## Seychelles' ICT challenges and opportunities include:

- Addressing affordability of voice and data services, which remains a challenge. Bringing prices down, especially for international connectivity, so Seychelles is competitive with ICT hub neighbors.
- Introducing resilience, increasing supply of bandwidth and strengthening competition by rolling out a second international undersea fiber-optic cable.
- Building Seychelles' profile as a center for offshore data storage, by developing ocean-cooled data centers and promoting cybersecurity and data protection.
- Addressing regulatory gaps, especially in sector competition.
- Strengthening IT skills of the labor force.

Sources: World Bank (World Development Report, "Digital Dividends", 2016).

## ICT: continued eGovernment reforms are needed for efficient and effective delivery of services and addressing social inclusion

- Seychelles is generally performing well in ICT rankings.
- However in eGovernment, while Seychelles is not slipping back, it may not be keeping up with competitive ICT hubs.
- “Next Generation” measures are needed and the scope for growth is considerable.
- Priorities are:
  - Expanding Government networks and connectivity
  - Increasing eGovernment delivery of services
  - Reducing the Digital Divide and addressing Social Inclusion
  - Establishing adequate cybersecurity regulations, policies and incident response capacity

Indicator	Rank	%
eGovernment Development Index 2016	86 / 193	45%
eParticipation Index 2016	107 / 193	55%
Networked Readiness Index 2015 (NRI)	74 / 143	52%
Importance of ICT to Government vision (NRI)	59 / 143	41%
Government Online Service Index (NRI)	90 / 143	63%
Government Success in ICT Promotion (NRI)	82 / 143	57%
Impact of ICT on Access to Basic Services (NRI)	78 / 143	55%
ICT Use and Government Efficiency (NRI)	55 / 143	38%

## Offshore financial sector: an uncertain outlook in view of global bank de-risking

- Seychelles respondent banks are being “de-risked” by US and European correspondent banks - notably affecting US Dollar and Euro clearing.
- Government is concerned that this has the potential to cause financial stability issues and spill over into the real economy.
- The drivers of the problem are unclear: whether simply a matter of correspondent banks’ internal policy (i.e. given the low volume of business from Seychelles), or concern about money laundering risk.
- Anti-money laundering (AML) regulations to international standard are not being implemented in practice for Seychelles International Business Companies (IBCs).
- In recent years, Seychelles’ IBCs have been implicated in a number of high-profile international corruption scandals and bank frauds.
- To be a driver of growth for Seychelles in the global context of higher disclosure and compliance requirements to combat crime and terrorism, the sector would likely need to shift away from its current “mass market” model of registering and providing basic company secretariat services to IBCs. This would require a robust domestic regulatory and enforcement system to prevent reputational risks to Seychelles.



## 2.3 CONSTRAINTS TO MORE PRODUCTIVITY-LED GROWTH

### - Credit

- Do savings flow to Seychelles' most efficient existing firms or most promising new business opportunities?

### - Energy

- As a key input for many productive activities, is overall waste minimized and is it allocated to where it is most needed?

### - Logistics and connectivity costs

- Can firms get the inputs they need and access international markets?
- Can workers get to where they are most productive?

### - Private sector enabling environment

- Does a lack of competition (e.g. due to regulatory constraints or other factors) lock existing capital and labor in incumbents, which may have a lower level of productivity? If so, reallocating labor and capital to other firms would raise TFP.
- A lack of competitive pressure also may lead to lower levels of TFP growth for incumbents (less pressure to be efficient and innovate).

# CONSTRAINT: credit

## Constraint:

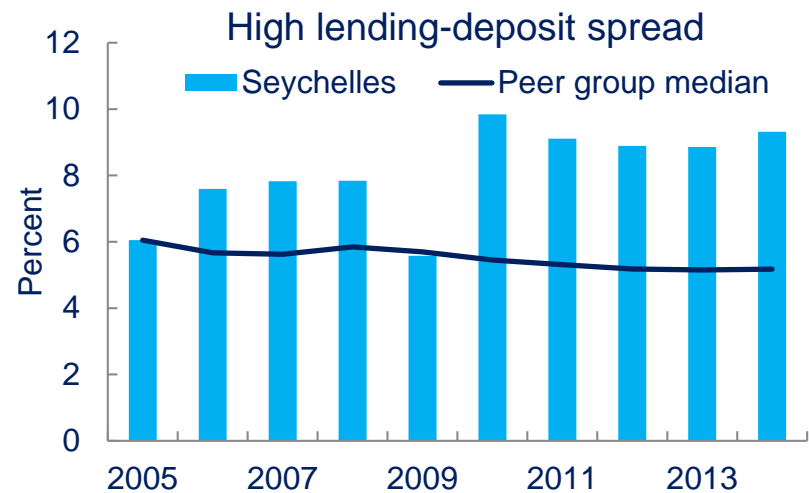
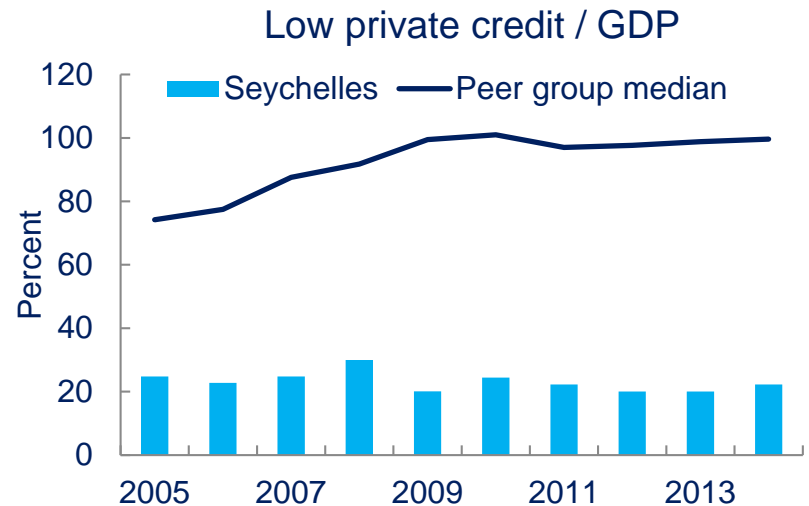
High cost and limited availability of credit hampers the opening and functioning of businesses.

## Evidence for constraint:

- Credit is ranked as a top constraint in business environment surveys.
- The ratio of private bank credit to GDP is low for the level of income, interest rates are high, and banks are very profitable.

## Drivers of constraint:

- Ample opportunities for banks to invest elsewhere – only 36% of total bank assets are loans and advances (as of 2016, though this is up from 28% in 2011) vs 20% in government securities.
- Evidence gap: plausibly, there is a lack of bankable projects, due to lack of skills of potential entrepreneurs or, alternatively, due to other constraints that limit entry in the economy, including lack of a wider system to foster entrepreneurship. The salience of this supply-side limitation is corroborated by the limited uptake of existing MSME support schemes.
- The domestic savings rate does not appear to be a binding constraint, based on the economy's demonstrated ability to sustain high investment rates, fueled by strong FDI into tourism.



Sources: Finstat.

# CONSTRAINT: energy

## Constraint:

- Electricity prices are high, particularly for businesses.

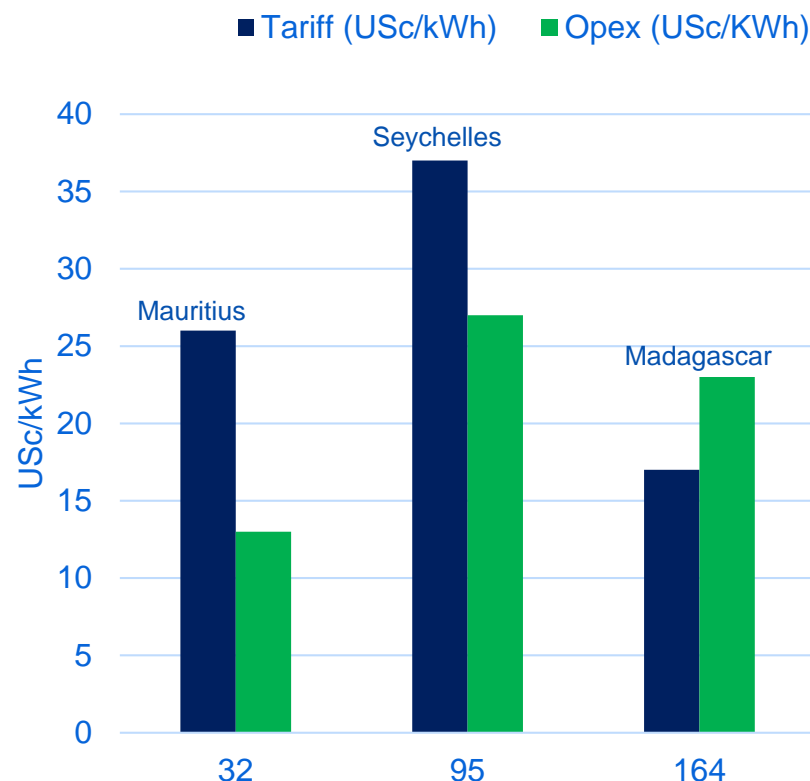
## Evidence for constraint:

- High fuel and electricity costs negatively impact the ease of doing business.
- Costs are high compared even to other small island states in the region.

## Drivers of constraint:

- Seychelles relies mostly on imported fuel oils, and hence is vulnerable to global price volatility and supply disruption.
- Electricity prices for industry are high because of cross-subsidies to keep prices down to households.
- The sector is subsidized, which may reduce the efficiency of the operator.

## HIGH ELECTRICITY COSTS



Sources: World Bank, Doing Business Indicators (2016).

# CONSTRAINT: transport and connectivity costs

## Constraint:

- Logistics and connectivity costs raise domestic prices and reduce opportunities to compete in international markets, while options to produce for domestic consumption are limited by the small size of the market.

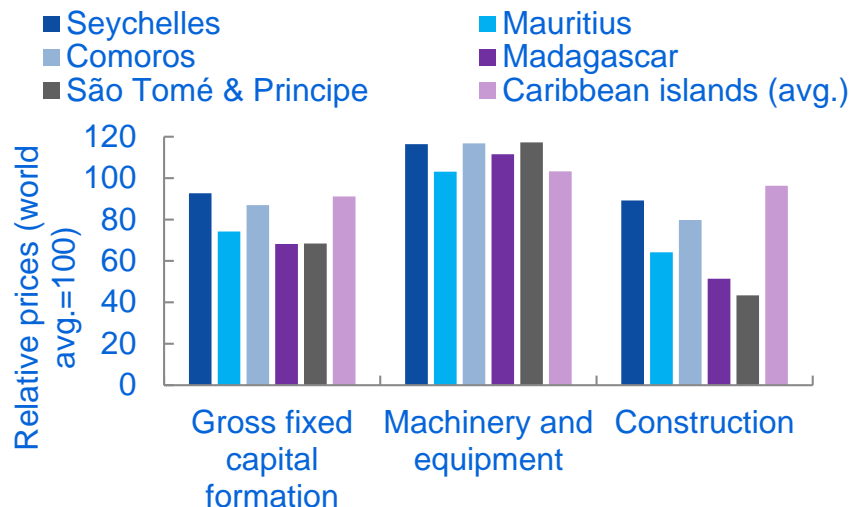
## Evidence for constraint:

- Prices in key production sectors are high relative to world averages and, in some cases, to those in benchmarked peers.

## Drivers of constraint:

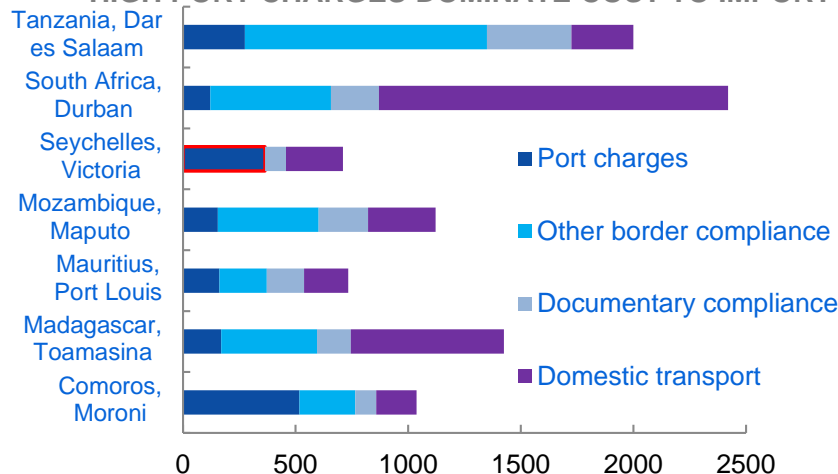
- Exogenous: very small market size and relatively isolated location.
- Total estimated cost to import is not high, helped by the proximity of the port in Mahe, but the port cost component is high.
- ICT, which could play a major role to reduce costs, has expanded, but not as much as it could.

## HIGH INVESTMENT GOODS AND CONSTRUCTION PRICES



Notes: Point estimates of price levels relative to world averages.  
Sources: International Comparison Program.

## HIGH PORT CHARGES DOMINATE COST TO IMPORT



Sources: Doing Business (2016).



# CONSTRAINT: private sector enabling environment

## Constraint:

- Aspects of opening & operating a business are difficult (e.g. in the vertically integrated tourism sector); limited state capacity to regulate, monitor and evaluate strategically where productive resources are allocated, coupled with the historical dominance of SOEs, has reinforced the high concentration of resources.

## Evidence for constraint:

- Low scores and flat or deteriorating trends in Doing Business indicators.
- Low WEF GCI scores on the business environment.
- Governance indicators with regard to regulation.

## Drivers of constraint:

- Vested interests and high vertical integration in some areas: block entry or impede operation.
- Market concentration: market dominance of a few incumbents in some sectors reduces the incentives of incumbents to innovate. E.g. in tourism, ICT.
- Reportedly, SOEs seek to compensate financially for the non-commercial mandates, limiting new business opportunities that may limit entry by the private sector.
- Evidence gap: land scarcity, as demonstrated by high-cost reclamation developments, but the property market is opaque (e.g. there are no public price data).

# Seychelles SCD

## *Productivity, Participation, and Performance*

1. Country context
2. Growth: the need for more productivity-based growth
3. Inclusion: equipping Seychellois to participate in a changing, high income economy
4. Sustainability: enhancing state performance to support productivity and participation, and to meet environmental and economic risks
5. Summary and prioritization of constraints identified
6. Data appendix

# 3. INCLUSION – equipping Seychellois to participate in a changing, high income economy

3.1 Main finding

3.2 Current situation and dynamics

3.3 Key constraints to inclusiveness

### 3.1 MAIN FINDING: HOW CAN SEYCHELLES ADDRESS INCLUSIVENESS?

**Key finding:** the growth path and policies have eliminated poverty by international standards. But earnings are distributed unevenly, placing a heavy burden on social policy and public expenditure to counter inequality.

**Implication:** strengthen the focus on expanding opportunities for, and capabilities of, the least well-off.

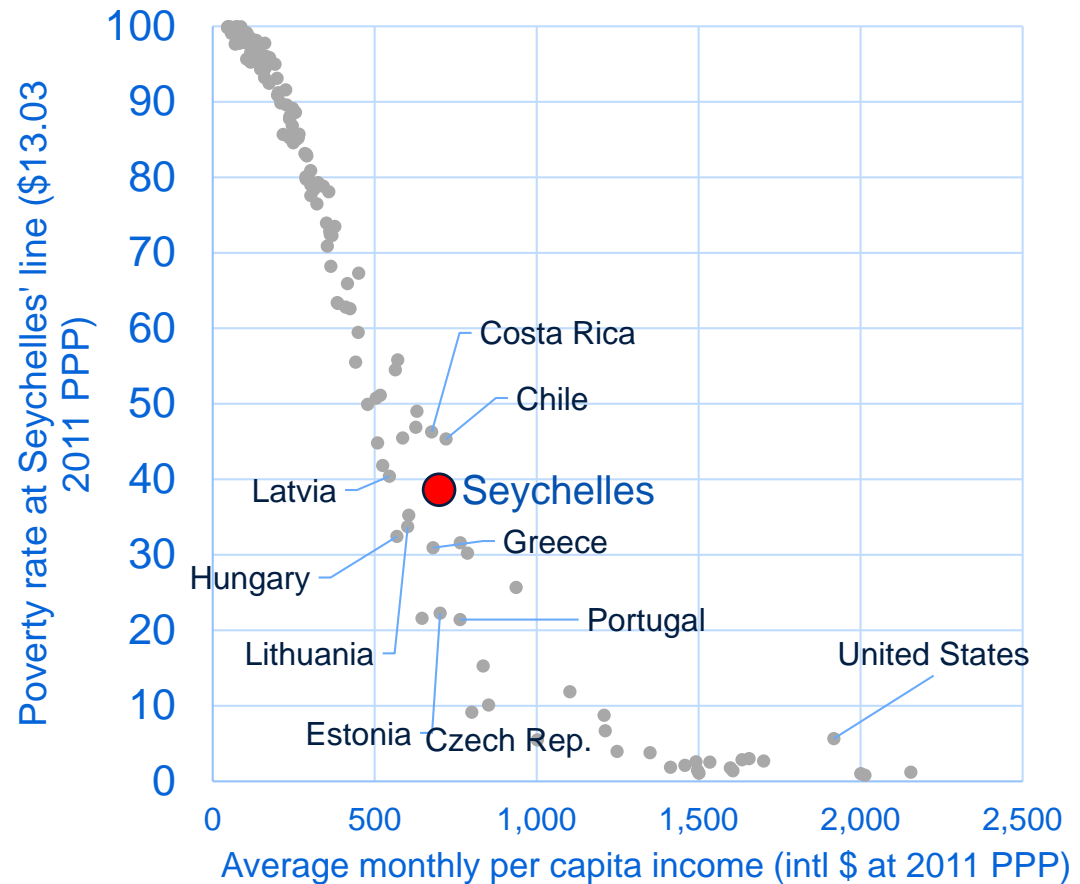
**How?** Strengthen education quality, improve jobs flexibility, raise the effectiveness of social assistance, improve the efficiency of healthcare.



## 3.2 Current situation: extreme poverty has been eliminated. Poverty as officially defined is high, consistent with significant income inequality

- Extreme poverty as defined for international comparisons is statistically negligible: Seychelles has eliminated extreme poverty at the \$1.90/day (headcount: 1.1%) and \$3.10/day (headcount: 2.5%) international lines.
- Seychelles' national definition of poverty is broadly in line with those of other High Income Economies (HIEs) and does not imply that poverty in Seychelles is unusually prevalent.

ESTIMATED POVERTY RATES USING SEYCHELLES' NATIONAL POVERTY LINE

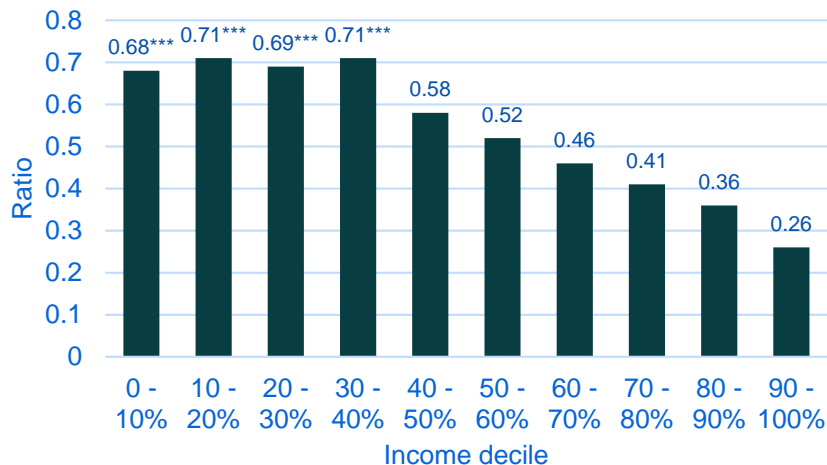


Notes: As of latest available HH survey data (2013, for Seychelles), for 156 countries available in PovCalnet.

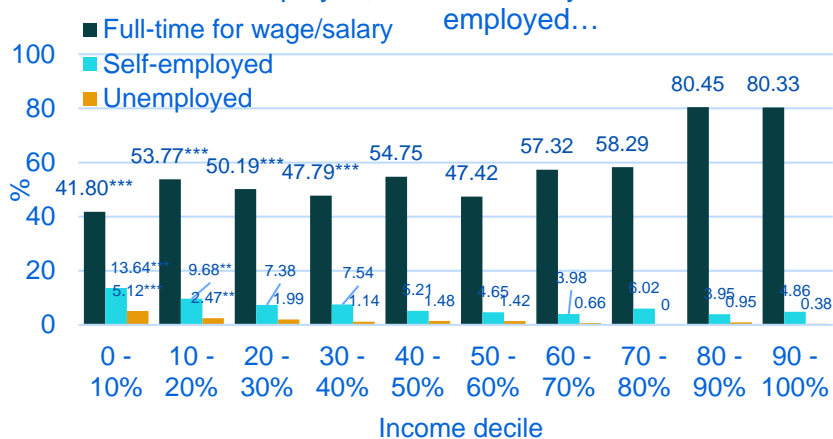
Sources: World Bank staff calculations based on PovCalnet.

# The poorest households in Seychelles...

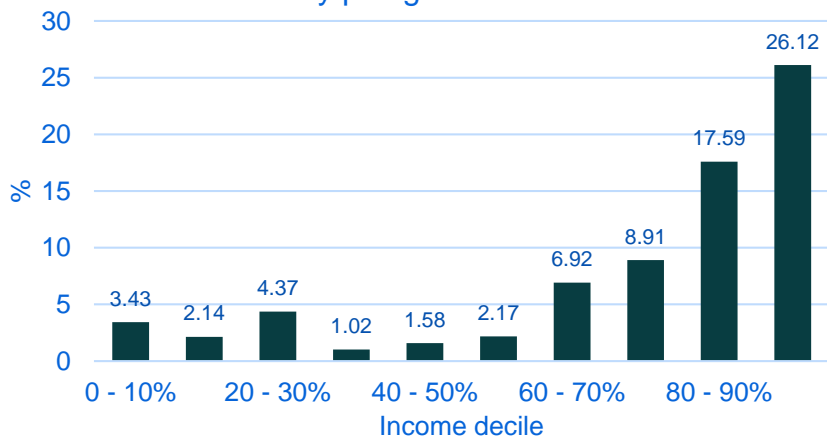
...have higher dependency ratios...



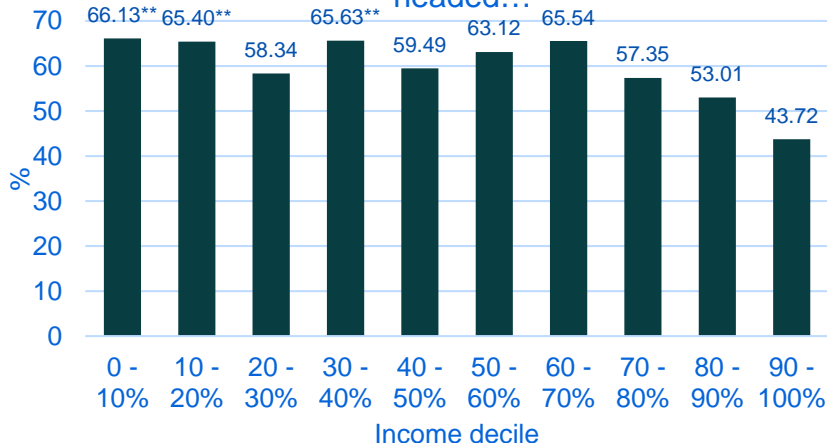
...have heads who are less likely to be full-time employed, and more likely to be self- or unemployed...



...are unlikely to have heads with university/postgraduate education



...are even more likely than usual to be female-headed...



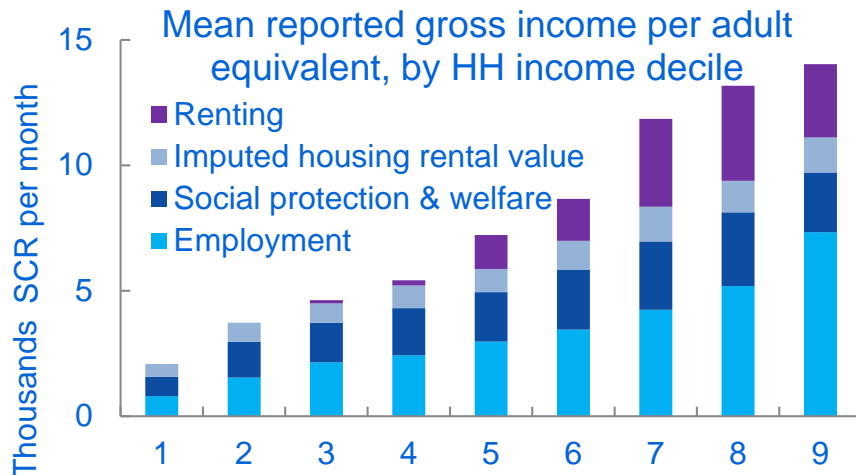
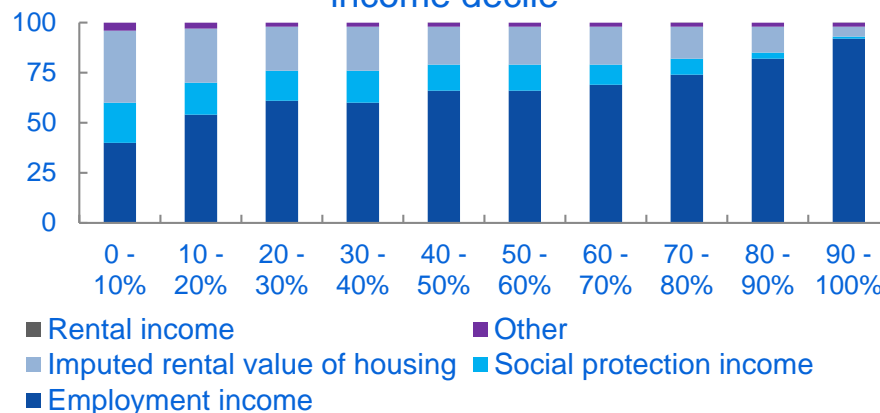
Notes (all charts) : significance levels in bottom 40% groups indicate the differences between mean value and that of the upper 60% group. \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1% level.

Sources: World Bank staff calculations based on HBS data.

# Employment earnings are important even for the poorest households, which also benefit from social protection and access to housing

- Employment is the single most important source of income even for the poorest 10% of households...
- ...and is progressively more important for wealthier households - *high employment earnings are the key to progressing from the B40.*
- Strong access to housing plays a major role in supporting the living standards of households at the bottom of the income distribution (high share of imputed housing value in mix of reported incomes at the bottom of the distribution).
- Social protection income, while an important income source for the poorest households, is not targeted (social protection and welfare income in absolute terms rises across the first 7 HH income deciles).

Share of total reported gross income by HH income decile

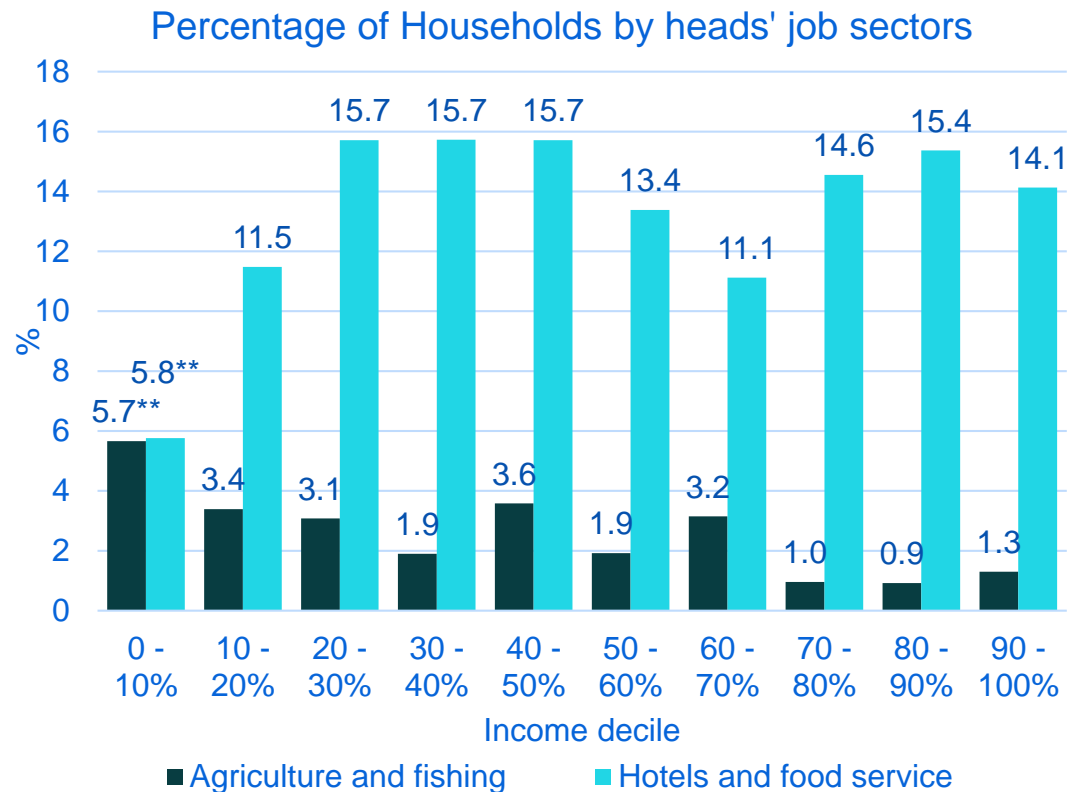


Notes: In chart 2, top decile is excluded for visual clarity.  
Sources: World Bank staff calculations based on HBS (2013).

# Worst-off households are less likely to be involved in tourism

- The worst-off HHs are less likely to have heads in the large, and recently fast-growing, tourism sector.
- The worst-off HHs are more likely to have heads employed in agriculture and fishing.
- However, low primary sector incomes do not drive poverty overall, as only a small share of workers are employed in the primary sector (about 3 percent).
- Having a head working in other sectors (e.g. industry, other services) is not associated statistically with being at the bottom of the HH income range.

THE WORST-OFF HOUSEHOLDS ARE LESS LIKELY TO HAVE HEADS EMPLOYED IN TOURISM, AND MORE LIKELY TO HAVE HEADS EMPLOYED IN AGRICULTURE & FISHING



Notes (all charts) : significance levels in bottom 40% groups indicate the differences between mean value and that of the upper 60% group. \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1% level.

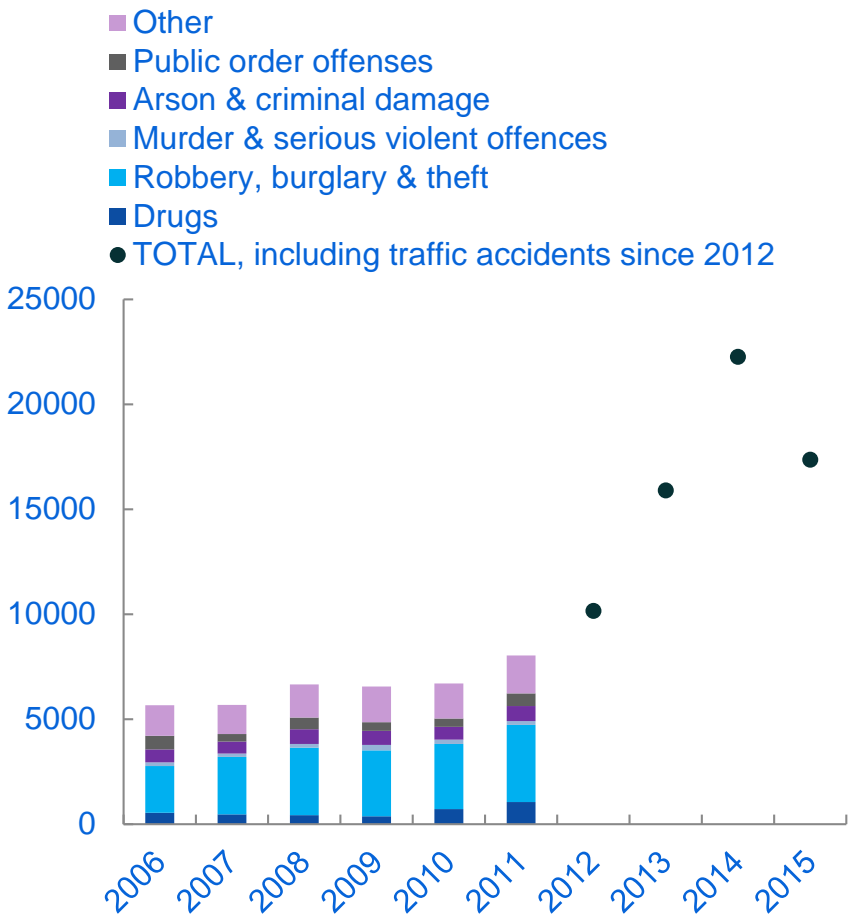
Sources: World Bank staff calculations based on HBS data.

## Dynamics: inequality is substantial but recent poverty and inclusion trends are unclear...

- Welfare data from the two most recent Household Surveys (2006/07 [consumption] and 2013 [gross income]) cannot be reliably compared.
- However, incomes of the B40 do not appear to have kept up with overall growth of the economy. Survey imputation methods do not support that the incomes of households in the bottom quintile were significantly higher in real terms in 2013 (the latest available data), compared with 2006/7, a period during which real output per capita rose by 30 percent.
- At the same time, ownership of assets (as measured by the number of assets held in 10 categories, not the value of assets) has become more equal over the two years, in part due to increased ownership of dwellings and household appliances for the bottom quintile.

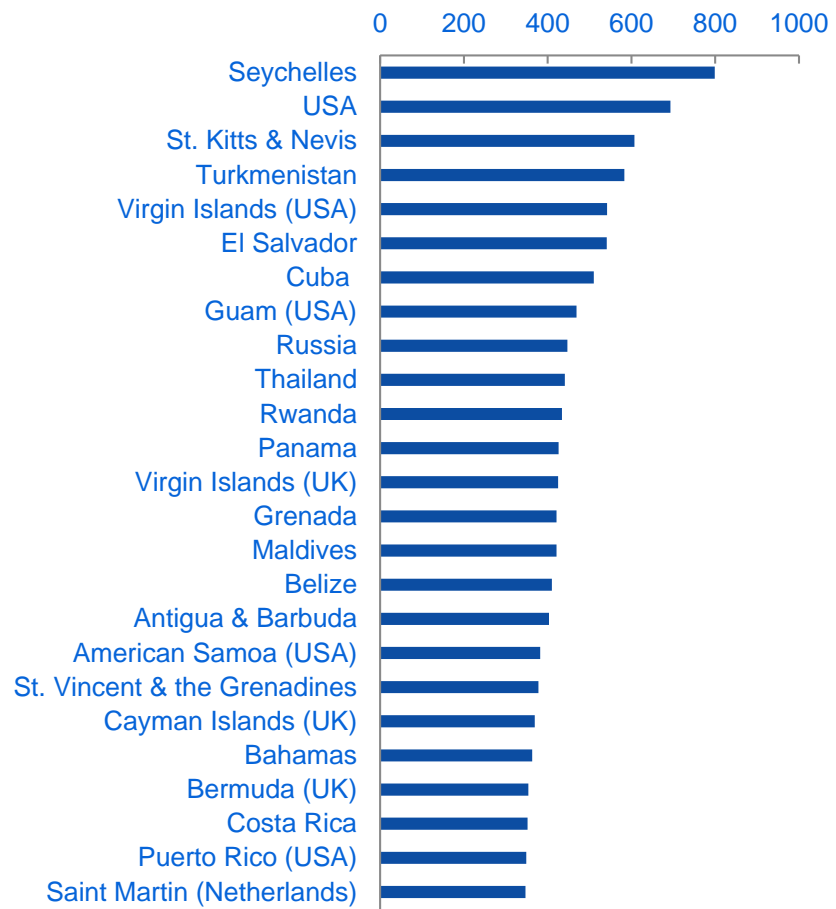
# ...and there are growing concerns about youth issues and crime, against the backdrop of a high incarceration rate

RECORDED CRIMES



Notes: Disaggregated figures unavailable after 2011.  
Sources: NBS CJS Report (2012); NBS SIF (2016).

THE 25 COUNTRIES AND TERRITORIES WITH THE HIGHEST PRISON POPULATIONS (PER 100,000)



Notes: foreign prisoners constitute approximately 8% of the Seychelles total.  
Sources: World Prison Brief, Institute for Criminal Policy Research.



# Education access is universal and a high proportion of Seychellois go on to participate in the labor market...

## EDUCATION ACCESS IS UNIVERSAL

- Universal access to education: pre-primary, primary and secondary, with boys and girls enrolling at the appropriate age.
- Levels of enrolment up to secondary education are comparable to those of most middle-income countries and those of many high-income countries.

	NER Primary	NER Secondary
Chile	93.94	93.04
Costa Rica	96.13	78.12
Finland	99.43	94
Malaysia	94.6	69.1
Mexico	95.6	67.41
Rep of Korea	96.31	96.15
<b>Seychelles</b>	<b>94.69</b>	<b>74.57</b>
Turkey	86.69	92.9

Notes: "NER" stands for Net Enrolment Rate.

Sources: UNESCO Institute of Statistics and Edstas.

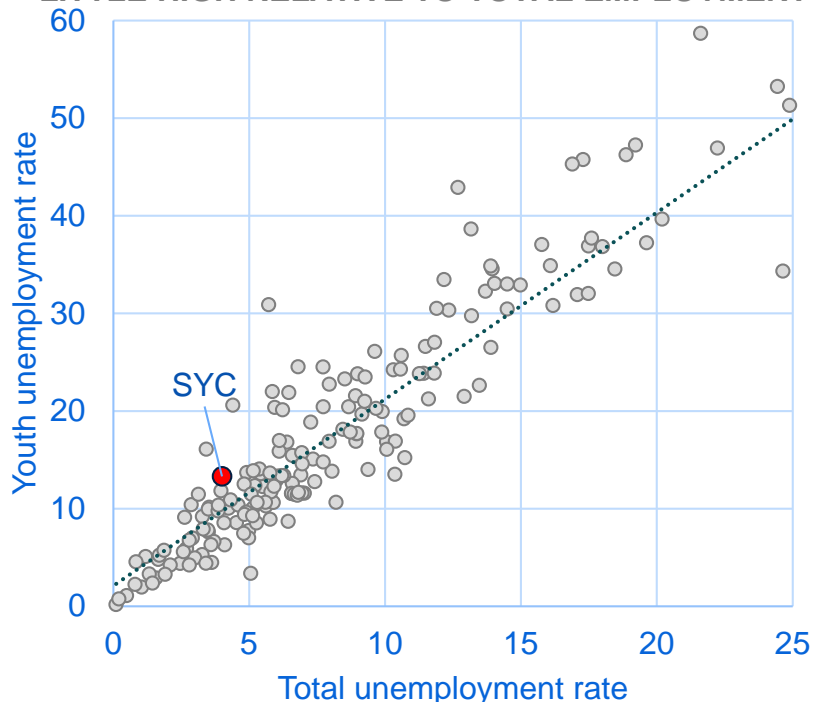
## LABOR MARKET PARTICIPATION IS HIGH AND UNEMPLOYMENT IS LOW

	Number	Share	Labor participation (%)	Unemployment (%)
<b>Gender</b>				
Male	22 368	49.6	79.6	4.0
Female	22 661	50.3	76.8	4.1
<b>Age cohort</b>				
15-24 years	6 993	15.5	57.4	13.3
25-34 years	10 962	24.3	88.1	3.8
35-44 years	10 505	23.3	90.6	2.5
45-54 years	10 725	23.8	86.9	1.2
55-65 years	5 874	13	64.8	1.7
<b>Educational level</b>				
None	443	1	45.0	3.2
Primary	3 974	8.8	57.8	5.0
Secondary	19 230	42.7	76.0	4.4
Post-Secondary	17 470	38.8	89.4	11.5
Degree	2 045	4.5	90.5	1.0
Postgraduate	1 423	3.2	87.7	0.3
Not specified	474	1.1	44.8	7.0
<b>Total</b>	<b>45 059</b>	<b>100</b>	<b>78.2</b>	<b>4.0</b>

Sources: Calculations based on LFS (2014).

...however, while Seychelles' visible unemployment rate is very low, this disguises obstacles to people participating in the economy and accessing high quality jobs, and youth unemployment is significant...

LOW UNEMPLOYMENT BY INTERNATIONAL STANDARDS BUT YOUTH UNEMPLOYMENT IS SIGNIFICANT AND A LITTLE HIGH RELATIVE TO TOTAL EMPLOYMENT



Notes: Full WDI sample, excluding outliers with unemployment rates higher than 25% (for visual clarity). Dotted line shows best-fit linear relationship between total and youth unemployment rates. Sources: ILO modeled estimates via WDI (2014); Seychelles: as calculated from LFS (2014).

### Low unemployment belies:

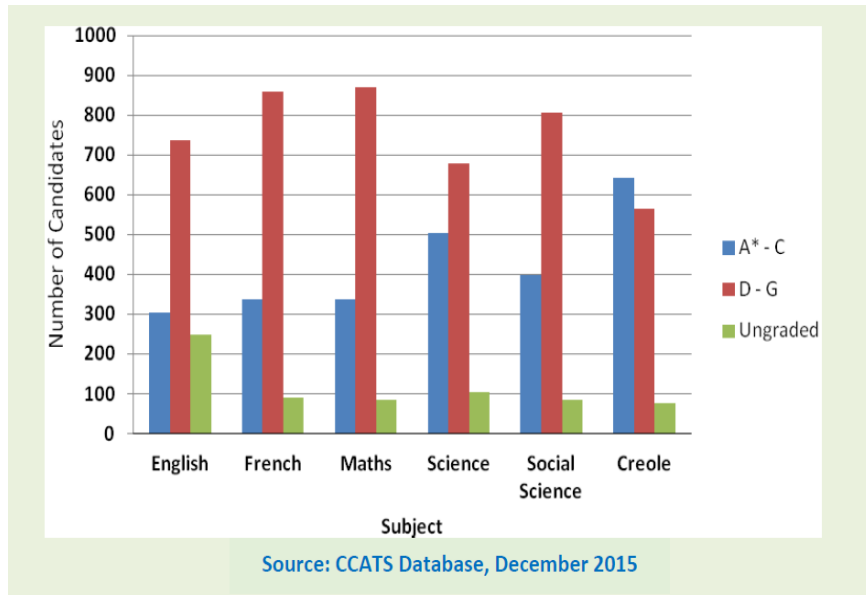
- **Social ills and exclusion from the labor force:** the relatively large prison population significantly reduces the potential available workforce, and is consistent with widespread concerns around social ills (notably drug use). The prison population of 752 compares with an estimated domestic labor force of about 45,000 (i.e. about 2%).
- **Some likely underemployment,** including due to the government's large home care program which employs over 2,500 people (about 6% of the local workforce). As recognized by current efforts towards professionalizing this program, there is some under-employment in this program, and without this the visible unemployment rate would likely be higher.



# ...and there are concerns over both the quality and equity of education outcomes...

## THE EDUCATION SYSTEM DELIVERS VERY FEW HIGH-SCORING GRADUATES

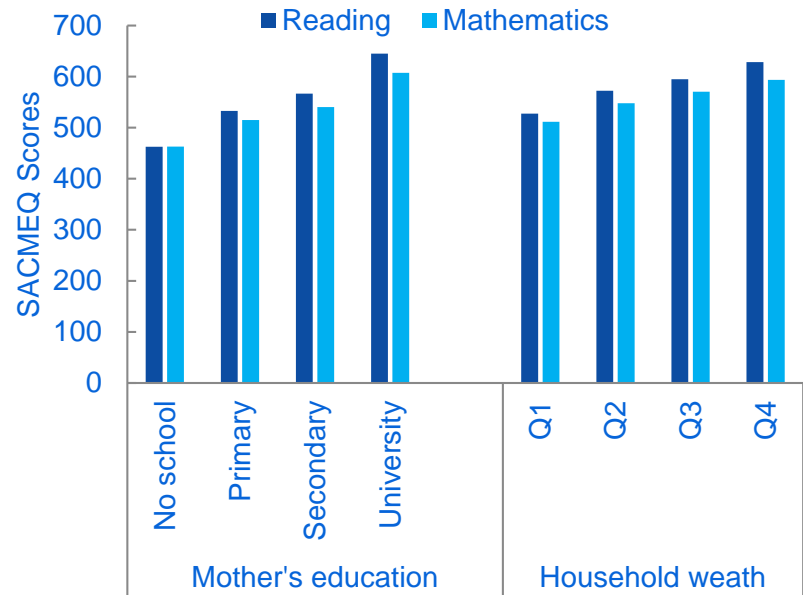
National secondary-school leaving (P6) exam results by subject and grade – 2015



Along with the evidence that **only a small proportion of Seychellois leave secondary education with high scores...**

...there is some evidence that **education quality is behind upper MIC, and certainly high income economy, comparators.** Seychelles did not participate in PISA+. Benchmarking cross-regional comparisons of PISA + results, however, suggests that Seychelles may score lower than upper middle income peers such as Malaysia, Costa Rica, and Chile.

## EDUCATION ATTAINMENT IS HEAVILY AFFECTED BY PARENTS' EDUCATION AND WEALTH



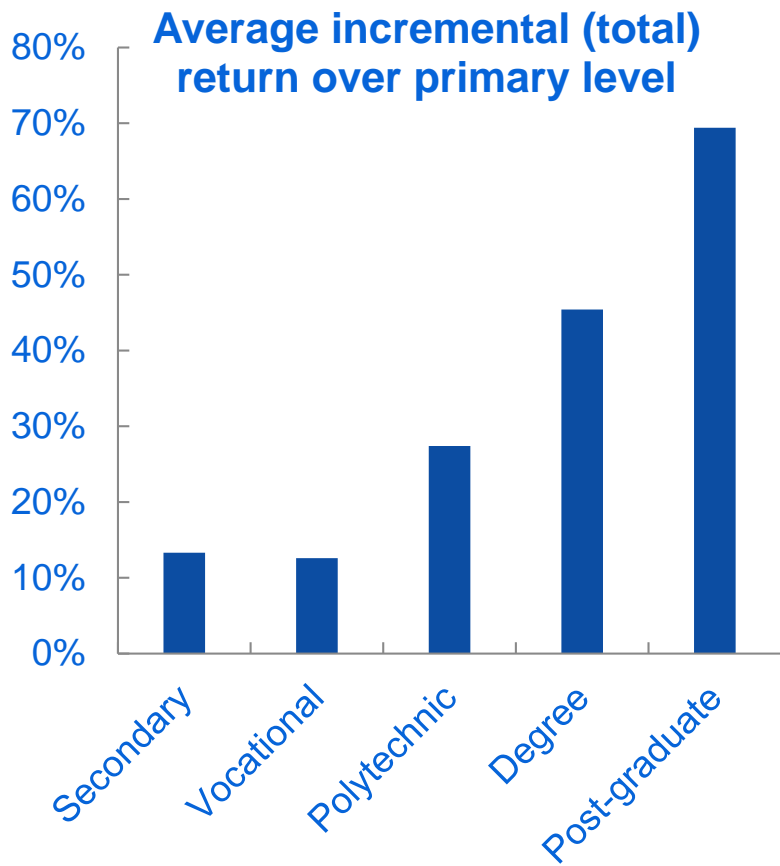
In addition to the score gap for children from less educated and wealthy households, **attendance historically dropped for lower income groups after compulsory education, with 25% of students still not getting a secondary education diploma.**

Sources: World Bank, Seychelles Programmatic Expenditure Review Policy Notes: health, education and investment management (2014).



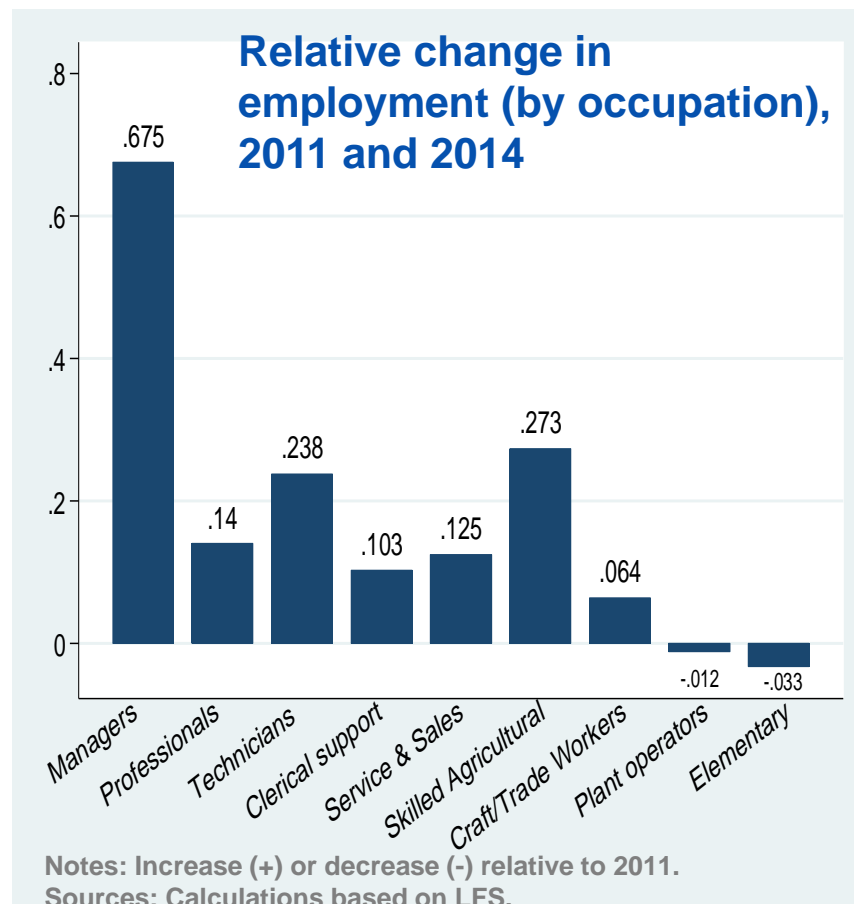
# ...and, as is the case globally, the labor market is increasingly demanding and rewarding skilled workers

## HIGH RETURNS TO EDUCATION – BUT ONLY FOR THOSE WITH DEGREES



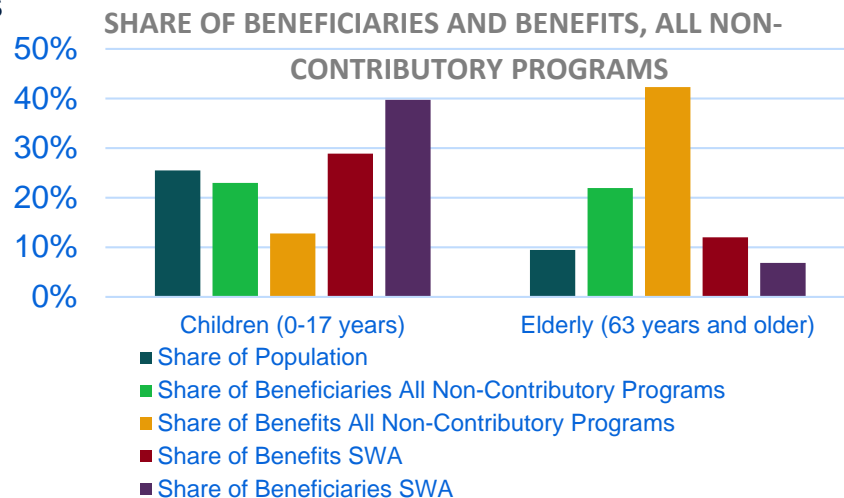
Sources: World Bank staff calculations based on HBS data.

## AMIDST A SHIFT IN LABOR DEMAND TOWARDS HIGHER SKILLED JOBS



## Social protection: reduces poverty but at a high cost, suggesting a need to improve efficiency, equity and sustainability

- Social Protection (SP) has a wide reach: reaches 49% of the population, directly or indirectly.
- It reduces poverty (as measured by the official poverty line) from 48% to 39.3% percent.
- However, the cost of SP is high: 4.3% of GDP in 2015.
- The majority of SP spending is on social assistance (SA): 3.3% of GDP, and after recent increases in benefits (universal pension and home care program) SA alone will absorb 4.3% of GDP in 2016 (estimate).
- The composition of SP spending is skewed to the elderly and away from the youth and poor which raises equity and efficiency concerns:
  - 79% of total SP spending was on the elderly in 2015.
  - The only poverty focused program (Social Welfare Assistance, SWA) accounts for only a small share of spending (0.3% of GDP).
  - Only 8% of the poor are covered by SWA; less than 40 percent of the beneficiaries of universal pension are poor.
- Aging of the population raises sustainability concerns (both contributory and non-contributory programs).
- The SP system could have a greater impact on poverty by focusing on the poor and by improving effectiveness and equity.
- Increasing SWA coverage and benefit levels to include the really needy could increase poverty impact and linking SWA to market labor participation will promote productive inclusion.
- Improved efficiency in homecare program and further reforms on contributory pension scheme will improve fiscal sustainability.
- Modernizing the MIS system will increase efficiency.



Sources: World Bank staff calculations.

# Health: indicators are strong but rising non-communicable diseases and ageing pose sustainability challenges

## Health outcomes are strong

- The state provides free primary and universal access to healthcare.
- Over the years, Seychelles has developed a robust primary care system.
- Life expectancy is high but still below income-level peers, due to the wide women–men life expectancy gap.

## Cause of death has shifted to non-communicable diseases

- Cardiovascular, respiratory diseases and cancer account for about 60% of deaths.
- Amenable cancers constitute a third of all cancer deaths, which implies the role primary prevention and early detection could play in reducing cancer mortality.

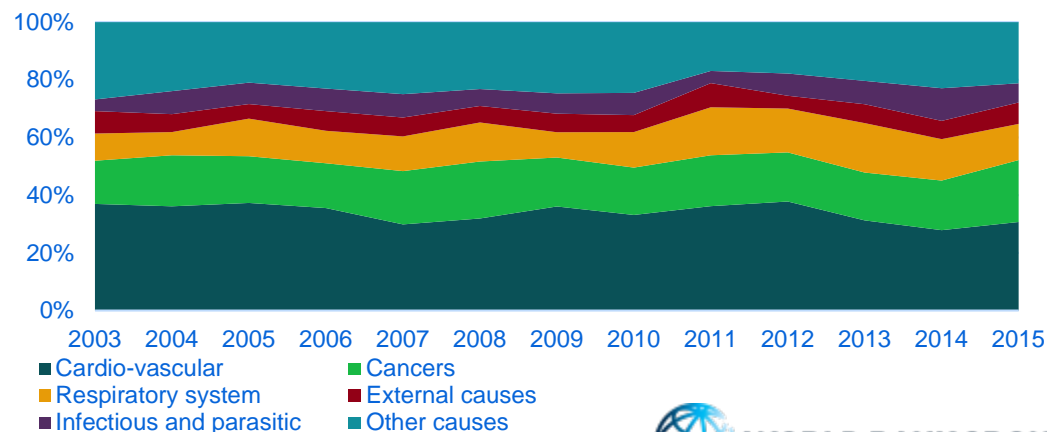
## The population is aging

- A clear shift in the age structure of the population is evident from the censuses of 1994, 2002, and 2010 and mid-2015 population estimates.

Indicator	Selected health indicators				
	Fiji	Cabo Verde	Seychelles	Mauritius	Maldives
Population	886,450	513,906	91,400	1,260,934	401,000
GNI per capita, Atlas method (current US\$)	4,870	3,450	14,090	9,720	6,470
Health expenditure per capita (current US\$)	204	173	494	482	1,165
Health expenditure, total (% of GDP)	4.5	4.8	3.4	4.8	13.7
Life expectancy at birth, total (years)	70	73	73	74	77
Mortality rate, neonatal (per 1,000 live births)	9.8	12.6	8.8	8.7	5.2
Maternal mortality ratio (per 100,000 live births)	31	44	0	54	69

Sources: WDI

Trends in Causes of death as percentage of all deaths



Sources: Staff calculations based on Ministry of Health data.

## 3.3 KEY CONSTRAINTS TO INCLUSIVENESS

- Problems of education and skills
- Problems of job flexibility and access
- Social assistance
- Health

# CONSTRAINT: education and skills development

## Constraint:

- The education system produces a large share of the youth lacking in necessary academic, soft, and vocational skills, and there are insufficient opportunities for continuing education.

## Evidence for constraint:

- Wage inequality is high and use of imported labor has been rising, consistent with a shortage of local supply of the needed skills, and business surveys emphasize worker quality concerns.
- Many workers are “caught in the middle”: the movement of local workers up the wage scale is impeded by the limited set of private sector economic opportunities, and unequal access to quality appropriate skills, while migrants’ share of unskilled work has grown.
- Learning outcomes are unequal already at the end of primary level (P6).
- Progression along the education system, especially up to tertiary level, is linked to income.

## Drivers of constraint:

- Supply side: as a result of the quality and equity challenges in the education system, it delivers a small number of foreign-educated graduates (most of them from the highest income levels), while the rest of the population has lesser job-relevant skills formation.
- Inadequate supply of continuing education (both public and private).
- Demand side: “ossified” insider/outsider labor market, reducing incentives to invest in skills.

# CONSTRAINT: job flexibility is limited, while the structure of the labor market constrains opportunities.

## Constraint:

- Accessing current jobs is encumbered by transportation and working schedules affecting women, single mothers in particular.

## Evidence for constraint:

- Levels of part-time work and more flexible work contracts are very low, and there are signs that this is impeding employment access and earnings especially for youth and women:
  - High tenure premia: older workers with longer job tenure benefit from a tight labor market that benefits other individuals of similar characteristics; a small minority of long-serving employees are compensated with higher wages.
  - Low flexibility in work hours and conditions: as indicated by part-time and casual work being very rare (3.4% and 2.6% of reported workers in 2014).
  - There is a significant and increasing gender wage gap across the wage distribution – with men earning wages that are 9% higher than women at the 10th percentile and 19% higher at the 90th percentile (controlling for other characteristics).

## Drivers of constraint:

- Exogenous: small domestic workforce.
- Rigid employment rules and norms (e.g. work hours, contractual arrangements).
- Some jobs are difficult to access especially for women, given labor market norms emphasizing full time, regular-hour work.

## **World Bank Labor Market Study findings:**

- ***Wage inequality estimated at 0.47 (Gini), a high level.***
- ***[Findings indicate...] a lifetime employment structure coupled with seniority-based wages, where individuals with increasing experience and tenure, controlling for other characteristics, are compensated with higher wages.***

# CONSTRAINT: social protection

## Constraint:

- Social assistance is misaligned, focused on the elderly and not on children and their carers, and is not supporting accessing economic opportunities for those who could work, potentially affecting the structure of incentives.

## Evidence for constraint:

- High overall spending on SP and skew of spending in favor of the elderly
  - Corollary: the SP system could do more to support youth and single mothers facing difficulties improving their skills, accessing work opportunities, and supporting children.
- Longer-term sustainability challenges of the current system.
- The SCD explored but did not uncover hard evidence that the current structure of SP is having negative impacts on incentives to invest in education and work, but there are some signs that this is a concern which should be explored further and factored into any SP reforms:
  - Labor force participation (LFP) and employment are high in aggregate, suggesting *prima facie* that reservation wages are not above market-clearing levels. However, high LFP in particular masks considerable variation by educational attainment and age, being much lower for those with the least education (57.8% for those with primary education), the youngest (15-24 year-old: 57.4%) and oldest (55-65 year old: 64.8%) cohorts. This pattern is consistent with reservation wages being high relative to wages for those with lower current earnings power due to inexperience or less education, and the older with access to the universal pension.
  - “Low wages in available jobs” was the 4<sup>th</sup> most commonly selected reason for not being in work in a recent (2015) Youth Employment Survey.
  - Employers have widespread concerns (reported in surveys such as the WEF GCI, and anecdotally) about low workforce motivation and commonly link this to Seychelles’ historical “cradle to grave” welfare policies.
- Concerns in consultations were raised over the emergence of multi-generational welfare dependency reinforced by peer effects in housing estates, and unequal educational outcomes.

## Drivers of constraint:

- Historically universalist SP policy.
- Limited evidence base for understanding the poverty profile.
- Concentration of spending on the elderly.
- High spending on home carers program, without commensurate skills development.



# CONSTRAINT: Health

## Constraint:

- Rising non-communicable disease prevalence is weighing on life expectancy (especially for men), and healthcare spending risks becoming unsustainable.

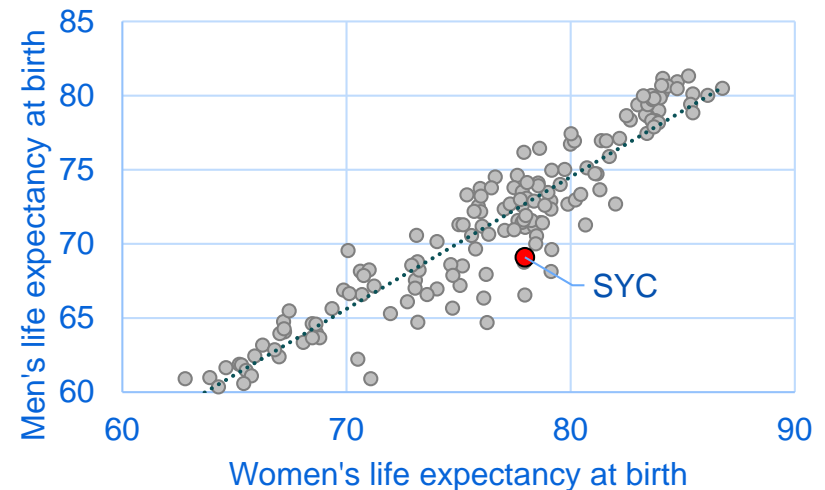
## Evidence for constraint:

- High usage of health services: on average, the population visits health facilities 6 times a year, and in most cases (4 of the 6 visits) is seen by a doctor. This number is very high by any standard.
- The cost of health care provision can be expected to continue to trend upward:
  - Growing non-communicable disease burden
  - Population is starting to age;
  - Low economies of scale; and
  - Advances in technology, rising public expectations for high quality care, and expanding investment.

## Drivers of constraint:

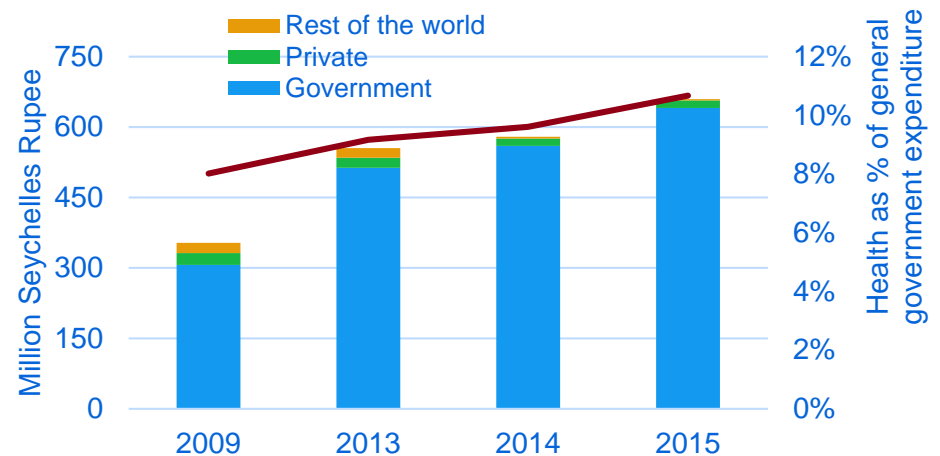
- Over-use of health services and drugs because they are free (primary healthcare is free under the constitution).
- Rising non-communicable diseases, due to lifestyle habits linked to rising prosperity, coupled with lack of health awareness.

Men's life expectancy (69) lags women's (78)



Notes: Sample of all 183 countries with WHO data.  
Sources: WHO.

Total Health Expenditure by Funding Sources



Sources: NHA 2009, 2013, 2014 and 2015.

# Seychelles SCD

## *Productivity, Participation, and Performance*

1. Country context
2. Growth: the need for more productivity-based growth
3. Inclusion: equipping Seychellois to participate in a changing, high income economy
4. **Sustainability: enhancing state performance to support productivity and participation, and to meet environmental and economic risks**
5. Summary and prioritization of constraints identified
6. Data appendix

# 4. SUSTAINABILITY - enhancing state performance to support productivity and participation, and to meet environmental and economic risks

4.1 Main finding and implications

4.2 Environmental and economic vulnerabilities

4.3 The role and effectiveness of the public sector

4.4 Key constraints

## 4.1 MAIN FINDING AND IMPLICATIONS: HOW CAN SEYCHELLES SECURE SUSTAINABILITY?

**Key finding:** high economic volatility, including in the past due to unsustainable growth of the scope and cost of the state, undermines development efforts and poses a continuing risk to inclusive, sustained growth.

### **If this continues:**

- The economy will be more vulnerable to external shocks.
- Unsustainable patterns in state activities and spending could re-emerge.

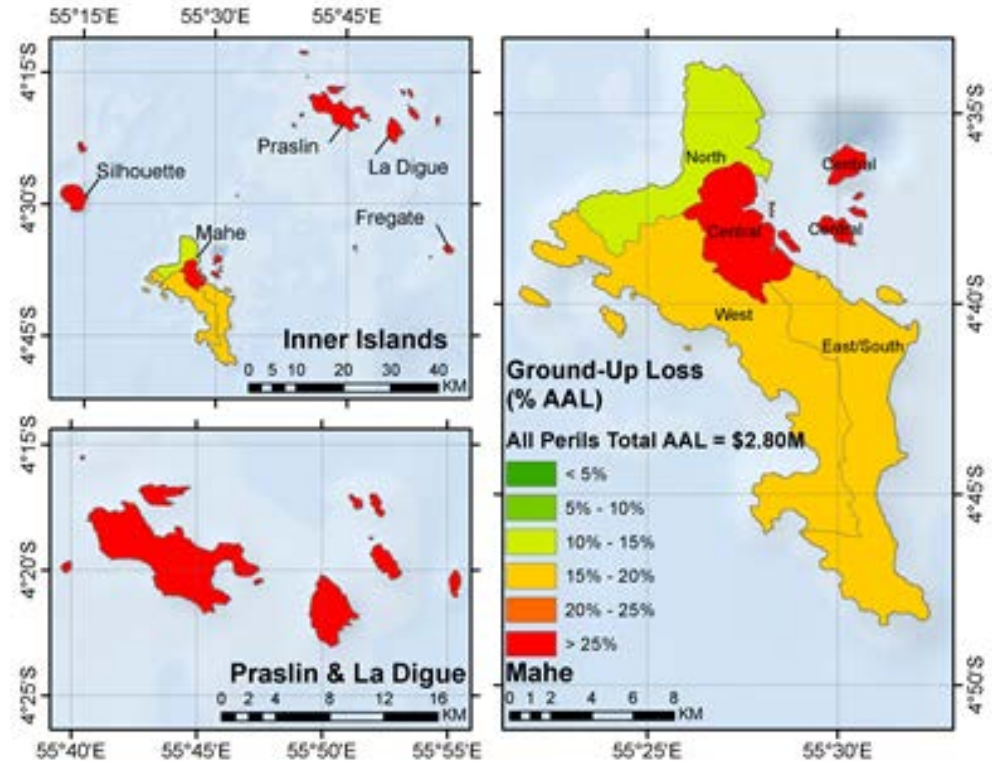
### **Implications:**

- Maintain macro-fiscal policy stability focus.
- Strengthen public sector planning and efficiency.

## 4.2 Sustainability: environmental vulnerabilities...

- Seychelles' location, topography and landscape make it vulnerable to strong winds, tsunamis, storm surge, extreme rainfall, flooding, landslides, rockslides and forest fires.
- Frequent flooding is a particular concern, especially around the capital and the central islands of La Digue and Praslin.
- Tropical cyclones (TC) pose a low-frequency but high-impact risk, as was illustrated by TC Felleng in 2013 affecting the main islands and TC Fantala in 2016 affecting the outer island of Farquhar.
- Average Annual Losses are estimated at US\$2.8 million, mainly due to residential and commercial building damage from flooding.

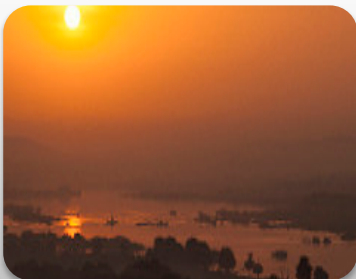
### DISASTER RISK PROFILE



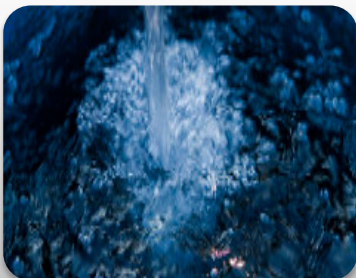
Notes: \* Average annual losses (AAL) is a long term measure of loss that, on average, can be expected to be experienced annually. It is computed by summing all of the aggregate loss estimates for each year for all of the events and dividing the total by the number of years the environmental risks catalog considers.

Sources: World Bank.

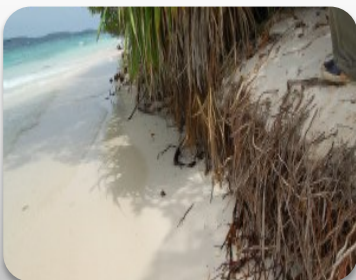
## ...are exacerbated by climate change, which both raises acute disaster risk and poses long-term adaptation challenges



**Rising temperatures:** the Seychelles' region has witnessed an average warming of 0.25°C over 1972-1997. The number of very warm days and nights is increasing dramatically, while the number of very cool days and nights are decreasing which led in 1998 to a loss of 90% of its coral reef.



**Rainfall extremes:** annual rainfall anomaly trends on Mahe for the period 1972-2006 are upward by 13.7 mm per year, indicating a wetter climate. Fisheries have suffered some of the greatest economic losses, for example accounting for 45% of the total estimated monetary losses from extreme rainfall events in 1997-1998 and 1998-2000. This was followed by agriculture (28%), tourism (12%), industry (7%), construction (5%), and forestry (3%). At the same time, **droughts are becoming more frequent:** in 2010 Seychelles suffered its worst drought in decades, followed by flooding. It is projected that the climate will likely be characterized by extreme dry (i.e. prolonged dry spells) and hot episodes.



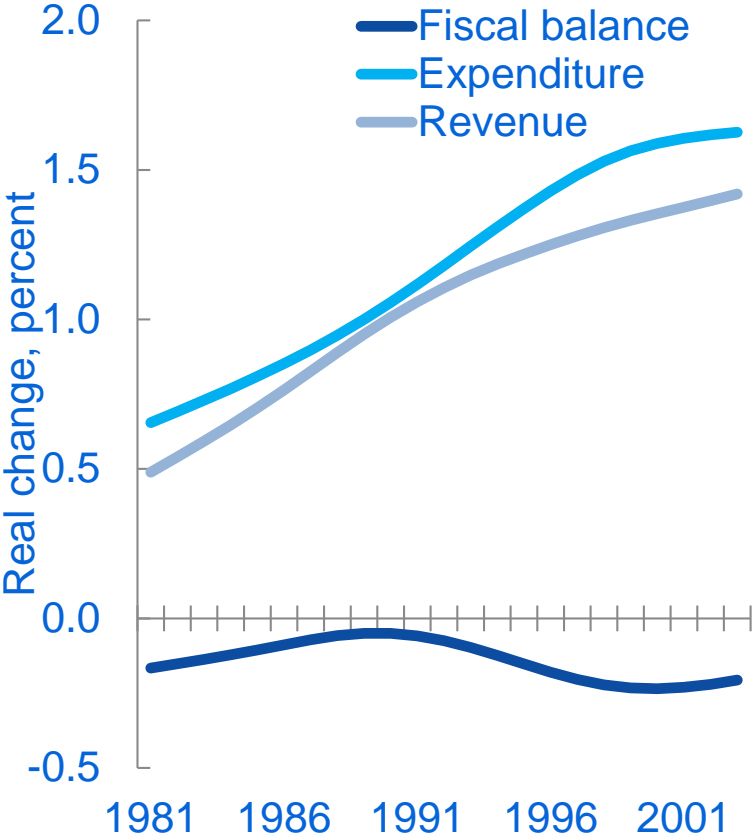
**Sea level rise and storm surges:** from 1993 to 2009, the mean elevation of the coastal plateau of the granitic islands was 2-10m, whereas the coral islands varied from 1.8 meters to 9 meters above sea level. Attributing rising sea level to climate change has become much clearer following recent research showing that for the 1993-2003 period, the contributions from thermal expansion ( $1.6 \pm 0.5$  mm/year) and loss of mass from glaciers, ice caps, and the Greenland and Antarctic Ice Sheets together reach  $2.8 \pm 0.7$  mm/yr. This exacerbates the risk that Seychelles, with its narrow coastal belts and mid-oceanic location, faces from cyclones (although rare for the central islands) and storm surges. The 2013 Cyclone Felleng caused flooding and landslides that led to damages and losses exceeding \$8.4 million, or 0.8% of GDP.

## Sustainability: macroeconomic vulnerabilities

- GDP growth has been volatile even relative to peers.
- The high growth volatility and experience of a lengthy build-up of imbalances leading to the 2008 crisis shows the need for a strong macro and fiscal stability focus:
  - Exchange rate: flexibility, to prevent creeping overvaluation and as a shock absorber
  - FX reserves: as a crisis buffer
  - Fiscal: use of an appropriate anchor to maintain counter-cyclicality and safeguard priority spending despite potential revenue volatility

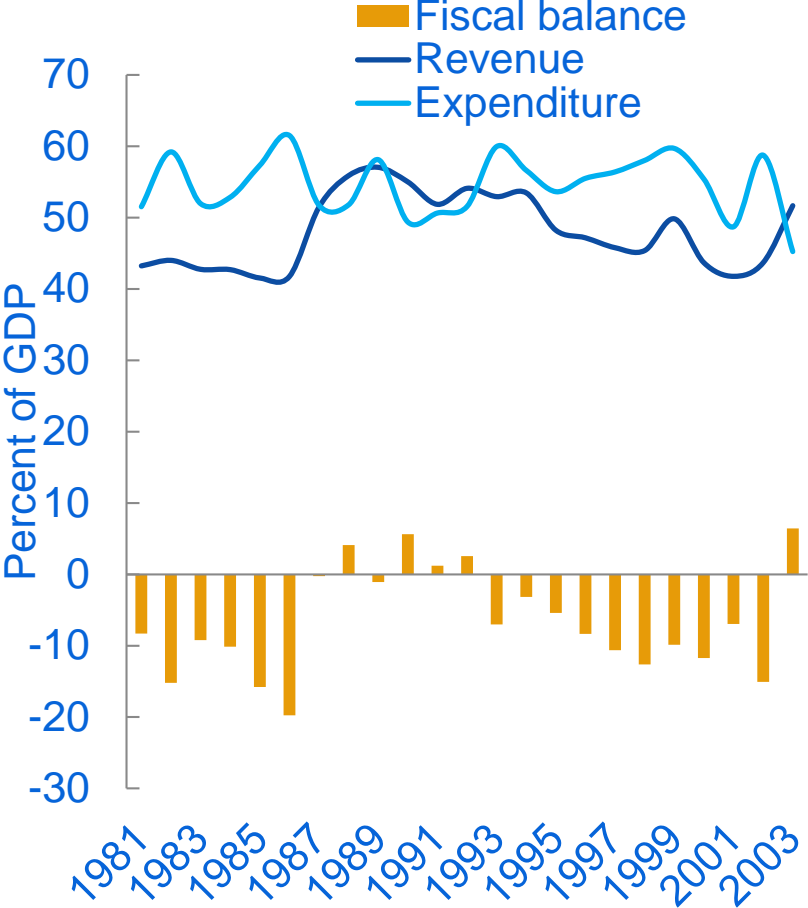
# Seychelles had an economic crisis and debt default in 2008. The root cause was a long build-up through to the early 2000s of domestic macro imbalances

**GOVT. EXPENDITURE GROWTH  
CONSISTENTLY OUTPACED REVENUES...**



Notes: HP filter-based trend.  
Sources: Reinhart & Rogoff, *This Time is Different*.

**...RESULTING IN UNSUSTAINABLY HIGH  
EXPENDITURES AND NET BORROWING**



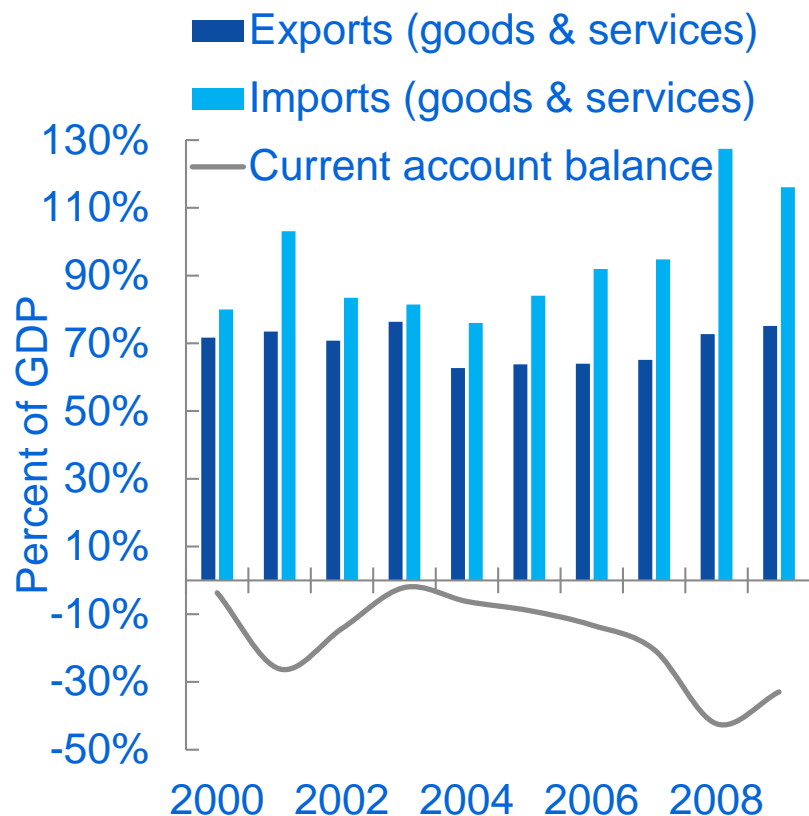
Sources: Reinhart & Rogoff, *This Time is Different*.





# ...leaving the economy vulnerable to the 2007-8 global food and fuel price shocks, and credit crunch

IMPORTS SURGED AS THE ECONOMY GREW  
UNSUSTAINABLY AND GLOBAL PRICES SPIKED



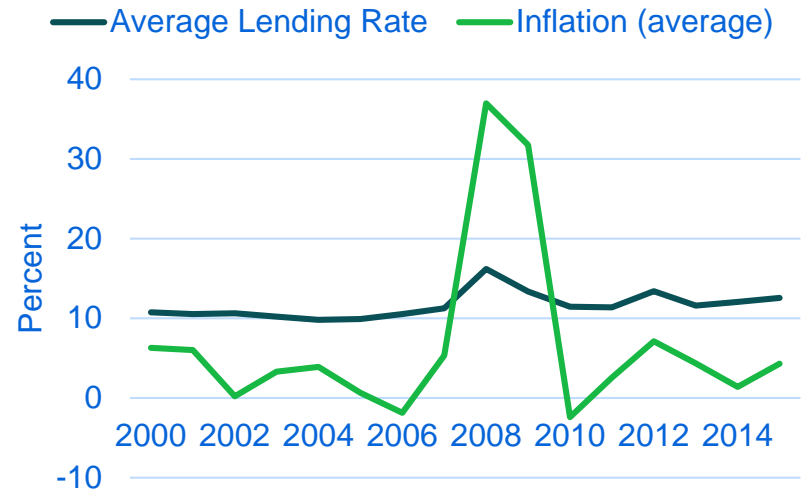
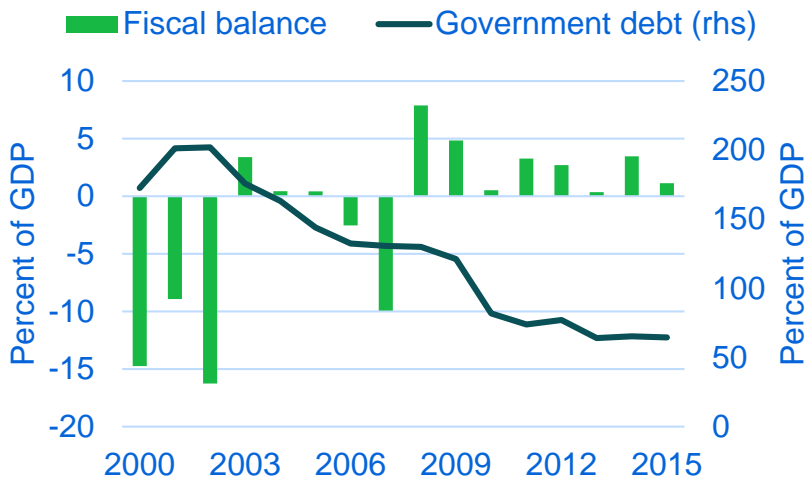
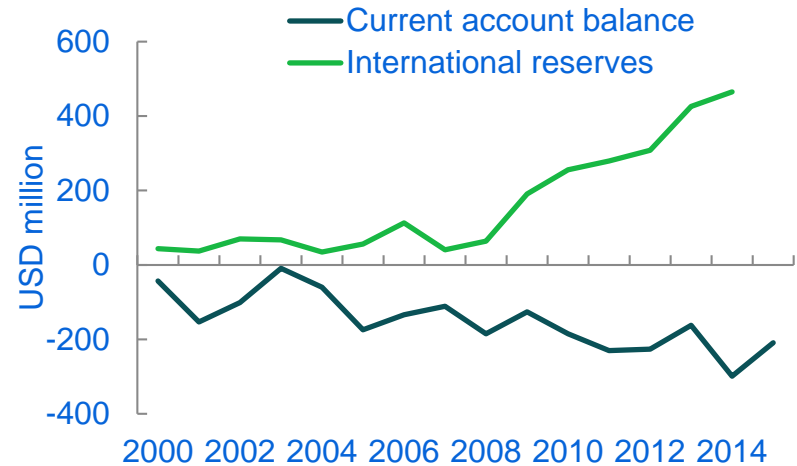
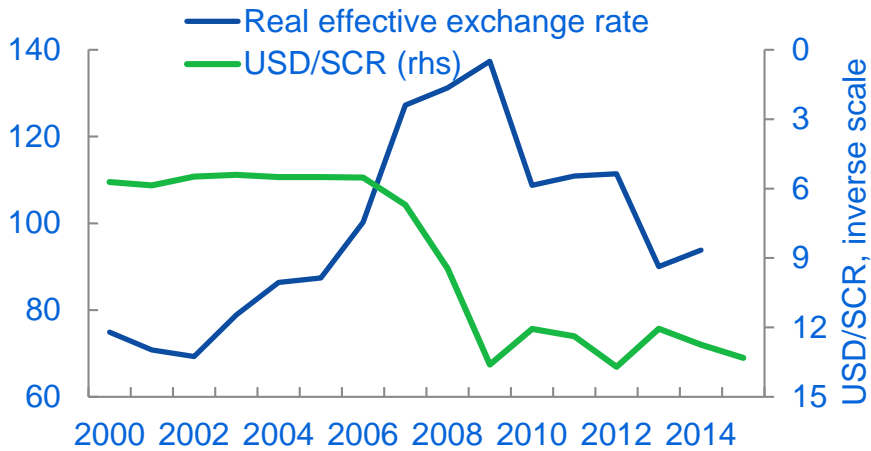
Sources: World Bank staff calculations based on CBS data.

- Domestic and external imbalances built up over many years, driven especially by unsustainable government borrowing...
- ...leaving the economy acutely vulnerable to the global shocks beginning with food and fuel prices in 2007...
- ...and leading to crisis by 2008:
  - Foreign currency (FX) reserves exhausted
  - FX shortages disrupting real activity
  - Rapid external arrears accumulation
- **From the first SSA (ex-SA) sovereign bond, issued in 2006, to default in 2008.**

## The government responded with a major reform program...

- **Exchange rate regime:** fundamentally liberalized, eliminating all exchange restrictions and floating the Seychellois rupee.
- **Monetary policy:** new framework adopted, focusing on liquidity management based on indirect instruments (reserve money target).
- **Fiscal policy:** tightened, backed by a reduction in public employment and replacing indirect subsidies with a social safety net.
- **Structural measures:** role of the state reduced, through privatization, enhanced fiscal governance, and a review of the tax regime.
- **International support:** IMF Stand-by Arrangement (November 2008); Paris Club debt restructuring agreement (April 2009); resumption of World Bank DPLs (November 2009).

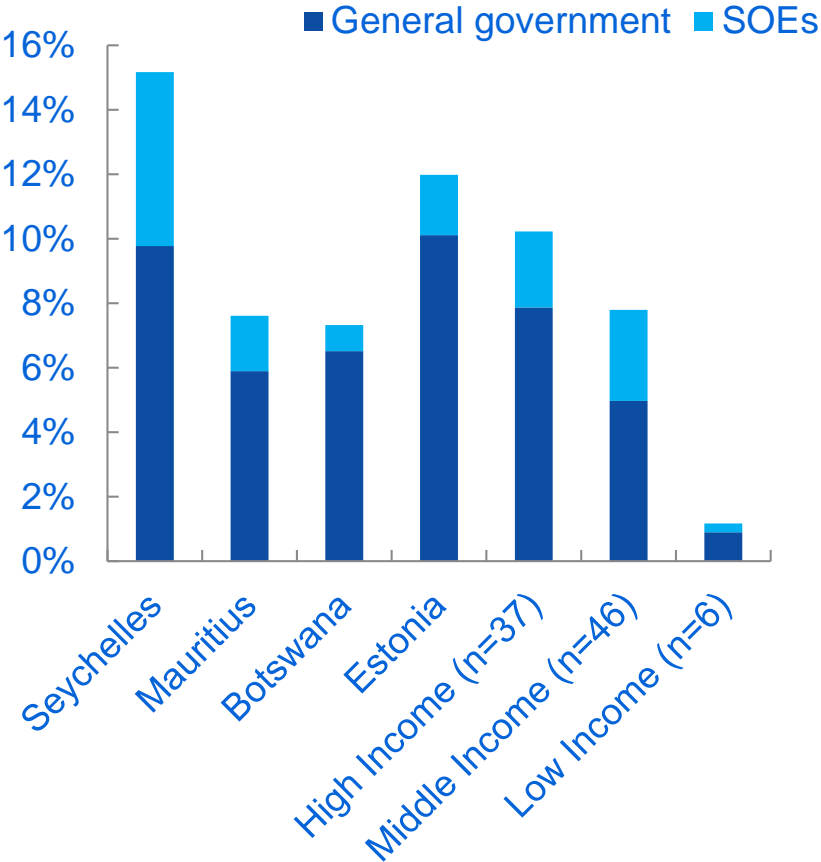
# ...with highly successful macroeconomic stabilization results



Sources: CBS.

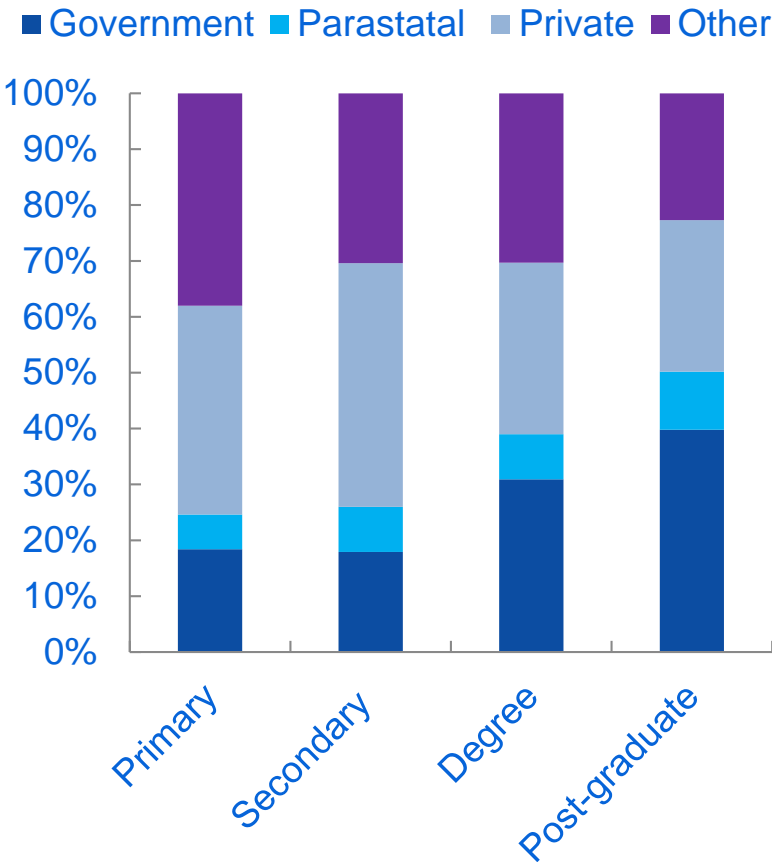
# The public sector continues to house a high proportion of Seychelles' resources, notably human capital

EMPLOYMENT IN GOVERNMENT AND SOES AS A SHARE OF TOTAL POPULATION



Notes: Data for 2010 except Mauritius (2008).  
Sources: World Bank (November 2015).

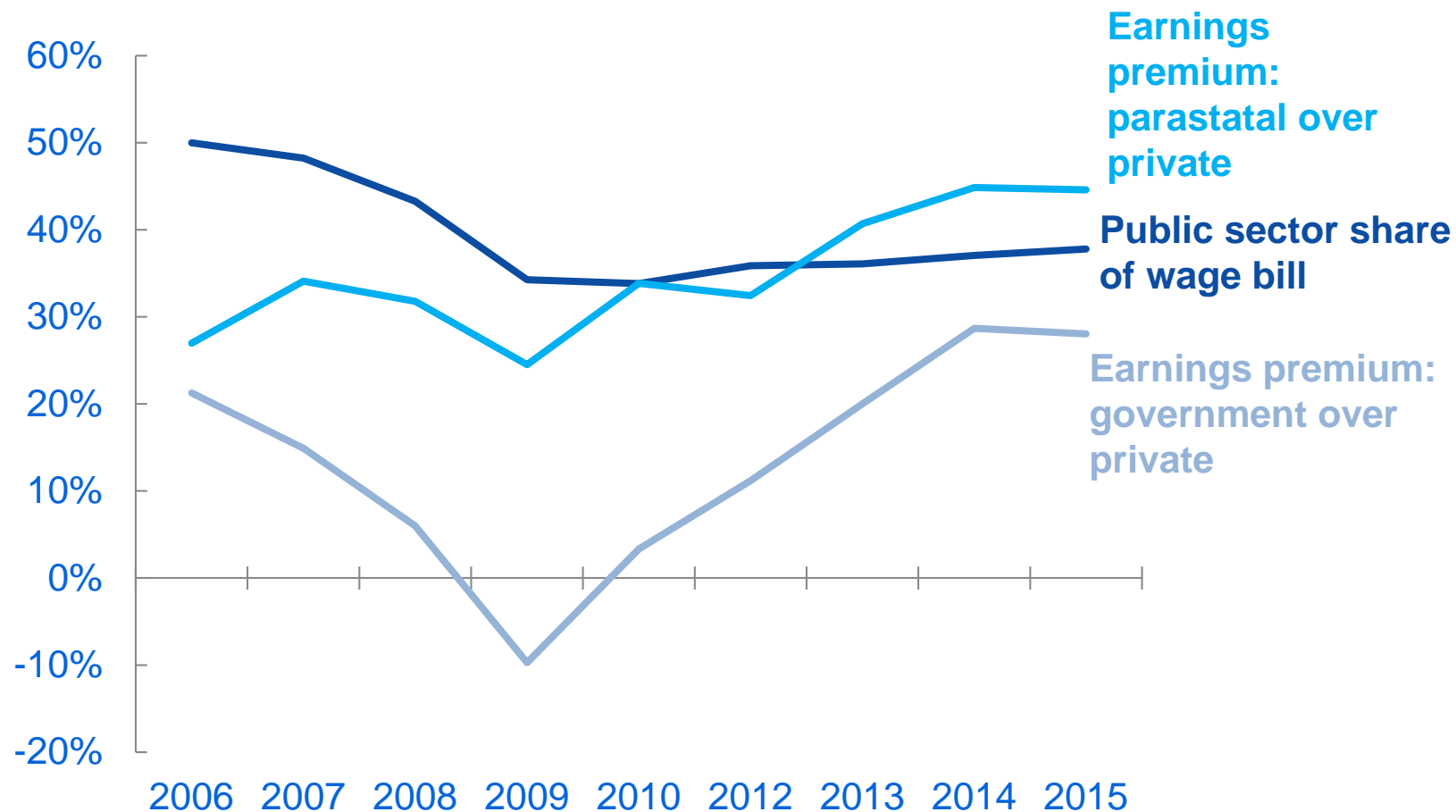
SECTORAL ALLOCATION OF LABOR FORCE BY EDUCATION CATEGORY



Notes: Data from 2014. "Other" is a broad category including employment in households, sector not reported etc.  
Sources: World Bank, Seychelles Labor Market Report.



## Recently, there has been some renewed upward pressure on fiscal expenditures, and a growing private-public earnings gap

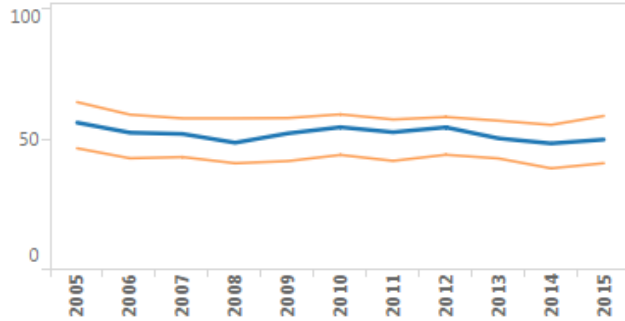


Notes: wage bill and earnings premia are proxy indicators based on the products of average earnings and employment headcounts.

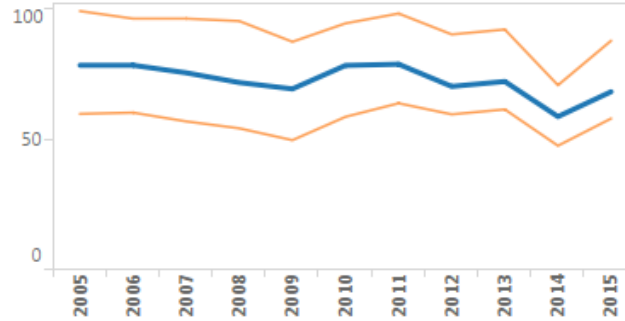
Sources (all charts): World Bank staff calculations based on NBS data.

# Government effectiveness and regulatory quality trends are positive, but “voice & accountability” moves sideways...

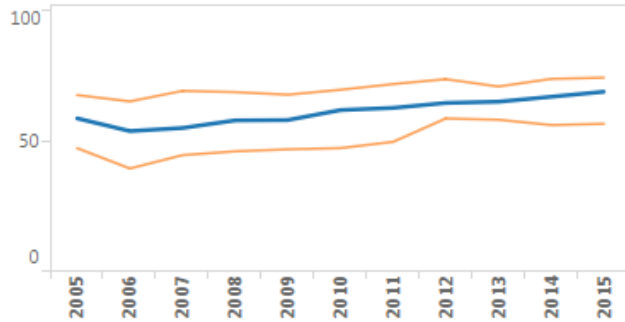
Voice and Accountability



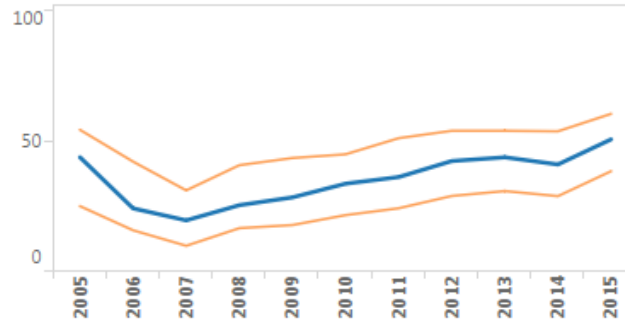
Political Stability and Absence of Violence/Terrorism



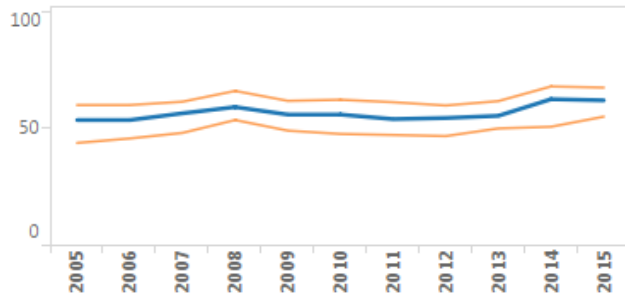
Government Effectiveness



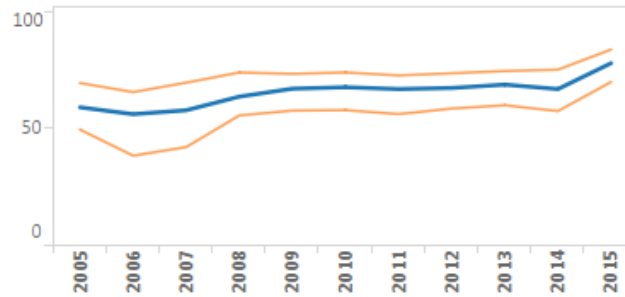
Regulatory Quality



Rule of Law



Control of Corruption



The inner, thicker blue line shows the selected country's percentile rank on each of the six aggregate governance indicators. The outer, thinner red lines show the indicate margins of error.

Sources: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*.

## ...and Seychelles still lags its peers in key governance indicators

**World Bank's Worldwide Governance Indicators: Seychelles' ranking compared (2015)**

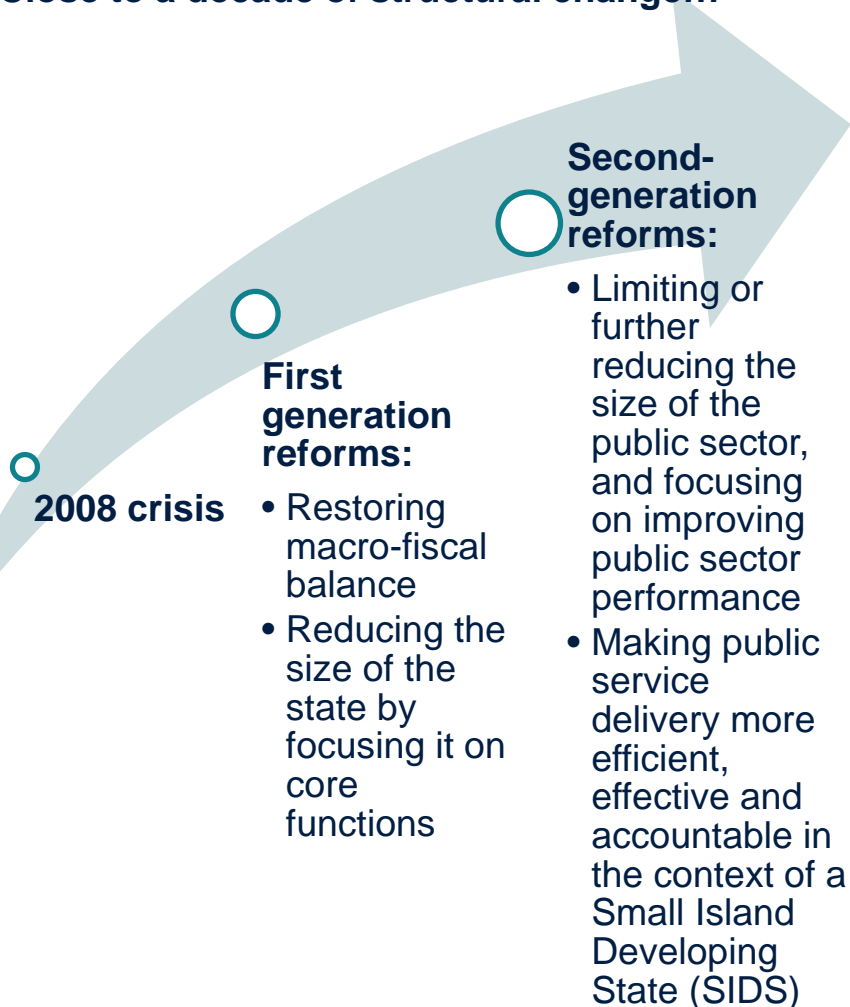
	<u>Seychelles</u>	<u>Mauritius</u>	<u>Botswana</u>	<u>Cape Verde</u>	<u>Maldives</u>	<u>Barbados</u>	<u>Iceland</u>
<b>Voice &amp; accountability</b>	49.3	73.4	61.6	76.4	37.4	91.6	94.1
<b>Political Stability &amp; Absence of Violence/Terrorism</b>	60.2	71.4	85.4	59.7	78.6	97.6	93.2
<b>Govt Effectiveness</b>	68.3	82.7	64.9	55.3	41.8	87.0	90.9
<b>Regulatory Quality</b>	43.3	80.8	72.1	52.9	39.9	63.5	88.0
<b>Rule of Law</b>	62.5	78.8	74.0	72.6	36.5	81.7	90.9
<b>Control of Corruption</b>	66.9	67.8	76.0	76.8	54.8	81.7	94.2

Sources: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues.

## 4.3 Governance: Seychelles recognizes the need to strengthen state performance...

This is occurring amidst political change culminating in cohabitation since Sep-16 between the party of government and the opposition coalition in the National Assembly

Close to a decade of structural change...



...grappling with hard questions:

- How can the post-2008 improvement in macroeconomic stability be maintained and what does this mean in terms of managing the size and performance of the public sector?
- Government is already moving towards greater performance through integrated Results-Based Management (RBM):
  - Strategic planning,
  - Program-based performance budgeting
  - Performance management; and
  - Performance Monitoring & Evaluation.
- How can wagebill management, PIM and SOE performance be further addressed?
- Moving beyond the supply side, how can the government strengthen the demand side of governance, working with other partners, particularly parliament, now led by an opposition party coalition, as well as with the civil society?



## ...governance, as in all small island developing states (SIDS), remains a major challenge

- **Seychelles has shown commitment to strengthening public sector governance, including taking on the most challenging performance reforms.**
  - Seychelles is a leader in the region in implementing an integrated RBM reform process and is considered an example by others in the region.
  - In a SIDS context, implementation can often be more agile and move at a fast-track if political commitment is there and a strong set of dedicated reformers is in office.
- **With a small population, maintaining a smaller public service is sometimes easier, service-delivery challenges can be more manageable and there can be good opportunities to harness ICT solutions for governance and eliminating the disadvantage of remoteness.**
- **Yet there are also significant risks to governance for SIDS like Seychelles:**
  - Given the small population size, and close community and extended family ties, strengthening public sector accountability in a SIDS is a greater challenge than in other countries; and Seychelles is no exception.
  - Challenges in ensuring broad access to public office and the public service, creating risks of elite capture.
  - Risks of conflicts of interest between public and individual interests, due to the reduced transparency and limited access to information.
  - Collusion between the public and private sectors, limiting competition (for example, causing procurement problems) and opening opportunities for corruption.

# Constraints to sustainability

- Macro and fiscal policy stability
- Public (government and SOE) spending efficiency
- Governance: transparency, and accountability of public action
- Ability to absorb environmental and global economic shocks
- Water

## CONSTRAINT: Macro and fiscal policy stability

### Constraint: Macro and fiscal policy stability

- Challenge to prioritize public expenditure (investments and social spending) within a consistent and sustainable macroeconomic framework, and avoid the build-up of fiscal pressures and risks, including from SOEs.

### Evidence for constraint:

- Build-up of macroeconomic imbalances that led to the 2008 crisis.
- High volatility of growth even relative to other small island economies.
- High government absorption even relative to other small island economies.
- Ongoing fiscal risks from SOEs.

### Drivers of constraint:

- Exogenous: shocks inevitable for small island economy.
- Endogenous: public expenditure pressures arising from the uneven distribution of wealth and the state-driven approach to development, notably through SOE investments, have historically undermined macroeconomic stability.
- The fiscal discipline fostered by the 2008/2009 crisis and its successful management may be weakening:
  - Ad-hoc piecemeal responses to political challenges, renewed growth of public institutions and mandates.
  - Analytical work has identified weaknesses in the procedures and mechanisms for deciding on the capital budget and for coordinating policy and actions across public enterprises.

## **CONSTRAINT: Public spending planning and efficiency**

### **Constraint:**

- Public (government and SOE) spending efficiency: capacity to track and monitor the efficiency of government programs and sustain a path of continuous improvements.

### **Evidence for constraint:**

- In general, the efficiency and efficacy of public expenditure matter for welfare, given a situation where the government is playing a significant direct and indirect redistributive role. This is the case in Seychelles, where the need to enhance public spending efficiency and service delivery is well-recognized by the government.

### **Drivers of constraint (as identified by ongoing analytical work):**

- Weak alignment between sector allocations and national strategy.
- Allocation misalignments within major sector programs, such as in social assistance.
- Limited historical investment in M&E.
- Lack of benchmarking of sector programs.

# **CONSTRAINT: accountability and transparency of public action**

## **Constraint:**

- Transparency and accountability of public action.

## **Evidence for constraint:**

- Governance indicators: Seychelles' governance rankings place the country well below relevant peers in terms of income per capita.

## **Drivers of constraint:**

- Being a small country presents intrinsic challenges to governance, especially to accountability with potentially destabilizing consequences.
- Highly “networked” society raises concerns about accountability and transparency.

# CONSTRAINT: Environmental and global economic shock resilience

## Constraint:

- Absorbing environmental and global economic shocks: financial and technical capacity to manage global economic and environmental risks, and the growing impact of climate change.

## Evidence for constraint:

- High volatility of growth even relative to other small island economies.
- Land use planning and urban development does not incorporate disaster risk assessment.
- Industrial production infrastructure is exposed to natural and man-made hazards.

## Drivers of constraint:

- Exogenous: as a very small open economy, Seychelles is buffeted by global economic and financial volatility. And its small island geography in the open ocean renders it vulnerable to environmental and climatic risks.
- The fragile environment will increasingly come under threat from climate change, potentially impacting the sources of welfare (e.g. through the crucial tourism sector).
- Should suspected hydrocarbon resources be confirmed, this would call for balancing environmental concerns and economic gain.

# CONSTRAINT: water and sanitation

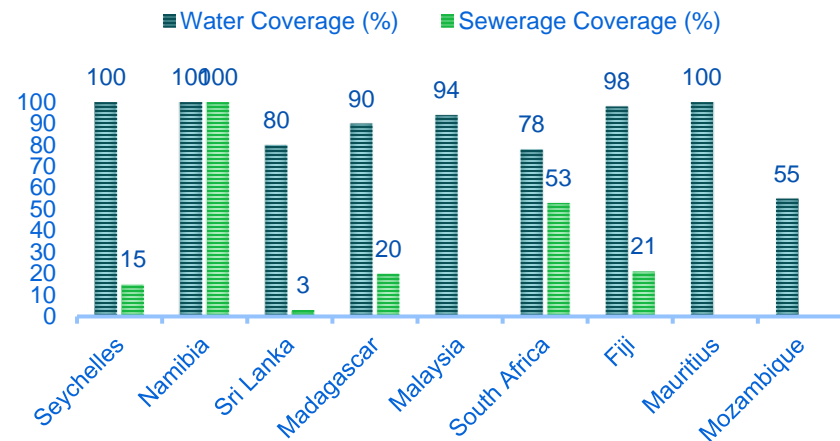
## Constraint:

- Sanitation coverage is predominantly on-site and seasonal water scarcity is increasing.

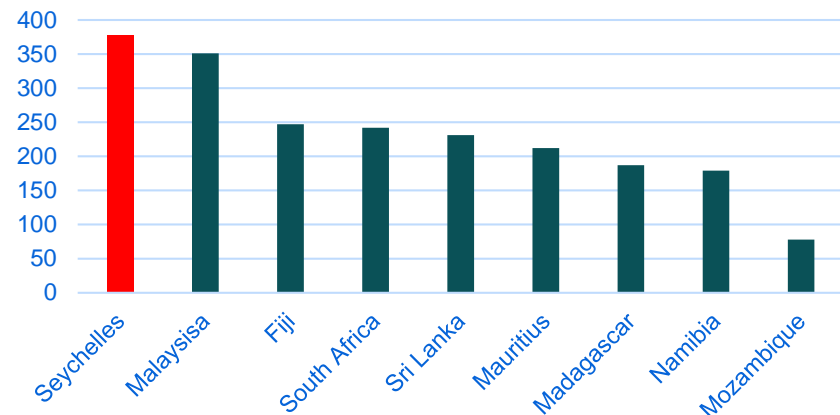
## Evidence for constraint:

- Piped sewerage coverage is very low and although the impact of limited wastewater management on the environment has not been formally assessed (an evidence gap), improved centralized sewerage would confer environmental and land-use benefits compared to the current widespread use of small-scale and home treatment tanks.
- There is universal piped water coverage but due to low tariffs/cost recovery, water use per capita is very high, and Seychelles faces an increasing seasonal water scarcity challenge given a rising concentration of rainfall in December and January, and few feasible dam sites.

## Water and sanitation coverage



## Total water consumption (l/person/day)



Sources (both charts): IBNET Blue Book 2014. No data available for sewerage coverage in Malaysia, Mauritius, and Mozambique.

# Seychelles SCD

## *Productivity, Participation, and Performance*

1. Country context
2. Growth: the need for more productivity-based growth
3. Inclusion: equipping Seychellois to participate in a changing, high income economy
4. Sustainability: enhancing state performance to support productivity and participation, and to meet environmental and economic risks
5. Summary and prioritization of constraints identified
6. Data appendix



# 5. Constraints: summary and prioritization

5.1 Three overarching challenges

5.2 Prioritization of constraints

## Key challenges identified (“3 Ps”)

- **Productivity:** steer the economy towards a higher productivity growth path, while benefiting from being under the shield of the solid expected medium-term growth rate (base case)
- **Participation:** bring the benefits of economic growth to the B40, and position Seychellois to contribute to and benefit from a higher productivity path
- **Performance:** provide an agile, efficient and effective (state) platform to anchor the productivity and participation agendas, and manage risks

## Prioritization criteria

1. How much does the constraint impact on the Twin Goals?
  - For Seychelles, with low absolute poverty, the focus is on increasing shared prosperity by addressing the “3Ps”: productivity, participation, and (state) performance
  - Includes how complementary addressing the constraint would be, to support the resolution of other constraints
2. How strong is the evidence base on the nature and magnitude of the constraint? Or are more data and analysis needed (knowledge gaps)?
3. Attainability of removing constraints (cost, time scale and technical difficulty)

## Five priority constraints

- Tackling shortfalls in the private sector enabling environment
- Macroeconomic and fiscal policy stability
- Public (government and SOE) spending efficiency
- Education and skills development
- Social assistance

# Tackling shortfalls in the private sector enabling environment

*Strong evidence, high impact on the three challenges, and a medium level of attainability.*

- Reduce administrative costs of opening and operating a business
- Generate and maintain an even playing field for economic activity (i.e. tighten SOE mandates to preclude predatory behavior, break vertical integration in tourism, evaluate market structure/competition issues in sectors such as ICT, banking)
- Deliver regulatory certainty to open opportunity to investment and innovation in new activities. Avoid *ad hoc* policies (e.g. in the Blue Economy)
- Take regulatory and enforcement steps to address the challenges posed by bank de-risking
- Use strategically critical assets such as land to guide moves towards higher value added activities

***For a dynamic and fair private sector***

## Macroeconomic and fiscal policy stability

*Strong evidence, high impact on the three challenges, and a medium level of attainability.*

- Reduce expenditure discretion through multiannual budgeting anchored in sector strategies
- Protect the revenue base
- Sharpen SOE mandates and monitor their compliance with commitments
- Monitor overall fiscal risks
- Anchor macro sustainability in precise targets (e.g. public debt to GDP, net public sector wealth, investment rate)
- Broaden monetary policy instruments and maintain the flexible exchange rate

***To avoid economic crises and weather external shocks***

## Public (government and SOE) spending efficiency

*Strong evidence, critical for Performance, important for Participation, efforts already underway (attainable).*

- Anchor state action and public expenditure on a vision and a strategy
- Monitor budget outcomes and impact
- Promote increases in SOE sector operating efficiency to reduce reliance on the state, create buffers against uncertainty, and strengthen service delivery
- Sharpen public investment budgeting (project selection, integration of national objectives, framework for PPPs)
- Review and simplify state structure and functions

***For a lean and effective state, that reinforces economic stability***

# Education and skills development

*Sufficient evidence, potential high impact on Productivity and Participation, attainability combines long-term challenges and potential quicker wins.*

- Quality foundation skills from an early age:
  - Implement the Strategic Framework for Early Childhood Development, ensuring a strong multisector approach
  - Invest in teachers' academic and professional development
- Relevant skills for employability:
  - Develop socio-emotional skills from an early age and build on this through the establishment of the centers of excellence and overall secondary, TVET, and post-basic education reform
  - Consider labor market needs and returns to education
- Equal access to skills development:
  - Use an equity lens while improving the efficiency of expenditure, and refurbishing secondary education and TVET reform
  - Overall gains in education must not increase gaps among the population

***To transform the skills base of the population***



## Social assistance

*Strong evidence and impact on the three challenges*

- Prevent emergence or reinforcement of inter-generational poverty cycle
- Review and revise eligibility criteria to assist those in need (improved targeting)
- Realign public resources accordingly for greater efficiency (welfare spending envelope)
- Seek greater efficiency (ICT tools, linkages with other information sets)

***To break the social assistance silo by focusing on the health and education of the poor, and facilitating access to jobs***

## Five additional priorities

**Credit:** *important for Productivity and Participation, relatively less clarity on extent to which it is a constraint or a symptom, or on feasibility of addressing issues*

**Energy:** *important for growth and sustainability, less binding at present for addressing the key challenges (3Ps)*

**Labor market functioning:** *critical for Participation, issues may reflect other constraints*

**Health:** *critical for Productivity and Participation, already a strong base for further improvements*

**External economic and environmental shock resilience:** *important for growth and sustainability, will be helped substantially by progress on other constraints linked to Performance*

## Three likely priorities

**Transport and other input costs:** high logistics, and domestic and international connectivity, costs, impede tapping international markets, while options to produce for the domestic market are limited by its small size. Amongst other input costs, land and property pricing and market functioning have been identified as knowledge gaps

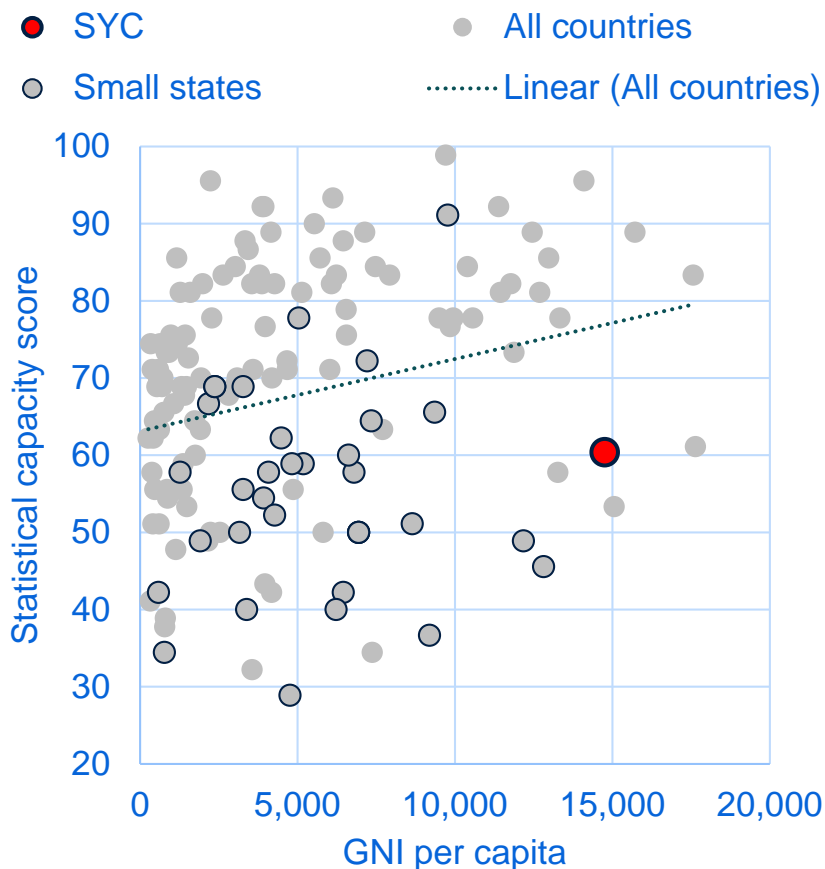
**Water & sanitation:** More evidence is needed on the sustainability of Seychelles' water investment requirements in light of intensifying seasonal water scarcity, and on the environmental and other benefits vs. costs of sewerage

**Governance:** improving transparency and accountability is a clear priority of government and can contribute to addressing the constraints identified above to strengthen state performance

# Cross-cutting constraint: limited evidence base to inform policies

- Significant data limitations were encountered in the SCD exercise, including in:
  - Key sectors (tourism, fisheries value-added), overall national accounts (incl. for SAM estimation), key prices (e.g. land and housing, logistics costs)
  - Systematic and comparable HH survey data for growth incidence and inclusivity analysis; lack of enterprise survey data
  - Lack of consolidated statistics to quantify key trends such as expatriate contribution to sectoral and aggregate labor force
- Seychelles could benefit significantly from more investment and capacity-building in primary data collection and use (surveys and administrative data capture), and digitization:
  - Necessary for effective public expenditure planning and M&E
  - Confers efficiency and “arms length” (regulatory transparency and consistency) benefits

STATISTICAL CAPACITY SCORE IS AROUND AVERAGE FOR SMALL STATES; LOW RELATIVE TO INCOME



Sources: WDI (Seychelles score adjusted as per new methodology).

## Towards the 3Ps: priority knowledge gaps to fill

- For effective public policies to back the efficient, sustainable use of Seychelles' economic factors of production:
  - Environmental sustainability data and analysis (e.g. wealth accounting including natural capital)
  - Integrated view of, and policies regarding, labor allocation, migration, and skills development (e.g. STEP survey)
  - Land and housing markets, for growth (scarcity of land; real estate activity growth) and inclusion (high home ownership rate, supported by state housing provision and mortgage subsidies)
- For effective overall economic management:
  - Analytical work to develop appropriate recommendations to anchor fiscal policy, such as for a fiscal rule or to institutionalize a fiscal council
  - Market structure (including contracts) and performance analysis, and application of best-practice sector management in strategic areas, especially blue economy (tourism, fisheries), logistics prices and performance (especially of the port), financial sector development
- For social outcomes: consolidated statistics and assessment of the overall public effort on inclusion (i.e., income inequality is relatively high, but the extent to which tax incidence and public services and social transfers reduce inequality in overall welfare is not clear)

# Summary: priorities for meeting Seychelles' Productivity, Participation, and Performance challenge

## Five top priorities

- Private sector enabling environment
- Macro and fiscal policy stability
- Public spending efficiency
- Education & skills development
- Social assistance

## Five additional priorities

- Credit
- Energy
- Labor market functioning
- Health
- External economic and environmental shock resilience

## Three likely priorities

- Transport & other input costs
- Water & sanitation
- Governance

# Seychelles SCD

## *productivity, participation and performance*

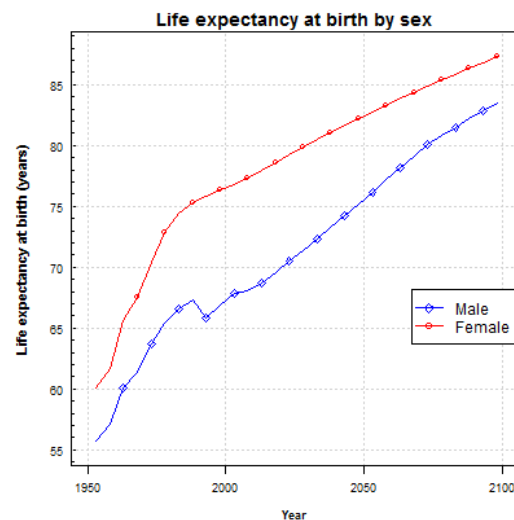
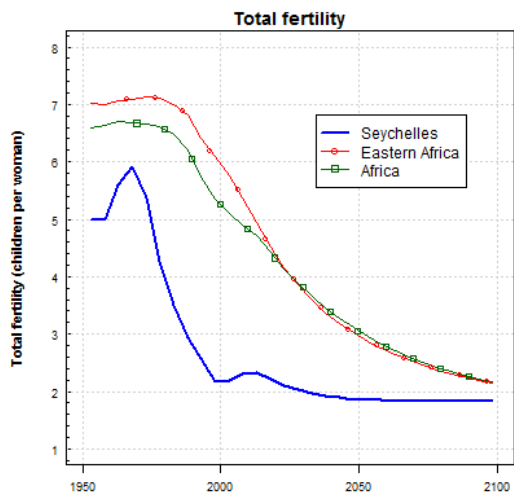
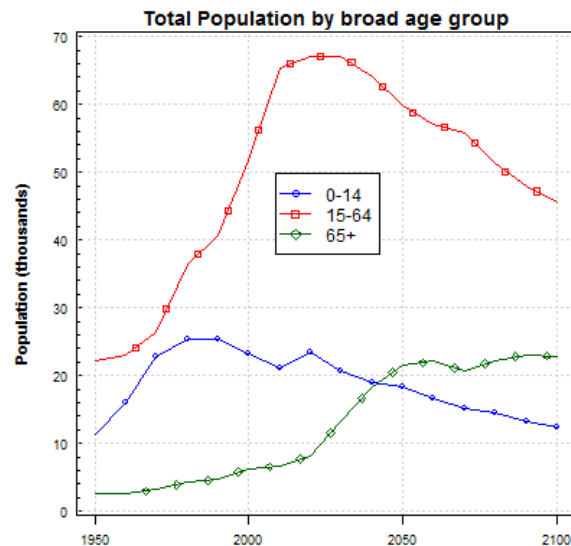
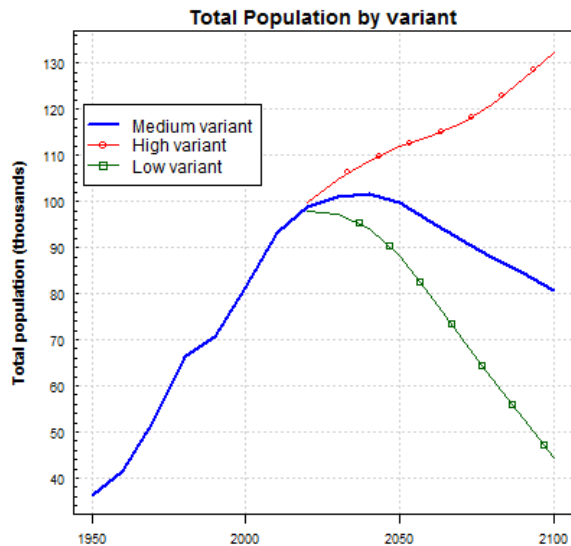
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# DATA APPENDIX

- Demographics
- Gender snapshot
- Labor allocation by education level
- Health
- Sea and air connectivity
- Financial sector
- Water
- Environmental risks assessment
- Macroeconomic and development indicators at a glance
- Map



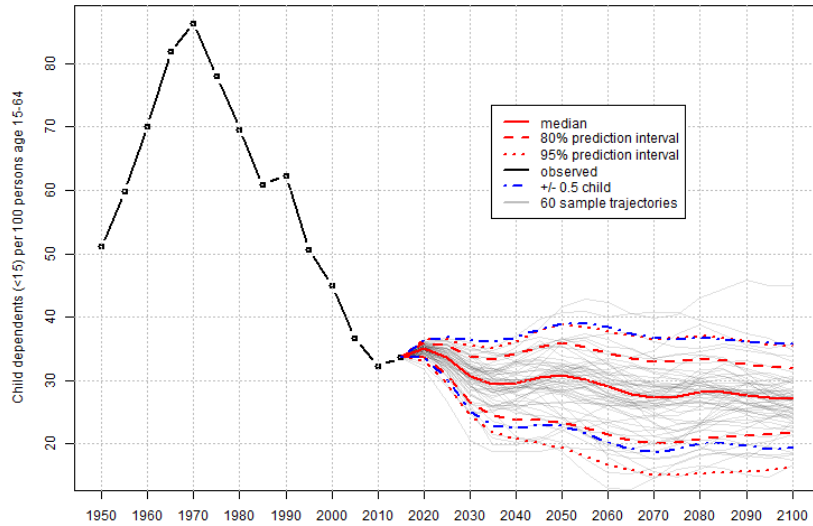
# Demographics: Population is likely close to peaking (~100k)



Sources: United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision.

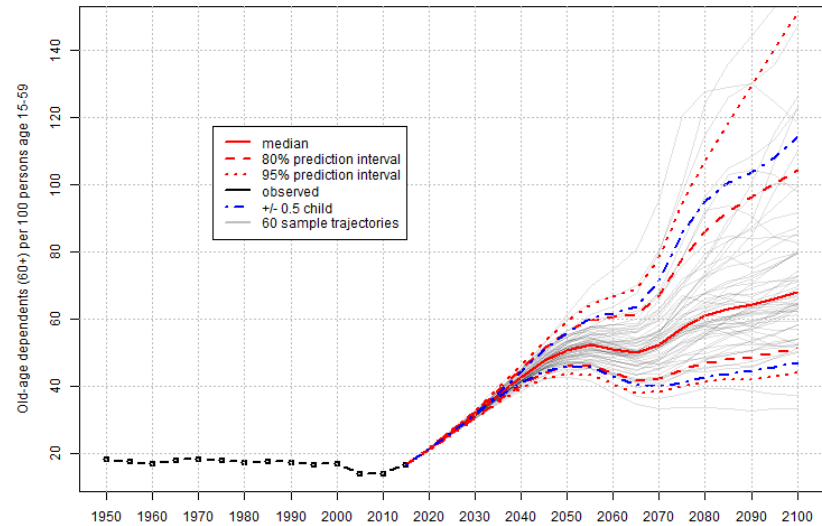
# Demographics: ageing beginning to push up dependency ratio

**Seychelles: Child Dependency Ratio**  $\frac{\text{Age } <15}{\text{Age } 15-64}$



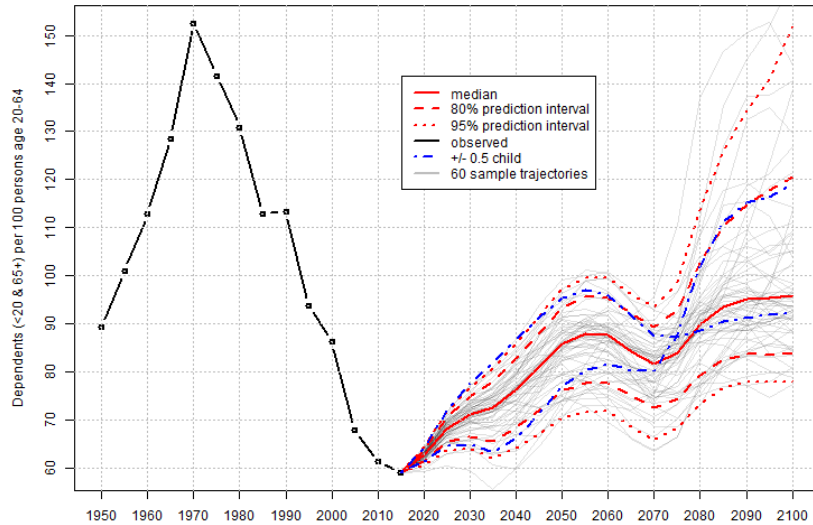
Source: United Nations, Department of Economic and Social Affairs, Population Division (2015).  
World Population Prospects: The 2015 Revision. <http://esa.un.org/unpd/wpp/>

**Seychelles: Old-age Dependency Ratio**  $\frac{\text{Age } 60+}{\text{Age } 15-59}$



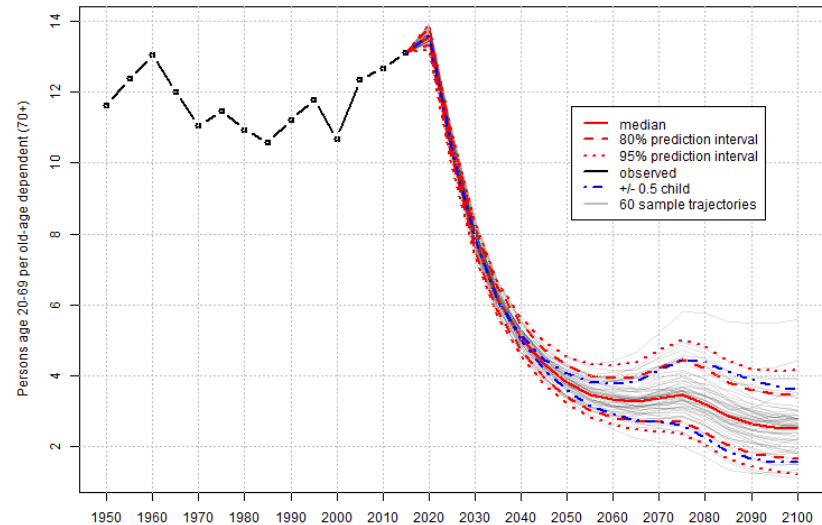
Source: United Nations, Department of Economic and Social Affairs, Population Division (2015).  
World Population Prospects: The 2015 Revision. <http://esa.un.org/unpd/wpp/>

**Seychelles: Total Dependency Ratio**  $\frac{\text{Age } <20 \text{ \& } 65+}{\text{Age } 20-64}$



Source: United Nations, Department of Economic and Social Affairs, Population Division (2015).  
World Population Prospects: The 2015 Revision. <http://esa.un.org/unpd/wpp/>

**Seychelles: Potential Support Ratio**  $\frac{\text{Age } 20-69}{\text{Age } 70+}$



Source: United Nations, Department of Economic and Social Affairs, Population Division (2015).  
World Population Prospects: The 2015 Revision. <http://esa.un.org/unpd/wpp/>

Sources: United Nations, Department of Economic and Social Affairs, Population Division (2015).  
World Population Prospects: The 2015 Revision.



# Seychelles society and the role of women

- Seychelles is a matrilineal society. The majority of households are female-headed (58%) (NBS: 2013).
- The high female headship rate is linked to the small share of married households: about 1/3. Most male HH-heads are married or co-habiting but over half of female HH-heads are not living in union (i.e. are single, separated, divorced or widowed) (NBS, 2013).
- Mothers are the most visible figures in the family and are heavily involved in household chores and child care (Ministry of Social Development and Culture, 2011).
- The participation of women in the market labor force is also very high (77%).
- Gender equality indicators are generally excellent, consistent with the integral role and relative prominence of women in society in Seychelles.
- Yet the gender dimension is relevant to understanding and responding to Seychelles' development challenges:
  - Teenage childbearing: relatively high, raising the vulnerability of young women to getting less education and ultimately being excluded from better jobs and incomes, linked also to...
  - ...the labor market: persistent traditional gender divisions in industry representation and roles; rigid work hours / challenging hours given childcare responsibilities (e.g. in tourism).
  - Male welfare and health outcomes:
    - Youth: concern over high incarceration rates and drug and alcohol abuse.
    - Elderly: men's life expectancy at birth (68.4 years) is a decade less than women's, a very wide gap.

	Seychelles	Mauritius	Caribbean small states	Upper-MIC	High income
<b>Adolescent fertility rate (births per 1,000 women ages 15-19)</b>	57.9	28.6	57.1	32.3	14.6
<b>Labor force participation rate, female (% of female population ages 15-64)</b>	76.8	43.7	54.0	56.7	52.1
<b>Proportion of seats held by women in national parliament</b>	43.8	18.8	17.2	23.0	25.8
<b>School enrollment, secondary, male (% gross)</b>	73.9	96.9	81.9	90.9	104.3
<b>School enrollment, secondary, female (% gross)</b>	75.3	99.0	95.0	93.4	104.0
<b>Life expectancy at birth, female (years)</b>	78.3	77.6	75.7	76.8	83.3
<b>Life expectancy at birth, male (years)</b>	68.4	71.0	70.2	72.2	78.0

Notes: Labor statistics for Seychelles are World Bank staff estimates, all other countries are modeled ILO estimates.

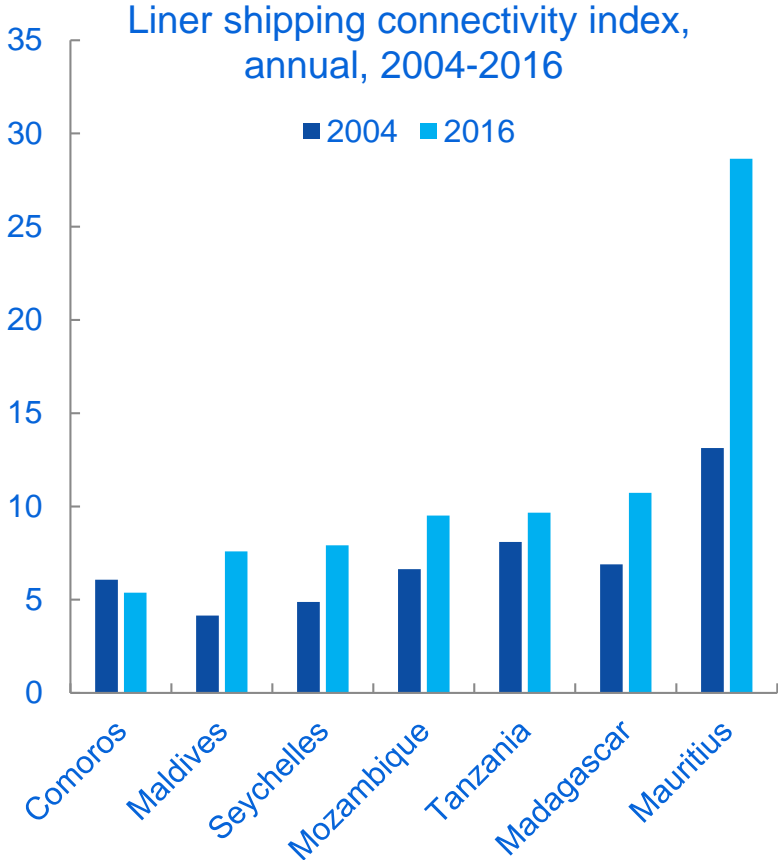
## Allocation of skills mix by sector: a high proportion of the most educated work in government

	No schooling	Primary	Secondary	Advanced	Vocational	Poly-technic	Degree	Post-graduate	Un-specified	All labor force (LF)
Government	17.6%	18.4%	17.9%	25.0%	18.0%	26.2%	30.9%	39.8%	15.0%	21.0%
Parastatal	2.5%	6.2%	8.1%	9.3%	12.6%	11.2%	8.1%	10.4%	5.8%	9.3%
Private	41.6%	37.4%	43.6%	40.6%	45.6%	38.6%	30.7%	27.1%	49.5%	41.3%
With a cooperative	0.0%	0.4%	0.4%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.3%
NGO / non-profit	0.0%	0.0%	0.3%	0.4%	0.0%	0.4%	1.1%	0.5%	0.0%	0.3%
Embassy or intl. org.	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.1%
Private household	3.0%	3.9%	2.1%	0.6%	1.3%	0.5%	0.6%	0.4%	1.7%	1.7%
Elsewhere	0.0%	0.4%	0.4%	0.0%	0.5%	0.1%	0.0%	0.5%	0.0%	0.3%
Unspecified	23.8%	15.3%	13.3%	7.9%	9.4%	10.5%	11.2%	13.5%	17.7%	12.2%
Not allowed to answer	8.5%	13.0%	9.3%	12.8%	8.2%	8.4%	15.9%	7.6%	3.4%	9.6%
<b>Unemployed</b>	3.1%	5.0%	4.5%	3.3%	4.6%	3.7%	1.1%	0.3%	6.9%	4.1%
<b>All labor force</b>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Sources: World Bank, Seychelles Labor Market Report (data from 2014).

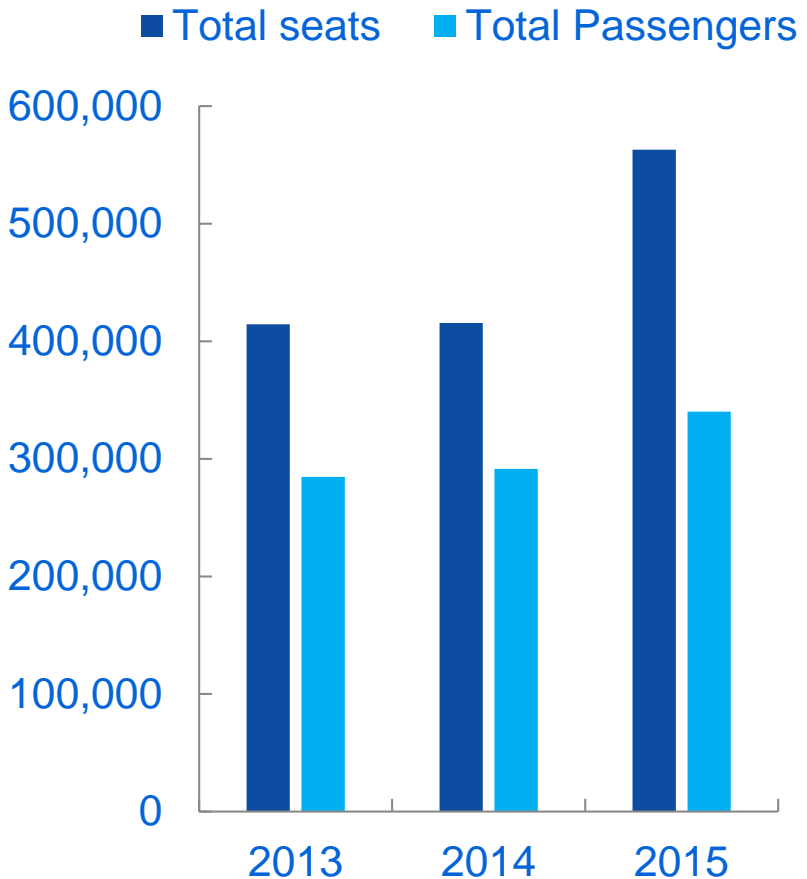
# Shipping and air connectivity: rising shipping network integration; increases in airline seat numbers

LIMITED BUT RISING INTEGRATION INTO GLOBAL LINER SHIPPING NETWORKS



Notes: Subsample of regional neighbors shown.  
Sources: UNCTAD.

RISING AIRLINE SEAT CAPACITY, MORE THAN KEEPING PACE WITH PASSENGER NUMBERS



Sources: SCAA.

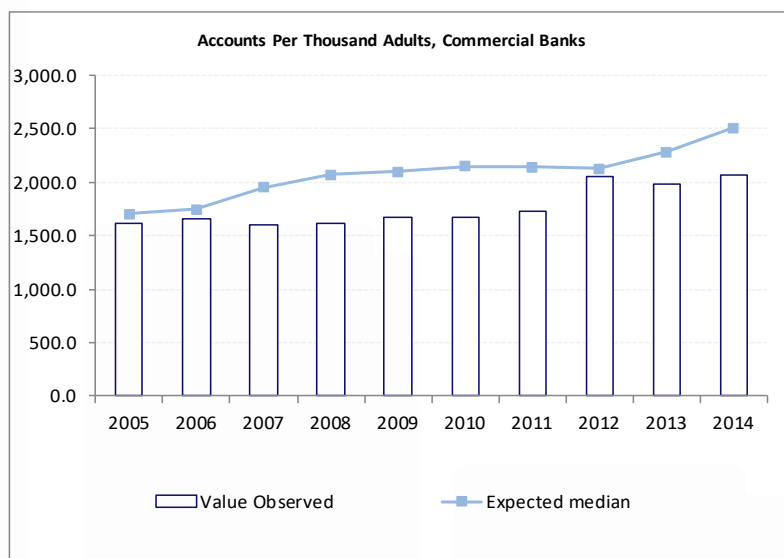


# Domestic connectivity: strong infrastructure but questions on maritime pricing; rising traffic congestion

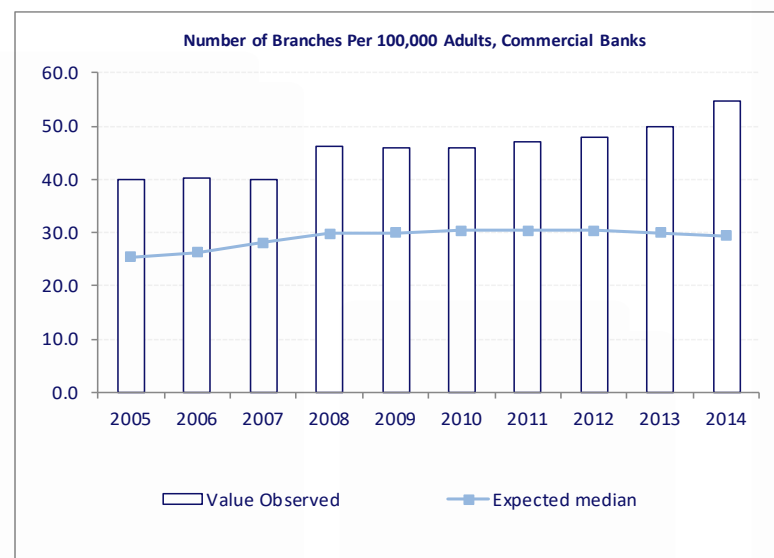
- **Maritime transportation:**
  - Plays a key role for people circulation in the archipelago, with most traffic being amongst the inner island population centers of Mahe, Praslin and La Digue.
  - Future work could explore maritime transportation regulation and its impacts on reportedly high fares, and costs of goods.
- **Land transport:**
  - Infrastructure is well-established:
    - More than 95% of roads are paved.
    - Vehicle ownership is 180 per 1,000 people, at the same level as Singapore and Hong Kong SAR, China.
  - Negative externalities – congestion, traffic safety and pollution – are emerging concerns.
  - Government has sought to address these, e.g. the introduction in 2014 of a 50% increase in the levy on imported private vehicles.
  - Given increasing motorization, the provision of a high quality alternative in the form of efficient public transport is increasingly important, both for the majority non-car owning population, but also to deter private driving. Currently, the Seychelles Public Transport Corporation (SPTC), a State Owned Enterprise, operates a network of some 40 routes with 1,100 trips.
  - Future work could include a broad benchmarking of road use, assets and their management, and performance; benchmark public transport use and review public transport operations and financial performance, particularly for public buses (SPTC) and ferries. Although the road condition seems acceptable, cost and efficiency of public spending on road investment and maintenance could be further examined.

# Financial sector: high banking sector penetration

**Accounts Per Thousand Adults, Commercial Banks**



**Number of Branches Per 100,000 Adults, Commercial Banks**



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Seychelles</b>	1,620	1,658	1,601	1,620	1,675	1,677	1,736	2,055	1,978	2,068
HIC Non-OECD Average	1,287	1,385	1,515	1,584	1,481	1,483	1,525	1,587	1,614	1,564
HIC Non-OECD Median	1,231	1,336	1,399	1,529	1,219	1,279	1,338	1,379	1,377	1,348
HIC OECD Median	2,002	1,975	2,226	2,230	2,219	2,290	2,269	2,285	2,215	2,366
Peer Group Average	3,109	3,216	3,467	3,587	3,587	3,583	3,707	3,781	3,844	3,918
Expected 25th percentile	1,406	1,462	1,549	1,590	1,631	1,745	1,764	1,766	1,745	1,652
Expected median	1,705	1,750	1,954	2,072	2,102	2,153	2,146	2,132	2,285	2,513
Expected 75th percentile	1,923	2,019	2,100	2,247	2,351	2,466	2,595	2,617	2,744	2,745

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Seychelles</b>	39.9	40.3	39.8	46.2	45.8	45.9	47.0	48.0	50.0	54.8
HIC Non-OECD Average	24.9	24.7	25.8	26.5	26.8	26.5	25.4	24.9	24.1	23.6
HIC Non-OECD Median	22.5	21.0	22.2	22.9	23.6	22.8	21.3	22.0	19.3	19.8
HIC OECD Median	28.2	27.6	29.6	31.5	32.0	29.5	28.7	28.7	28.5	28.0
Peer Group Average	47.9	37.5	37.7	39.7	39.3	38.8	33.4	33.3	32.2	30.7
Expected 25th percentile	21.0	21.0	23.2	24.8	24.9	25.3	25.2	25.5	25.7	25.3
Expected median	25.4	26.2	28.1	29.8	30.0	30.4	30.4	30.4	30.0	29.4
Expected 75th percentile	38.8	37.5	40.0	44.5	44.1	45.6	44.7	43.6	43.1	42.3

**Number of countries used for the regional and income group benchmarks (not the OECD benchmark)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Regional benchmarks	-	-	-	-	-	-	-	-	-	-
Income group benchmarks	10	10	10	11	13	14	14	14	14	-

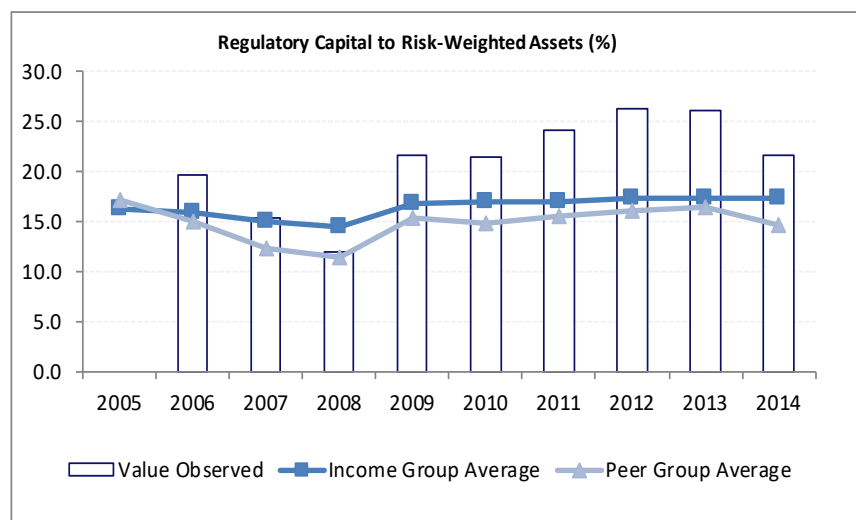
**Number of countries used for the regional and income group benchmarks (not the OECD benchmark)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Regional benchmarks	-	-	-	-	-	-	-	-	-	-
Income group benchmarks	22	23	24	24	25	25	25	25	25	-

Sources: World Bank Finstat database.

# Financial sector: strong banking sector soundness indicators

## Regulatory Capital to Risk-Weighted Assets (%)

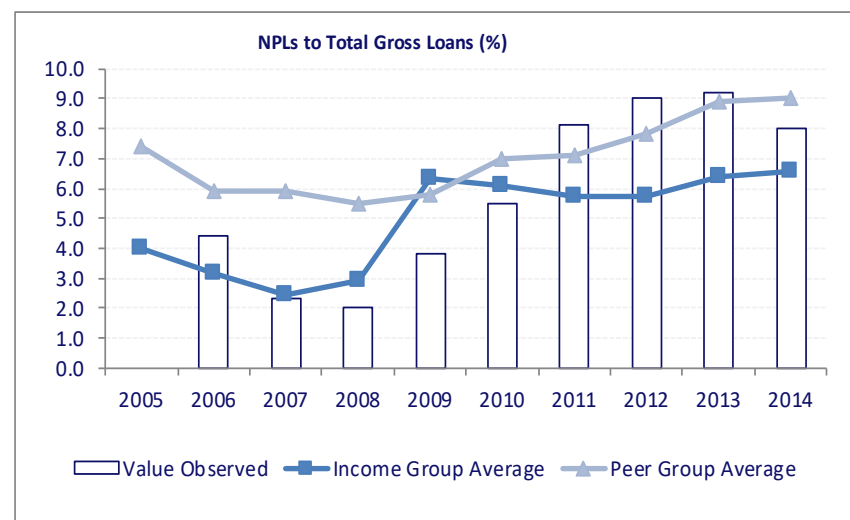


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Seychelles	-	19.6	15.4	12.0	21.6	21.5	24.2	26.3	26.1	21.6
HIC Non-OECD Average	16.2	15.9	15.1	14.4	16.8	16.9	17.0	17.3	17.3	17.3
HIC Non-OECD Median	15.9	15.2	15.4	14.8	16.7	16.9	16.0	16.9	16.5	16.8
HIC OECD Median	12.2	12.4	12.0	11.9	13.9	14.2	14.0	14.9	15.5	16.3
Peer Group Average	17.1	15.0	12.3	11.5	15.3	14.8	15.5	16.1	16.5	14.7
Expected 25th percentile	13.7	13.8	13.5	13.5	15.1	15.2	15.6	16.0	15.9	16.1
Expected median	16.0	15.8	15.2	15.4	16.8	17.6	17.5	18.1	18.0	17.8
Expected 75th percentile	18.1	18.4	17.5	17.5	19.5	19.6	19.5	19.8	19.7	20.1

Number of countries used for the regional and income group benchmarks (not the OECD benchmark)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Regional benchmarks	-	-	-	-	-	-	-	-	-	-
Income group benchmarks	14	14	15	18	19	20	20	20	20	-

## NPLs to Total Gross Loans (%)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Seychelles	-	4.4	2.3	2.0	3.8	5.5	8.1	9.0	9.2	8.0
HIC Non-OECD Average	4.0	3.2	2.4	2.9	6.3	6.1	5.7	5.7	6.4	6.6
HIC Non-OECD Median	4.0	3.1	2.3	2.2	3.9	5.3	5.5	5.3	4.1	3.7
HIC OECD Median	1.2	0.8	0.9	1.9	3.3	3.5	3.6	3.4	3.1	3.1
Peer Group Average	7.4	5.9	5.9	5.5	5.8	7.0	7.1	7.8	8.9	9.0
Expected 25th percentile	1.5	1.4	1.1	1.4	2.3	2.0	1.6	1.7	1.8	1.6
Expected median	2.7	2.3	1.8	2.2	3.8	3.7	3.0	3.1	3.2	3.0
Expected 75th percentile	6.1	5.0	3.8	4.3	6.1	6.6	6.3	6.5	6.1	5.8

Number of countries used for the regional and income group benchmarks (not the OECD benchmark)

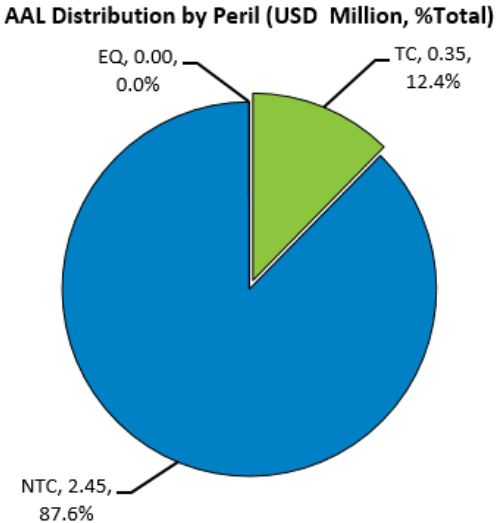
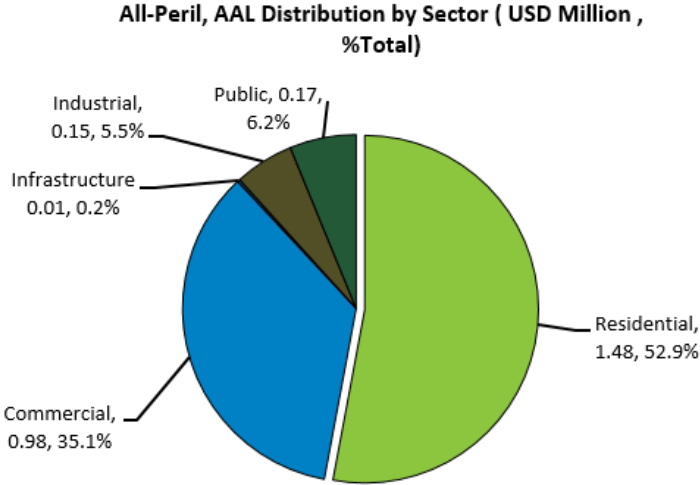
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Regional benchmarks	-	-	-	-	-	-	-	-	-	-
Income group benchmarks	14	14	15	18	19	20	20	20	20	-

Sources: World Bank Finstat database.

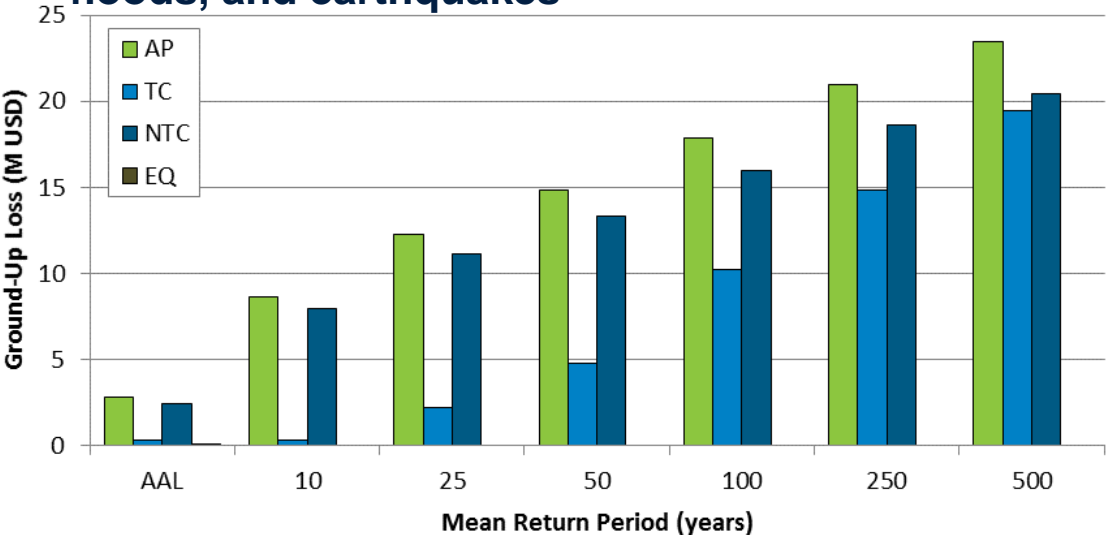


# Environmental and natural disaster risks

Average Annual Loss distribution in Seychelles by sector (left) and by peril (right)



Mean return periods associated caused by tropical cyclones, non-tropical cyclone floods, and earthquakes



Sources (all charts): World Bank.



# Seychelles' historical macroeconomic indicators at a glance

	1990	1995	2000	2005	2010	2011	2012	2013	2014	2015
<b>National Accounts</b>										
Real GDP (% change)	7.5	0.5	4.3	9.0	5.9	5.4	3.7	5.0	6.2	4.3
Agriculture (% of GDP)	4.8	4.2	2.8	3.3	2.3	2.2	2.0	2.5	2.3	..
Industry (% of GDP)	16.3	22.7	29.0	16.4	14.0	13.7	13.3	12.9	12.3	..
Services (% of GDP)	78.9	73.2	68.2	63.2	66.9	66.8	67.9	70.2	71.1	..
Total investment (% of GDP)	30.5	30.3	27.6	35.7	36.6	35.0	37.4	37.9	37.3	33.7
Nominal GDP (USD million)	369	508	615	919	970	1,018	1,059	1,316	1,349	..
GDP per capita (USD)	5,303	6,749	7,579	11,093	10,805	11,647	11,998	14,626	14,769	..
<b>General Government budget (% GDP)</b>										
Revenue and grants	58.0	50.5	40.7	39.4	35.1	38.0	38.8	35.9	35.4	34.2
Expenditure	46.1	53.1	55.4	39.0	34.6	34.7	36.1	35.6	31.9	33.1
Budget balance	11.9	-2.6	-14.7	0.4	0.5	3.3	2.7	0.3	3.5	1.1
Government debt	80.4	133.5	172.6	144.1	81.9	73.9	77.1	64.1	65.3	64.5
<b>Balance of Payments (% GDP)</b>										
Current account balance	-3.5	0.3	-7.0	-18.9	-19.1	-21.6	-19.9	-11.5	-21.0	-15.2
Exports (GFNS)	15.3	10.5	75.5	78.3	93.8	95.8	92.8	85.5	83.1	..
Imports (GNFS)	50.5	45.8	81.9	100.0	108.1	111.4	109.4	92.8	98.2	..
Balance of trade in goods & services	-35.2	-35.4	-6.4	-21.7	-14.3	-15.6	-16.6	-7.4	-15.1	..
Net direct investment*	-5.2	-5.7	-2.2	-8.5	-15.8	-12.7	-37.5	-8.9	-13.0	..
Total reserves (incl. gold, current US\$m)	17	27	44	56	256	279	308	426	465	..
<b>Monetary</b>										
Lending interest rate (%)	15.6	15.8	10.7	9.8	12.7	11.2	12.2	12.3	11.6	..
Domestic credit to private sector (% of GDP)	7.3	11.4	16.6	24.9	24.4	22.2	20.0	20.1	23.6	..
Nominal exchange rate (average, USD/SCR)	5.3	4.8	5.7	5.5	12.1	12.4	13.7	12.1	12.7	13.3
<b>Prices (% change)</b>										
GDP deflator	6.4	-2.1	1.3	0.5	-4.2	4.5	10.5	3.2	3.1	2.1
Consumer price index (average)	4.0	0.5	6.3	0.6	-2.4	2.6	7.1	4.3	1.4	4.3
<b>Others</b>										
Intl. visitor arrivals (thousands)		121	130	129	175	194	208	230	233	..

Notes: \*The negative sign indicates net FDI inflows.

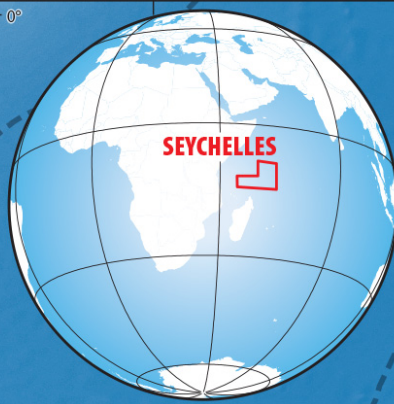
Sources: IMF; World Bank; Seychelles National Bureau of Statistics; Central Bank of Seychelles

# Seychelles' development indicators at a glance

	1990	1995	2000	2005	2010	2011	2012	2013	2014	2015
<b>Demographics</b>										
Population (thousand)	70	75.3	81.1	82.9	89.8	87.4	88.3	89.9	91.4	..
Population growth rate (%)	0.9	1.8	0.9	0.5	2.8	-2.6	1.0	1.8	1.7	..
Fertility rate (births per woman)			2.1	2.2	2.1	2.4	2.4	2.4	2.3	..
Dependency ratio (% of working-age population)	74.0	62.1	57.2	47.1	42.5	42.6	42.6	42.7	43.0	..
<b>Labor Force</b>										
Labor force participation rate, total (% of pop. ages 15+)	..	..	..	72.1	..	65.0	..	..	..	..
Male	..	..	..	..	..	68.3	..	..	..	..
Female	..	..	..	..	..	61.9	..	..	..	..
Employment in agriculture (% of total)	..	..	..	..	..	3.6	..	..	..	..
Employment in industry (% of total)	..	..	..	..	..	17.9	..	..	..	..
Employment in services (% of total)	..	..	..	..	..	78.2	..	..	..	..
Unemployment, total (% of labor force)	..	..	..	5.5	..	4.1	..	..	..	..
<b>Poverty and Income Distribution</b>										
Poverty headcount ratio at \$1.90 a day (2011 PPP)	..	..	..	..	..	..	..	1.1	..	..
Poverty headcount ratio at \$3.10 a day (2011 PPP)	..	..	..	..	..	..	..	2.5	..	..
National poverty line (Rupees/month per adult equiv.) <sup>1</sup>	..	..	..	..	..	..	..	3,945	..	..
Poverty (% of population below national poverty line)	..	..	..	..	..	..	..	39.3	..	..
Poverty (% of population below national food poverty line)	..	..	..	..	..	..	..	24.3	..	..
Gini index (income-based)	..	..	..	..	..	..	..	45.9	..	..
<b>Health and Nutrition</b>										
Physicians (per 1,000 people)	..	..	..	1.3	1.2	1.2	1.1	..	..	..
Neonatal mortality rate (per 1000 live births)	11.3	9.5	9.2	9.1	9.0	9.0	9.0	8.9	8.8	8.6
Infant mortality rate (per 1000 live births)	14.2	12.5	12.3	12.3	12.2	12.2	12.2	12.1	11.9	11.7
Life expectancy at birth (years)	..	..	..	72.1	73.2	72.7	74.2	73.1	73.2	73.6
Male	..	..	..	67.4	69.1	67.7	69.3	69.9	68.4	69.1
Female	..	..	..	77.1	77.5	78.0	79.4	76.5	78.3	78.2
Total health expenditure (% of GDP)	..	5.0	4.6	3.9	3.6	3.4	4.1	3.6	3.4	..
Public health expenditure (% of GDP)	..	4.2	3.8	3.6	3.2	3.2	3.8	3.3	3.1	..
<b>Education</b>										
Pre-primary gross enrolment rate, both sexes (%)	100.0	101.4	100.2	100.6	105.9	101.0	99.2	93.2	93.0	..
Primary gross enrolment rate (%)	..	102.8	105.5	109.1	110.7	110.4	108.8	106.0	104.1	..
Secondary gross enrolment rate (%)	..	113.0	72.9	81.8	74.1	76.4	80.9	73.7	74.6	..
Female secondary gross enrolment rate (%)	..	113.0	76.4	84.8	75.9	78.6	80.5	76.1	75.3	..
Tertiary gross enrolment rate, (%)	..	..	..	..	..	2.4	1.3	3.1	6.5	..
Adult literacy rate (%)	..	..	..	..	94.0	..	..	..	..	..
Public spending on education (% of GDP)	..	7.7	..	..	..	3.6	..	..	..	..
<b>Basic utilities &amp; connectivity</b>										
Access to an improved water source (% of population)	95.7	95.7	95.7	95.7	95.7	95.7	95.7	95.7	95.7	95.7
Access to improved sanitation facilities (% of population)	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4
Access to electricity (% of population)	96.6		99.4		100.0		100.0	..	..	..
Mobile cellular subscriptions (per 100 people)	0.0	0.1	32.5	67.5	128.9	137.9	147.8	147.3	162.2	..
Fixed broadband subscriptions (per 100 people)	..	..	..	1.1	7.4	10.3	11.5	13.4	12.7	..
<b>Others</b>										
UN Human Development Index (current ranking: 64/188)	..	..	0.715	..	0.743	0.752	0.761	0.767	0.772	..
Proportion of seats held by women in national parliament (%)	16.0	..	23.5	29.4	23.5	43.8	43.8	43.8	43.8	43.8
<b>Notes: <sup>1</sup> Measure based on earlier definition and applied to gross income</b>										
<b>Sources: World Bank WDI; UN; Seychelles National Bureau of Statistics</b>										

# SEYCHELLES

- ★ NATIONAL CAPITAL
- ▨ SPECIALLY DESIGNATED AREA
- - - 200 nmi EEZ
- ..... PROVISIONAL EQUIDISTANCE BOUNDARY
- INTERNATIONAL BOUNDARIES



0 100 200 Kilometers

INDIAN OCEAN

## SEYCHELLES

COMOROS

FRANCE

MADAGASCAR

MAURITIUS

Joint Management Area  
(Mauritius-Seychelles)

INNER (GRANITIC) ISLANDS  
MAHÉ PLATEAU  
VICTORIA

AMIRANTE GROUP

ALPHONSE GROUP

ALDABRA GROUP

FARQUHAR GROUP

St. Pierre I., Providence I., Bancs Providence

Aldabra Atoll, Assomption I., Cosmolédo Is., Astove I., Glorioso Is., Mayotte

Farquhar Atoll

Bird I., Denis I., Praslin I., La Digue I., Silhouette I., Mahé I., Frégates I., Plate I., St. Joseph Atoll, Desroches I., Marie-Louise I., Coëtivy I., Agalega Is.

IBRD 42789 | MARCH 2017  
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## II. SUPPLEMENTARY TOPICAL NOTES

51. **This Section provides supplementary information in the form of six short topical notes.** These notes were carefully selected to enrich and complement the analysis of the SCD, as presented in the slide deck.

The first topical note concerns **tourism**, Seychelles' main economic sector, and discusses some of the key challenges facing the industry, and the reasons for these challenges.

The second topical note examines the **“blue economy”** concept as it pertains to Seychelles, where it is an emerging policy paradigm, and discusses how further development of the blue economy could support shared prosperity.

The third topical note describes Seychelles' **SOE sector** in more detail, as merited by the sector's considerable importance in the economy, for public financial management, and in the national debate over development strategy.

The fourth topical note turns the focus to Seychelles' **social protection** system, describing it in greater detail than is possible in the slides, and outlining reform possibilities.

The fifth topical note provides methodological detail on the effort made in the SCD to assess rigorously recent **growth incidence**, and explains the limitations of the two most recent household surveys to examine the recent inclusiveness of growth.

Finally, the sixth topical note summarizes the findings of a report on the **labor market**, which was commissioned for the SCD. The findings of this report, to be published separately as a working paper, helped to fill a key knowledge gap that was confronted by the SCD: the structure and performance of the labor market, particularly given Seychelles' high employment rate, and the key role of labor income in the mix of household income across the distribution, according to household survey data.

## ***1. Topical Note: Tourism in the Seychelles - recent trends and key issues***

### **Sustainability of the current tourism model in the Seychelles**

52. The Seychelles' traditional model of low volume, high value tourism based upon attracting wealthy visitors, particularly couples and elite visitors, along with the category of "once in a lifetime dream holiday" guests, enjoying a simple, tranquil, natural beach idyll, shifted in recent years to a lower-value, higher-volume model. Tourist numbers have surged and source markets have diversified considerably (Figure 3).

53. A recently published, independent "Tourism Carrying Capacity Study"<sup>19</sup>, commissioned by the Government, recommended a moratorium on additional accommodation provision across the islands, concluding that: "*current tourism development has for certain aspects reached levels which lead to a destabilization of the overall tourism sector, as well as having an impact on the good reputation of Seychelles as a leading tourism destination*". Following this report, the Government announced in early 2017 that it would extend its moratorium on hotels having 25 rooms or more until the end of 2020.

54. However, in the short-term, due to approved existing planning applications, hotels already under construction, and additional beds planned in existing hotels, bed stock is projected to rise faster than increases in arrivals, further increasing pressure on currently declining occupancy rates. The study estimates that to achieve the 60 percent occupancy rate that is considered financially sustainable at the current average visitor length of stay of around 10 days, a 40 percent increase in visitor arrivals over the 2015 figure would be necessary.

55. The path of tourism development in the islands has resulted partly from global economic and business factors, notably:

56. *Market composition has changed in response to global drivers*, notably (1) economic crises in Europe and Russia affecting these traditionally higher-spending markets; and (2) demographic changes in emerging markets such as China and India, with a new generation of middle class travelers with disposable income, and the growing importance of "Millennials" (now 20 percent of tourists globally<sup>20</sup>), a high-spending segment with non-traditional travel preferences.

57. *Increases and composition shifts in airline seat availability*, most significantly, the entry and expansion of Emirates and Etihad airlines (Figure 4), which can cross-subsidize the Seychelles leg from more profitable routes. This includes the Air Seychelles-Etihad partnership, including a direct flight from Paris. Together, these airlines provided 81 percent of the available seats in 2015. In addition, European point to point services have changed, with the exit of British Airways and entry of the budget carrier, Condor (Berlin).<sup>21</sup>

58. *Trends in online, digital, social and mobile consumer behavior* and the growth of the "shared economy".

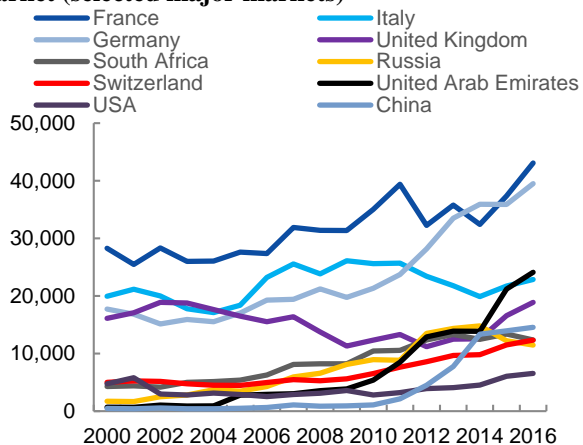
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<sup>19</sup> Iris Richter, 2016, "Carrying Capacity Study for the Inner Islands of the Seychelles. Final Report".

<sup>20</sup> Source: UNWTO.

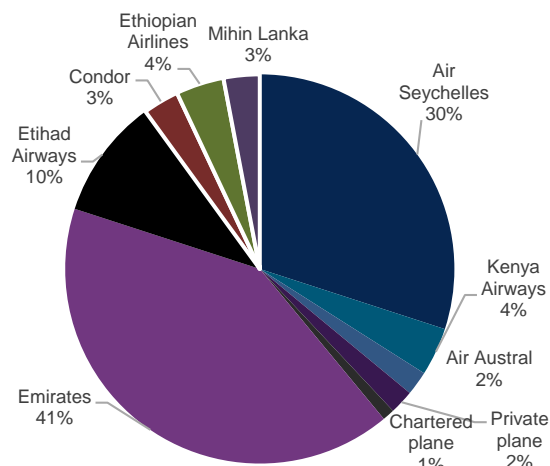
59. However, the growth and diversification of visitors has also reflected planned strategic choices: the Government, aware of the need to improve inclusivity and redistribute gains from the tourism industry more widely among the population, promoted participation in Micro, Small and Medium Enterprises (MSMEs), allied with a political shift to a “more affordable Seychelles” – a deliberate departure from the high-yielding, traditional high-end tourism model.

**Figure 3: Visitor arrivals in the Seychelles by market (selected major markets)**



Source: NBS

**Figure 4: Airline share of air passenger numbers in the Seychelles, 2015**



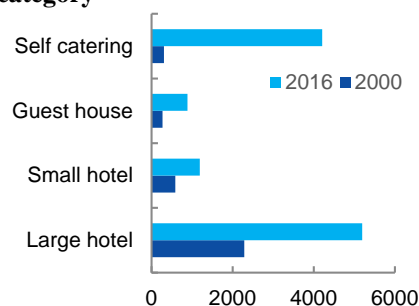
Source: Seychelles Civil Aviation Authority (SCAA)

### The growth of smaller-scale offerings and associated regulatory and quality concerns

60. A fast-track initiative for change of use from residential to tourist accommodation has facilitated the rapid growth of small-scale lodgings (although this rate slowed on La Digue after 2012, when a carrying capacity study for that island<sup>22</sup> recommended a moratorium on construction of additional accommodation). In addition, government encouragement of self-employment in small tourism enterprises was backed up by subsidized credit from the Development Bank of the Seychelles.

61. As a result there has been a huge expansion in the number of smaller-scale businesses – 150 car hire firms, around 500 taxis (of which around 480 are in Mahé)<sup>23</sup>, an unknown number of excursion providers (many of which are unregistered), and retail outlets, and 200 percent and 1,700 percent increases in bed and breakfast and self-catering bed stocks, respectively, during the 2000-16 period, which now account for a significant share of supply (Figure 5).<sup>24</sup> These suffer from a lack of regulation and common standards; while some smaller accommodations are excellent, others offer poor levels of amenities

**Figure 5: official numbers of beds in Seychelles by accommodation category**



Source: Marquise and Richter, 2012, “Carrying Capacity Study for La Digue”

<sup>22</sup> Marquise David and Iris Richter (2012). Carrying Capacity Study for La Digue. Final Report.

<sup>23</sup> World Bank survey data.

<sup>24</sup> NBS data.

and service. Among the more serious issues is that most small tourism businesses do not purchase public liability insurance and visitors experiencing problems have little recourse.

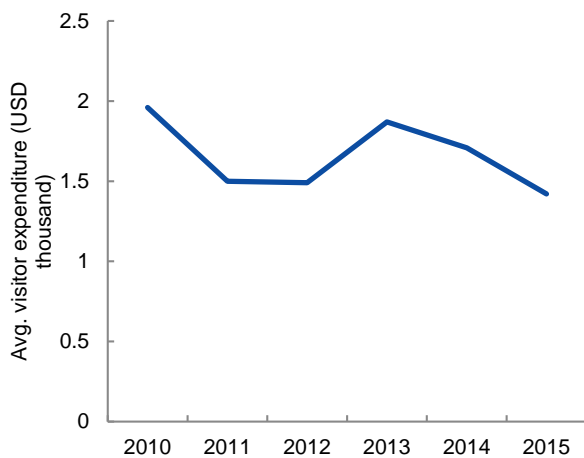
**Synthesis: four main implications of the above trends and factors**

62. In addition, long-term issues with unregistered accommodation on boats, estimated at 1,000 “floating beds” (also termed “liveaboard”), and other unofficial small establishments have been intensified by the ease of direct marketing through platforms such as AirBnB. An estimated 12 percent of arrivals are not captured by official accommodation statistics.<sup>25</sup>

63. *1. Downward pressure on yields:* although the hard evidence is fragile, it appears that spending per tourist (yield) has not been keeping pace with rising tourist numbers (Figure 6). Industry actors consistently report that visitors are spending less, and this anecdotal evidence is consistent with National Bureau of Statistics (NBS) spending data. However, these spending data do not include credit card payments, and this may at least partly explain the declining yield trend. Similarly, official data suggest that the newly dominant markets are among the most frugal (Figure 7), but collection is patchy and more nuancing is required – the Chinese market, for example, is composed of visitors who tend to spend less than average, alongside high spenders.

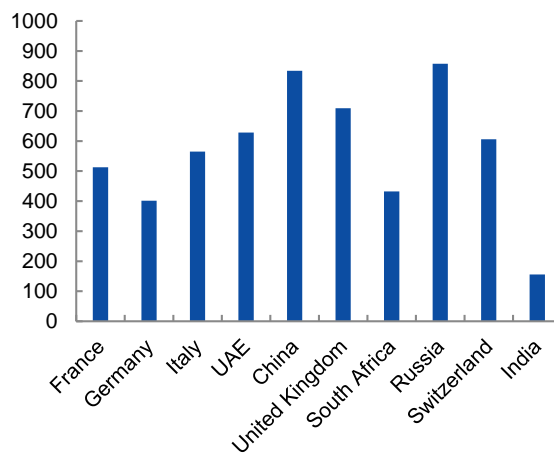
64. What is clear, however, is that it is now possible to fly from Europe to the Seychelles via Middle Eastern hubs for around €600, stay in self-catering accommodation for as little as €40 per night, eat cheap, imported convenience foods purchased from supermarkets and other retail outlets, and use low-cost, subsidized public transport to travel around the islands. Consistent with this, the arrival of backpackers has been noted in recent years.

**Figure 6: Yield per visitor (gross expenditure divided among arrivals)**



Source: Staff calculations based on NBS data

**Figure 7: Average daily visitor expenditure by market in 2015**



Source: NBS

65. *2. There are signs of a downward spiral in room rates and quality:* Premium service providers are often forced to discount their rates (which, due to elevated operating costs, are generally higher than competitors’ equivalent products, Table 2, Table 3). Although large hotels, for example, are not usually in direct competition with lower-priced establishments, the recent

<sup>25</sup> Seychelles Tourist Board (STB) estimate.



expansion of bed availability at very cheap rates causes ripples up the hierarchy, with each category's margins being squeezed by those below it. This combines with very high operating costs to reduce profits and limit the capital available for reinvestment in improved and modernized stock. The resulting offer is often worn and represents poor value in comparison to that of competing destinations. In turn, international tour operators downgrade the Seychelles, placing further downward pressure on rates.

**Table 2: World Economic Forum Travel and Tourism Competitiveness 2015 Rankings for Seychelles, Mauritius and Sri Lanka for indicators under the Price Competitiveness pillar**

	Seychelles	Mauritius	Sri Lanka
Ticket taxes, airport charges	89	90	129
Hotel prices	101	95	35
Purchasing power parity	84	69	11
Fuel prices	82	94	56

Notes: Maldives was not included in the Index. Rankings of 141 countries. Overall rankings for Price Competitiveness: Seychelles = 123, Mauritius = 114, Sri Lanka = 68.

Source: Staff calculations based on NBS data.

**Table 3: Spot room price comparison for international hotel chains in Maldives, Mauritius, Seychelles and Sri Lanka**

	Maldives	Mauritius	Seychelles	Sri Lanka
Banyan Tree	690		900	
Constance 1	1,107	273	512	
Constance 2	1,128	575	854	
Constance ave.	1,118	424	683	
Four Seasons		510	806	
Meridien		230	273	
Hilton 1		267	478	157
Hilton 2			370	170
Hilton ave.		267	424	164
Avani 1			317	121
Avani 2				136
Avani ave.			317	129
Berjaya 1			171	80
Berjaya 2			199	
Berjaya ave.			185	80

Notes: Booking.com; spot cost of double occupancy room for 1 September 2016 on 8 April 2016

66. 3. *The Seychelles brand has diversified and, because it has been a partly unplanned process, this is not an entirely positive phenomenon.* In particular, there is a clear brand risk and potential negative longer-term environmental implications of the rapid growth of unregulated small-scale operations.

67. 4. *The islands' current product mix suffers from a lack of innovation, diversity and quality.* At present, there is a relative lack of local content and high quality, distinctive products and services. This risks rendering the destination unattractive to the important Millennial segment, for example, which seeks adventure, exploration and activity-based holidays with custom travel experiences and good value for money. A concerning sign in this respect is that the Seychelles' strong performance in terms of visitor numbers masks a low repeat visit rate of around 12 percent

(contrasting with 28 percent for the Maldives, 37 percent for Mauritius and around 50 percent for Aruba).<sup>26</sup>

## **Constraints to innovation and product development**

Impediments to the development of a fuller tourist experience include:

68. *Evidence base:* the NBS lacks the capacity to collect high quality market intelligence. For example, official data suggesting that the Chinese market is among the highest spending are contrary to the wide experience of industry actors – a more detailed, nuanced understanding of Seychelles’ markets and their requirements is required.

69. *Labor supply and norms:* there is a widespread view that younger Seychellois are reluctant to enter the industry and that wider societal attitudes and constraints to working irregular hours also hamper its development.

70. *Lack of innovation in the MSME sector,* in turn likely reflecting scarce know-how and start-up capital: a “copycat” culture has resulted in numerous, undifferentiated small businesses in all sub-sectors of the industry, including accommodation, transport, retail and excursions. Short-term gains are often prioritized over quality and distinctiveness, as exemplified by the plethora of vendors selling low-end imported goods in preference to developing unique, high quality products with strong local content.

71. *Difficulty in keeping pace with shifting global tourist tastes for a richer visit experience:* the industry has been slow to respond to the global shift away from the traditional Seychelles (“sand, sea and sun” enclave) product; engagement with online, mobile, digital and social trends has been limited and the emergence of the sharing economy is commonly viewed as a threat rather than an opportunity. However, in a sign that this may be changing, the Seychelles National Parks Authority has acknowledged that the islands’ natural endowment is underexploited and is developing strategies to monetize its assets through product development. Similarly, the Seychelles Heritage Centre is developing ambitious plans to improve local content and diversify products offered at the sites it manages.

72. *Historical lack of urgency around reforming sector policies and lack of competitive market pressures to drive innovation and change:* There has been a culture of inertia and complacency in addressing issues that have been debated, often passionately, by the industry for some time. For example, there has been no industry champion to drive change, and the recommendations of a previous value chain study were largely not taken up. Recognized operators appear content to offer standard products, relying upon a relatively narrow range of established vendors to supply outsourced components. Barriers to entry are considerable, with high capital requirements to qualify for the provision of services at international standards. In addition, informal barriers to new entrants exist in the form of vertical integration and a culture of substantial kickbacks and commissions required by buyers from would-be suppliers of products and services.

73. Recognizing many of the above challenges, government policy is now shifting towards an increased focus on protecting and reinforcing Seychelles’ “brand” as an upmarket tourist destination. To deliver the unique, high quality visitor experience this increasingly requires, and

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<sup>26</sup> Average from NBS visitor exit survey data, weighted by the number of responses.

to increase the role played by the sector to generate high quality earnings opportunities, this will likely require unbundling the high vertical integration that has evolved in the industry, and creating a supportive environment for more sophisticated, innovative complementary services (beyond accommodation and transport) to emerge.

## 2. Topical Note: Developing the “Blue Economy” for shared prosperity <sup>27</sup>

### Current situation and policies: Seychelles aspires to make better, and more managed, use of the marine resources that underpin its economy

74. Seychelles’ economy is based on exploiting its abundant marine natural resources (Table 4). The tourism sector, centered on Seychelles’ beaches and ocean-based recreational activities, contributes directly about one quarter of gross valued-added. Tourism’s contribution is much greater considering also its indirect contributions, since it also generates additional demand for goods and services from across the wider economy—generating by one estimate over half of GDP expenditures.<sup>28</sup> Tourism is also the primary source of foreign currency earnings. These foreign earnings are complemented mainly by those from two other marine-related sources, arising from Seychelles’ strategic location on the tuna migration and shipping routes through the western Indian ocean: exports of tuna, as well as re-exports of oil by its fuel bunkering industry.

**Table 4: Marine-related activity contributions to Seychelles' economy**

	Tourism	Fishing industry	Oil re-exports
<i>Contribution to:</i>			
GDP	23% (2014)	1.1% (2013; artisanal & semi-industrial only)	n.a.
Including indirect GDP contributions	57% (2014)	8% (2013; (all fisheries-related output)	n.a.
Employment (formal)	19% (2015)	10% (2014; fishermen, fish processing workers, shipping & equipment jobs etc)	n.a.
Exports of goods & services	35% (2015)	22% (2015) (tuna exports)	13% (2015)
Government revenues	34% (2015; directly-attributable taxes)	3% (2015; license fees)	n.a.

Sources: Ministry of Finance, Trade & Economic Planning; National Bureau of Statistics; Seychelles Fisheries Authority; World Travel & Tourism Council

75. **Seychelles supports some of the world’s most pristine, diverse and productive marine ecosystems.** Seychelles’ large (1.4 million km<sup>2</sup>) marine Exclusive Economic Zone (EEZ) ranks 7th/221 on the Ocean Health Index.<sup>29</sup> Most of Seychelles’ 115 islands are surrounded by coral reefs. Large sea grass beds exist and are an important nursery for reef fish, invertebrate sea turtles and manatees. Fishing grounds are abundant and include a wide variety of species.

76. **There are growing concerns about sustainability.** No comprehensive evaluation of the impact of current or projected economic activity on the marine environment has yet been made, but in Seychelles, as globally, there are growing concerns about sustainability. In tourism, the Government has frozen new approvals for large establishments (with 20 rooms and above) through 2020, reflecting concerns about the impact of the recent rapid pace of development. In the industrial fishing sector, some species are deemed overfished, and the Indian Ocean Tuna

<sup>27</sup> Prepared by Alex Sienaert (Senior economist), Luis Alvaro Sanchez (Senior consultant), and Ben Garnaud (Senior natural resources management specialist).

<sup>28</sup> Current national accounts statistics compilation methods are insufficient to quantify sectors’ indirect contributions to total expenditures, but estimates by the World Travel & Tourism Council place tourism’s overall GDP and employment contributions at well above 50 percent (WTTC, 2015, “Travel & Tourism: Economic Impact 2015, Seychelles”).

<sup>29</sup> <http://www.oceanhealthindex.org/region-scores/scores/seychelles>

Commission (IOTC) has placed an annual ceiling on yellowfin tuna to protect the stock. The IOTC ceiling implies a sharp reduction in Seychelles' quota of the catch. Catch rates of many of the other main species of fish are declining, reflecting pressures from overfishing in the artisanal, recreational and sport fishing sub-sectors, and from an increasing environmental footprint of the tourism industry. The artisanal, recreational and sport fisheries are open-access, which impedes measures to limit the fishing effort and ensure sustainability.

**77. Going forward, Seychelles' marine natural resources will continue to support livelihoods, and can help to generate additional shared prosperity, if preserved.** The challenge for Seychelles is to develop the institutional setup that further develops marine-dependent economic activity, while protecting and enhancing the stock and quality of marine assets. The opportunity for Seychelles is to consolidate its regional, and even global, leadership status in the management and sustainable use of these resources.

**78. The Government is well aware of this challenge and opportunity.** A Department of the Blue Economy, situated in the Office of the Vice-President, is preparing a National Blue Economy Roadmap, which will aim to protect and recover ocean ecosystems and biodiversity; ensure that existing ocean industries (e.g. shipping and bunkering) cause minimal environmental impact and meet the highest sustainable practice standards; integrate cross-sectoral spatial planning and implement coastal zone management; increase sustainable use of bio resources (biotechnology, marine ecosystems services); plan for natural disasters and adapt to climate change; increase surveillance of offshore waters; brand Seychelles as a "blue tourism" destination; and, foster knowledge development. These goals are fully aligned with the UN Sustainable Development Goal 14: "Conserve and sustainably use the oceans, seas and marine resources for sustainable development".

**79. The prospect of hydrocarbon discoveries in Seychelles' marine territory would pose a particular potential policy challenge, and the country has begun to prepare for this.** The Government has encouraged exploration in the EEZ and is working with Mauritius to develop exploration in their Joint Management Zone (JMZ, of 400,000 km<sup>2</sup>). In anticipation of hydrocarbon discoveries and extraction, the state-owned regulator (PetroSeychelles) has revised its Model Petroleum Agreement, complementing provisions in the Petroleum Mining Act and the Petroleum Taxation Act. Seychelles is a candidate country to join the Extractive Industries Transparency Initiative (EITI), to which it has committed to submit its first report in 2017.

### **Prospects for Seychelles' blue economy to boost shared prosperity**

**80. Further development of the blue economy can support shared prosperity.** Three main channels for this can be considered, pointing to the policy levers for making further development pro-poor: direct effects on livelihoods through better jobs and Micro, Small and Medium Enterprise (MSME) development, indirect effects on livelihoods through food supply and macroeconomic effects, and redistribution through the public sector of increased ocean resource rents.

*First, direct poverty reduction and shared prosperity effects through higher earnings in the blue economy will center on the extent to which local labor market participants are able to obtain better jobs, and MSMEs are able to access opportunities, especially in tourism.*

81. **The policy challenge to guide blue economy development for inclusion should be seen in the light of Seychelles' already services-oriented, full employment economy.** This means that the challenge for the development of the blue economy, and of the private sector more generally, is to equip the local workforce with the skills to participate in supplying higher value-added services, and to ensure that other enabling factors for market work and MSME development are in place (e.g. childcare options, public transport, credit).

82. **In fishing, blue economy measures such as those to sustainably raise the value of artisanal fishing catches can be expected to have a beneficial direct impact on the small share of households which rely on this as their main source of income.** The poverty rate amongst households whose heads work in the primary sector, including fishing, is higher than that of households headed by workers in any other sector: 55.5 percent, as defined by the national poverty line (2013).<sup>30</sup> However, only about 3 percent of the domestic workforce in Seychelles are recorded as having their main employment in the primary sector. Consequently, the aggregate poverty impact through this direct employment channel will be small.

83. **More important direct employment effects can occur through the tourism industry, which offers a wide range of jobs, including high-earning opportunities, but fills many vacancies from abroad.** Average tourism sector monthly earnings are considerably higher than the national average (Rs. 15,650 vs. Rs. 9,544)<sup>31</sup>, consistent with strong derived labor demand growth from what in recent years has been a fast-growing sector. Yet, the high sector average masks significant earnings dispersion, including a wide gap between male and female wages.<sup>32</sup> There is a range of jobs in the industry, including many which are less desirable because of heavy manual workloads and difficult hours. A predominant share of the increased labor demand generated by the growth of the tourism industry has been met by importing foreign workers. Total recorded employment in tourism was about 9,000 in 2015, while the number of new and renewed temporary expatriate worker permits (Gainful Occupation Permits, GOPs) issued for tourism was 3,081 in 2015, rising to 4,028 in 2016.<sup>33</sup>

84. **Opportunities for small businesses in the blue economy, for example to provide ancillary services in the fisheries and tourism sectors, could be expanded.** Enterprise survey data are lacking but there is a concern that the market structure of the tourism sector in particular discourages competition, despite a range of government programs to support MSMEs, such as the provision of credit guarantees. The market share and vertical integration of the main operators are high, likely limiting opportunities for small-scale providers of goods and services for tourists. Coupled with the limited pool of local start-up knowledge and capital, and skills, the result has been limited innovation and a largely undifferentiated offering of accommodation, transport, retail and excursion options by small-scale providers. Overall, the existing industry model has been successful in developing the tourist sector over the past two decades. The time now looks ripe, however, for fresh analysis of the approach, and especially for the identification of potential

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<sup>30</sup> The national poverty line defines poverty expansively compared with poverty lines developed for the purposes of international poverty comparisons.

<sup>31</sup> As of 2015. Source: NBS, "Seychelles in Figures", 2016.

<sup>32</sup> Unconditional difference in average earnings of 128 percent in the 2011 LFS. Source: World Bank, Seychelles Labor Market study (forthcoming).

<sup>33</sup> Official statistics providing a consolidated picture of the sectoral labor force (combining local and expatriate workers) are not available. Sources: official employment: NBS, 2016, "Seychelles in Figures"; GOPs: Ministry of Home Affairs.

measures to reduce barriers to entry, and stimulate competition and innovation. This need is reinforced by the fast pace of change and innovation in tourism globally, and the emergence of new competitors to Seychelles.

*Second, further blue economy development can support shared prosperity through its food security, living cost and macroeconomic effects.*

**85. Seychellois have one of the highest levels of fish consumption per capita in the world, approximately 57 kg per annum, with fisheries products accounting for up to 50 percent of the total protein consumed.** Most of this is supplied by Seychelles' artisanal fishery, which lands about 4,000 tons of fish per year. This fishery is largely limited to catching the bottom-dwelling (demersal) fish inhabiting the Mahé Plateau, an area of around 41,000 km<sup>2</sup> up to approximately 50m deep that surrounds the central islands and population centers. The plateau is fished by 140 whalers and schooners and at least 400 outboard vessels, as well as sport and recreational fishing boats. These vessels go to sea for a day to a week and use hook and line, and traps. The continued sustainability of this demersal fishery is critical to food security in Seychelles. Were the local supply to deteriorate and prices to rise, poorer households would be hardest hit, as they spend the greatest share of their income on food, including fish. Food items constitute just under 16 percent of the Consumer Price Index. One survey, albeit now dated (2011), found at that time that about one fifth of households did not have the ability to buy sufficient meat and fish.<sup>34</sup>

**86. In addition to securing the domestic fish supply for food, further sustainable development of the blue economy would strengthen Seychelles' external balances and support macroeconomic resilience.** This would operate, first, through reduced food import demand, an import substitution effect which with further development of sustainable seafood production could be significant, as Seychelles imports about US\$70m worth of food annually, constituting 9 percent of total goods imports, including to supply hotels.<sup>35</sup> Second, increased export-oriented production of maritime products (e.g. crab, sea cucumber, seaweed, shrimp, and sponge-based biotech products), including through mariculture, could raise and diversify foreign currency earnings which are currently highly concentrated in tourism and tuna sales. In all cases, ensuring environmental sustainability will be critical, requiring appropriate regulations and enforcement capability to be in place, and, in light of Seychelles' delicate and pristine ecology, likely meaning that production would need to be oriented to small, high value products supplied into the local tourism industry or to niche international markets.

*Third, a larger blue economy can support public revenues, to the benefit of the poorest depending on the allocation and quality of public spending.*

**87. Seychelles' high economic dependence on its abundant marine natural resources places into focus not only the preservation of these resources (i.e. sustainability), but also how the benefits from their use are shared.** Government revenues and absorption of total expenditures are already relatively high, averaging 34 percent and 37 percent of GDP over 2011-2016, respectively.<sup>36</sup> The tourism sector contributes directly about one third of total taxes. As the blue economy develops further and contributes more taxation revenues, the incidence of fiscal

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<sup>34</sup> Muller, C., 2011, Living Conditions Survey (2011) and Poverty Digest, NBS.

<sup>35</sup> Source: Calculations based on CBS data for 2016. Figures exclude tuna imports for re-export.

<sup>36</sup> Includes preliminary estimates for 2016, IMF.

policy will change, and will need to be assessed and, if merited, adjusted. This, and a continued focus on raising the quality of public service provision, can help ensure that Seychelles' blue economy not only drives economic growth, but increases shared prosperity.

### **Policy priorities for Seychelles' blue economy to drive shared prosperity**

88. The blue economy is a conceptual framework that encapsulates much of the existing economic activity in Seychelles, which is already marine-oriented, but places a new public policy emphasis on managing and ensuring the sustainability of the resources, and deepening the economic value that they provide.

89. **The first prerequisite for this inclusive growth strategy to work is to strengthen the evidence base for policy reform and implementation.** Examples include the need for improved satellite accounts for both tourism (where visitor spending figures are currently unreliable), and fisheries (where beyond estimation of the landed catch, large parts of the value chains for non-tuna fisheries lack systematic data collection, and there is little statistical capture of charter sport and recreational fisheries). These data could be used to apply analytical techniques such as the adjusted net savings approach to determine the sustainability with respect to preserving natural capital of Seychelles' growth path. Seychelles' participation in the Fisheries Transparency Initiative is an example of the government's commitment to improve the measurement and transparent management of its fisheries.<sup>37</sup> Investment in more regular, standardized household surveys (including of the subset of households whose livelihoods depend on fishing), and enterprise surveys, would also shed light on inclusiveness.

90. **Second, planning, and regulatory requirements and enforcement, need to be further developed and streamlined.** Coordination with relevant sector plans and regulatory bodies will be required due to the fundamentally multi-sectoral nature of the blue economy. In particular, Seychelles' blue economy development strategy will need to be integrated with sectoral and national policy planning frameworks, including for sustainable development (land-focused, in the Ministry of Environment, Energy and Climate Change) and overall national development strategy (in the Ministry of Finance, Trade and Economic Planning). Regularity, clarity and consistency would support private sector investment (including in potentially high-returning, but unproven and hence riskier, projects), and are needed to ensure fair, transparent access to the benefits from further development of the blue economy.

91. Finally, making Seychelles' further blue economy-based growth trajectory inclusive requires that local labor force participants are able to obtain the skills they need to access new, higher-earning opportunities in the sector. It will also require addressing general challenges to small business development (such as the high cost of credit), and, in the public sector, calibrating fiscal incidence to an evolving revenue base, while continuing to strengthen the quality of public services.

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<sup>37</sup> See <http://fisheriestransparency.org/about-the-initiative>.



### ***3. Topical Note: The role of SOEs in growth, inclusion and sustainability***<sup>38</sup>

#### **Introduction and overview**

92. The State Owned Enterprise (SOE) sector in Seychelles has been a driving force in economic development, consistent with the country's historically state-centric vision of development, but it has also generated problems, contributing to the build-up of debt and economic distortions that culminated in the 2008/9 economic crisis. This note provides an overview of the sector, through the lens of its importance to economic growth, inclusion and sustainability.

93. The central relevance of the sector to Seychelles can be gauged by the significant scope and scale of its activities and operations. Moreover, the SOE sector is entwined with the rest of the public sector in various ways that further expand the scope of its relevance and its key position in the economy. Clarifying this complex web of relationships will help to strengthen economic management by informing policymakers of the benefits, costs and risks of SOE activities, and this process is still at an early stage.

94. The scope of the SOE sector can be appreciated by taking stock of the areas in which the public enterprises operate (these are listed in Table 5). SOEs provide electricity, water and sanitation, and have undertaken ambitious land reclamation works that have expanded urban space for business and residences in Mahé (the largest island where close to 90 percent of the population lives). State-owned companies run the airport and port. In domestic transportation, the sector delivers public transportation services. It is the main provider of inter-island transport, and controls access to, and the use and development of, the remote islands. In domestic air transport, the position of state is strong, but the national airline (Air Seychelles), which has a foreign partner, faces competition. There is likewise a notable state presence in banking, jointly with private banks. The state is the only importer of oil, and the State Trading Company (STC) is responsible for approximately 80 percent of food and consumer goods imports. The state pension fund is central to the welfare of the elderly, and through its investments is a powerful player in the real estate market. Besides state-owned enterprises, the state maintains investments like in the tuna cannery, the largest single employer on Mahé. In contrast, the state has divested almost completely from the tourist sector. It is not present in telecommunications.

95. Adding to their scope, the SOEs are linked to public policy in several ways. Tariffs for electricity and water services are subsidized for residential consumers. STC sells specific basic consumer good at a fixed price. Domestic transportation is likewise subsidized. The price of oil is managed. Land is made available to SOEs on a preferential basis. The costs of mandates such as these are not explicitly budgeted, nor have their impacts on the welfare of the population been assessed. These mandates are financed mostly through cross-subsidies internal to the enterprises. The practice implies higher tariffs or prices for some categories of consumers, such as in electricity where tariffs for business and commerce are high, and indeed very high by international standards. Overall, the public sector accounts do not elucidate public expenditures (net transfers and subsidies), as is common also in many other countries, obscuring the true size of the state sector.

96. State enterprises compensate for their non-commercial mandates, or seek to do so, through expanding into alternative, profitable activities. Companies like STC, the Port Authority, and the

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<sup>38</sup> This SCD topical note builds on analytical work that the World Bank and the IMF have undertaken recently, with the support of the authorities, as well as SCD consultations interviews, and data gathered.

Seychelles Petroleum Company operate as hybrid concerns. The STC, besides importing basic goods for wholesale, also operates other business lines, and opened a retail hypermarket in Victoria in 2015. The Port Authority derives income from fees and services; it leases land; and, it is engaged in expanding capacity to process tuna and other fish species. SPC operates a profitable oil bunkering line of business that takes advantage of the strategic location of the island. There are also linkages across enterprises. For instance, the state oil company supplies oil at cost for the generation of electricity and for the public transport company (SPTC).

97. In small island economies like Seychelles, with small factor and product markets, situations of natural monopoly and concentration of activity are common. The commercial activity of SOEs is not necessarily a problem, being in some cases closely linked to companies' core mandates and perhaps unlikely to be provided by the private sector. The concern, however, is if SOE activities crowd out the private sector (reducing fair competition and economic opportunities, and reducing efficiency and potentially innovation), or cause economic distortions (for example, due to moral hazard causing inefficient investment decisions, arising from the government's financial backstop to SOEs, which in turn can generate serious fiscal risks).

98. Several indicators capture the size of the SOE sector in the economy. The book value of SOE assets stood at 122 percent of GDP in 2015.<sup>39</sup> If the SOE sector was a Holding Company, it would be by far the largest domestic holding. This is partly because of the limited presence of private domestic companies, which in many other countries are anchored in trade, construction and banking. The sector in aggregate is producing an operating surplus, which is increasing, aided in part by the sharp drop in oil prices in international markets in recent years. The increase in the operating surpluses, to an estimated 6 percent of GDP in 2015, is buttressing public finances.<sup>40</sup>

99. The sector employed 5,700 people in 2015, 12 percent of the workforce. Only the Government employs more people (9,300 in 2015, or about 20 percent of the workforce). The average wage in parastatals is 45 percent higher than the average wage in the private sector.<sup>41</sup> Jointly with government, the SOEs can be seen as wage setters in the labor market. Indeed, reportedly, the labor market rules in place and covering the overall economy are geared towards public and SOE practices.

100. The high public sector wage premium reflects partly that the public sector is capturing a higher bundle of skills than the private sector. SOEs demand technical skills and are important as a source of job opportunities for graduates of technical fields. Approximately 20 percent of Seychellois with degrees or higher qualifications work for SOEs. Some, like SPC, have active and substantial training programs. SOEs are sensitive to and affected by the quality of the country's vocational institutes. The substantial (unconditional) average earnings premium over the market may reflect this effort, and also the attempt to retain personnel in the context of Seychelles' small skilled labor pool.

## **The importance of SOEs to economic performance and fiscal management**

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<sup>39</sup> A formal estimate of the value added contributed by the SOE sector is not available. An indirect calculation suggests that the value added generated by the sector exceeds 10 percent of GDP, which would be a modest value-added relative to assets.

<sup>40</sup> The return on assets (at book value), stood at 5.3 percent in 2015, but this aggregate ROA masks significant variation by enterprise.

<sup>41</sup> Labor statistics from NBS, 2016, "Seychelles in Figures".

101. Given the size and scope of the sector, the efficiency of the state owned enterprises matters beyond their economic and financial performance, because they affect key prices and the quality of basic services available when operating in Seychelles. The small size of the economy means low economies of scale and high unit costs of production, but it is difficult to benchmark correctly with other countries. Comparisons show that in Seychelles tariffs for productive services are higher than is the case in other relevant small economies (for example, port charges and electricity prices). In some cases, these costs translate into higher costs of services that are absorbed by the high end of the tourism market. Still, the contribution of higher service costs to businesses' cost structures weighs on the competitiveness of the tradeables sector, as well as impacting on the cost of living of the local population. The likelihood is that there is scope for efficiency improvements in the delivery of basic services.

102. The SOEs are exposed to various risks. In the past, for instance, increases in the international prices of foodstuffs and oil have affected them directly and then, indirectly, spilled over into government finances. The price of oil affects directly the airline, the oil company (SPC), the utilities company (PUC) and the public transport company (SPTC). To a certain extent some of the enterprises play a price stabilizing role, but such a role can be asymmetrical. There are no reported mechanisms in place to manage fluctuations, such as accumulating precautionary savings during downturns in input prices (especially food and fuel). Some SOEs have foreign currency debt and sell in the domestic market, so they are exposed to exchange rate depreciation. These represent a constituency with a narrow interest in maintaining an overvalued exchange rate, and as a consequence, some reportedly lobby against the flexible exchange rate.

103. The SOEs carry out the bulk of the sizable public investment program, in recent years reaching up to 7 percent of GDP. The central government transfers grants for investment, but SOEs' internal resources and borrowing also contribute to financing investments. Enterprises borrow with or without the guarantee of the government. For example, the oil company does so as part of the operational process and does not require a guarantee of the government. Currently the combined borrowing of the enterprises stands slightly above 30 percent of GDP, equivalent to about half of the total borrowings of the public sector. SOE borrowing does appear to have increased in recent years, though systematic, consolidated tracking of SOE debt is lacking. Overall, the SOE sector does generate a fiscal risk that needs to be properly factored into the accounts of government. A review of these fiscal risks has recently been prepared by the IMF.

104. Given the size and strategic importance of the SOE sector, government oversight, and policy coordination between the government and the SOE sector, needs to be strengthened. There is a reform agenda aimed at improving monitoring of financial performance and compliance with the mandate of each of the companies, which remains to be completed. The Public Monitoring Enterprise Commission (PEMC) could be strengthened, with respect to its legal mandate, and its technical and enforcement capacity. In some areas, multiple oversight mandates are in place.

105. Tracking fiscal performance of the enterprises and assessing their fiscal risks, are only one aspect of what is needed. A broader task is aligning the mandates and performance of the SOE sector with the country's development priorities. The government has instruments in place; government representatives are present on the Boards of the companies, and efforts are being made to improve their relevance and technical capacity. But mandates appear fuzzy and extend the opportunity to Boards and management to act creatively and pursue opportunities.

106. Government transfers, as well as the extension of guarantees for loans, can be used to accelerate the most needed public investment projects. Seychelles could benefit, however, from a more systematic approach to investment prioritization and planning. Infrastructure investment needs are large, including in electricity, water, sanitation, the port, airport, road network, urban development, land, and second undersea cable. Many of these needs will go to replace obsolete infrastructure (consultations singled out the port and electricity infrastructure). The potential size of these investments can tax the absorptive capacity of the state (financial and technical) but, and importantly, will signal development priorities and affect opportunities going forward.

### **Summary: the cross-cutting importance of SOEs for growth, inclusion and sustainability**

107. SOEs are relevant to growth in various ways. First, as the supplier of basic infrastructure services, notably utilities, and passenger and goods transport. Tariffs for these services appear high, particularly for businesses, which increases the costs of producing in Seychelles. This is not only the result of Seychelles' small scale; management and equipment quality also matter. Second, SOEs affect growth through their impact on the competitive environment for private investment and business activity. The combination of flexible mandates, access to scarce resources (financial and, crucially given Seychelles' small talent pool, human capital), and preferential treatments and mutual support systems (e.g. lower input prices and access to land), can give a potential competitive edge to public enterprises. This reduces the contestability in markets, even where potential entry by SOEs is latent. Third, they have access to valuable assets, such as land, and they hold a substantial reservoir of skills. To the extent that these scarce resources are not being used as efficiently in the SOE sector as they would be in the private sector subject to competitive forces which drive efficiency, there is opportunity cost and waste in the economy. Finally, SOE performance affects the delivery and effectiveness of the other policies, such as enhancing credit availability to MSMEs (government provides banks with guarantees for this credit).

108. SOEs are relevant to the inclusion objective directly as well, as providers of basic services on which the population relies, notably water, sanitation, electricity, and public transportation. They also support inclusion because they are charged with social mandates, such as guaranteeing inter-island transport. They also play an important role in the acquisition and transmission of critical skills (e.g., management and technical skills).

109. Likewise, SOEs are relevant to sustainability through the combination of debt and their exposure to global economic risks. In as much as some SOEs play a buffering role, it would help to factor this explicitly into mandates and operational processes, requiring provisioning (e.g. in oil). The same applies to exchange rate fluctuations that could affect the companies, and require provisioning. SOEs will play a key role in climate change mitigation and adaptation measures, including major environmental policies such as increasing renewable energy use.

110. The need to revisit the role of the SOEs, sharpen oversight, improve efficiencies and public investment planning, and manage the fiscal risks generated by government's explicit and implicit contingent liabilities to the sector, is well-recognized in Seychelles. Constraints to reforming the SOE sector, in Seychelles as elsewhere, are considerable, however. These range from technical capacity (as required for forensic auditing, for example) and data availability (consolidated sector statistics), to resistance to change from SOE management, and political sensitivities arising from powerful special interests.

**Table 5: SOEs by sector, assets and turnover (2015)**

Sector and SOE	Supervisory Ministry	Total Assets (SCR million)	% of total SOE assets	Turnover (SCR million)	% of total SOE turnover
<b>Financial Sector</b>					
Development Bank of Seychelles	Ministry of Finance, Trade and Economic Planning	698	2.98%	56	0.53%
Housing Finance Company	Ministry of Finance, Trade and Economic Planning	539	2.30%	43	0.40%
Seychelles Pension Fund	Ministry of Finance, Trade and Economic Planning	2,352	10.05%	208	1.94%
SIBA/FSA	Ministry of Finance, Trade and Economic Planning	194	0.83%	158	1.48%
Seychelles Commercial Bank	Ministry of Finance, Trade and Economic Planning	981	4.19%	92	0.86%
SIMBC/Nouvobanq	Ministry of Finance, Trade and Economic Planning	5,341	22.82%	433	4.05%
<b>Total Financial</b>		<b>10,105</b>	<b>43.17%</b>	<b>990</b>	<b>9.25%</b>
<b>Energy Sector</b>					
Public Utilities Corporation	Ministry of Environment, Energy and Climate Change	3,132	13.38%	1,500	14.01%
Petro Seychelles	Ministry of Finance, Trade and Economic Planning	14	0.06%	4	0.03%
Seychelles Petroleum Company	Ministry of Finance, Trade and Economic Planning	5,770	24.65%	4,428	41.38%
<b>Total Energy</b>		<b>8,917</b>	<b>38.10%</b>	<b>5,931</b>	<b>55.42%</b>
<b>Services &amp; economic development</b>					
National Information Services Agency	Office of the Vice-President	29	0.12%	26	0.24%
Islands Development Company	Office of the Vice-President	204	0.87%	277	2.59%
Property Management Corporation	Ministry of Habitat, Infrastructure and Land Transport	792	3.39%	59	0.55%
Seychelles Postal Services	Ministry of Finance, Trade and Economic Planning	30	0.13%	24	0.22%
Société d'Investissement Seychelloise	N/A	451	1.93%	115	1.08%
<b>Total: Services &amp; Development</b>		<b>1,507</b>	<b>6.44%</b>	<b>501</b>	<b>4.68%</b>
<b>TRANSPORT SECTOR</b>					
Seychelles Civil Aviation Authority	Ministry of Tourism, Civil Aviation, Ports and Marine	544	2.33%	351	3.28%
Seychelles Public Transport Corp	Ministry of Habitat, Infrastructure and Land Transport	133	0.57%	153	1.43%
Air Seychelles Ltd	Ministry of Tourism, Civil Aviation, Ports and Marine	1,477	6.31%	1,674	15.64%
Seychelles Ports Authority	Ministry of Tourism, Civil Aviation, Ports and Marine	336	1.44%	140	1.31%
<b>Total: Transport</b>		<b>2,491</b>	<b>10.64%</b>	<b>2,318</b>	<b>21.66%</b>
<b>Trading and Retail</b>					
Seychelles Trading Company	Ministry of Finance, Trade and Economic Planning	387	1.65%	962	8.99%
<b>Grand Total</b>		<b>23,405</b>		<b>10,702</b>	

Source: PEMC via Ministry of Finance, Trade and Economic Planning.

#### **4. Topical Note: Social protection - challenges and potential reforms**<sup>42</sup>

##### **Challenges**

111. Overall, the social protection system reaches nearly one half (49 percent) of Seychellois, directly or indirectly and the system has succeeded in reducing poverty. In the absence of all social protection programs, the poverty headcount would increase from 39.3 percent to 48 percent and ultra-poverty would increase from 24.3 percent to 35 percent (as measured by the official poverty line). The Government of Seychelles has embarked on reforms in the past years but the persistently high poverty levels and the increasing fiscal cost of the social protection system speak to the need to further strengthen the impact and ensure the sustainability of the social protection system.

112. Total spending on social protection including non-contributory and contributory programs was 4.3 percent of GDP in 2015. Contributory pension outlays by the SPF accounted for 1.0 percent of GDP in 2015. Non-contributory social assistance programs absorb 3.3 percent of GDP, up from 2.8 percent in 2012. Social Assistance spending is higher than average for both high and upper middle income countries and also higher than in most other small island states at similar income levels. As a result of the recent increases in benefits (universal pension and home care program), social assistance alone is expected to absorb 4.3 percent of GDP.<sup>43</sup>

113. Social Protection spending in Seychelles is highly skewed towards the elderly, with 79 percent of total social protection spending going to the elderly. Two programs – the Retirement Pension and the Home Care Program (both targeted to the elderly) account for 71 percent of social assistance spending. The Retirement Pension is the most expensive by far and absorbs 1.8 percent of GDP (54 percent of the safety net budget), while the Home Care Program accounts for 0.6 percent of GDP (17 percent of the safety net budget), respectively. In contrast, poverty targeted Social Welfare Assistance receives 0.3 percent of GDP (9.7 percent of the safety net budget). When SPF expenditures are included, total spending on the elderly accounts for 3.4 percent GDP or 79 percent of total social protection spending.

114. Household survey data indicates that 22 percent of the beneficiaries (direct and indirect) of all non-contributory programs are elderly and 42 percent of benefits accrue to the elderly, although the elderly account for only 9 percent of the population. On the other hand, 26 percent of the population are children, but children account for 23 percent of beneficiaries while only 13 percent of all social protection benefits go to children. Social Welfare Assistance (SWA) does a better job of reaching children (40 percent of SWA beneficiaries are children and 29 percent of SWA benefits accrue to children), but SWA is not able to reach very many poor households.

115. The social protection system currently supports households that are not needy, while most of the households in need get no assistance. Eligibility criteria create inequities through a complex system of exclusions and deductions. Less than 40 percent of percent of beneficiaries of the Retirement Pension are poor, while almost 12 poorest are from the wealthiest. At the same time, only 8 percent of the poor are covered by social welfare, with a benefit that contributes about 16 percent to the household budget.

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<sup>42</sup> Prepared by Melis Guven (Senior Social Protection Economist).

<sup>43</sup> Preliminary estimate.

116. The social protection system may not be sustainable given existing program parameters and population projections. In the absence of parametric reforms, expenditures on the Retirement Pension and the Home Care Program can be expected to climb rapidly. While the SPF is projected to run a surplus until 2027, the fiscal balance beyond this will be negative without further parametric reforms such as increasing the contribution rate and retirement age. It also needs to continue efforts to improve management of its investments. The approach to services for the elderly is fragmented. A more holistic approach with an emphasis on financial sustainability and coordination in the provision of the range of services required by an aging population is needed. Government has empowered the Council for the Elderly to become the operational body responsible for administering the residential homes for the elderly and for developing the new Elderly Policy. This should contribute to the articulation of a more coherent approach to services for the elderly.

### **Policy Options**

117. The SP system could have a greater impact on poverty by focusing on the poor to improve effectiveness and equity. Targeting of untargeted programs to increase the overall poverty impact of the system. Untargeted programs limit the overall impact of the system on poverty reduction. Targeting the Retirement Pension and diverting the same amount of resources to poverty targeted programs could significantly reduce poverty in Seychelles and would make very little difference to the overall budget of wealthier households. Pension testing (excluding SPF pensioners from receipt of the Retirement Pension) would be fairly easy to administer. A sliding scale for contributory pension income and Retirement Pension reduction could be explored.

118. Sustainable financing options for the Home Care Program could be developed. Demographic and fiscal trends raise the question of whether tax-financed home care (and all long-term care for that matter) is sustainable and how financing needs can be smoothed during the demographic transition. The factors that will drive costs in the future are the policy choices regarding targeting; the definition and application of cost-sharing arrangements between the individual, the family, and the state; and the composition and balance of service provision. To manage costs in the short term, eligibility for the Home Care Program (and Residential Care) could be revised with greater emphasis accorded to income, savings and assets. Efficiency gains could also be realized in the short term through strengthening the assessment of incapacity, redesign of the care package to reflect the diverse needs of clients, and implementation of the training for caregivers that is currently being planned. Finally, the benefit (measured as the contribution of earnings from the Home Care Program to the budget of the household receiving care) contributes less than 5 percent for Quintile 4 and less than 4 percent for Quintile 5. This suggests that cost sharing between Government and beneficiary households would not place an undue burden on wealthier beneficiaries.

119. Increasing the SWA coverage and benefit level could be considered. Ninety-two percent of poor households and about 90 percent of ultra-poor households are not covered by SWA and this represents a gap in the system. Resources saved by targeting currently untargeted programs could be redirected to SWA with greater impact on poverty. Linking SWA beneficiaries to jobs would promote labor market inclusion. However, existing labor market programs do not seem to be addressing the needs of SWA beneficiaries. By providing subsidized day care may help to address one of the common barriers to work among poor mothers. The means test could also be revisited to evaluate any access barriers to SWA.

120. The safety net could do a better of promoting education outcomes for children from poor households. Parenting and early childhood initiatives have been shown to improve cognitive development among poor children and would build on Government's new initiatives with respect to early childhood development (ECD). Social intermediation services that link poor households to necessary services could be developed, with a specific focus on linking poor households with parenting education and children with ECD services and with linking poorly performing poor children with appropriate remediation services.

121. The Agency for Social Protection (ASP) requires a single robust management information system and a dedicated monitoring and evaluation unit to support a more results focused orientation. MIS upgrading for SWA has progressed; however, processes are not fully automated and the SSF and SWA systems are not fully integrated and this hamstrings its ability to measure performance and achievement of results. Instituting a Monitoring and Evaluation Unit at the ASP would improve in-house capacity to monitor and evaluate its own programs.

122. Further reforms are needed to improve long-term fiscal sustainability of the SPF. These reforms could include increasing the contribution rate and retirement age. This would apply to the SPF contributory and ASP non-contributory pensions. Increasing the retirement age, would be consistent with international trends and with the increasing life expectancies among Seychellois. In the short-term, Government could also consider revoking the Social Security (Retirement Age) Regulation of 2011 that allows SPF pensioners who retire at 60 to collect the non-contributory Retirement Pension. Current recipients of the Retirement Pension who are under age 63 could continue to receive the benefit; however, employees who take early retirement in the future would not be eligible.



## **5. Topical Note: Historical welfare trends in Seychelles <sup>44</sup>**

123. Analyzing welfare trends in the Seychelles is extremely difficult given data problems with the 2013 survey, which make it impossible to estimate consumption, as well as the lack of comparability between the two years' surveys with respect to how income is captured. Comparability is compromised for the following reasons:

1. Whereas both gross and net income from salary and wages were asked in the 2006/07 survey, only salary and wages from employment was asked in the 2013 survey. In 2013, there was no explicit statement or separation between gross or net income concepts. The NBS has stated that it believes enumerators asked for and that on the whole respondents provided gross salary/wage income; however, we cannot be sure.
2. The question regarding salary and wage income collected in 2013 asked enumerators to exclude irregular overtime pay, tips, and commissions, and in 2006/07 respondents were asked to include these, and bonuses.
3. In 2013 much more detail was asked regarding social transfers than was asked in 2006/07 – with the possible result that 2006/07 data are more comprehensive.
4. The comparability of business income data is doubtful. In particular, expenses associated with gross business income were collected in a more detailed manner in 2006/07. In 2013 only “gross” business income, “total expenses” were collected. Some categories of business income, therefore, may not have been captured in 2013. Perhaps for this reason, the top quintile of business income reportedly showed higher average business income in 2006/07 than in 2013, even when large outliers are excluded.

124. The World Bank attempted three methods for discerning trends in income between 2006/07 and 2013, the two most recent years for which a household budget survey has been implemented. First, we compared an assets index over the period; second, we compared gross income and wage income as captured in the two surveys; and finally we conducted survey-to-survey imputations of gross income, using both 2006 and 2013 measures of gross income to impute the other year. If the three methods had given consistent results, we could have inferred trends with some confidence. However, the results are not consistent across methods, and therefore give us little confidence in estimated trends over the period. While some comparisons show a decline in income for this segment of the population and increased inequality, this depends upon the precise method used. Therefore, we have very little confidence in these income trends/comparisons given the lack of data comparability. The most one can say is that they broadly suggest relatively modest if any income growth for the bottom 40 percent of the income distribution between the two years.

Specifically, the three methods show the following:

### **1. Assets Index**

125. An asset “index” was constructed, which is simply a count in the number of assets the household owns in each year, of nine assets appearing in both surveys. We excluded assets that were only collected in 2013 or 2006/07, and those that went through technology change over time like fixed-line telephones, mobile phones, computer and internet. The result shows growth in asset

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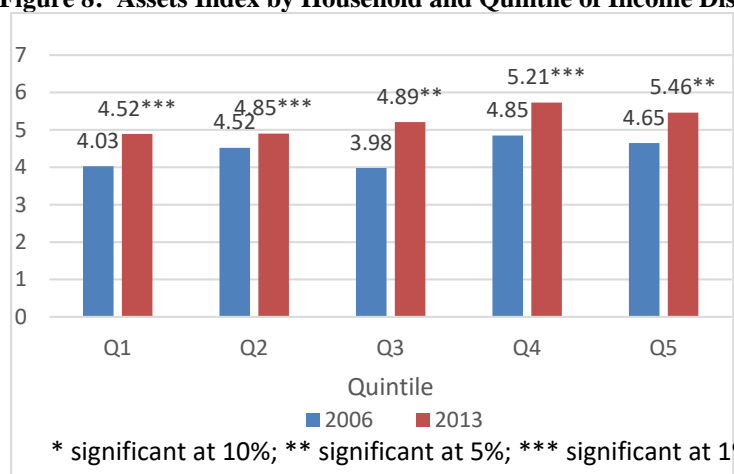
<sup>44</sup> Prepared by Chuqiao Bi under the guidance of Theresa Osborne (Senior Poverty Economist).

ownership between the two years for all quintiles, and these differences are statistically significant. There was a major expansion in social housing over this period and there are various measures to subsidize durable asset purchases; therefore, asset ownership may not reflect underlying income or welfare trends more broadly.

## 2. Comparison of gross income as captured in both surveys:

126. We also compared various components of income from the 2006/07 and 2013 surveys. The results broadly suggest that incomes have remained flat or declined for the bottom 40 over the period (Figure 8).

**Figure 8: Assets Index by Household and Quintile of Income Distribution**



## 3. Sample-to-sample imputation

127. The imputations are performed for both years, that is, we first used data of 2013 to impute the income of 2006/07, then vice versa.

Our projection model is:

$$\ln y_h = x'_h \beta + u_h \quad (1)$$

where  $\ln y_h$  refers to a natural logarithm of household per adult equivalent income,  $x'_h$  is a  $(k \times 1)$  vector of poverty correlates of household  $h$ ,  $\beta$  is a vector of  $(k \times 1)$  coefficients of poverty correlates,  $k$  is the number of variables<sup>45</sup>, and  $u_h$  is a projection error.

Using the method of Yoshida et al. (2015), the imputation is conducted with the following steps:

1. Checking descriptive statistics of independent variables across years.
2. Cross-validation:

This step is to choose a proper projection model for equation 1 while avoiding over-fitting problem. More specifically, it follows:

- (a) Set 10 grids for P-value, ranging from 0.005 to 0.1, with a grid of 0.005;

<sup>45</sup> In our case,  $k \leq 38$ , which is the total number of covariates in Appendix. Table 1 plus squared household size and squared head age.

- (b) Randomly divide household level data into 10 folds;
  - (c) For each p-value, sort out fold of data, and run stepwise regression (that all coefficients need to be significant at this selected p-value) for the rest 9 folds, then do linear prediction  $\ln \widehat{y}_h = x'_h \widehat{\beta}$  for the sorted-out fold, then compute the squared differences (errors) between  $\ln y_h$  and  $\ln \widehat{y}_h$  for this fold. Next compute the mean of squared errors for this fold. Repeat this step for all 10 folds of data.
  - (d) For each p-value, compute the mean of mean squared errors (MMSE) across all 10 folds.  
Choose the p-value that minimizes MMSE<sup>46</sup>. That is the optimal p-value that we use to do stepwise regression for the whole sample for equation 1, which is used to projection. The optimal p-value is .065 using 2006/07 dataset, while .085 using 2013 dataset.
3. With the p-value selected, we run the stepwise regression with the whole dataset (separately for 2006/07 and 2013), then impute the natural log of income of the other year<sup>47</sup>, then transform it to level. Remark we assume the projection error  $u_h$  following normal distribution. For stability, we produce 20 times of the sample size for the imputed dataset. Within each of the 20 replications, we define quintiles. Then compute the mean of income by quintile for all replications. Last, we compare the imputed results with actual data by quintile.

128. **The trend via imputation depends upon whether 2013 data are used to impute 2006 or vice versa.** This is shown by a comparison between Figure 9 and Figure 10. This suggests that the parameters (or returns) have shifted too much over the timeframe to say with much confidence what the actual direction of change is. There is therefore no robust way of knowing income trends in the bottom 40, but that the available methods suggest that they were relatively flat.

## References:

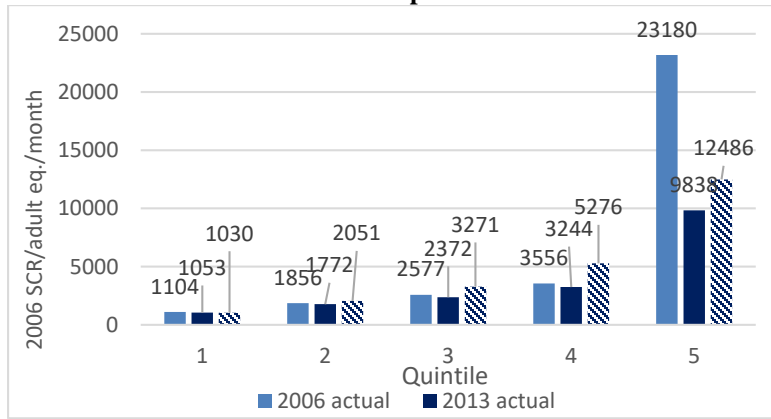
Yoshida, N., R. Munoz, A. Skinner, C. Kyung-eun Lee, M. Brataj, W. Durbin, D. Sharma, and C. Wieser. (2015). *SWIFT Data Collection Guidelines version 2*. The World Bank.

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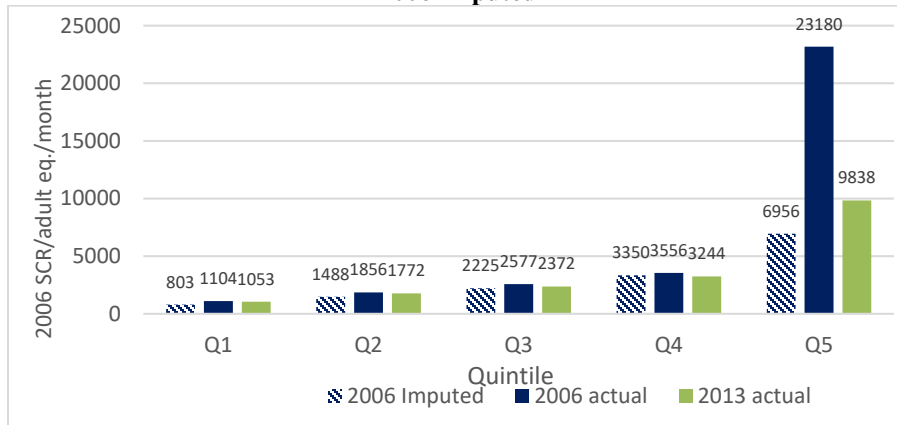
<sup>46</sup> In the guidance note of Yoshida et al. (2015), another criterion to choose the optimal p-value is to use the minimized difference between actual and imputed poverty rate, however I found that the optimal p-value changes at each time we rerun the code, because imputation results change with the seed in the imputation command, therefore this method appears not to be robust.

<sup>47</sup> All imputations are done by Stata command “mi”.

**Figure 9: Comparison of Actual Reported and Imputed Gross Income per Adult Equivalent 2006/07-2013, 2013 Imputed**



**Figure 10: Comparison of Actual Reported and Imputed Gross Income per Adult Equivalent 2006/07-2013, 2006 Imputed**



## **6. Topical Note: Labor market profile of Seychelles <sup>48</sup>**

**129. The report summarized by this note provides a detailed overview and profile of the Seychelles labor market based on the 2011 and 2014 labor force survey (LFS) data.**

130. Major labor market data limitations should be recognized. First, the analysis in the report relies on the standard ILO classification of the working population (individuals aged 15-65), whereas the official estimates of the National Bureau of Statistics report on individuals aged 15 and above, without applying an upper bound limit. This causes important differences between many of the official statistics and those reported and analyzed in the report. Second, changes in the classification of variables between 2011 and 2014 resulted in the creation of an unspecified category in the 2014 data, for example with respect to the sector of employment, where 9 percent of the employed in 2014 were categorized as unspecified. This modification renders it difficult to fully compare results between the two survey years. Finally, data collected by the LFS exclude migrant labor who reside in employer-provided housing. The small proportion (less than 4 percent of the workforce) of migrant labor that is captured relates to those individuals who reside in sampled households and constitutes only a small fraction of the total expatriate labor population (which stood at approximately 16,000, equivalent to about one third of the domestic workforce, in 2016). Notwithstanding these data limitations, a number of themes emerged from the analysis.

131. The analysis reveals that growth of Seychelles' economy stems from output expansion in the transport and storage, finance, and "Community, Social and Personal Services" (CSP) sub-sectors. Consistent with this rise in the share of GDP, the employment shares of these areas of the economy grew, constituting essentially all of the substantial net new jobs created in the Seychelles between 2011 and 2014. Overall, tertiary sector jobs increased over the period by 3 percentage points as a share of total jobs, to 78 percent. In contrast, the secondary and primary sectors contracted in terms of employment share and contribution to overall GDP.

132. This structural shift is accompanied by a deepening skills intensity of employment that has resulted in increasing demand for higher skilled and higher educated individuals. As a share of employment, we observe that the proportion of managers, technicians and skilled agricultural workers increased over this period, while all other occupations experienced a contraction. Unskilled workers, as measured by the "elementary" workers survey category, shrank as a share of the workforce, by 1.5 percentage points, to an estimated 15.3 percent of the domestic workforce.

133. The labor market is characterized by a high share of formal, full-time employment. Over 70 percent of the working population in Seychelles work as employees on a full-time basis. About 10 percent of workers report operating their own business (without employees), and about 4 percent operate a business with regular, paid employees. In terms of working conditions, the Seychelles' labor market is not highly unionized, with only 2 percent of workers indicating that they belong to a trade union. The share of workers working part-time is small overall, and concentrated amongst workers in small firms; 20 percent of workers in small firms (those employing less than 10 workers) work full-time compared to over 90 percent in the medium to large businesses. We observe that 30 percent of the working population has been employed for a

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<sup>48</sup> Working paper (forthcoming) by Haroon Bhorat, Arabo Ewinyu and Derek Yu, Development Policy Research Unit (DPRU), University of Cape Town.

period greater than ten years. Furthermore, this category of workers has seen the largest increase in absolute numbers over the 2011-2014 period.

134. Seychelles has an overall unemployment level of approximately 4 percent, with less than 2,000 individuals being unemployed. In sharp contrast, youth unemployment (for individuals ranging in age between 15 and 24) is thrice as high as the official national unemployment rate, and is higher relative to the other age cohorts. Additionally, there was a significant increase in the number of unemployed post-secondary school workers between 2011 and 2014, whose unemployment rate in 2014 was a significant 11.5 percent, compared with low levels (5 percent or less) for workers with other education categories. This suggests that there is a concern around the relevance of skills offered at the post-secondary level.

135. Wage inequality is significant, with an estimated wage income Gini coefficient of 0.46. The best paid workers are typically male, working in the tertiary sector (specifically in the transport and finance sectors), with a job tenure of ten years or more. The worst paid workers are overwhelmingly female, working in the agriculture or manufacturing sectors, and mostly employed in low-skilled jobs.

136. Labor market inequality in Seychelles appears to be associated with a lifetime employment structure coupled with seniority-based wages, where individuals with increasing experience and tenure, controlling for other characteristics, are compensated with higher wages. Young people, initially faced with higher unemployment probabilities, further encounter low wages, as individuals with greater tenure realize significantly higher conditional returns. Individuals with longer tenures earn wages that are 30 percent higher than individuals with a single year of experience, holding all other individual characteristics constant. There is also some evidence of gender disparities in earnings; the econometric evidence suggests that on average, men earn a wage premium of 16 percent relative to women, controlling for key factors such as education level and sector of employment.

137. Returns to education and skills are highly differential and appear to be increasing. On average, higher skilled or educated individuals earn a premium of 48 to 70 percent relative to uneducated workers. Specifically, highly skilled individuals earn on average, over 50 percent more than “elementary” workers. The highly differential returns to skill reinforce the notion that Seychelles is an economy defined by a skills-biased labor demand trajectory, in that there is a growing relative demand, and in turn a high premium being offered, for high skilled workers and highly educated workers. The shift towards services-led growth, as the structural equivalent of this labor market shift, is evident in the sectoral earnings premium found in the transport and storage sector, although notably not as strong for the remaining services sectors.

### III. SCD SUPPLEMENTARY ANNEXES

#### 1. Annex: Data diagnostic

##### Section 1: General Information about the Statistical System

Legal status of NSO	Independent government agency
Statistical Legislation (latest)	<a href="#">National Bureau of Statistics Act, 2010</a>
NSDS/Statistical masterplan	<a href="#">Strategic Plan, 2014-2020</a>

Type of census/survey	Latest (Year)	Second Latest (Year)	Representativeness (national, regional, urban/rural)	Data Accessibility (open access/with permission/no access)
<b>Censuses</b>				
Population census	2010	2002	National	No access
Agriculture census	2011	N.A.	National	No access
Business/establishment census	N.A.	N.A.	N.A.	N.A.
<b>Surveys</b>				
Household Survey on income/consumption	2013	2007	National	No access
Household survey on education (e.g., MICS)	N.A.	N.A.	N.A.	N.A.
Household survey on health (e.g., DHS, MICS)	N.A.	N.A.	N.A.	N.A.
Labor force Survey (LFS, household survey on labor only)	2014	N.A.	National	No access
Business/establishment survey	N.A.	N.A.	N.A.	N.A.

Section 3: Macro data				
Does the country subscribe to the IMF SDDS or participate in the eGDDS? [Yes]	SDDS			
If eGDDS	Periodicity		Timeliness	
	SDDS	Country	SDDS	SYC
<a href="#">National accounts: Gross Domestic Product by Production and Expenditure at Current and Constant Prices.</a>	Q	Q	1Q	1Q
<a href="#">Consumer price index</a>	M	M	1M	7D
<a href="#">Central government operations</a>	M	M	1M	15D
<a href="#">Balance of payments</a>	Q	Q	1Q	1Q
<a href="#">External debt</a>	Q	Q	1Q	1Q
<a href="#">Merchandise trade</a>	M	M	8W	3W
<a href="#">Production index</a>	M	M	6W	4W
<a href="#">Employment</a>	Q	Q	1Q	3M
<a href="#">Unemployment</a>	Q	Q	1Q	3M
Producer Price Index	M	M	1M	8W

Section 4: Compliance with WBGs core data standards			
	WBG Standard	Compliant (Y/N)	Actual yearly interval or %
Household survey of income or consumption	One every 3 years	Y	2-3 Yrs
PPP price survey	One every 3 years	N	5 Yrs
CRVS	<ul style="list-style-type: none"> <li>80% of births registered</li> <li>60% of deaths registered with cause of death</li> </ul>		

Section 5: STATISTICAL CAPACITY INDICATORS	
Method	80.0
Source Data	70.0
Periodicity	60.0
Overall (Memo: overall average all IBRD)	70.0 (IBRD 75.3)

### Rationale behind the Score of Seychelles

138. Seychelles received a score of 70.0 out of 100 with the 2016 Statistical Capacity Indicator (SCI), using the existing methodology. The country scores relatively balanced across the three dimensions: Methodology (80.0), Source Data (70.0) and Periodicity (60.0).

139. The World Bank is in the process of revising the SCI and has developed the Statistical Performance Index (SPI), which is still preliminary. The SPI summarizes national statistical capacity on a global scale by employing most relevant and representative variables that are publicly available. The SPI can be used to gauge statistical performance of individual countries over time or cross-country comparisons of performance at a point in time. The SPI aims to provide an objective, justifiable/verifiable assessment of the statistical performance of countries over time by



using publicly available information from international agencies and country websites that were produced by national statistical systems. The SPI is built around four main dimensions: Methodology, Standards and Classifications (MSC); Censuses and Surveys (CS); Dissemination Practices and Openness (DPO); and Availability of Key Indicators (AKI).

140. The capacity of Seychelles' statistical system is also assessed by using the new SPI, which assesses more indicators and tightens some existing criteria. Using this new, preliminary methodology, Seychelles received a total overall score of 59.35 out of 100, indicating a relatively lower level of statistical capacity. This indicates that with the weaknesses identified by the SPI, there is a need for capacity improvement of the statistical system to properly inform evidence-based decision making process as well as monitoring and evaluating the development progress in coming years.

141. The first dimension, MSC, looks at whether countries follow internationally recommended methodology and standards in collecting and producing data. Seychelles gained a score of 60.0 in this dimension, with several areas of improvement identified. The National Bureau of Statistics is still using SNA 1993 which lags behind the international standard (SNA 2008). By updating the national accounts and CPI base year with annual chain linking, the country will be able to capture its national economy in a more accurate way. The country could further improve its score by adopting non-cash recording basis for consolidated central government accounting, and following the latest government finance statistics manual.

142. The CS section checks whether countries have conducted major censuses and surveys in internationally recommended form and frequency. Seychelles received a score of 41.67 in this section. The national statistics office does a good job by conducting timely population and housing census, agriculture census and a recent Household Budget Survey. More could be done with establishment censuses and surveys, as well as health and demographic surveys.

143. In terms of DPO, that assesses the dissemination capacity of national statistical systems, Seychelles scored high at 85.71. The National Bureau of Statistics does a good job by providing an advance release calendar, a listing of surveys, as well as a comprehensive, well-developed data portal. By conducting a user satisfaction survey, the NBS could better collect feedback from users and further improve its score.

144. The fourth dimension, Availability of Key Indicators, checks the availability of selected indicators in international databases. With the AKI section, we compared the country score using WDI data in 2015, 2014 and 2013. Seychelles gained the highest score of 43.75 with data from 2014 and 2013, indicating the best data availability for this country in recent years. Scores in this section for Seychelles are relatively low, compared with the MSC and DPO section, possibly due to a lack of timely censuses and surveys that was identified by the CS section. The 2015 score shows that Seychelles has available data on child immunization, adult literacy rate and national accounts. More data on population living below the national poverty line, primary completion rate and manufacturing value added are available in previous two years.

## 2. Annex: Consultations

145. As the World Bank has no country office in Seychelles, SCD consultations took the form of three team visits. Consultations were organized in three stages. First, a scoping visit (June 2016) was conducted. Second, intermediate consultations were conducted by the team to follow up on remaining data requirements and key issues, and to obtain views on emerging conclusions (January 2017). The table below summarizes the formal meetings held during these first two rounds of consultations. A final consultations visit was made in March 2017, during which the team had further discussions with Ministry of Finance, Trade and Economic Planning leadership, and the opportunity to present the draft SCD findings to the Cabinet of Ministers (see Box). Both the scoping visit and the final consultations visit were conducted by a joint World Bank and IFC team.

Meetings	Comments	First visit Jun-16	Second visit Jan-17
<b>Government ministries &amp; departments</b>			
Vice President	<b>Mr. Danny Faure.</b> Assumed the Presidency in October 2016	✓	
Minister of Finance	<b>Dr. Peter Larose.</b> Also attending: Senior Advisor, Ms. Sitna Cesar; PS (Economic Planning), Ms. Elizabeth Agathine. Meetings in June 2016 included with the Comptroller General, Mr. Damien Thesee	✓	✓
Governor of the Central Bank of Seychelles	<b>Ms. Caroline Abel.</b> Second visit was with First Deputy Governor, Mr Christophe Edmond. Meetings included the Head of Research (Mr. Brian Commettant), and Head of Supervision (Mr. Naadir Hassan)	✓	✓
Minister of Health and Social Affairs	<b>Mr. Jean Paul Adam.</b> First meeting was in previous capacity (Minister of Finance, Trade and the Blue Economy). Also attending: PS (Health), Dr. Bernard Valentin	✓	✓
Minister of Community Development, Social Affairs and Sports	<b>Mr. Vincent Meriton.</b> Vice-President as of October 2016, with Office including <i>inter alia</i> the depts. of ICT, Investment and Industry, Blue Economy	✓	
Minister of Environment, Energy & Climate Change	<b>Mr. Didier Dogley.</b> First meeting was with PS (Environment) Mr. Alain Decommarmond; the second meeting with Minister Dogley included also PS (Energy) Mr. Wills Agricole	✓	
Minister of Labour & Human Resource Development	<b>Ms. Idith Alexander.</b> Second visit with the Minister was in her new capacity as Minister of Youth, Sports & Culture	✓	✓
Minister of Investment, Entrepreneurship Development & Business Innovation	<b>Mr. Michael Benstrong</b> Second meeting was with Mr. Kenny Roberts, Director of Investments, with the department now under the VP	✓	✓
Minister of Education	<b>Mr. Joel Morgan.</b> Also attended by Consultant, Mr. Selby Dora		✓
Ministry of Home Affairs	<b>Mr. Michel Marie</b> (Special Advisor) <b>Mr. Paul Didon</b> (Senior Immigration Officer)		✓
Minister of Tourism	<b>Mr. Maurice Lousteau-Lalanne</b>		✓
Dept. of the Blue Economy, Office of the Vice-President	<b>Mrs. Rebecca Lousteau-Lalanne</b> (Principal Secretary) Also attending: Dominique Benzaken (Senior Advisor)		✓

Department of Public Administration	<i>Mrs. Helene Maiche</i> (Public Sector Reforms)		✓
National Bureau of Statistics	<i>Ms. Laura Ah-Time</i> (CEO)	✓	✓
Advisor, VP's Office	<i>Mr. Bertrand Belle</i> Economic Advisor to the President since October 2016	✓	
<b>Agencies and state-owned companies</b>			
Public Enterprise Monitoring Commission (PEMC)	<i>Mr Roger Toussaint</i> (CEO)		✓
CEO, Public Utilities Corporation (PUC)	<i>Mr. Philip Morin</i> . Also attending: Mr. Jalan Nathan (CFO); Ms. Doreen Bradburn (Corporate Manager)		✓
Nouvobanq	<i>Mr. Deoraj Puddoo</i> (Operations Manager)		✓
Seychelles Pension Fund (SPF)	<i>Mrs. Lekha Nair</i> (CEO)		✓
Agency for Social Protection (ASP)	<i>Mr. Marcus Simeon</i> (CEO)		✓
Seychelles Fishing Authority (SFA)	<i>Mr. Bernard Arnephy</i> (CEO)		✓
Agency for National Human Resource Development (ANHRD)	<i>Mr. Terrence Francoise</i> (CEO) and team		✓
<b>Parliament, academia, civil society and other bodies</b>			
National Assembly	The team met with the 7 members of the Finance and Public Accounts Committee. The meeting was chaired by <i>Mr. Wavel Ramkalawan</i>		✓
University of Seychelles	<i>Professor Dennis Hardy</i>	✓	
Seychelles Chamber of Commerce and Industry (SCCI)	<i>Mr. Wilson Nancy</i>	✓	
Citizens Engagement Platform Seychelles	<i>Mr. Marcel Rosalie</i> (CEO) and team	✓	

## Box: Draft SCD results presentation

### Cabinet Business – Thursday 30th March 2017

Thu, 30 March 2017

President Danny Faure chaired a special meeting of the Cabinet this morning at which representatives of the World Bank made a presentation of its Systematic Country Diagnostic (SCD) findings for Seychelles, and its implications for national development planning.

The SCD examines the characteristics, recent trends, and prospects, for growth, inclusion, and sustainability. Results come from synthesis of the relevant existing evidence and additional analysis where possible, aided crucially by consultations.

The SCD will be used by Government as a basis for its National Development Plan, and in this context Cabinet also had an initial discussion on the vision and values which will guide the planning process across government as a whole. The Economic Planning Department will be presenting to the Cabinet the methodology and action plan for the elaboration and consultation process of the National Development plan in the next two weeks.

(Source: [http://www.statehouse.gov.sc/news.php?news\\_id=3380](http://www.statehouse.gov.sc/news.php?news_id=3380))

### 3. Annex: References

#### References – World Bank

Project	Type, project code, date
Accelerated Program for Economic Integration DPL	DPL, P146512, 2016
Cluster Country Program Evaluation on Small States, Seychelles Country Case Study (FY07-15): Enhancing Competitiveness and Private Sector Development	Working paper, 2016
Disaster Risk Management Development DPL with CAT DDO	DPL, P148861, Active
Doing Business: Economy Profile 2017 (Seychelles)	Report, 2017
Financial Sector Development Implementation Plan	NLTA, P147161, 2014
How Classic Policies Restored Sustainability (by Sawkut Rojid, Ahmed Afif, and Emilio Sacerdoti)	Book, 2013
Improving Electricity Planning	NLTA, P154048, 2016
The Seychelles Labor Market: Seychelles SCD Background Paper	SCD, P155250, 2016
Poverty & inequality (a Poverty Profile of the Rep. of the Seychelles)	ESW, P156329, 2016
Programmatic Public Expenditure Review Policy Notes - Health, Education & Investment Management	ESW, P132465, 2014
Reimbursable Advisory Services (RAS) on Financial Sector Development	RAS, P156528, Active
RAS, Public Financial Management & Social Protection	RAS, P147088, 2016
Size of the Public Sector - Government Wage Bill and Employment ( <a href="http://www.worldbank.org/en/topic/governance/brief/size-of-the-public-sector-government-wage-bill-and-employment">http://www.worldbank.org/en/topic/governance/brief/size-of-the-public-sector-government-wage-bill-and-employment</a> )	November 2015
Social Sectors and SOE RAS (incl. SOE Governance and Operational Performance Reviews)	NLTA, P157794, Active

Supply chains linkages to tourism	ESW, P156516, 2016
Support to Social Protection (incl. notes on Long-Term Care, and Framing a More Strategic Social Protection System)	NLTA, P152882, 2016
Sustainability and Competitiveness DPL 3	DPL, P146567, 2015
Sustaining Reforms for Inclusive Growth DPL	DPL, P153269, 2016
Technical Assistance for Tuna Industry Management	NLTA, P118247, 2011

### References – Government of Seychelles (GoS) and development partners

<b>Institution / Government agency</b>	<b>Title (date)</b>
GoS / Commonwealth	Alternative Future Visions for the Seychelles Blue Economy (2015)
IMF	Article IV / EFF staff reports and selected issues papers (through December 2016)
GoS, Ministry of Finance, Trade & Economic Planning	Budget Speeches; Strategy & Outlook (2015 & 2016)
GoS, CBS	Central Bank of Seychelles Annual Report 2015
AfDB	Gender socialization in the home: its impact on boys' achievement in primary and secondary schools (2009)
GoS	Fair Trading Commission notes
GoS	Financial Sector Development Implementation Plan (2014)
WEF	Global Competitiveness Index, Country/Economy Profiles: Seychelles (2015/16)
GoS, NBS	Household Budget Survey Report (2013)
UNDP	Human Development Report 2015: Seychelles
IOM	Migration in Seychelles: a country profile (2013)
UNDP	Millennium Development Goals Status Report 2013: Assessing Seychelles Progress toward the Millennium Development Goals
GoS, NBS	Migration and Tourism Statistics reports (2011-2014)
Christophe Muller, Asha Kannan, & Roland Alcindor	Multidimensional Poverty in Seychelles (2016)
GoS, Seychelles National Youth Council	National Youth Survey Report, 2014-2015: well-being and quality of life
GoS	National Development Strategy (October 2015)
GoS, NBS	Poverty and Inequality Estimates (2013)

GoS, Ministry of Labor	Productivity Survey Report (2014-2015)
GoS, NHRDC	Report on Analysis of Expatriate Employment in Seychelles (2012)
GoS, ASP	Report of Survey on the Home Care Services in the Seychelles (2014)
Macroconsulting	Seychelles Electricity, Water, & Sewerage Tariff Study (2012)
SFA	Seychelles Fisheries Authority, annual reports & bulletins (2013-2015)
GoS, NBS	Seychelles in Figures reports (2010-15)
GoS, Ministry of Labor	Technical Report on Employment Policy
WTTC	Travel & Tourism Economic Impact 2015: Seychelles
GoS, Ministry of Labor	Youth Unemployment Report (2015)