

African Development Bank



SEYCHELLES

2009-2010

Interim Strategy Note

**Country and Regional Department - East A (OREA)
February 2009**

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ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
BMI	Bank Muscat International
DPL	Development Policy Loan
COMESA	Common Market of Eastern and Southern Africa
CFAA	Country Financial and Accountability Assessment
CPAR	Country Procurement Assessment Report
DBS	Development Bank of Seychelles
EASSy	East African Submarine System
EDF	European Development Fund
EEZ	Exclusive Economic Zone
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GST	Goods and Services Tax
HIPC	Highly Indebted Poor Countries
ICT	Information and Communications Technology
IMF	International Monetary Fund
IOC	Indian Ocean Commission
ISN	Interim Strategy Note
LPG	Liquified Petroleum Gas
MDGs	Millennium Development Goals
MICs	Middle Income Countries
NEPC	National Economic Planning Council
NGOs	Non Governmental Organisations
OECD	Organisation for Economic Cooperation and Development
SADC	Southern African Development Cooperation
SBA	Standby Arrangement
SCR	Seychelles Rupee
SEACOM	South East Africa Communication
SEPEC	Seychelles Petroleum Corporation
SIB	Seychelles Investment Bureau
SIDS	Small Island Developing State
SMB	Seychelles Marketing Board
SNP	Seychelles National Party
SPPF	Seychelles People's Progressive Front
STC	Seychelles Trading Company
TEAMS	The East African Marine System
UK	United Kingdom
UNCBD	United Nations Convention on Biological Diversity
UNDP	United Nations Development Programme
US \$	United States dollar
WHO	World Health Organisation

I. INTRODUCTION

1.1 This Interim Strategy Note (ISN) discusses a number of compelling reasons for the Bank Group's re-engagement with Seychelles following the adoption of far-reaching macroeconomic and structural reforms designed to return the economy to sustainable growth.

1.2 The Government has introduced these reforms in the face of a very challenging economic environment, characterized by: (i) a debt overhang, (ii) sharp price increases for food and fuel for much of 2008, (iii) the threat of a global recession—with implications for the country's tourist receipts, and (iv) very limited foreign exchange reserves.

1.3 This is not the first time that Seychelles has attempted to implement reforms. Previous attempts were abandoned or slowed down over fears of the negative social impacts. In the past decade, domestic and foreign borrowing became a key means of financing the budget deficit and maintaining the welfare state. In the second half of 2008, however, Seychelles reached what officials have described as "a point of no return." Its foreign reserves were exhausted. It defaulted on interest payments on its US\$230 million Eurobond, issued two years previously, which eroded its credibility. In implementing the new reforms, policymakers have argued that doing nothing was the greater threat to domestic stability and social wellbeing.

1.4 The Government's response was twofold. First, at the end of September, 2008, it announced that it would restructure the country's external debt in a bid to clear accumulated arrears and put its debt on a sustainable path. Second, in November, it agreed to a Stand-by Arrangement with the IMF to support its economic and financial reforms. The devaluation and floatation of the rupee were key components of the programme.

1.5 This is the context in which the Bank Group is re-engaging with Seychelles, following a long period of absence. Between 2002 and 2006, the Bank Group placed Seychelles under financial sanctions due to accumulated arrears. But even when the arrears were cleared in November 2006, paving the way for possible reengagement, progress was hampered by intermittent slippage back into arrears. Seychelles is now current on its obligations and an agreement has been reached with the Government on the formulation of a reengagement strategy. The Government has emphasized that the success of its reforms in delivering sustainable growth and halting the erosion of the country's social achievements will require concerted support from development partners.

1.6 This Interim Strategy Note proposes a two-phased approach for the Bank Group:

First, in the *short term*, the Bank Group will provide financial support to the Government's fast evolving economic stabilization and debt reduction programmes, as a notable complement to IMF support and that of other donors and financiers. This will provide (i) a basis for re-engagement, (ii) a better understanding of the nature of the country's structural constraints and how policymakers propose to address them, and (iii) an assessment of the areas in which the Bank could provide assistance in collaboration with others.

Second, re-engagement with Seychelles comes at a crucial time for the Bank Group as it takes steps to enhance its services for Middle Income Countries (MICs). Accordingly, the ISN is in line with the new strategic framework for enhancing Bank support to MICs that calls for a combination of investment activities and the provision of knowledge and advisory services. This would include areas such as: (i) economic, financial, and institutional reforms; (ii) enhancing competitiveness; (iii) deepening private sector investment, and (iv) responding to technical assistance needs. In line with this, the planned non-lending programme and ongoing policy dialogue with the authorities should help underpin, over the *longer term*, more substantial engagement and rigorous analysis.

1.7 Ultimately, the effectiveness of the Bank Group's support will depend on the level of Government commitment and the support it can elicit from stakeholders. Joint consultations (involving Government ministries and oversight agencies, the political opposition, the private sector and NGOs on the one hand; and the Bank Group, the World Bank, the European Commission and the UNDP on the other) undertaken in January 2009 revealed broad agreement on the measures introduced and strong commitment to see them through.

II. COUNTRY CONTEXT AND PROSPECTS

2.1 Political, Economic and Social Context

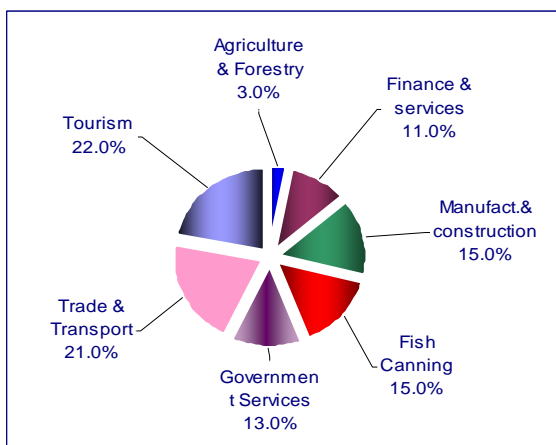
Political Context

2.1.1 Multiparty politics were re-introduced in Seychelles in 1992 and elections have been held regularly since then. The most recent presidential elections, held in July 2006, were won by 54% by the candidate of the Seychelles People's Progressive Front (SPPF), also the incumbent. The opposition Seychelles National Party (SNP) got 46%. Legislative elections followed in May 2007, with broadly similar results. The SPPF has been in power for over three decades. Although the recent economic performance has not been spectacular, it seems that the electorate has been cautious about change and has opted for continuity. However, the electorate is almost evenly split between the two largest parties and a nationally encompassing political and economic agenda has been called for by both sides.

Economic Context

2.1.2 Seychelles, although a middle income country, faces constraints typical of a small island state and Sub-Saharan Africa more generally; including, sector dependence (tourism in its case), vulnerability to external shocks, poor market access, a high risk of environmental degradation and vulnerability to weather-related disasters. Also constraining, is Seychelles' small land endowment, only about 455 square kilometres, with very little of it amenable to agriculture and a challenging private sector regulatory environment.

Chart 1: GDP by Sector (2007)



Source: AfDB Statistics Department, African Economic Outlook, 2008

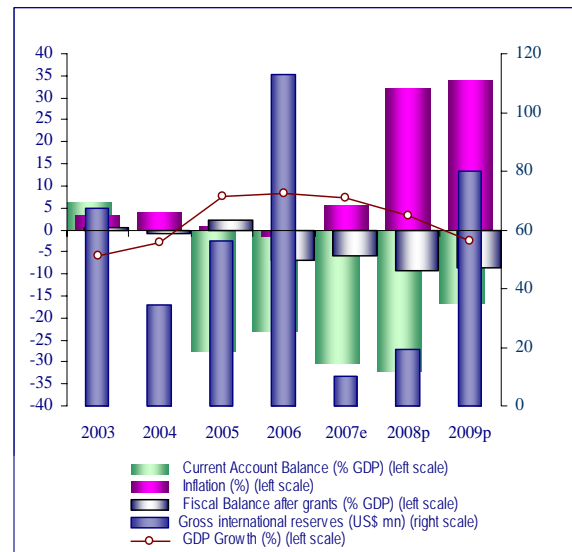
In contrast, Seychelles has extensive marine space and accessible coastlines. Tourism is the

predominant sector, accounting for 22% of GDP, 30% of employment and 70% of foreign exchange earnings. The fish canning industry, especially tuna processing, contributes 15% to GDP, 97% of visible exports and employs 17% of the workforce (Chart 1).

Macroeconomic Management and Outcomes

2.1.3 Economic growth was very low during the first half of 2000s, but rebounded in 2005, driven by a construction boom and higher tourism arrivals. The recovery continued in 2006 and 2007, with real GDP growing by 5.4% and 7.3%, respectively. However, growth slowed down markedly in 2008 to 3.1%, due to external shocks, lower tourism earnings and the persistence of structural constraints—reflected in a rising debt burden and foreign exchange shortages.

Chart 2: Macroeconomic Trends



Source: AfDB Statistics Department, African Economic Outlook, 2008

2.1.4 Government revenue averaged 46% of GDP per annum during 2001 to 2007, partly reflecting the high taxes typical of welfare states. Still, public expenditure, at about 48% of GDP in recent years, has been higher than revenue, and efforts to curb it have been largely futile. The fiscal balance averaged -1.7% of GDP between 2001 and 2007. A large portion of public expenditure was targeted at entitlements of various types--outlays on goods and services, subsidies to public enterprises and capital spending on housing projects. Public sector employment levels were also very high, accounting for 46% of total employment in 2007.

2.1.5 With regard to exchange rate management, Seychelles has pursued a controlled exchange rate

regime since independence in spite of intermittent adjustments. Moreover, in recent years the rupee was priced differently with respect to the US dollar and the Euro. This multiple currency practice contravened the IMF Articles of Agreement. But more important, the policy led to exchange rate misalignment and foreign exchange shortages. The Government adjusted the exchange rate in October 2006 and then again in October 2007 when the exchange rate was set at SCR 8 to the dollar. In spite of these adjustments, the parallel market persisted, with a premium of about 30-40%. Most recently, the Government introduced a radical change in approach by floating the rupee on November 1, 2008. During the first week of trading, the rupee depreciated by about 56% against the dollar from SCR 8.9 to SCR 15.83.

2.1.6 The rapid growth of Seychelles' indebtedness has been a key domestic policy concern. The debt problem arose from the Government's belief that it could sustain the welfare state and related expenditures on the basis of commercial loans. Measured in terms of GDP or in per capita terms, the country's indebtedness has little parallel among developing countries. Public debt increased from US \$ 1090 million in 2001 to US \$ 1435 million in 2007 and was estimated to have reached US \$ 1496 million in 2008. Although there has been some fluctuation in terms of the ratio of debt to GDP, it was invariably close to or above 150% of GDP (Chart 3).

2.1.7 The growth of external debt from US \$ 486 million (46.6 % of GDP) in 2005 to US\$ 967 million in 2008 (98% of GDP) was a major contributor to total public debt. The bulk of the external debt (63%) was to commercial creditors, while the shares of bilateral and multilateral creditors were 30% and 7%, respectively. A US \$ 200 million bond was issued in 2006, followed by another of US \$ 30 million in August 2007. Three-year promissory notes worth Euro 55 million were also issued. 967 million (98% of GDP) in 2008 was a major contributor to total public debt. The bulk of

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Chart 3: Public Domestic and External Debt

Source: Ministry of Finance; Central Bank of Seychelles and IMF 2008 Staff Report

2.1.8 The proceeds of the 2006 international bond issue were used to clear arrears owed to commercial and multilateral creditors, including the World Bank (US \$ 1 million) and to the ADB (US \$46.75 million). This notwithstanding, the stock of outstanding debt arrears has remained substantial, amounting to US \$ 314 million (38.5% of GDP) at the end of August 2008, of which US \$ 163 million (52%) is owed to bilateral donors and US \$ 149 million (46%) to commercial creditors (Chart 4).

2.1.9 Seychelles' debt burden is an impediment to its growth efforts and comprehensive debt restructuring, involving substantial reduction in both debt servicing and amortization, is required. The authorities are undertaking a number of sequenced actions to address this issue:

- i. The recently approved Standby Arrangement with the IMF, was the first step in helping the country put its debt level on a sustainable path and, importantly, to facilitate negotiations with multilateral and bilateral creditors.
- ii. Following agreement with the IMF, and given that there is positive support from multilateral creditors, Paris Club creditors have informally indicated their willingness to consider treating Seychelles' debt using the Evian approach (a debt relief method applicable to non-HIPCs).
- iii. The Government has already appointed financial and legal advisors to assist in elaborating a comprehensive debt restructuring strategy for the commercial debt. Identification of commercial creditors and first round discussions were undertaken in late 2008.
- iv. Finally, the Government has established a National Debt Committee to closely monitor parastatal borrowing and a new Public Debt Law, to define a legal framework for debt management, was presented to Parliament in December 2008.

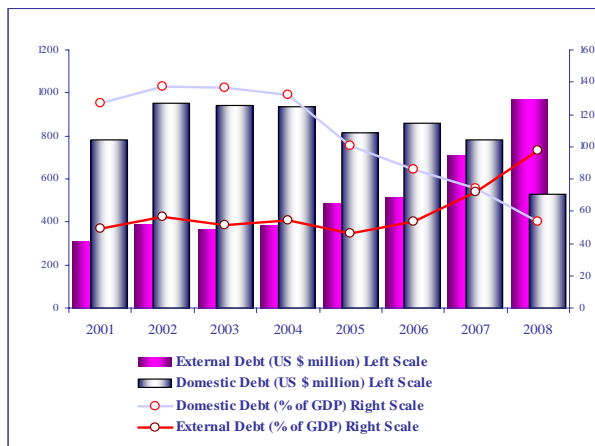
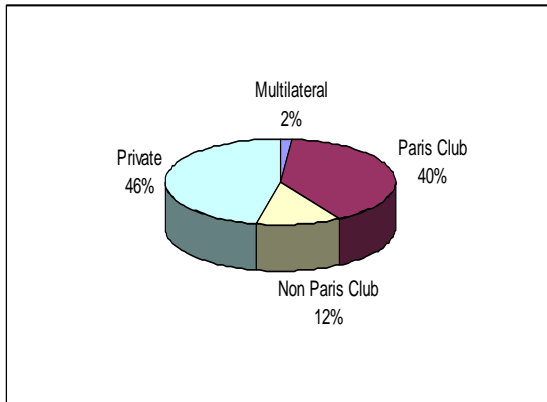


Chart 4: External Debt Arrears by Creditor (Aug 2008)



Source: Ministry of Finance; Central Bank of Seychelles, and IMF 2008 Staff Report

2.1.10 Nonetheless, a preliminary debt sustainability analysis presented in the IMF Staff Report for 2008 suggests that even with a sharp reduction in the present value of the debt, Seychelles is likely to remain highly vulnerable to a variety of shocks for an extended period of time. The Fund has also identified priority areas for technical assistance including (i) communication and coordination between various bodies responsible for public debt, (ii) reporting and auditing, (iii) improving operational risk procedures (data records and audits, operational manuals), and (iv) managing contingent liabilities (such as guarantees on parastatal debt).

Governance

2.1.11 Governance indicators prepared by the World Bank in 2008 show that in most dimensions of governance (voice and accountability, political stability, government effectiveness, control of corruption, and rule of law) Seychelles is now above the 50 percentile among the 212 countries surveyed.

2.1.12 A report prepared by the United Nations Economic Commission for Africa in 2007 also assessed the overall state of governance in Seychelles as good. However, it recorded weaknesses in various areas. Stakeholder participation was assessed to be weak, especially absence of anti-corruption engagement by civil society. The Office of the Ombudsman is the constitutionally designated focal point for fighting corruption. However, the public's perception of the Office's effectiveness is low. The financial management system was also considered inadequate largely due to inconsistencies and shortcomings of financial statements, improper records, non-compliance with statutory provisions, waste of resources and incorrect classification of

expenditures. The report also noted cases where laws were flouted and government actions distorted by vested interest.

2.1.13 Control of corruption: In 2008 Seychelles was ranked 55 on the Transparency International's Corruption Perceptions Index out of 180 countries, and thus, among the least corrupt countries in Africa (Botswana 36, Mauritius 41, Cape Verde 47 and South Africa 54). The country has enacted several laws to fight corruption, while a National Tender Board was established in 2004. In June 2006, the Government set up a Financial Intelligence Unit at the Central Bank in June 2006, key in the fight against money laundering and terrorism financing. It will promote transparency in financial dealings, notably cross-border flows. Recent economic policies will have a notable impact on rent-seeking activities and corruption as the past dirigiste economic management approach of the government, based essentially on picking winners (who were rewarded with foreign exchange, commercial contracts, employment in the public service, and the allocation of government housing) is brought to an end. This has been reinforced by the enactment of further legislations such as the Procurement Act and the Public Officers' Ethics Act.

Social Context

Social Inclusion and Equity

2.1.14 Human development has been an essential element of all policies and national development plans since independence. As a result, Seychelles has already met the target for most of the eight Millennium Development Goals (MDGs). Access to education and health services, safe drinking water and sanitation for all have contributed to poverty alleviation, social integration and a high standard of living. This has led to a Human Development Index (HDI) of 0.842 (United Nation's 2007/08 rankings), placing Seychelles highest in Africa, 50th in the world, and comparable to many OECD countries. In terms of GDP per capita, at about US\$8,960 in 2008¹, the country ranked second highest in Africa (after Equatorial Guinea an oil exporter). Other key indicators such as life expectancy, adult literacy rate,

¹ This figure may have declined substantially, given the devaluation of the currency, as described in Section 2.1.5. Updated figures are unfortunately not available.

population growth rate, and gender equality compare favourably with achievements in developed countries.

2.1.15 Seychelles does not have a national poverty line for measuring poverty. However, the latest household income and expenditure survey done in 2006/07 provides some preliminary findings that can be used as a baseline measure of the level of poverty. According to the survey, the food poverty line (the most basic requirement for survival) is SCR 38.9 per capita per day. Applying this threshold to the household survey data, around 18% of households are estimated to be living below the food poverty line and when considering food as well as non-food basics (including shelter and non-replaceable utilities), the basic needs poverty line of SCR 50 per capita per day.

2.1.16 Given the substantial reforms at the end of 2008 (which are likely to lead to a contraction of the economy in the short to medium term), combined with the global economic slowdown and the change in Government approach from a universal to a targeted welfare system, there is concern that poverty and vulnerability may be on the increase. In order to counter this, the Government has recently established a Welfare Agency to support better targeting of Government expenditure to those most in need. An initial assessment undertaken by the Welfare Agency, shows that those who are most vulnerable include single mothers, unemployable seniors, young males and those without parents.

2.1.17 Although Seychelles has a high ratio of GDP per capita and impressive HDI numbers, the preliminary information from the household income and expenditure survey suggests that there is a significant presence of poverty in the country, and this is before the impact of the reform programme and other events is taken in account. This emphasizes the importance of setting up a national system to compile, analyze and store data on the major economic and social indicators. It would allow improved monitoring of government policies on the socio-economic situation of specific population groups, and better targeting by the new Welfare Agency.

Gender Equality

2.1.18 The Constitution promotes non-discrimination and guarantees equal rights and protection for both men and women. The country has also signed and ratified the principal conventions related to gender discrimination. The support for women's empowerment has led to some significant

outcomes: (i) the country has achieved gender parity in primary education, and girls currently outnumber boys in secondary and tertiary education, although with lower representation in scientific fields; and (ii) Seychelles is among the top in the SADC region in meeting targets for female representation at all decision-making levels, with 35% of women in parliament and 45% at chief executive or middle management levels. However, the incidence of domestic violence has increased. The Family Violence (Protection of the Victims) Act was enacted in 2000. For the latter to have impact, it is important for law enforcement officers to have more awareness of gender issues and for women to be more aware of the laws that protect them.

Environment and Climate Change

2.1.19 The Government has undertaken efforts to conserve the environment and Seychelles is regarded as a pioneer in environmental protection and conservation. It is a signatory to the United Nations Convention on Biological Diversity (UNCBD), under which various types of protection areas exist. Consequently, the country has one of the highest percentages of protected areas in the world designed to conserve the known species of endemic plants and animals, estimated to number 1,500.

2.1.20 The islands are, however, likely to be affected by global warming and associated climate changes (rising sea level and coral bleaching, extreme floods and droughts). The 1997/98 El Nino, for example, caused widespread coral bleaching throughout the waters of Seychelles, with the rise in sea temperature destroying an estimated 50%-90% of coral as deep as 23 metres below the surface. In recognition of the magnitude of this problem, the Government established the National Disaster Committee that reports directly to the President's Office. Seychelles has also become more active in raising awareness of climate change and sea-level. The country launched the Sea Level Rise Foundation in September 2007 with the main aim of increasing global awareness to sea-level rise in small island states and coastal nations.

2.1.21 Finally, development on the main granitic islands is putting pressure on Seychelles' laudable environmental record. Important challenges include: (i) conserving coral reefs while at the same time reclaiming land to help ease development pressures; (ii) protecting and expanding the water catchment areas; (iii) maintaining the high levels of endemic biodiversity in the forested areas; (iv) bio-security (keeping disease and pests under control); and (v) making climate-proof investments, for example stronger bridges and houses).

Private Sector/Business Environment

2.1.22 As part of its reforms, the Government has focused on the creation of a conducive environment for private sector participation in the economy. In the 2009 World Bank's Ease of Doing Business Report, Seychelles ranked 104 out of 181 countries behind Mauritius (24), South Africa (32), Botswana (38), Namibia (51), Kenya (82), Ghana (87) and Zambia (100). When the report was compiled, lack of foreign exchange was the major constraint. Regulations on entry were found to be less of an issue, as were business licensing procedures. In the enforcement of contracts, however, the number of procedures and duration for enforcement were cumbersome, as were procedures for employing and firing workers.

2.1.23 Although a number of legislative, regulatory and institutional reforms have been implemented to improve the business climate since 2005, the largest impact will emanate from those introduced in 2008 under the macroeconomic stability and sustainable growth programme (see Box 2). Significantly, this programme aims to reduce the role of the state in economic activity and enhance the growth-generating capacity of the private sector by creating conditions conducive to private investment. Annex IV shows the changes to the investment climate regulatory framework and areas where further change is required. Given that the private sector is supposed to now be the key driver of the economy, it is imperative that areas for improvement are attended to as soon as possible. In addition, the competitiveness of the private sector is constrained by various infrastructural bottlenecks including information and communication technology (ICT), inadequate water supply and energy (see section 2.2.2.6).

Regional Integration

2.1.24 Seychelles belongs to the Common Market of Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), and the Indian Ocean Commission (IOC). However, its geographical isolation (about 1,500 km from continental African countries) remains a major constraint. Its physical isolation from major markets increases the cost of imports and exports and acts as a 'hidden tariff' on all Seychelles' trade. In addition, Seychelles has been sourcing certain imports from very far away (for example beef from Brazil), and is now looking to engage with countries and markets closer to home. Having just joined the COMESA Free Trade Area, Seychelles is hoping to reap the

benefits of cheaper food imports from the region, access to cheaper raw materials and a larger export market. SADC membership is expected to increase investment flows from the Southern African region, particularly in areas where Seychelles has had long standing interests including banking, hospitality services, education and health services.

2.1.25 The prospects for enhancing regional integration are, however, constrained by the prohibitive ICT costs in Seychelles emanating from the lack of availability of international telecommunications bandwidth capacity. Lack of foreign exchange has been a major constraint for local operators' investment into submarine cable initiatives. Seychelles is currently looking seriously at various submarine cable options such as the East African Submarine System (EASSy), South East Africa Communication Project (SEACOM), and the East African Marine System (TEAMS) is timely. Fast and higher-capacity ICT broadband capability would greatly facilitate the development of offshore financial and business services, as well as the movement towards higher-value business tourism.

2.2 Strategic Options

2.2.1 Country Strategic Framework

2.2.1.1 In recognition of the need for significant macroeconomic and structural reforms the Government launched a medium-term strategy, *Seychelles Strategy 2017* in March 2007 (see Box 1). Though launched close to two years before the unprecedented reforms at the end of 2008, it was a good pointer to what was to come. The Strategy outlines an ambitious plan to double GDP over the next decade by stimulating private sector development and reducing the commercial activities of the state, expanding fisheries and tourism sectors, and reducing public debt to 60% of GDP. The core elements supporting this "private sector-led" growth strategy will be: (i) enhancement of local participation, (ii) strengthening of national human resource capacity, (iii) securing the highest international environmental standards, and (iv) promotion of strategic national and international partnerships. The "Seychelles Strategy 2017" stresses that the long-term objective will be attained against a backdrop of an independent monetary and exchange rate policy coupled with strict fiscal discipline, as well as efficient and transparent governance.

2.2.1.2 The "Seychelles Strategy 2017" spells out the Government's vision adequately but does not provide cost estimates nor does it articulate the

actions to be taken to meet the targets outlined above. In particular, the Strategy does not prescribe solutions to the critical foreign exchange problem, nor to the reduction of public debt. Some of the challenges emanate from how the Strategy was formulated. The task was entrusted to the National Economic Planning Council (NEPC), set up in August 2006 by the President. Generally, the extent to which the NEPC undertook stakeholder consultations is unclear. The Seychelles Chamber of Commerce and Industry expressed concern that it was not consulted in the drafting of the Strategy.

Box 1: Thrust of Seychelles Strategy 2017

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

Enhance Competitiveness and Governance: (i) Promote Tourism, Fisheries, and Off Shore services; (ii) Revamp outdated regulatory practices; (iii) Increase the domestic savings ratio; (iv) Promote good governance.

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

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

Source: Seychelles Strategy 2017

2.2.1.3 In spite of these shortcomings, the Government has already implemented various short-term stabilization measures that are consistent with the overall goals of private sector growth set out in the Strategy. The details of the Government's frontloaded reforms are set out in Box 2. The fact that the Government has substantively put these reforms in place demonstrates its resolve to correct the imbalances. It also underlines its commitment to implement additional measures necessary to achieve programme objectives. According to the latest IMF Staff Report, the reforms include: (i) full liberalization of the exchange rate regime; (ii) tighter fiscal policy and good governance; (iii) tighter monetary policy; (iv) replacement of universal subsidies with a targeted social safety net; (v) public sector reform to improve government efficiency, particularly in health and education services; (vi) removing constraints to private sector development

and supporting private sector investment; and (vii) a debt restructuring strategy aimed at putting public debt back on a sustainable path. However, there is still a need to develop a medium-term plan consistent with the short-term stabilization reforms and with the overall development vision. This is one area where development partners could provide joint assistance.

Box 2: Reforms undertaken since October 2008

- Exchange Rate/Monetary Policy

(i) Weekly auctions of Treasury Bills and establishment of a deposit facility at the Central Bank introduced, (ii) Rupee floated, (iii) Memorandum of Understanding between Government and the Central Bank to formalize terms and conditions under which the Bank transacts for the Government.

- Tax Reform

Increased prominence of Goods and Services Tax (GST):(i) Extended to all telecommunications, (ii) Re-introduced on locally produced soft drinks, (iii) GST on tourism services raised from 7% to 10%, (iv) Reinstated on Liquefied Petroleum Gas (LPG).

Removal of tax exemptions and related adjustments: A 10% withholding tax on interest income for residents introduced, (ii) All taxes on locally produced and imported cigarettes raised and harmonized, (iii) Introduction of 15% tax on residential rental income, (iv) Removal of exemption on interest income by companies, (v) Rates on both locally manufactured and imported alcohol raised to adjust for inflation, (vi) Environmental levy raised from SCR 10 to 25 per month, (vii) Fees, fines and rents and royalties adjusted for inflation, (viii) All provisions for discretionary exemptions in the Trades Tax and Business Trade Acts repealed.

- Elimination of Subsidies

Household Related: (i) Universal product subsidies replaced with targeted social safety net, (ii) SCR 90 electricity rebate for households eliminated, (iii) Bus fare raised to operating cost-recovery levels.

Production Related: (i) Fishermen fuel subsidy coupons abolished, (ii) Subsidies for Agro Industries, Hatcheries, Seychelles Trading Company (STC) and Coevity Prawns abolished, (iii) LPG subsidy by the state oil company, Seychelles Petroleum Corporation (SEPEC) abolished.

- Legislation and related

Besides the establishment of a Social Welfare Agency, the following legislation was enacted: Public Debt Management Act, Public Officers Ethics Act, and Public Procurement Act.

Source: Budget Speech 2009, Discussions with Government and IMF Staff 2008 Report

2.2.2 Challenges and Weaknesses

2.2.2.1 Bring public debt down to sustainable levels: According to a preliminary analysis undertaken by the IMF at the time of the SBA negotiations, Seychelles' debt is unsustainable (as noted in 2.1.8). Seychelles is likely to remain highly vulnerable to a wide variety of shocks for an

extended period of time. For this reason, it is noted that engagement in constructive discussions with all external creditors is critical and that comprehensive public debt restructuring is crucial for restoring debt sustainability. In preparing for the float of the Rupee, the authorities established weekly auctions for short-term commercial bank deposits at the Central Bank and for 91-day Treasury bills. This led to the emergence of a yield curve with interest rates rising to and stabilising around 28%. On the one hand this has positive consequences in limiting the extent of exchange rate depreciation; however, this massive increase in interest rates and the significant demand for treasury bills is putting pressure on Government's domestic debt.

2.2.2.2 Commit to see the macroeconomic reforms through: Seychelles has embarked on a front-loaded reform programme (see Box 2), which is likely to put significant strain on the economy and on a majority of the population. For example: (i) purchasing power has been reduced by the rapid rise in domestic prices; (ii) tourism numbers are expected to decline due to recession in Europe – Seychelles' main tourism market; (iii) targeted welfare is to replace the universal system; and (iv) the public sector is to be trimmed (1,800 people have already been laid off) in order to make way for a strategy of private sector driven growth. These changes are putting significant economic/financial stress on Seychellois. The IMF has already projected that growth may decline by 7.5% in 2009, significantly lower than the earlier projection of -2.5%. As a result, there is likely to be a build up of social tensions, which could translate into political pressure for rapid results or for policy reversals in the reform agenda. In order to manage this, it is imperative that Government develops a clear communications strategy, and engages more with civil society organizations that represent the voice of the poor, that assist in communicating the reform agenda, and that can monitor the impacts on society at large. Ultimately, Seychelles needs to continue the reform programme beyond the IMF arrangement, to ensure a more prosperous and sustainable economy in the future.

2.2.2.3 Reduce and adjust Government's role in the economy: Over the past 30 years, Government has played the role of key driver of the economy. One of the core pillars of the reform programme, however, is to reduce and adjust Government's role to that of facilitator. Measures involved to achieve this include downsizing, outsourcing, privatisation and also increasing internal efficiency. This will be a significant challenge in an already difficult environment, and underlines the need for capacity

and high levels of morale within Government to achieve the rest of the reform agenda.

2.2.2.4 Replace significant subsidies/universal welfare by a targeted social safety net: Significant subsidies and universal welfare have contributed to impressive social indicators, but at the cost of imposing a heavy fiscal burden on Government. To reduce public expenditure, prevent abuse of the system and to effectively target those most vulnerable, Government has set up a targeted social safety net. This includes the establishment of a Welfare Agency (the new Welfare Act was passed in October 2008) and the introduction of a means-tested system to mitigate the impact of ongoing reforms. The design and implementation of this system is currently underway. The planned approach is to provide monetary assistance, skills training and assistance in the form of incentive-to-work schemes to the most vulnerable. The sustainability and success of the reform programme depends largely on the ability to correctly identify and provide for the increased numbers of Seychellois who may fall into poverty during the difficult times that lie ahead.

2.2.2.5 Enhance the private sector's ability to drive the economy: A number of challenges need to be resolved for the private sector to flourish and play a dominant role in the economy. The investment climate regulatory framework (see Annex IV) is not conducive to a competitive and fair business environment. After all the years of a socialist system, including extensive subsidies and universal welfare provision, it will take some time to adjust the entrenched culture of dependence on the state; and create an entrepreneurial spirit. Moreover, access to finance is generally difficult and, in the current high interest rate environment, even more constrained. Finally, there are numerous infrastructure bottlenecks as discussed below.

2.2.2.6 Alleviate infrastructural bottlenecks: Given the country's dependence on imports and the importance of fisheries in the economy, the performance of the main *port* in Mahe is critically important. According to the Seychelles Ports Authority, there is a need to expand the quay space since the current one is old and was not designed for container traffic. The latter has caused a great deal of damage over time. Other priorities include: (i) improving turnaround time, (ii) purchasing of additional tugs, and (iii) segregation of cruise ships, commercial ships fishing vessels and tankers.

The *road network* is generally in good condition, but because of the topography and scarcity of usable land, the roads have sharp winding reverse curves and

steep gradients. With the tourism investments that are currently underway, there is concern about the impact this may have on the road network, both during construction and given the envisaged increase in visitors.

With regard to *energy*, the country's needs are mainly met by the importation of refined petroleum products, which accounts for about 90% of all primary energy supply, thereby exposing the island to the vagaries of the international oil market. In addition, the current fuel powered generators are operating at top optimal capacity, which has raised concerns as to how the islands will cope with increased foreign visitors.

Another constraint is the inadequate investment in *water and sanitation* infrastructure that adversely affects the development of economic activities, in particular tourism. Although 95% of the population is supplied with water, the current infrastructure is unable to meet the water demand during the dry season, thus resulting in frequent cuts in the water supply. In order to find a solution to this, the Bank Group is financing a strategic plan for the development of the water and sanitation sector.

Another significant constraint relates to the prohibitive *ICT* costs (see 2.1.25).

2.2.2.7 Significant capacity constraints and skills shortages: In common with other small islands, Seychelles faces the problem of manpower shortages emanating from its small population base, currently estimated at 85,000 people. Moreover, as the labour force ages, there is greater competition among the different sectors to attract and retain younger workers. The labour market mismatch arises from the co-existence of under-employment of unskilled persons along with the shortage of technical, managerial and professional staff in all sectors. This is especially apparent in health, education, finance, tourism, and construction; resulting in the recruitment of expatriate labour as a temporary measure. The Government needs to optimize the utilization of available knowledge and skills, while ensuring that contracts of non-Seychellois workers include training for locals, where applicable to build capacity.

2.2.2.8 Inherent vulnerabilities as a small island developing state: These include small land area, limited natural resources and environmental vulnerability. Given the limited opportunities for economic diversification, the main engines of growth, tourism and fisheries, are inextricably linked to the quality of the natural and physical environment. In addition, although Seychelles lies

outside the tropical cyclone belt, it is indirectly affected by atmospheric disturbances and the El Nino phenomenon. Natural calamities such as the 2004 floods and the December 2004 tsunami adversely affected the country's economic performance. Although Seychelles has a laudable record in environment preservation (2.1.18), about 47% of its total land area is designated as environmentally fragile. The major challenges include increased development of the main granitic islands, which imply land use conflicts, higher demand for energy, conservation of freshwater, treatment of waste water and threats from invasive species. Ironically, the country's success in raising household incomes and living standards pose threats to the country's rich land resources and its biodiversity.

2.2.3 Major Strengths and Opportunities

2.2.3.1 The Seychelles offshore sector has revealed some potential to assist the development of the country by attracting capital from around the world. The number of international business companies registered rose from 10,000 in 2002 to over 35,000 in 2006. Although most are shell organizations that pay no tax, they generated about \$3 million annually in foreign exchange for local agents, lawyers and accountants. However, only two banks, Barclays and Nouvobanq, have so far obtained offshore banking licenses. There is potential to enhance productivity of this sector through development of mutual funds, trusts and insurance products.

2.2.3.2 Development of high value tourism products: The tourism sector is expected to remain one of the mainstays of the Seychelles' economy for the foreseeable future. The Government has made efforts to promote tourism investment on a large scale, and this appears to have been highly successful in terms of investor response for proposed hotel projects that will materialize over the next several years. There is nevertheless scope to move up the value chain towards higher-value tourism products, especially through developing conference and business tourism.

2.2.3.3 Potential in fisheries: With an exclusive economic zone (EEZ) extending to 320 km, Seychelles has been able to lay claim to over 1 million square kilometres of ocean. Although tuna production has been increasing in recent years, and is now reaching a plateau on account of the internationally accepted limits for prevention of over-fishing, Seychelles is yet to tap the full potential of its fisheries resources. It is acknowledged that Seychelles should strive to

maintain its position as the most important tuna transshipment port in the region, but it should also equally consider ways to increase value-added activities, for the benefit of the local economy so that a larger amount of the fisheries resources caught in the EEZ (or caught elsewhere but transhipped via Victoria) is processed onshore.

2.3 Donor Coordination and Harmonisation and Bank Group Positioning

2.3.1 Generally, donor co-ordination is managed by the Government through the Ministry of Foreign Affairs and International Cooperation. Systematic foreign aid co-ordination in the country is complicated by the limited number of resident development partners. While informal coordination exists, recently the Government has started to make efforts to improve the process. This was evident during the joint dialogue ADB/World Bank for this ISN in January 2009 when deliberate efforts were made to ensure that a large number of development partners were also present in the country including the IMF, UN agencies, and the European Union.

2.3.2 Among the UN agencies, only the UNDP and the World Health Organisation (WHO) maintain liaison offices in Seychelles, but with country coordinators operating from Mauritius. UNDP's four year (2007-2010) allocation amounts to US \$250,000 focusing on: (i) capacity building for state actors and civil society; (ii) promotion of gender and human rights; (iii) environment and energy resource management; and (iv) sustainable disaster management.

2.3.3 Among the multilateral donors, the *European Union* (EU) is currently the most active and the country coordinator is based in Mauritius. Under the 10th European Development Fund (EDF) programme for the period 2008-2013, it allocated €5.9 million for the country, with the bulk earmarked for the environment (€5.0 million).

2.3.4 Until recently, Seychelles' relationship with the *Bretton Woods institutions* has been rather limited. Except for technical assistance, it is only under the two-year Standby Arrangement approved on November 14, 2008 that the country has resorted to resources from the IMF for the first time.

2.3.5 With regard to the World Bank, the level of assistance to the country has been modest mainly due to its small size and its access to commercial lending sources. In addition, Seychelles was in non-accrual status from August 2005 until November 2006 when it settled arrears to the World Bank. The non-accrual status precluded all financial assistance

from the World Bank, but there was continued engagement through technical assistance and policy dialogue in areas such as economic management, debt management and trade policy.

2.3.6 The World Bank and the ADB are collaborating in their formulation of strategies to guide their operations in the short term. In its interim strategy, the World Bank, like the ADB, does not plan to provide investment lending to Seychelles until the macroeconomic framework is well in place. Instead, the World Bank's ISN envisages new lending in the form of Development Policy Loans (DPLs) that may reach up to a maximum of US\$18 million over the FY09-10 period. The ADB is planning a similar operation (see section 3.3.1).

2.3.7 As regards analytical work, the intention of the World Bank is to carry out work in four critical areas: (i) informal Technical Assistance in the design of a medium-term economic reform strategy; (ii) a public expenditure review focusing on civil service reform, public enterprises, asset management, systemic fiduciary and financial controls in the Ministry of Finance, fiscal management reforms in the social sectors, and the safety net mechanism designed to counterbalance the social impact of adjustment; (iii) a review of private sector development and investment climate, with an update from Foreign Investment Advisory Services on its 2004-05 report; and (iv) a joint Country Financial and Accountability Assessment (CFAA) and Country Procurement Assessment Report (CPAR) to understand the status of broader country fiduciary systems and governance framework with a view to a future operational investment portfolio.

2.3.8 With regard to bilateral donors, only China, Cuba, France, India, Russia and the U.K. have representation in Seychelles. These donors are mostly involved in capacity building, although China is providing a combination of grants and soft loans for water supply, sewerage, and energy. China has also contributed to scholarships and is helping to build the new National Assembly and two public schools. India has ongoing technical and financial cooperation with Seychelles and has a number of scholarships and exchanges with several Indian Universities. Cuba and Nigeria have bilateral cooperation agreements and Australia together with Japan have provided assistance in the context of the 2004 Tsunami. Japan has also been very active in the fisheries sector over the last 20 years, with assistance amounting to over US\$30 million.

Bank Group's Positioning

2.3.9 Lessons from Previous Interventions: The Bank Group commenced operations in Seychelles in 1978 and has since approved 19 operations comprising 14 projects, 1 study, 3 lines of credit and 1 emergency assistance operation, in all amounting to UA 85.6 million. There were no approvals between 2001 and November 2006 when the country was under sanctions, except for an emergency assistance operation worth US\$500,000 granted to deal with the Tsunami disaster in January 2005. Most of the operations were in the social sector (44%), reflecting Government priorities. This was followed by agriculture sector (18%), transport sector (15%), water supply and sanitation sector (12%) and the financial sector (10%). Before sanctions were imposed about 76.6% of the total commitments on all approved loans had been disbursed and the balance of 23.4% was cancelled at the request of the Government after sanctions were applied.

2.3.10 There are useful lessons from the Bank Group interventions in the country. Social sector interventions led to substantial achievements in education and health. However, a Country Portfolio Review undertaken in 1998 concluded that macroeconomic imbalances threatened these achievements and also adversely affected Bank Group operations in the country, mainly due to shortage of foreign exchange. The major lesson emerging from this experience is that a stable macroeconomic environment is crucial for the success of project implementation. In addition, the review highlighted the importance of domestic capacity for timely project execution. Several projects had been adversely affected by the shortage of adequately trained manpower in the country. The review also recognized the need for better co-ordination of Bank Group projects, for example, the submission of requests for financing should be centralized between Government departments, in this case the Ministry of Foreign Affairs, the line Ministries and the executing agencies.

III. THE BANK GROUP'S RE-ENGAGEMENT STRATEGY

3.1 Rationale for Bank Group Re-engagement

There are compelling reasons for the Bank Group to re-engage with Seychelles after a long period of absence:

- First, the Government has recently stepped up its reform efforts, which are considered credible by many donor partners. When the IMF approved the SBA in mid-November 2008, it commended the authorities for embarking on a comprehensive reform of fiscal, monetary, and exchange rate policies to address macroeconomic imbalances and to put the economy on a sustainable growth path. It also noted that the success of the adjustment and reform programme requires external financial support, including a restructuring of the external debt. However, it is recognized that while the Government is committed to sustaining a strong fiscal effort over the medium term, its own funds will not be sufficient to close the financing gaps and return future debt service payments to sustainable levels.
- Second, re-engagement with Seychelles comes at a crucial time for the Bank Group as it takes steps to enhance its services for Middle Income Countries (MICs). Accordingly, the ISN is in line with the new strategic framework for enhancing Bank support to MICs that calls for a combination of investment activities and the provision of knowledge and advisory services.

3.2 Pillar for Bank Group Support

3.2.1 The choice of pillar for the Interim Strategy derives from discussions with the Government and development partners on the nature of support appropriate for Seychelles in the short-term. It became clear in light of the size of the public debt and other structural constraints that investment activities might not be the most appropriate at this stage. A gradual approach to engagement is, therefore, proposed, with preparatory analytical work and advisory services that will inform potential project lending at a later stage. Towards this end, the following single pillar is proposed:

Pillar: Support the reform programme to achieve sustainable growth

3.2.2 This pillar recognises that a sound macroeconomic environment is crucial for the enhancement of growth and development, as well as for the success of project implementation. Consequently, this pillar focuses on the most urgent challenge facing Seychelles by supporting the creation of a stable and enabling macroeconomic environment.

3.2.3 This pillar also recognises other aspects of the reform agenda that require support in order to ensure that, once the macroeconomic fundamentals are attended to, the economy is well placed to pursue

a sustainable growth trajectory. These include enhancing the environment for private sector activity and investment, and improving the competitiveness of the small-island state.

3.2.4 This pillar is in line with the Government's objectives, as set out in Strategy 2017, as well as the ongoing reform agenda. It reflects lessons arising from past Bank Group interventions in the country, particularly the importance of a stable macroeconomic environment for the success of project implementation (see section 2.3.10). And, it attends to the immediate challenges, as well as paving the way for longer-term engagement consistent with the Bank Group's Middle Income Countries' Strategy.

3.3 Deliverables and Targets

Lending Operations

3.3.1 Provision of a Budget Support Loan: The rationale for providing budget support to Seychelles is premised on a preliminary assessment undertaken in January 2009, which shows that Seychelles meets the Bank Group's prerequisite conditions (both general and technical) for such support (see Annex V). The reform agenda is designed around *macroeconomic stabilization* measures and structural reforms, including: (i) exchange regime and exchange rate reforms (e.g. removal of exchange restrictions and adoption of a floating exchange rate regime); (ii) debt restructuring, including the design of a comprehensive debt restructuring strategy and strengthening public debt management; (iii) further consolidation of public finances by reinforcing fiscal revenue and tightening expenditure; and (iv) monetary policy that seeks to establish price stability, with greater emphasis on liquidity management. *Structural reforms* focus on: (i) fiscal restructuring with emphasis on strengthening the public financial management framework and budgetary process, fundamental review of the tax system, and strengthening tax administration; (ii) privatization of public enterprises and improvement of the investment climate; and (iii) transparency and good governance.

3.3.2 In addition, it is recognized that timely financial support from multilateral and official creditors is critical for the success of the reform programme. Indeed, this was a major consideration advanced by the IMF when it approved access under the two-year SBA of SDR 17.6 million (200% of quota), with 35% of quota being disbursed immediately. The Fund pointed out that even with this support, residual financing gaps are significant.

Taking into account the projected financing gaps, it is proposed that budget support from the Bank Group amounting to US\$20 million be availed in two tranches over the 2009-2010 period, in tandem with World Bank support (see section 2.3.5). In 2009, the Bank Group will provide US\$10 million subject to satisfactory conclusion of the first review of the IMF programme; and in light of the reforms already undertaken. Provision of budget support in 2010 will be subject to continued satisfactory performance under the IMF supported programme and entry into force of a debt restructuring agreement with Paris Club creditors and documented progress on resolving private creditor debt.

Non Lending Operations

3.3.3 The planned non-lending programme and ongoing policy dialogue with the authorities will help underpin, over the longer term, more substantial engagement. This programme has been designed to complement initiatives undertaken by other development partners (see Section 2.3), whose outcomes we will be following closely.

3.3.4 Technical Assistance: Under the *African Water Facility*, the Government submitted a request to finance the preparation of the Water Development Plan aimed at improved water management and governance, and identifying priority investment projects for funding, in order to meet Seychelles' water needs up to 2030. The grant amounting to €955,000 was signed in May 2008. It is expected that at the end of the study in December 2009, the Master Plan will be used to seek donor funds for immediate implementation of Phase I.

3.3.5 The Government also submitted two proposals for consideration for grant resources under the Middle Income Countries' (MIC) Technical Assistance Fund:

- The first request was for support to human resource development, training and capacity building, and the establishment of the Seychelles University Foundation. This request was approved for a grant of UA 600,000 in December 2008. It will finance a study expected to focus on the following areas: (a) the completion of the University of Seychelles Strategic and Master Plans and other front-end activities; and (b) the completion of studies/strategic plans and short-term targeted skills upgrading and training for key institutions.
- The second request was for a feasibility study of the Submarine Cable System link of Seychelles

to East Africa. It was approved in early February 2009 for US\$ 500,000.

3.3.6 The Government also requested the Bank Group for assistance in organizing a Seminar on Policy Reforms to share its experiences with other countries, especially East Africa. This would be a forerunner to an Investment Forum/Conference that the Government is planning at a later stage when Seychelles has established a sustained track record of reforms.

3.3.7 Analytical Work: The Bank Group's long absence from Seychelles has weakened its knowledge base, making it crucial to emphasize economic sector work in conjunction with the Government and other donors as a prelude to extensive interventions. Key areas for proposed analytical work include: (i) an assessment of the National Statistical System to strengthen the basis for Government's strategy formulation and to help identify areas for Bank Group support; and (ii) A Public Expenditure Review in 2010 to be undertaken jointly with World Bank (see section 2.3.6).

Table 1: Indicative Lending and Non-Lending Programme (2009-2010)		
A. Lending Programme		
Fiscal Year	Amount	Sectors/Themes
2009	US \$ 10 million	Budget Support Loan
2010	US \$ 10 million	Budget Support Loan
B. Non Lending Operations		
2009	Preparation of the Water Development Master Plan (ongoing)	
	Study on human resource development (UA 600,000)	
	Study on Submarine Cable System (US \$ 500,000)	
	Seminar on Policy Reforms	
2010	Public Expenditure Review (jointly with World Bank)	
	An assessment of the National Statistical System	

3.4 Monitoring and Evaluation

The Government and the Bank Group will jointly monitor the outcomes of the ISN using the results-based framework presented in Annex I. The focus of monitoring and evaluation will be on Bank Group financed interventions, which during the two-year period of the ISN will mainly be economic reforms and institution strengthening. The IMF's periodic review of the SBA will be a key input, while the public expenditure review to be done jointly with the World Bank will provide critical assessments of public policy, including issues of governance and transparency. Access to adequate national statistics will be crucial for monitoring the ISN and the Bank

Group's support to the National Bureau of Statistics will be focal in this regard. Prior to the formulation of a full Country Strategy Paper in 2011, a completion report for the ISN will be prepared.

3.5 Country Dialogue Issues

Areas for continued dialogue with the Government:

3.5.1 Government commitment to reforms: A strong indication of Government commitment to reforms is a prerequisite for Bank support. Both financial and technical support from the Bank Group depends on the implementation of a credible macroeconomic programme, and on a comprehensive debt restructuring strategy designed to bring public debt down to sustainable levels. It will be important to reach understanding on how these goals will be achieved and what needs to be put in place in the short term to expedite the process. The Bank Group will liaise closely with the authorities and other partners to monitor developments to ensure that potential problems are identified and addressed in a timely manner.

3.5.2 Timely repayment of obligations to the Bank Group: In the past, the country's track record in meeting its obligations to the Bank Group was sketchy. There were intermittent delays and occasional slippages into arrears. However, since the onset of the macroeconomic programme, the Government has made efforts to stay current on its debt obligations to the Bank. Continued dialogue will be important to ensure that this level of commitment is maintained. The Government has given assurances to this effect.

3.6 Potential Risks and Mitigation Measures

3.6.1 The Debt Burden Persists: The Government has put considerable effort in ensuring that its development partners and the rest of the international community extend it generous debt reduction and restructuring. Indeed, the reform programme embarked on in November presupposes substantial debt reduction. This has been factored into the support programmes of the ADB and the World Bank. The Bank Group's discussions with key European embassies based in Seychelles indicated that they would respond sympathetically to the Government's request, in light of its strong reform effort. However, Paris Club members account for only a fifth of the country's debt. The Government's "road show" received a sympathetic reception in the various capitals of Europe and the Middle East, but it is not yet clear how the more dispersed commercial and private holders of the debt will respond. The Government and its partners hope that a favourable Paris Club outcome would have

important demonstration effects on commercial and private creditors. Besides financial support, Seychelles will also require other support in its effort to reduce its debt to sustainable levels.

3.6.2 A Prolonged Period of Slow Growth: In the best of circumstances, the Government had estimated that its reforms would have a negative initial impact on growth, before a strong rebound as the effects of a more efficient public sector, higher investment, and improved access to foreign exchange take hold. The strong recovery was predicated on a strong global economy, which for Seychelles would mean higher tourist inflows as well as FDI. The current global financial crisis and associated economic slowdown does not augur well for Seychelles in this regard and could well prolong the period required for recovery. As already indicated, the authorities have shown strong commitment in implementing the stabilization programme, as demonstrated by the upfront measures already taken and are willing to take additional measures to ensure programme success if needed. On its part, the Bank Group will ensure that dialogue with the Government and other partners is maintained and that active monitoring of the programme is undertaken to ensure that any further encumbrances are addressed. The Bank Group will retain flexibility in its approach and will pursue active analytical work to adapt its support to the realities of the stabilization programme.

3.6.3 Political landscape could stall reform agenda: Presidential elections are planned for 2011. Although Government officials continue to voice their unwavering support to reforms, the ruling party is conscious of the need to achieve some positive results in the short and medium term. Good news from the Paris Club, as well as demonstrable support from development partners would be crucial in ensuring that economic reform does not lead to the unravelling of Seychelles progress towards competitive politics.

3.6.4 Emergence of social dissatisfaction and tensions: The success of the Government's reform programme will require belt-tightening and thus will have adverse social impacts, which might not be borne equally between the different social groups. The positive impacts might also take time to realize. If not managed carefully, this process could cause social tension. Therefore, it is imperative that all necessary support is given to ensure that Seychelles does not find itself in a position where the authorities would be forced to put on hold or even reverse these reforms which might lead to slower economic recovery and failure to lift the reform process beyond the first year and into the medium term. This

risk is mitigated by the fact that the Government is taking strong measures to address potential income disparities and intends to target the most vulnerable groups using social safety nets and targeted interventions. The Bank Group together with other donors, including the World Bank and IMF, will also help mitigate social risks to the reform programme by assisting the Government with technical capacity on programme design and implementation via the analytical work mentioned earlier and through provision of financing.

3.6.5 The private sector's role in the economy: The success of Seychelles' reforms is premised on a favourable private sector response to the incentives being introduced in the economy. Three factors might slow down the pace at which the private sector will be able to take advantage of the new situation. First, the businesses had adjusted to an environment driven more by contacts with officials than by business acumen. It is plausible that such groups will fail to take advantage of the more competitive environment that is being created. Second, the government's sale of treasury bills to the public has led to high interest rates—hovering at over 30% in late December 2008. Moreover, the high cost of imports—production is very import-intensive—might also delay production. Third, in spite of a high level of human development, Seychelles still lacks skilled labour in certain areas. The Government envisages that some of the officials retrenched from the public sector would be redeployed in the private sector. However, capacity building initiatives targeted at the private sector will be required. The Bank Group and other development partners have a role to play in this regard and the Bank Group's support to human resources development in Seychelles is thus timely.

IV. CONCLUSION

4.1 This Bank Group's Strategy for Seychelles comes at a critical time when the country has recently embarked on a comprehensive reform agenda. In the past few months, the Government has frontloaded reforms to come to grips with the burgeoning macroeconomic crisis. The ISN has identified support to the reform programme as its key focus in the short term through development policy operations rather than investment lending. Importantly, the adjustment period covered by this ISN would allow the Bank Group to acquire additional sector-specific knowledge that would provide the basis for investment lending in subsequent years, following the formulation of a fully-fledged Country Strategy Paper. The Government concurs with the Bank Group's

assessment and the thrust of this Interim Strategy Note in delivering support to the country.

4.2 The Board is requested to give due consideration and approval of this Interim Strategy Note for Seychelles.

ANNEX 1: SEYCHELLES ISN 2009-2010 MONITORING AND RESULTS FRAMEWORK

Strategic Objectives	Constraints to achieving the desired outcomes	Final Outcome Indicators (2010)	Final Output Indicators (2010)	Mid Term Outcome Indicators (2009)	Key Actions and Mid-Term Output Indicators (2009)	ADB Interventions Ongoing and Proposed in the ISN
Pillar: Support Reform Programme to achieve sustainable growth						
A. Exchange Rate Policy						
Maintain a credible exchange rate for the Seychelles Rupee	i. Low level of external reserves ii. Limited external financing options	i. Eliminate foreign exchange shortages ii. Restore confidence in the Seychelles Rupee	Competitive and growth enhancing environment	i. Facilitate the creation of an Interbank Market for foreign exchange ii. Put in place a modernized, simplified and transparent Foreign Exchange Act	Satisfactory implementation of IMF programme	Proposed Budget Support Operation
B. Debt Policy						
Re-establish public debt sustainability, consistent with long-term payment capacity.	Availability of programme lending from multilateral donors Decrease in tourism in flows	A comprehensive debt restructuring strategy	Containing public debt/GDP ratio at less than 150% of GDP Substantial reduction or elimination of external debt arrears	Formulate a medium-term public debt strategy Increase transparency of public debt management by publishing quarterly and annual reports on the implementation of the debt strategy.	Agreement with Paris Club creditors Agreement with commercial creditors	Proposed Budget Support Operation
C. Fiscal Policy						
Achieve a primary surplus to enable Government to clear its debt and interest at a sustainable level.	Maintain service delivery, while at the same time continue tightening expenditures.	Primary surplus of 6.5% of GDP	Review of Tax System: removal of exemptions, strengthened tax administration Expenditure restraint including the elimination of all subsidies from parastatal companies; Enforcement of full cost recovery policy in the provision of public utilities and a reduction of the wage bill to 6.4% of GDP Outsourcing of non-core activities	Primary surplus of 6.2% of GDP	Expenditure restraint: Replace direct and indirect product subsidies with a well-targeted social safety net Revenue enhancement; Complete tax audits of the 20 largest enterprises (by turnover), in the tourism, banking, construction, and fishing	Proposed Budget Support Operation Public Expenditure Review (jointly with World Bank)

Strategic Objectives	Constraints to achieving the desired outcomes	Final Outcome Indicators (2010)	Final Output Indicators (2010)	Mid Term Outcome Indicators (2009)	Key Actions and Mid-Term Output Indicators (2009)	ADB Interventions Ongoing and Proposed in the ISN
					sectors Strengthened public financial management: Establish a public enterprise monitoring unit in the Ministry of Finance Reduce the size of the public sector: Implement the Voluntary Departure Scheme to reduce the number of government employees by 12.5 % in 2009	
D. Monetary Policy						
Establish price stability	Uncertainty about the monetary transmission mechanism and weak instruments	Decline in inflation rate (end period) to 11.5%	Strengthen the governance and transparency aspects of the CBS Act and CBS operations	Decline in inflation rate (end period) to 21.6%	Replace exchange rate anchor with a reserve money target, and indirect, market-based monetary policy instruments	Proposed Budget Support Operation
E. Capacity Building Initiatives						
Enhance economic management capacity	i. Limited middle management skills ii. Inadequate ICT connectivity	Reduced skills gap in Government	i. Reduced reliance on expatriates ii. Connectivity improvements			Study on human resource development Study on Submarine Cable System An assessment of the National Statistical System

ANNEX II

SEYCHELLES: SOCIOECONOMIC INDICATORS

	Year	Seychelles	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		0.5	30 307	80 976	54 658
Total Population (millions)	2008	0.1	985.7	5 448.2	1 223.0
Urban Population (% of Total)	2008	53.8	39.2	43.5	74.2
Population Density (per Km ²)	2008	191.2	32.5	65.7	23.0
GNI per Capita (US \$)	2007	8 960	1 238	2 000	36 487
Labor Force Participation - Total (%)	2005	48.4	42.3	45.6	54.6
Labor Force Participation - Female (%)	2003	46.2	41.1	39.7	44.9
Human development index (HDI) value	2005	0.843	0.514	0.691	0.916
Human Develop. Index (Rank among 174 countries)	2005	50	n.a.	n.a.	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2008	...	34.3
GNI per capita US \$					
Demographic Indicators					
Population Growth Rate - Total (%)	2008	0.5	2.3	1.4	0.3
Population Growth Rate - Urban (%)	2008	1.3	3.3	2.6	0.5
Population < 15 years (%)	2006	23.8	40.9	30.2	16.7
Population >= 65 years (%)	2006	7.8	3.4	5.6	16.4
Dependency Ratio (%)	2006	462.0	79.6	56.0	47.7
Sex Ratio (per 100 female)	2006	102.9	99.3	103.2	94.3
Female Population 15-49 years (% of total population)	2006	...	24.2	24.5	31.4
Life Expectancy at Birth - Total (years)	2006	72.2	54.5	65.4	76.5
Life Expectancy at Birth - Female (years)	2006	75.7	55.6	67.2	80.2
Crude Birth Rate (per 1,000)	2006	17.3	35.7	22.4	11.1
Crude Death Rate (per 1,000)	2006	7.8	13.0	8.3	10.4
Infant Mortality Rate (per 1,000)	2006	9.5	83.9	57.3	7.4
Child Mortality Rate (per 1,000)	2006	...	137.4	80.8	8.9
Total Fertility Rate (per woman)	2006	2.1	4.6	2.8	1.6
Maternal Mortality Rate (per 100,000)	2006	...	683.0	450	8
Women Using Contraception (%)	2006	...	29.9	61.0	75.0
Population Growth Rate (%)					
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2006	96.4	39.6	78.0	287.0
Nurses (per 100,000 people)	2007	478.0	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2006	99.7	51.2	59.0	99.0
Access to Safe Water (% of Population)	2004	88.0	62.3	80.0	100.0
Access to Health Services (% of Population)	2004	99.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2004	97.8	38.4	50.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	...	4.5	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2005	33.0	315.8	275.0	18.0
Child Immunization Against Tuberculosis (%)	2007	99.0	83.0	85.0	93.0
Child Immunization Against Measles (%)	2007	99.0	83.1	78.0	93.2
Underweight Children (% of children under 5 years)	2006	...	28.6	27.0	0.1
Daily Calorie Supply per Capita	2004	2 426	2 436	2 675	3 285
Public Expenditure on Health (as % of GDP)	2006	4.6	2.4	1.8	6.3
Life Expectancy at Birth (years)					
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2007	125.3	90.8	91.0	102.3
Primary School - Female	2007	124.6	92.1	105.0	102.0
Secondary School - Total	2007	111.8	43.5	88.0	99.5
Secondary School - Female	2007	119.1	40.8	45.8	100.8
Primary School Female Teaching Staff (% of Total)	2007	85.4	47.5	51.0	82.0
Adult Illiteracy Rate - Total (%)	2007	8.2	32.4	26.6	1.2
Adult Illiteracy Rate - Male (%)	2007	8.6	24.9	19.0	0.8
Adult Illiteracy Rate - Female (%)	2007	7.7	39.8	34.2	1.6
Percentage of GDP Spent on Education	2006	5.6	4.5	3.9	5.9
Infant Mortality Rate (Per 1000)					
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2005-08	2.2	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2000-07	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2000-07	...	10.9
Per Capita CO2 Emissions (metric tons)	2005-08	2.8	1.0	1.9	12.3

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

last update : February 2009

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

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

ANNEX III

SEYCHELLES: SELECTED MACROECONOMIC INDICATORS

Indicator	2003	2004	2005	2006	2007	2008	2009	2010
						Est.	Projections	
GDP at Current Market Prices (million Rupees)	3811	3849	4861	5342	6113	7878	9970	11580
Real GDP Growth Rate (%)	-5.9	-2.8	7.5	8.3	7.3	3.1	-2.5	3.5
Inflation Rate: Annual Average (%)	3.3	3.9	0.8	-1.4	5.7	32.2	33.8	12.6
Gross National Saving/GDP (%)	15.4	15.1	14.6	14.2	9.1	4.9	9.7	10.4
Gross Domestic Investment/GDP (%)	9.0	9.8	34.3	28.1	32.5	33.6	30.6	31.8
Revenue/GDP (%)	49.2	48.9	41.1	42.0	35.9	35.4	35.5	35.5
Expenditure and Net Lending /GDP (%)	42.1	46.2	40.4	49.6	46.0	37.6	41.8	36.6
Overall Balance /GDP (%):	7.1	2.7	1.7	-6.2	-9.8	-1.8	-6.1	-1.1
Primary Balance /GDP (%):	12.8	9.5	7.3	-0.6	-2.3	7.1	6.2	6.6
Exports: Annual % Change	19.0	-7.0	8.9	-0.4	-3.4	1.0	-1.4	-1.6
Imports: Annual % Change	-3.0	21.3	37.8	-0.1	16.4	-6.5	-1.0	-1.2
External Current Account Balance/GDP (%)	-1.3	-9.1	-19.7	-13.9	-23.4	-28.8	-20.9	-21.4
Gross Reserves (months of Imports)	2.2	0.9	0.7	1.3	0.1	0.3	0.9	8.6
External Debt/GDP (%)	51.4	54.3	46.6	53.7	71.9	97.8	119.8	115.2
Public Domestic Debt/GDP (%)	136.6	132.4	100.5	85.8	74.1	53.5	41.5	34.3

Source: National Bureau of Statistics, Central Bank of Seychelles, IMF Staff Report 2008 and Ministry of Finance

Annex IV: Investment Climate Regulatory Framework

Area	Changes	Further change required
Foreign exchange liberalization	Before the Rupee was floated, the state and businesses were preoccupied with administrative procedures in place to monitor and allocate foreign exchange, including: foreign exchange retention limits and price controls on basic imported goods. None of these procedures exist now, which is a dramatic improvement in the business environment, saving the Government and businesses considerable time, resources and direct costs, and abolishing market distortions.	
Removal of customs duties, export permits and most import permits	Import customs duties have been lowered from an average applied import duty of 28.3% (all products) in 2005 to 8.95% in 2007. All permit requirements for the exportation of goods have been abolished. The list of products requiring an import permit before Customs clearance has been reduced. Finally, the Customs clearance procedures have been modernized with the introduction of more appropriate and compatible software.	In spite of these improvements, there remains a need for reform, especially with regard to publication of the new Customs Management Act and the new Harmonised Systems Code. Average tariff rates remain high, while enterprises in certain sectors are granted substantial exemptions or reductions in import tariffs.
Dismantling of state-owned SMB, abolishment of exclusive rights and removal of price controls	The Seychelles Marketing Board (SMB) used to have exclusive rights to import a long list of basic products and offer them for set prices. All price controls have now been removed; however, the successor of SMB, the Seychelles Trading Corporation (STC), is still the major importer of most basic products. Removal of price controls were made in parallel to the dismantling of the Seychelles Marketing Board (SMB), which has been split into five companies (four now privatised).	The trading arm of SMB, the newly incorporated STC, is still state-owned. However, STC does not enjoy any privileges anymore.
Non-discretionary fiscal incentives	Government has rationalised fiscal incentives in the two main sectors of the economy: tourism and fisheries; by abolishing the old incentive regime (negotiating individual investment agreements with investors) with the Tourism (Incentives) Act of 2008, and the Agriculture and Fisheries (Incentives) Act of 2005. Features introduced by the two acts are a set package of fiscal incentives, subject to an entitlement certificate.	Although this new incentive package provides a more level playing field for both local and foreign investors, old investment agreements (under the 1991 investment law) need to be reviewed and re-negotiated where appropriate, otherwise, they will continue to distort the market. In addition, the new system of incentives has been criticised for being overly complex, largely because the basic tax system is burdensome (a potential disincentive to investment).
Adoption of investment promotion legislation and institution	In 2005 a new Investment Code was adopted. Three factors introduced include: (i) abolishment of incentives under the old Investment Promotion Act, (ii) creation of the Seychelles Investment Promotion Board (SIB), and (iii) the introduction of a new Investment Approval for foreign investors and domestic investors of a certain size. Review of this act, with the participation of private sector representatives, has already begun.	Although the Investment Code of 2005 is a major improvement to the Act of 1991, the Code is still restrictive, unclear in some areas, and bureaucratic. For example, the list of restricted and strategic areas is long and limits competition. Several of the listed activities could attract foreign investors and inject new capital and know how to the economy. In addition the Code lacks provisions on the institutional set-up, mandate and function of SIB, and the role of the private sector.

Area	Changes	Further change required
Licensing regime	Prior to 2005, the licensing regime was control-driven (private sector controlled in all aspects of business) and with revenue generation as one of the main objectives reflected in an obsolete Licensing Act. In addition, the Seychelles Licensing Authority (SLA) was not supervised independently, leaving decisions to the full discretion of SLA officers. Since 2005, several steps have been undertaken to improve the licensing regime including: (i) some activities being taken off the licensing list, (ii) the duration of procedures shortened, and (iii) licenses not being used to monitor and control foreign exchange outflows and implement price controls.	Although there have been improvements, the licensing situation is still highly unsatisfactory. A long list of activities still needs to be licensed and the License Act of 2005 still favours a catch-all approach, and provides a high degree of discretion in the issuance, renewal and withdrawal of licenses. A new Licensing Act is being prepared in consultation with the private sector. This legislation is expected to be submitted to the National Assembly by the middle of 2009.
Foreign labour regulations	Government recognizes that the country requires a level of both skilled and unskilled labour, and work is already underway to prepare a new set of guidelines for the importation of foreign workers.	The work permit policy appears to be based on the potential to earn foreign exchange and not on development goals. Companies with the potential to attract foreign exchange are given a quota. The employer does not have to show whether local employees are available for the position and there are no skill requirements. As a result, cheap labour is often contracted by those industries with quotas such as hotels. Outside the quota it is very difficult and expensive to obtain a work permit for a foreign employee, no matter how skilled or necessary the person is. This makes the employment of foreigners for non-foreign exchange earners and medium sized companies prohibitive (e.g. food processing).
General business taxation	Small progress in improving the taxation environment, to make Seychellois businesses more competitive, has been achieved by the introduction of a flat business tax rate, elimination of discretionary tax cuts, and cutting the social security contribution of employers from 40% to 20%.	<p>Numerous shortcomings of the general tax regime persist. For example, the tax laws explicitly favour certain sectors and sub-sectors over others. Enterprises that export, or otherwise earn revenues in foreign currency, receive a host of concessions, rebates and other preferences that non-exporting companies do not. In addition, certain companies or economic activities are exempted from paying social security contributions.</p> <p>Government recognizes the need to modernize its tax system and has requested the assistance of donors. A tax policy review is currently being undertaken with the assistance of the IMF.</p>

Source: Discussions with the Authorities (January, 2009), Private Sector Stakeholders (January, 2009) and a World Bank draft report (2009) titled 'Administrative Barriers to Investment - Update'

ANNEX V: JUSTIFICATION FOR BUDGET SUPPORT TO SEYCHELLES

1. *Government's commitment to reform is the overriding consideration*, when considering the provision of Budget Support. As the ISN describes in detail, discussions with the authorities, civil society and the opposition, indicated that the Government is committed to its reforms—indeed that it has frontloaded a number of them in the hope that results will emerge more quickly. Many of the initiatives on which the Government has embarked are “home grown” and there is a high level of reform ownership among officials. Government has so far pursued very transparent reforms, including broad consultation with civil society. The *Seychelles Strategy 2017*, prepared by the Government is a key guide.
2. Reforming the welfare state has been a major goal of the Government, which has undertaken price and associated reforms within the utility sector and services more generally. *In the short to medium-term, reforms might threaten the well-being of the country's low-income earners and other vulnerable groups*. Budget support will ensure that the vulnerable population is protected from declines in welfare and/or from sinking into poverty, through the establishment of an effective social safety net. This will in turn reduce the risk of the rejection of the reforms and improve implementation and sustainability.
3. *For the Bank, and indeed other agencies, to provide Budget Support to Seychelles will require assurances with respect to fiduciary risk*. The Government is well aware of this and a considerable amount of work has gone into legislation (Public Officers Ethics Act, and Public Procurement Act) and implementation and accountability systems. Notably, the role of Parliament's Public Accounts Committee in monitoring Government expenditure will be strengthened. A medium-term expenditure framework is being prepared with technical assistance from the World Bank. A PEFA assessment undertaken in 2007 was positive, and with the new legislation, the situation should have improved further.
4. To be effective, *Budget Support requires a sound macroeconomic environment* (i) to enable the Government to realize its plans and obligations; (ii) to enable the population to respond to the new economic incentives. The ADB mission to Seychelles, undertaken with other development partners, established that following the far-reaching reforms, a stable macroeconomic environment, bereft of the controls of the past is emerging. The IMF has indicated that the country has met the targets set at the beginning of the reforms in October 2008 and an optimistic outcome was expected at the first review embarked on in January 2009.
5. *Budget Support should be provided at the request of the authorities*. The Bank's proposed support is a response to the government's request and is appropriate for a country that is in the midst of a balance of payments and public debt crisis. Moreover, the programme implementation will use the country's own systems and monitoring mechanisms. Notably, the Government will use the newly established National Committee on Public Debt to monitor the use of the loan proceeds.
6. *The case for Budget Support is strengthened when a number of partners reach similar conclusions, and are willing to use a common approach during consultations with the Government, implementation and monitoring*. The Bank's support to Seychelles is being undertaken together with other partners—IMF, World Bank, European Commission, and UNDP. Moreover, this coalition of the willing has assured other stakeholders that the Government is committed to reform.
7. *In summary, Seychelles meets the Bank's prerequisite conditions (both general and technical) for General Budget Support Loan (GBSL)*: the reform agenda is designed around *macroeconomic stabilization* measures and structural reforms, including (i) exchange regime and exchange rate reforms including removal of exchange restrictions and adoption of a floating exchange rate regime; (ii) debt restructuring including the design of a comprehensive debt restructuring strategy and strengthening public debt management, (iii) further consolidation of public finances by reinforcing fiscal revenue and tightening expenditure, and (iv) monetary policy seeking to establish price stability, with greater emphasis on liquidity management. *Structural reforms* focus on (i) fiscal restructuring with emphasis on strengthening public financial management framework and the budgetary process, fundamental review of the tax system, and strengthening tax administration; (ii) privatization of public enterprises and improvement of the investment climate; and (iii) transparency and good governance.
8. Finally, the *Budget Support operation was prepared in tandem with the Bank's Interim Strategy Note for Seychelles*. The ISN is based on a single pillar: “Support for the Creation of a Stable and Enabling Macroeconomic Environment” with stabilization and structural reforms that will provide a basis for investment lending in the medium term and supported by a Policy-based Operation at the center.

ANNEX VI: SEYCHELLES- LIST OF COMPLETED AND CANCELLED BANK GROUP OPERATIONS (1978-2005)

Project	Date Approved	Date Signed	Amount signed	Amount Canceled	Net Loan Amount	Total Amount Disbursed	% Disb.
COMPLETED PROJECTS							
<i>AGRICULTURE</i>							
Artisanal Fisheries Development Project	11.04.1984	22.06.1984	8.00	1.21	6.79	6.79	84.9
Integrated Agricultural Dev. Project	25.08.1994	02.11.1994	0.74	0.42	0.32	0.32	43.2
	25.08.1994	02.11.1994	4.00	1.06	2.94	2.94	73.5
Sub Total			12.74	2.69	10.05	10.05	78.9
<i>TRANSPORT</i>							
Mahe Airport	08.06.1978	05.07.1978	3.75	0.00	3.75	3.75	100.0
	30.09.1982	25.10.1982	1.10	0.03	1.07	1.07	97.3
Victoria Commercial Port	13.02.1985	20.03.1985	5.70	0.07	5.63	5.63	98.8
Sub Total			10.55	0.10	10.45	10.45	99.1
<i>WATER AND SANITATION</i>							
Greater Victoria Sewerage	30.10.1981	11.12.1981	7.37	0.02	7.35	7.35	99.7
Wastewater Treatment and Disposal Study	23.08.1989	13.12.1989	1.11	0.06	1.05	1.05	94.6
Sub Total			8.48	0.08	8.40	8.40	99.1
<i>FINANCE</i>							
Line of Credit I to Development Bank of Seychelles (DBS)	17.06.1986	21.07.1986	3.00	0.03	2.97	2.97	99.0
Line of Credit II to DBS	29.10.1991	16.01.1992	4.00	0.00	4.00	4.00	100.0
Sub Total			7.00	0.03	6.97	6.97	99.6
<i>SOCIAL SECTOR</i>							
Education II Project	12.06.1989	16.08.1989	5.46	0.56	4.90	4.90	89.7
	12.06.1989	16.08.1989	1.00	0.19	0.81	0.81	81.0
Primary - Secondary School Education	07.06.1978	05.07.1978	2.30	0.01	2.29	2.29	99.6
Victoria Hospital Supplementary Loan	21.06.1983	22.08.1983	4.45	0.04	4.41	4.41	99.1
	21.05.1983	22.08.1983	4.00	0.00	4.00	4.00	100.0
Education III	25.11.1991	19.12.1991	12.90	1.03	11.87	11.87	92.0
Emergency Assistance for Tsunami	25.01.2005	11.05.2005	0.33	0.00	0.33	0.33	100.0
Sub Total			30.44	1.83	28.61	28.61	94.0
GRAND TOTAL			69.21	4.73	64.48	64.48	93.2
CANCELLED PROJECTS							
Line Of Credit III to D.B.S	30.06.1999	07.07.1999	7.98	7.26	0.72	0.72	9.0
Health II Project	14.07.1997	09.09.1997	8.36	7.99	0.37	0.37	4.4
Sub Total			16.34	15.25	1.09	1.09	6.7
TOTAL COMPLETED AND CANCELLED			85.55	19.98	65.57	65.57	76.6

ANNEX VII: REFERENCES

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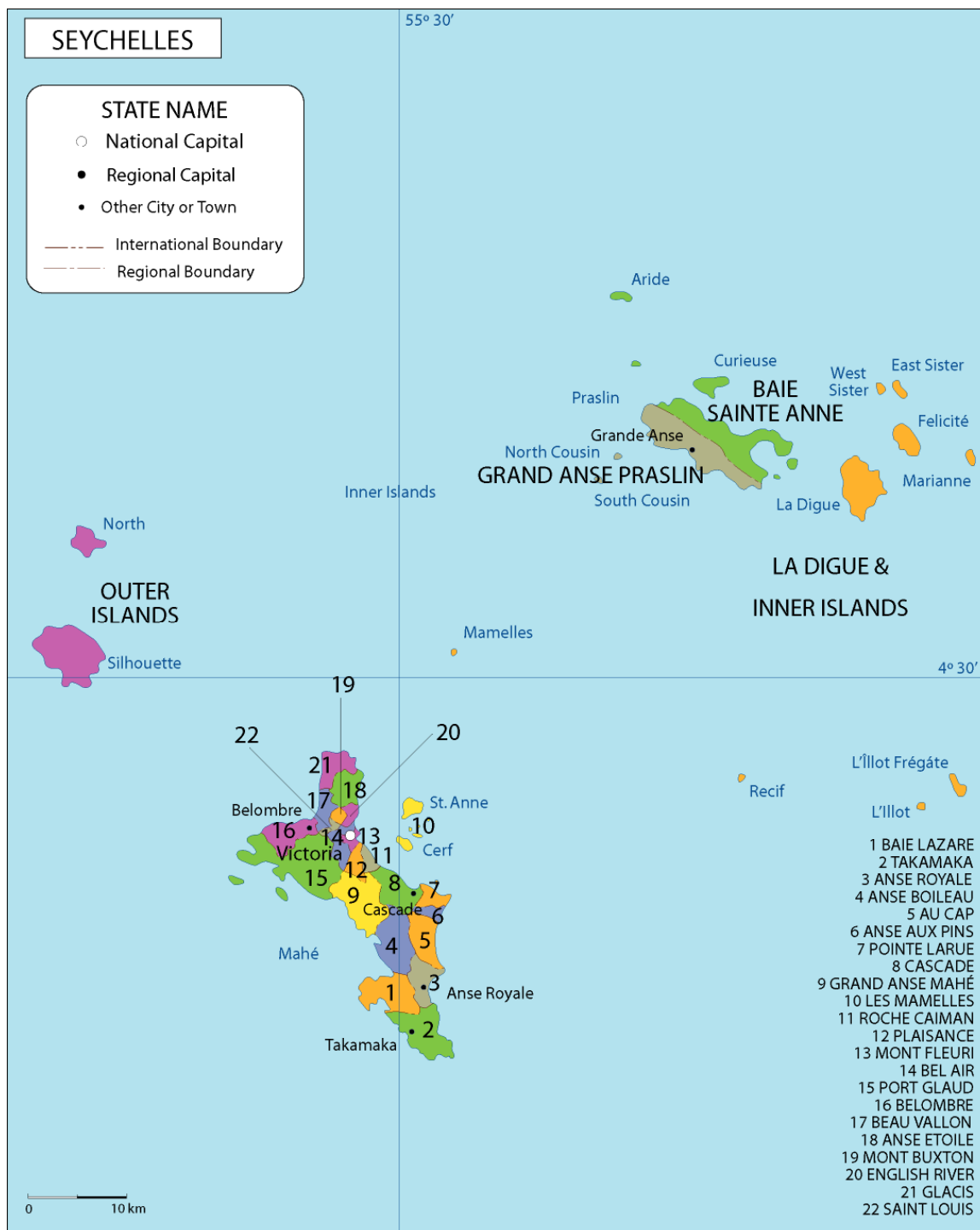
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ANNEX VIII: ADMINISTRATIVE MAP OF SEYCHELLES



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