

# SEYCHELLES

## 2017

Tilahun TEMESGEN / t.temesgen@afdb.org  
Roland ALCINDOR / roland.alcindor@undp.org



## SEYCHELLES

- Growth slowed to 4.8% in 2016 from 5.7% in 2015 after a robust period of growth that allowed Seychelles to reach high-income status in 2015.
- The medium-term outlook is moderate, with real GDP projected to grow at 3.5% in 2017 and 3.3% in 2018, driven by tourism, ICT and fisheries.
- Enhanced attention to entrepreneurship, skills development and improved financial inclusion will help Seychelles achieve a more inclusive and sustainable growth performance with greater diversification.

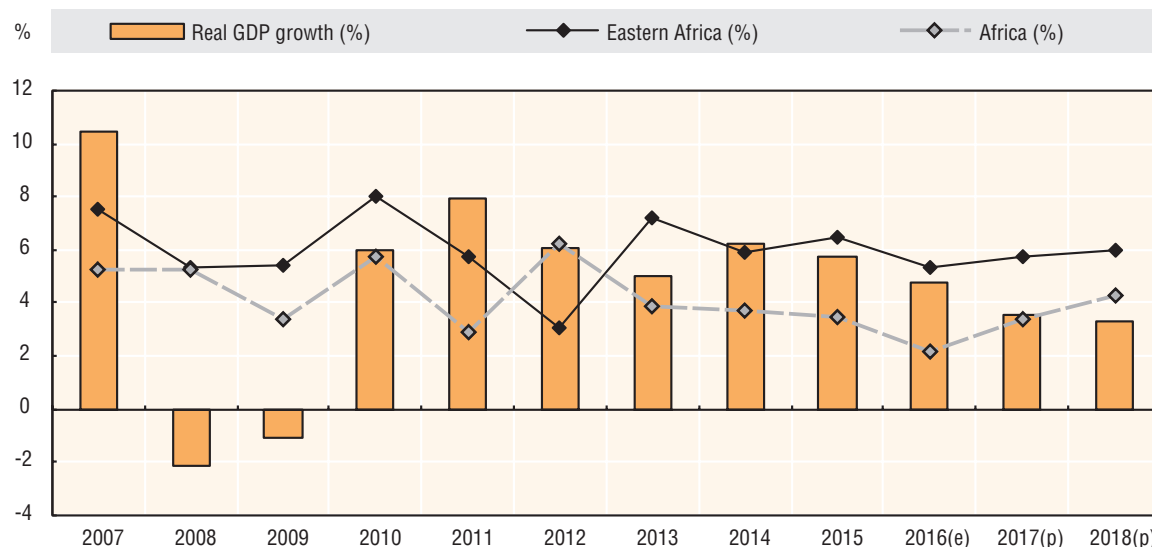
### Overview

The economy of Seychelles continued to grow in 2016, driven primarily by tourism, but the rate of real gross domestic product (GDP) growth slowed to an estimated 4.8% from 5.7% in 2015. The medium-term growth outlook is moderate, with real GDP projected to grow by 3.5% in 2017 and 3.3% in 2018. The country reached high-income status in 2015. The traditional tourism and fisheries sectors are expected to remain the main drivers of growth, along with information and communications technology (ICT). Prudent fiscal and monetary policies, coupled with continued political stability, have helped consolidate macroeconomic stability, and inflation is expected to remain in single digits in 2017.

Challenges facing the country include insufficient economic diversification and vulnerability to external shocks. Growth needs to be made greener and more inclusive to protect Seychelles' fragile natural environment against the adverse impacts of climate change and to ensure that growth benefits all members of the society. The development of the private sector is paramount to achieving a more diversified economy, but it requires a more enabling environment to exploit its potential and expand into new business areas.

Greater attention to entrepreneurship, skills development and improved financial inclusion will help Seychelles achieve a more inclusive and sustainable growth performance with better diversification. Despite its small population and short post-independence history, the country's unique natural resources and the cultural diversity of its immigrant population have provided it with an innovative and entrepreneurial attitude. However, the overall entrepreneurship potential seems to be yet untapped due to a number of challenges, including lack of entrepreneurial drive among youth, lack of training in entrepreneurship and business creation, and a mismatch between the skills level of job seekers and the needs of the private sector. The new government in place since autumn 2016 has created new bodies for entrepreneurship development and industry that aim to support young entrepreneurs in starting businesses.

Figure 1. Real GDP growth



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. Macroeconomic indicators

|                             | 2015  | 2016(e) | 2017(p) | 2018(p) |
|-----------------------------|-------|---------|---------|---------|
| Real GDP growth             | 5.7   | 4.8     | 3.5     | 3.3     |
| Real GDP per capital growth | 5.1   | 4.1     | 2.9     | 2.8     |
| CPI inflation               | 4.0   | -0.1    | 2.6     | 3.8     |
| Budget balance % GDP        | 3.5   | 1.0     | 1.5     | 1.8     |
| Current account % GDP       | -18.4 | -14.1   | -17.7   | -18.0   |

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

## Recent developments and prospects

Seychelles achieved high-income status in July 2015 and the economy continued to grow in 2016, at an estimated rate of 4.8%, driven primarily by tourism and ICT. This nonetheless represented an overall downward trend from 5.7% in 2015, and 7.2% in 2011, mainly because of a drop in the country's main exports, notably canned tuna. Seychelles' medium-term outlook is moderate, with real GDP projected to grow at 3.5% in 2017 and 3.3% in 2018, driven by the traditional tourism and fisheries sectors. Growth has been supported by the government's implementation of sound macroeconomic policies and comprehensive structural reforms in recent years, complemented by continued political stability. However, vulnerability to external shocks is still substantial. The overall budget surplus declined to an estimated 1% of GDP in 2016 from 3.5% in 2015, and is projected to improve to 1.5% and 1.8% of GDP in 2017 and 2018 respectively. The Central Bank of Seychelles (CBS) has pursued a tight monetary policy aimed at maintaining inflation at 3% to 5% during 2013-16. The CBS uses treasury bills as its main monetary policy instrument. Weak exports and high demand for imports fuelled by large public-sector wage increases and private credit expansion of 26% led to depreciation of the Seychelles rupee (SCR) by 4.4% against the United States dollar (USD) between January 2014 and December 2016. Inflation was negative for seven consecutive months in 2016 but is now projected to reach 3.7% by the end of the year, principally driven by an increase in fuel and electricity prices. Inflation stood at 4.0% in 2015 and is projected at 2.6% in 2017 and 3.8% in 2018.

The country's economy is based on the services sector, with a share in total GDP of 81.3% in 2015. Within this sector, hotel and restaurants, mainly associated with tourism, contributed 17.9%, while storage and communication services contributed 16.0%. The services sector is followed by manufacturing (6.6%) and agriculture (2.7%). Heavy reliance on tourism makes Seychelles vulnerable to external shocks. Tourist demand has been erratic in recent years. Europe accounted for 62% of tourists in 2015, followed by Asia with 21%. The Chinese market accounted for 5% of total arrivals in 2015, slightly down from 5.7% in 2014. At the same time, the country is also dependent on commercial fish stocks, which are also being exploited by neighbouring countries.

Persistent challenges include insufficient economic diversification and vulnerability to external shocks, in particular climate change and sea level rise. The development of the private sector is paramount to achieving a more diversified economy. However, Seychelles' private sector requires a more enabling environment to exploit its potential and expand into new business areas. The country's ranking in overall ease of doing business slipped to 93rd of 190 countries in 2016 from 86th in 2015, according to the World Bank's 2017 *Doing Business* report. Hurdles to a better business environment include difficulties with construction permits, the high cost of electricity and various impediments to establishing a new business. Furthermore, growth needs to be made greener to protect Seychelles' fragile natural environment against the adverse impacts of climate change. Recent events like the tropical cyclones Fellen in 2013 and Fantana in 2016 caused major flooding and adversely impacted the economy.

Table 2. GDP by sector (percentage of GDP at current prices)

|                                                                                         | 2011         | 2015         |
|-----------------------------------------------------------------------------------------|--------------|--------------|
| Agriculture, forestry, fishing and hunting                                              | 2.8          | 2.7          |
| of which fishing                                                                        | 1.1          | 1.0          |
| Mining and quarrying                                                                    | ...          | ...          |
| of which oil                                                                            | ...          | ...          |
| Manufacturing                                                                           | 9.4          | 6.6          |
| Electricity, gas and water                                                              | 0.6          | 3.5          |
| Construction                                                                            | 7.6          | 3.8          |
| Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels | 23.5         | 23.5         |
| of which hotels and restaurants                                                         | 15.2         | 16.0         |
| Transport, storage and communication                                                    | 15.7         | 17.9         |
| Finance, real estate and business services                                              | 27.1         | 28.7         |
| Public administration and defence                                                       | 7.1          | 7.5          |
| Other services                                                                          | 6.4          | 5.6          |
| <b>Gross domestic product at basic prices / factor cost</b>                             | <b>100.0</b> | <b>100.0</b> |

Source: Data from domestic authorities.

## Macroeconomic policy

### Fiscal policy

Tight fiscal policies in recent years, together with improved revenues and grants, have resulted in overall budget surpluses, but the surplus narrowed in 2016 to 1.0% of GDP from 3.5% a year earlier. Slight surplus increases are projected for 2017 (1.5%) and 2018 (1.8%). Revenues (including grants) were estimated at around 36.7% of GDP in 2016, reflecting a well-functioning tax system. The tax system has undergone a gradual and successful reform process with the introduction of value-added tax (VAT) and a flat-rate personal income tax, which has helped increase revenue generation. Business taxes were projected to increase to 5.0% of GDP in 2016 after declining to 4.2% in 2015 from 6.9% in 2009. Total expenditure and net lending were estimated at 35.7% of GDP in 2016, or one percentage point below revenue levels, reflecting spending discipline. The overall



budget surpluses of recent years have supported the continued reduction of the country's public debt. Over the medium term, revenues are projected to edge upwards to 36.9% in 2017 and 37.1% in 2018, while total expenditure is expected to dip to about 35.4% of GDP in 2017 and 35.3% in 2018.

Fiscal policy supports the medium-term objective of reducing public debt to below 50% of GDP by 2020, according to the 2017 budget speech. Seychelles has made significant progress towards a sound public financial management (PFM) system. In 2014 the government created a public enterprise monitoring committee and adopted a new PFM reform programme (2015-17). It also adopted a public investment management plan and medium-term fiscal framework to underpin fiscal policy. The government piloted performance-based budgeting (PBB) in two departments in 2014 to ensure that the budget was aligned with policy objectives and to oversee efficiency in resource allocation and use. In 2015, three more ministries joined, and a government-wide roll-out of PBB was completed in 2016.

Table 3. Public finances (percentage of GDP at current prices)

|                                              | 2008        | 2013        | 2014        | 2015        | 2016(e)     | 2017(p)     | 2018(p)     |
|----------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Total revenue and grants</b>              | <b>34.9</b> | <b>34.5</b> | <b>38.2</b> | <b>37.6</b> | <b>36.7</b> | <b>36.9</b> | <b>37.1</b> |
| Tax revenue                                  | 26.7        | 27.8        | 31.5        | 32.1        | 30.5        | 30.9        | 30.9        |
| Grants                                       | 3.5         | 2.0         | 3.0         | 1.5         | 2.3         | 2.1         | 2.3         |
| <b>Total expenditure and net lending (a)</b> | <b>38.1</b> | <b>32.9</b> | <b>33.7</b> | <b>34.1</b> | <b>35.7</b> | <b>35.4</b> | <b>35.3</b> |
| Current expenditure                          | 27.4        | 26.0        | 27.4        | 27.8        | 28.5        | 28.6        | 28.9        |
| Excluding interest                           | 20.5        | 22.3        | 25.1        | 25.4        | 24.7        | 26.6        | 27.0        |
| Wages and salaries                           | 7.7         | 6.3         | 6.9         | 6.3         | 6.0         | 6.5         | 7.2         |
| Interest                                     | 6.9         | 3.7         | 2.3         | 2.4         | 3.8         | 1.9         | 1.9         |
| Capital expenditure                          | 2.0         | 6.8         | 5.6         | 5.6         | 5.9         | 6.3         | 6.1         |
| <b>Primary balance</b>                       | <b>3.6</b>  | <b>5.3</b>  | <b>6.7</b>  | <b>5.9</b>  | <b>4.8</b>  | <b>3.4</b>  | <b>3.7</b>  |
| <b>Overall balance</b>                       | <b>-3.3</b> | <b>1.6</b>  | <b>4.5</b>  | <b>3.5</b>  | <b>1.0</b>  | <b>1.5</b>  | <b>1.8</b>  |

Note: a. Only major items are reported.

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

## Monetary policy

The CBS has maintained a tight monetary policy over the last few years to achieve its key objective of domestic price stability. Inflation dipped to an estimated -0.1% in 2016, from 4.0% in 2015. It is expected to edge upwards to 2.6% in 2017 and 3.8% in 2018. Inflation has remained in single digits thanks to intervention through reserve money targeting, using short-term treasury bills. Medium-term instruments have also been used to mop up liquidity, particularly two- to five-year bonds. The CBS has faced the task of managing the excess liquidity that resulted from local borrowing incentives provided to consumers (which led to double-digit credit growth to the private sector).

The Seychelles rupee depreciated on average by 4.4% against the US dollar between January 2014 and December 2016, mainly because of a slowdown in exports and tourism receipts, but official reserves increased in 2015 to 4.9 months of imports (compared to 2.9 months in 2011) and are expected to remain above 4 months through 2020. To strengthen its forward-looking framework and manage expectations, the CBS adopted a Financial Sector Development Implementation Plan (FSDIP) 2014-17 with two main goals: ensuring monetary and exchange rate policies that promote domestic price stability through quarterly reserve money targeting, and promoting a sound financial system, including a payments system and consumer protection.

## Economic co-operation, regional integration and trade

Seychelles' current account deficit contracted to an estimated 14.1% of GDP in 2016, from 18.4% in 2015, helped by a tight monetary policy and improved terms of trade. As a services-based economy, the country has an open trade regime: 94% of imports enter at a zero tariff, with



average tariffs of 4.6% on agricultural and 0.3% on non-agricultural products. Seychelles' largest trading partner for both imports and exports is the European Union, led by Spain, France and the United Kingdom. With the recent strengthening of African ties, increased opportunities in Africa for fish exports are being pursued. However, high transport costs and the limited potential for economies of scale make it difficult for Seychelles to compete through low prices, and it focuses on quality products instead.

Significant progress has been made on the external front. Seychelles became a formal member of the World Trade Organization in 2015. To further rationalise its regional integration objectives, the country is developing a regional integration strategy to guide its policies and implementation under the various regional economic communities and multilateral agreements. Seychelles has bilateral and double taxation agreements with 29 countries, and is a pro-active player in regional economic bodies: it is a member of the Common Market for Eastern and Southern Africa (COMESA), the Indian Ocean Commission and the Southern African Development Community (SADC). It has been operating under the COMESA Free Trade Area (FTA) since 2009 and is one of the more compliant members. To address some weaknesses noted in the country's transposition (compliance) study undertaken in 2012, and taking into account progress in negotiations at the multilateral level, Seychelles submitted its accession to the SADC FTA in May 2014 (respecting its COMESA obligations).

Table 4. Current account (percentage of GDP at current prices)

|                                | 2008         | 2013         | 2014         | 2015         | 2016(e)      | 2017(p)      | 2018(p)      |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Trade balance                  | -41.7        | -31.6        | -38.9        | -35.2        | -31.0        | -36.3        | -37.5        |
| Exports of goods (f.o.b.)      | 45.2         | 44.6         | 38.6         | 33.0         | 31.6         | 35.2         | 36.5         |
| Imports of goods (f.o.b.)      | 87.0         | 76.2         | 77.5         | 68.3         | 62.6         | 71.5         | 74.0         |
| Services                       | 30.5         | 24.1         | 23.0         | 25.0         | 24.5         | 26.5         | 27.4         |
| Factor income                  | -8.1         | -4.9         | -5.9         | -6.1         | -6.1         | -6.2         | -6.3         |
| Current transfers              | 0.3          | 1.1          | 0.3          | -2.0         | -1.5         | -1.8         | -1.7         |
| <b>Current account balance</b> | <b>-19.0</b> | <b>-11.3</b> | <b>-21.5</b> | <b>-18.4</b> | <b>-14.1</b> | <b>-17.7</b> | <b>-18.0</b> |

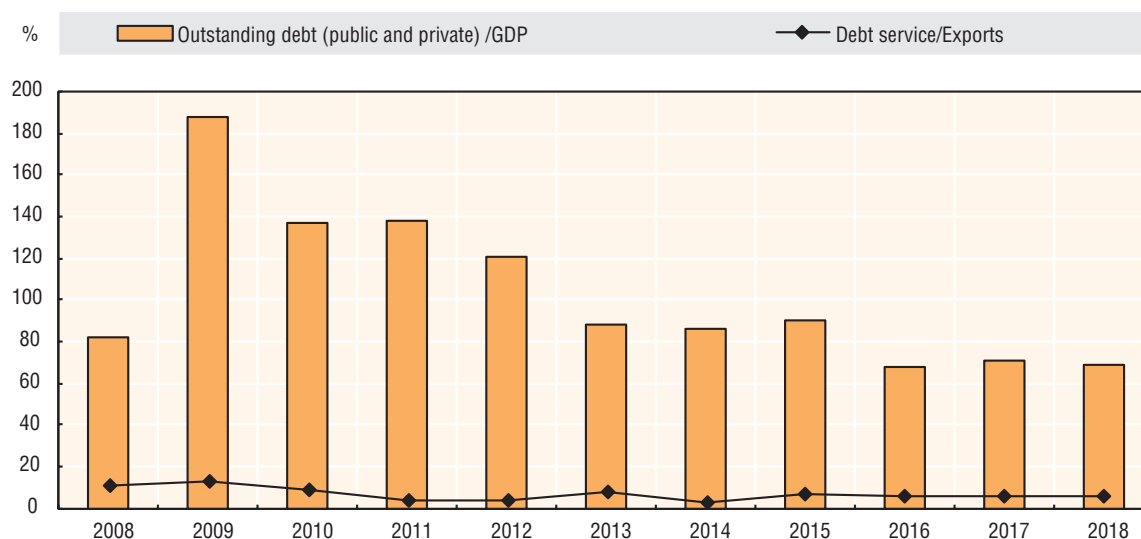
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

## Debt policy

Public debt remained relatively high at 60% of GDP in 2015, but below the 70% threshold for debt distress. The debt decreased from 65.5% in 2014 and has narrowed significantly from 89.9% at the end of 2009. The debt is attributed to, among other things, the contracting of domestic debt used to mop up liquidity in the economy and the effects of the depreciation of the rupee against the dollar. In 2008 Seychelles adopted a target of reducing total public debt to below 50% of GDP by 2018, which has now been extended to 2020. Debt rescheduling took place during 2009-13. With these trends the country remains on track to meet its medium-term objectives.

To further support the country's main debt policy objective, the government prepared a Debt Management Strategy, DMS (2014-16), to ensure consistency between debt and macroeconomic policies and strategies (e.g. public sector investment plan, medium-term expenditure framework, medium-term financing framework and public investment management). The DMS and public debt management in general, are regulated by the Public Debt Management Act (2008, amended in 2012). A debt sustainability analysis (DSA) by the International Monetary Fund (IMF) and World Bank (WB) in July 2015 indicated that public debt remained close to the 70% indicative debt distress threshold of the DSA framework. Some of the risks faced are the result of the country's vulnerability as a small island state and net importer, which entails external financing requirements. To ease exchange rate vulnerabilities that might be faced as repayments of rescheduled debt pick up, the government succeeded in negotiating for all of its multi-currency debt obligations to be converted into a single currency, the euro.

Figure 2. Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF (WEO & Article IV).

## Economic and political governance

### Private sector

Seychelles' business environment requires improvement to unlock the private sector's full potential. The country is ranked 6th in sub-Saharan African in terms of the ease of doing business, according to the 2017 *Doing Business* report, but its world ranking in international business environment indicators is not commensurate with its advanced development status. In overall ease of doing business, Seychelles slipped to 93rd of 190 countries in 2016 from 86th in 2015. Three areas remain very weak: "dealing with construction permits" (146th), getting electricity" (140th) and "starting a business" (137th). The strongest areas are "paying taxes" (32nd) and "resolving insolvency (62nd); the latter, which stood at 183rd in 2012, improved sharply after Seychelles established a commercial court. The World Economic Forum's *Global Competitiveness Report* (GCR) ranked the country 97th out of 140 in 2015-16, down from 92nd out of 144 in 2014-15 and 80th in 2013-14, with "market size" and "financial market development" given as the most significant obstacles.

Despite reforms undertaken by the government in recent years, the private sector continues to be hampered by several bottlenecks. The most pressing are: i) limited access to finance, in particular by micro-, small- and medium-sized enterprises (MSMEs); ii) infrastructure gaps, notably in energy and port facilities; iii) high production costs (labour, utilities, rental) given the small domestic market; and iv) a skills gap, characterised by a mismatch between labour demand and supply.

Nonetheless, the government has made progress towards regulatory simplification, financial sector development and strengthening of public financial management (PFM), while at the same time reducing the role of public enterprises in the economy. It has implemented several initiatives to support MSMEs, including the adoption in 2013 of an MSME financing scheme, a refocusing of the DBS on MSME financing, launch of the Small Enterprise Promotion Agency (SEnPA) to assist MSMEs in setting up businesses and providing training to enhance business management skills, and the establishment of the Small Business Finance Agency offering a subsidised financing

scheme for MSMEs. The Ministry for Employment, Entrepreneurship Development and Business Innovation oversees strengthening of the investment climate.

## Financial sector

Seychelles' financial sector is reasonably well developed, but the issue of limited access to finance needs to be addressed forcefully as banks and other financial intermediaries continue to display a high risk aversion to lending to businesses and individuals. Non-bank and non-traditional financing also remain largely untapped. Seychelles ranks 118th in the 2017 *Doing Business* category "getting credit", although this is a significant improvement since 2015 when it ranked 171st. Furthermore, a large part of the population still lacks access to finance, although the number of commercial bank accounts per 1 000 adult depositors increased to 1 753 in 2015 from 562 in 2011 from 394 in 2006, while the number of borrowers per 1 000 adults increased to 213 in 2015 from 106 in 2011 and 70 in 2006.

The financial sector consists of one development bank, Development Bank of Seychelles (DBS), and six commercial banks with 25 branches operating in the country (four are foreign-owned and two are previously state-owned banks). The country also has a pension fund and four insurance companies, mainly investing in government securities. The Seychelles Security Exchange (Trop-X) began operating in 2012 and currently lists four companies. In 2014, it opened a derivatives market. The sector remains adequately capitalised, as evidenced by the capital to risk-weighted assets ratio of 21.7% (2014), which is above the minimum adequacy ratio of 12% under the international regulatory framework for banks (Basel III). Nevertheless, credit to the private sector is constrained, mainly due to of a lack of collateral among MSMEs.

The government has confirmed its commitment to continue implementing the reforms envisaged under the FSDIP adopted in 2014, notably to strengthen SENPA's capacity to provide training to MSMEs in the preparation of bankable business plans and loan applications; promote lending product innovation of commercial banks; and make it mandatory for all banks to include an explicit MSME lending strategy in their annual business plans. The Financial Services Agency has the mandate of supervising and regulating non-bank financial institutions not within the ambit of the CBS, and of regulating offshore financial services (international business companies, trusts, foundations, etc.). Further modernisation and improvements are expected in the sector.

## Public sector management, institutions and reform

The Department of Public Administration (DPA), overseen by the Office of the President, is responsible for the development and administration of an efficient and effective public service. In terms of overall governance, Seychelles is among the top performers in Africa: it climbed to 4th position out of 54 countries in the 2016 Mo Ibrahim Index of African Governance (after Mauritius, Cabo Verde and Botswana), up two places from 6th in 2015. Public management has considerably improved over the last decade, according to the Index, to a category score of 49.8/100 in 2016 from 35.8/100 in 2006. The sub-category of public administration has remained stable since 2006 at 50/100. However, the business environment has deteriorated over the period, dropping to 54.2/100 in 2015 from 59.5/100 in 2006.

The DPA has been implementing a public administration and public sector (PAPS) reform programme since 2009 with eight strategies aimed at comprehensively addressing public administration, ranging from developing procedural manuals, designing accountability frameworks and creating a results-based management framework to strengthening monitoring and evaluation, reviewing salary grids and pay structures, capacity building and human relations management, as well as ensuring that merits and ethics are applied in public service. With regard to policy co-ordination, a secretariat has been formed to oversee the reforms, while a functional review of all public service agencies is under way to ensure that the agencies are responsive to the current needs. The work under the PAPS programme is continuing with the only significant



movement being in the areas of developing procedural manuals and the recent review of the salary grids and pay structures.

### **Natural resource management and environment**

Seychelles is an Indian Ocean archipelago with 115 islands, only 13 of which are inhabited. It is endowed with an exclusive economic zone of 1.3 million square kilometres of ocean (“blue economy”) and is a leader in biodiversity. However, the country is highly vulnerable to climate change and sea level rise. Infrastructure, which is concentrated along the coast and in coastal zones, is exposed to high risks of erosion and flood-related damage. Recent events like the tropical cyclones Fellen in 2013 and Fantana in 2016 caused major flooding and impacted the economy. Salt water intrusion (salination) is causing serious damage to farms on the coastal lowlands.

In response to gaps in the country’s ability to cope with threats related to climate change and sea-level rise, the government has created the Division for Risk and Disaster Management, and subsequently, the Division for Climate Change, Adaptation and Information. A Disaster and Risk Management Bill/Act presented in 2014 is expected to be implemented soon, after ratification. The Seychelles Sustainable Development Strategy (SSDS) 2010-2020 aims to ensure that the country meets the needs of present and future generations.

While the country is largely dependent on imported fuel to meet its energy needs, it has the potential to reduce its green footprint, particularly through renewable energy (RE) generation. Seychelles has only partially met Millennium Development Goal 7 (ensuring environmental sustainability) due to high carbon dioxide emissions per capita caused by fuel-based energy consumption. Government targets for the share of RE generation are 5% by 2020 and 15% by 2030. In 2014, the RE contribution was an estimated 4%, 1 MW generated from solar and 6 MW from wind power.

### **Political context**

Seychelles is a presidential republic with a unicameral legislature. President Danny Faure took office and appointed a new cabinet in October 2016 after the incumbent, James Michel, stepped down. President Michel had won his third and last term in office after a run-off vote in December 2015, with 50.2% of the votes cast. However, after an opposition coalition won the majority in the National Assembly in elections in September 2016, Mr Michel resigned and handed over power to his vice president, Mr Faure, who will complete the former president’s five-year term.

Seychelles has enjoyed a stable political environment over the past decades, as evidenced by sound governance indicators. Since it adopted a multiparty system in 1992, democratic elections have been held regularly every five years. The most recent round of elections marked a historic turning point, with the People’s Party losing its parliamentary majority for the first time since the approval of a new constitution in 1993.

## **Social context and human development**

### **Building human resources**

Seychelles has surpassed MDG 2, the provision of universal primary education, with a net enrolment ratio in primary education of 108.0 in 2014 and a primary completion rate of 107% for both sexes in 2013 (MDG Status Report, 2015). Education is free for the first ten years of schooling. The government provides various benefits for post-secondary school students, including accommodation, transport subsidies and allowances, and there is a well-functioning government scholarship scheme for university students. There are however, concerns about the quality of education and the pass rates at secondary and tertiary levels. In September 2014, the Ministry of



Education adopted a medium-term strategy (2013-17) with the aim of transforming the education system, which will entail a review of the entire educational curriculum and policies.

While the country provides good and free health services and has impressive health care indicators compared with most African countries, there have been challenges in meeting all three of the health-related MDGs. The country has partially met MDG Goal 4 (reduce child mortality), and has met MDG Goal 5 (reduce maternal mortality). The reason for some of the weaknesses is an observed increase in congenital deformities in children due to lifestyle-related issues such as drug use. The unavailability of contraception to girls below 18 has led to an increase in teenage pregnancies, while the rise in drug-consumption has led to the spread of HIV, hepatitis and undesirable social phenomena such as prostitution and unsafe sex. The country has not yet achieved MDG 6, (combat HIV/AIDS, malaria and other communicable diseases). While tuberculosis and malaria are under control, there are still challenges in controlling HIV. Although there is 100% access to antiretroviral drugs for people with HIV, incidence rates show that the disease has yet to be contained (0.87% of population, 0.76% of 15-24 year olds), largely as a result of drug abuse and low condom use.

Current national programmes, such as the national strategic framework (2012-16), focus on the prevention of HIV and the provision of care and support to those infected. In Seychelles the main issue is not malnutrition, but obesity in children, with data showing a 20% prevalence of obesity in Seychelles and an increase in diabetes and cholesterol-related diseases. A national campaign was launched to alert citizens to the importance of good health and responsible life choices.

### Poverty reduction, social protection and labour

Seychelles' Human Development Index has been rising steadily, reaching 0.772 in 2014, and the country now ranks second in Africa after Mauritius (UNDP, 2014). The progress is partly attributable to a generous welfare system, a solid education system and policies to support low-income families and the unemployed. Compared to the rest of the world, Seychelles is ranked 64th out of 188 countries. In July 2015 the country reached high-income status after achieving an average gross national income per capita of USD 13 710 in 2013-14. Absolute poverty is very low, with only 0.25% of the population living on USD 1.25 or less a day, according to 2007 statistics. The 2013 Household Budget Survey revised poverty estimates sharply upwards to about 39%, but using the total income of households. This figure, based on a national poverty line (adult equivalent monthly) of approximately USD 10 per day, is believed to be overstated, but it also shows that there is a higher level of poverty than earlier estimates.

As of 2014, approximately 15% of the population benefited from some form of social welfare. According to the Social Protection Agency, the number of households seeking income welfare assistance has increased since 2008, as the impact of the economic reforms was increasingly felt by poorer households and vulnerable groups, especially female-headed households. In 2014 a review began of the two key social protection and social security acts. At a policy level, work towards development of a social impact assessment (SIA) framework began in November 2016.

While the overall unemployment rate is low, youth unemployment is comparatively high. Seychelles boasted an unemployment rate of only 4.2% in mid-2016, but 10% of the young are unemployed, according to the standard definition. Only 80% of young Seychellois (15-24), representing about 16% of the total population, are either "regular wage earners" or "in education or training". Persisting challenges include the selectivity of young Seychellois in respect of the jobs they accept (poor work ethics is the second problem affecting doing business, according to the GCR 2014-15 survey) and the mismatch between their skills level and the needs of businesses. This has led to the use of expatriate labour, even for unskilled jobs. The government is committed to promoting full employment and developing skills in line with the needs of the private sector, with a view to furthering employment generation as well as inclusiveness.

Seychelles became a member of the International Labour Organization in 1977 and has ratified 36 conventions, which include the eight core conventions on fundamental principles and rights at work. The country became the first in the world to ratify Convention 182 on the worst forms of child labour. The country has had challenges in adapting some of the conventions to local conditions, chief among them Convention 87 on the freedom of association and right of workers to organise.

### Gender equality

Seychelles has made great strides towards gender equality, but challenges remain. According to the 2015 Mo Ibrahim Index of Governance, the country is ranked 7th out of 54 African countries in terms of gender equality. More than twice as many men as women are employed in the private sector, and after the 2016 legislative elections the representation of women in the National Assembly dropped significantly. There are now only 7 women representatives out of 33 members, or 22%, half the proportion of the previous legislature.

Seychelles still lacks a designated ministry or department of women or gender affairs. Gender disparities are visible among vulnerable groups, with more women than men receiving welfare support, particularly single young mothers. In July 2016, the government adopted a national gender policy to guide the design and implementation of gender programmes across all sectors within the framework of MDGs, the Convention for the Elimination of All Forms of Discrimination against Women (CEDAW), as well as the 28 targets of the Southern African Development Commission Protocol on Gender and Development. In that context, the government is envisaging gender and inclusion analyses to cover aspects of education and training, access, employment and decision making, as well as a reinforcement of Seychelles' gender structure.

### Thematic analysis: Entrepreneurship and industrialisation in Seychelles

Supporting entrepreneurship and innovation is an important government policy area for a number of reasons, particularly the relatively high rate of youth unemployment and low level of diversification of the economy, and thus its vulnerability to external economic shocks. Seychelles has a total population of about 94 000, with youth representing the greater share (2015). Those in the 15-44 years age bracket make up 44.8% of the total and the median age is 34. The country's overall unemployment rate is low, at just 4.2% in mid-2016, but 10.0% of youths are unemployed. Enhanced attention to entrepreneurship, skills development and improved financial inclusion will help the country achieve a more inclusive and sustainable growth performance with better diversification.

Seychelles has a dualistic economic structure, based on two main sectors, tourism and fisheries. The services sector contributed more than 81% of GDP in 2015. Within this sector, hotels and restaurants, mainly associated with tourism, contributed 17.9%, while transport, storage and communication services contributed 16.0%. Manufacturing contributed 6.6% to the economy. Despite its small population and short history (the island has been inhabited since only the 18th century), the country's unique resources and the cultural diversity of its immigrant population (comprised of Europeans, Africans and Indians) have provided it with an innovative and entrepreneurial attitude. However, the overall entrepreneurship potential seems to be yet untapped due to a number of challenges, including lack of entrepreneurial drive among youth, lack of training on entrepreneurship and business creation, and a mismatch between the skills level of job seekers and the needs of the private sector. These have led to the use of expatriate labour, even for unskilled jobs. Drug abuse and teenage pregnancy also affect potential entrepreneurship efforts. The current Seychelles Industrialisation policy (2015) clearly articulates that entrepreneurship is important for job creation and improving the competitiveness of the economy. The policy document does not target any specific sector. The focus is on small-scale/



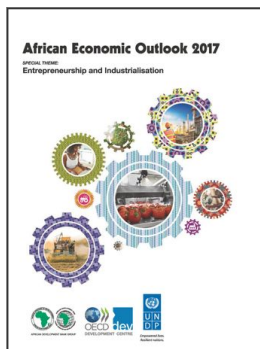
light manufacturing in general, as opposed to heavy industries, and on promoting value addition, in line with the country's transformation agenda. The government has also demonstrated its commitment to promoting skills development in line with the needs of the private sector, with a view to furthering employment generation, entrepreneurship and inclusive growth. It adopted its National Development Strategy 2015-19 in November 2015, with the concept of the "blue economy", i.e. the sustainable use of marine resources, as its centrepiece. The strategy addresses issues related to youth unemployment within the framework of thematic areas such as education, health and employment.

The new government in place since autumn 2016 has created a Ministry for Employment, Entrepreneurship Development and Business Innovation, with the Department of Investment and Industry now under the Vice President's office. The new ministry will support young entrepreneurs in starting businesses and encourage their creativity. In 2014, the government set up a new body to co-ordinate organisations keen to use science, technology and innovation. The National Institute of Science, Technology and Innovation (NISTI) has as one of its core objectives, to "create a conducive environment and conditions to foster and develop the scientific, technological and innovative culture for industrial growth and co-ordinate between scientists, researchers, innovators and investors to ensure that science, technology and innovation supports the competitiveness of trade and export in Seychelles" (NISTI, 2014).

Complementary policies and support programmes have been designed to encourage entrepreneurship, directly and indirectly. In 2014, the Seychelles Investment Board sponsored a Youth Empowerment, Engagement and Entrepreneurship Symposium to teach and encourage young entrepreneurs. There was also an initiative recently to develop agricultural tourism. Earlier, the Fisheries Policy (2005) was adopted to provide guidance and measures for the fish-processing sector to be implemented by the Seychelles Fishing Authority (SFA). It is intended to promote onshore value-adding activities through the provision of land, cold storage facilities and ice, warehouses, building of quays and subsidising fuel, and to promote the locally owned semi-industrial fleet by supporting the development of long-line fishing (using funding from the Fisheries Development Fund, managed by the DBS on behalf of the SFA). The National SME Policy and Strategy for Seychelles (2007) was necessitated by the prevalence of SMEs in the manufacturing sector and the focus of the government on small-scale manufacturing, while the craft Policy and Strategies of Seychelles (2002) guides the government's policies as regards the crafts sub-sector.

Despite these policies and efforts to address entrepreneurship, more needs to be done to tap into the country's opportunities. The Seychelles islands are very rich with unique flora and fauna (such as Seychelles' tiny turtles). As a result, beyond the usual beach goers, the islands attract those who would like to view such unique aspects of nature, and contribute to conservation, while also enjoying the natural beauty of the islands.





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