• Economic growth has been robust, averaging 5.6% from 2011-2015, 4.4% in 2016 and 4.9% in 2017. The medium-term growth outlook is favourable, with GDP projected to grow at 4.5% in 2018 and 3.9% in 2019. The traditional tourism and fisheries sectors are expected to remain the main growth drivers.

• Infrastructure has long been recognized as a key component in economic and social development of the country and consequently has always featured high in national development plans. This allows Seychelles to possess today one of the best infrastructure services in Africa.

OVERVIEW

Seychelles has made impressive economic progress over the past decades, except the years around the 2008 global financial crisis. After a remarkable performance over 2005-2007, its economy slightly contracted in 2008/09 by 1.1% due to the global financial crisis. The economy rebounded in 2010 at a rate of 5.9%, mainly driven by strong performance in the tourism and fisheries sectors, which jointly contributed significantly to gross domestic product (GDP), foreign exchange earnings, as well as employment generation.

In recent years, the authorities have remained committed to implementing sound macroeconomic policies and comprehensive structural reforms under an International Monetary Fund (IMF)-supported programme that ended in December 2017. Subsequently, the country has entered into a new 3-year IMF arrangement under the Policy Coordination Instrument, which is based on a non-financing fund instrument that supports countries seeking to develop and monitor a reform agenda. Traditional tourism and fisheries are expected to remain the main drivers of growth. Prudent fiscal and monetary policies have helped consolidate macroeconomic stability, and inflation is expected to remain at or below 3.0% in 2018 and 2019.

The sectoral distribution of the GDP (see below) shows that it is not sufficiently diversified, making the country highly vulnerable to external economic and climate shocks. The services sector (mainly the tourism and hotel industry, as well as finance, real estate and business services) is the largest contributor to GDP.

Seychelles, as a small island developing State (SIDS), continues to face specific development challenges. The country suffers from insufficient economic diversification and vulnerability to external shocks, given the dependence of its economy on tourism and fisheries and fishery-related manufacturing. Government has started to promote the financial services sector as a third pillar of the economy. Developing the private sector in Seychelles is therefore paramount to achieving a more diversified economy, reducing vulnerability and shielding the country from shocks. The Government is keen to pave the way for private sector-led growth by promoting foreign direct investment (FDI) and improving the business environment for local investors. To fully exploit its potential and expand into new business areas, the private sector also requires capacity and sufficient skilled labour, as well as a more enabling environment with enhanced access to finance and affordable energy. Furthermore, there is a consensus that growth in Seychelles needs to be greener to better protect its fragile natural environment against the adverse impacts of climate change.
**RECENT DEVELOPMENTS AND PROSPECTS**

Overall, economic performance in Seychelles continued to be remarkable, albeit with a few setbacks and challenges. High real GDP growth has continued in the last several years, averaging 5.6% during 2011-2015, 4.4% in 2016 and 4.9% in 2017. The medium-term growth outlook is favourable, although a rising trend in international fuel prices since late 2016, along with fiscal measures in the 2017 budget, could trigger inflation and balance of payments pressures. Economic growth is projected at 4.5% for 2018 and 3.9% for 2019, reflecting continued vibrant tourist arrivals and expanding private sector credit supply. Traditional tourism and fisheries are expected to remain the main drivers of growth, resulting in real GDP per capita growth rates of 3.8% in 2018 and 3.2% in 2019.

These growth rates are expected to be slightly lower than that of earlier years largely due to risks associated with the external sector, including uncertainty in Europe (where most tourists to the country come from) caused by Brexit, depreciation of the Seychelles rupee (SCR) vis-à-vis the Euro, fluctuation of the pound sterling and rising international fuel prices, which could bring inflationary and balance of payment pressures. A slowdown in the construction sector, resulting from a moratorium on large hotels and scarcity of construction raw materials, is expected to impact growth negatively.

Seychelles is also facing an issue with corresponding banks, which needs immediate attention to facilitate long-term financial stability and the overall performance of the economy. This is due to the de-risking approach followed by some major banks in the United States and Europe to which Seychelles has links for financial transactions. As an offshore jurisdiction, Seychelles is being classed as high risk. In consequence, those big banks are insulating themselves to avoid major fines.

While FDI is expected to continue to be a key component of growth, domestic investment by locally based investors is becoming equally important. Growth in micro, small and medium enterprises (MSMEs), driven mostly by domestic private sector investment, is expected to make significant contributions to overall GDP and employment growth. However, the sector is constrained by impediments, including weak access to financial services and a lack of skilled personnel, that will need to be addressed to sustain its growth.

The pace of socio-economic development and the expanding role of the private sector have placed Seychelles high on the development index. However, the country is now faced with an acute labour shortage (technical, services, production and professional) as high economic performance has increased the demand for labour. Given a limited human resources base and the small population, which is ageing and characterized by slow demographic growth, labour supply cannot meet demand. The country has a particular shortage and mismatch of skilled labour. Despite the Government’s longstanding recognition of the country’s human resource needs, and continuous investment in human capital, problems persist. The challenges are compounded by related factors affecting labour supply, such as emigration, the ‘brain drain’, and a growing informal sector.

In his address to the National Assembly on 18 July 2017, the President of the Republic of Seychelles announced that the retirement age would be extended from 63 years to 65 years by 2022. This implies that the early retirement scheme at 60 years old will also be abolished. The proposed new strategy is in line with the national employment policy (article 3.1.6). Further, cognizant of the need to sustainably develop its oceanic and fishery resources as well as reduce climate change-associated risks, the Government adopted the concept of the blue economy and has integrated climate change mitigation in its development strategy.

### TABLE 1. Macroeconomic indicators

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017(e)</th>
<th>2018(p)</th>
<th>2019(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>4.4</td>
<td>4.9</td>
<td>4.5</td>
<td>3.9</td>
</tr>
<tr>
<td>Real GDP per capita growth</td>
<td>3.7</td>
<td>4.2</td>
<td>3.8</td>
<td>3.2</td>
</tr>
<tr>
<td>CPI inflation</td>
<td>-1.0</td>
<td>2.8</td>
<td>3.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Budget balance (% of GDP)</td>
<td>0.2</td>
<td>-0.5</td>
<td>-0.6</td>
<td>-0.6</td>
</tr>
<tr>
<td>Current account (% of GDP)</td>
<td>-20.1</td>
<td>-16.4</td>
<td>-16.3</td>
<td>-19.0</td>
</tr>
</tbody>
</table>

Source. Data from domestic authorities; estimates (e) and predictions (p) are based on the author’s calculations.
To reduce the country’s vulnerability as a SIDS, Seychelles needs urgently to promote economic diversification, structural transformation and regional integration. All three would address Seychelles’ major challenges, including its small domestic economy, geographical remoteness, high transportation costs, lack of skilled labour, and vulnerability to external shocks. The sustainability of domestic private sector growth depends on the extent to which challenges in accessing finance and sourcing skilled labour are addressed.

Other areas that require urgent intervention are coastal and marine resources; both are extremely vulnerable and need effective and risk-mitigating interventions. The vulnerability of these areas is attributed to the large, unsustainable consumption and exploitation of resources; urbanization of the coastal zones; pollution and degradation; and the economic dependence of both tourism and fisheries on these same marine resources. There have been initiatives to reduce risks associated with unsustainable use of these resources. These include strict planning authority and coastal development offices to mitigate pollution and degradation, as well as the Fishers’ Association and Fishers’ Co-Management Committee that seek to promote better management of marine resources.

In terms of resilience, there are still great opportunities for enhancement. Whilst there are legal and regulatory frameworks (for example, the Environment Protection Act 1998), plant conservation, and a biodiversity strategy and action plan, their implementation has not always been effective. In addition, no updated and viable management plans in the domestic fishery sector ensure sustainable management of marine resources. Much work is carried out in isolation and on an ad hoc basis, and plans are not integrated. The normal Government budget is set to run the day-to-day operations of institutions, and sustainable financing is lacking because most other budgets of these institutions are project-based and time-bound.

### MACROECONOMIC POLICY

#### Fiscal policy

Inflation in 2017 and 2018 is estimated at 3% or less. Recent increases in world fuel prices and the Government’s expansionary fiscal policy in 2017 resulted in increased current expenditure (from 26.9% of GDP in 2015 to an estimated 33.9% of GDP in 2017); but this was partially offset by a corresponding increase in revenue (from 34.2% of GDP in 2015 to an estimated 39.1% of GDP in 2017).

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<table>
<thead>
<tr>
<th>TABLE 2. GDP by sector (percentage of GDP)</th>
<th>2011</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, fishing and hunting</td>
<td>2.8</td>
<td>2.5</td>
</tr>
<tr>
<td>of which fishing</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>of which oil</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9.4</td>
<td>7.4</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>0.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Construction</td>
<td>7.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Wholesale and retail trade; repair of vehicles; household goods; restaurants and hotels</td>
<td>23.5</td>
<td>22.7</td>
</tr>
<tr>
<td>of which restaurants and hotels</td>
<td>15.2</td>
<td>14.5</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>15.7</td>
<td>20.5</td>
</tr>
<tr>
<td>Finance, real estate and business services</td>
<td>27.1</td>
<td>26.4</td>
</tr>
<tr>
<td>Public administration and defence, security</td>
<td>7.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Other services *</td>
<td>6.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Gross domestic product at basic prices / factor cost</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Other services include education, health and social work and other services.

Source: Data from AfDB Statistics Department.
In 2016, Seychelles recorded a primary fiscal surplus of 3.9% of GDP, exceeding the target of 3% due to lower than budgeted capital outlays and strong growth in tax revenue. The Government is expected to record a minimal fiscal deficit in 2017, 2018 and 2019. It is committed to reduce debt-to-GDP ratio to less than 50% by 2020 from its current level of 64% using fiscal discipline coupled with an effective debt management strategy. The strong improvement in FDI, notably in the hospitality sector, contributed significantly to deficit financing and foreign reserves. The country’s gross official reserves in 2016 stood at 4.0 months of total imports and are projected to stand at 3.6 months of imports in 2017 and 3.5 months in 2018.

As part of its strategy to reduce the cost of living in the country, last year Government implemented a number of strategies. It removed VAT on several commodities; introduced a law regulating the compulsory payment of a 13th month salary; removed income tax on salaries below SCR 8 555; and introduced a progressive income tax system from July 2018. The expansionary fiscal policy of 2017 is expected to continue in 2018 given that the Government is ready to push its poverty reduction agenda simultaneously with measures to reduce the cost of living.

Since 2017, five Government departments have been operating their budgets using programme performance-based budgeting. In 2017, the Cabinet of Ministers approved the development of a regulatory and operational framework for strengthening public-private partnerships (PPPs), with technical assistance from the African Development Bank Group.

**Monetary policy**

In the last few years, the Central Bank of Seychelles (CBS) has maintained a tight monetary policy stance to achieve its key objective of domestic price stability. To strengthen its forward-looking framework and manage expectations, in April 2014 the CBS adopted the financial sector development implementation plan (FSDIP) 2014-2017. In a press communiqué on 31 May 2017 the CBS announced a revision to its monetary policy following approval by the Board. According to the Central Bank, a main objective of the revision is to make monetary policy more forward looking and provide clearer guidance on short-term interest rates, thereby reducing volatility and promoting domestic price stability.

According to the CBS, this is done through the standing facilities used to assist commercial banks with short-term liquidity management. For example, the CBS offers overnight deposit and lending arrangements, the rates of which form the basis of an interest rate corridor. Under this arrangement, the CBS sets the short-term interest rates on facilities it offers to commercial banks while the latter use them to price their own loans and deposits. Short-term interest rates are anticipated to become more sensitive to monetary policy signals and better reflect market expectations.

The exchange rate of the Seychelles rupee vis-à-vis the US dollar has been more or less stable in recent months. By contrast, it has depreciated against the euro and had a very volatile exchange rate with the pound sterling. Seychelles receives most of its foreign exchange revenue in euros (owing to the many tourists coming from the Euro Zone). Yet its payments

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### TABLE 3. Public finances (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017(e)</th>
<th>2018(p)</th>
<th>2019(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total revenue and grants</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax revenue</td>
<td>33.6</td>
<td>37.5</td>
<td>34.2</td>
<td>38.1</td>
<td>39.1</td>
<td>38.8</td>
<td>38.7</td>
</tr>
<tr>
<td>Grants</td>
<td>25.4</td>
<td>30.9</td>
<td>30.3</td>
<td>33.1</td>
<td>33.3</td>
<td>33.5</td>
<td>33.5</td>
</tr>
<tr>
<td><strong>Total expenditure and net lending (a)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current expenditure</td>
<td>30.1</td>
<td>25.7</td>
<td>31.2</td>
<td>37.9</td>
<td>39.6</td>
<td>39.4</td>
<td>39.3</td>
</tr>
<tr>
<td>Excluding interest</td>
<td>24.8</td>
<td>19.8</td>
<td>26.9</td>
<td>32.5</td>
<td>33.9</td>
<td>33.7</td>
<td>33.7</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>15.7</td>
<td>17.4</td>
<td>23.8</td>
<td>28.8</td>
<td>29.7</td>
<td>29.9</td>
<td>29.5</td>
</tr>
<tr>
<td>Interest</td>
<td>6.6</td>
<td>7.2</td>
<td>9.6</td>
<td>11.1</td>
<td>11.6</td>
<td>12.1</td>
<td>12.4</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>9.1</td>
<td>2.4</td>
<td>3.1</td>
<td>3.8</td>
<td>4.1</td>
<td>3.8</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Primary balance</strong></td>
<td>5.3</td>
<td>5.9</td>
<td>4.4</td>
<td>5.4</td>
<td>5.8</td>
<td>5.7</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Overall balance</strong></td>
<td>12.6</td>
<td>14.1</td>
<td>6.0</td>
<td>3.9</td>
<td>3.6</td>
<td>3.2</td>
<td>3.5</td>
</tr>
</tbody>
</table>

(a) Only major items are reported.

Source. Data from domestic authorities; estimates (e) and predictions (p) are based on the author’s calculations.
for imports (expenditure) are mostly in US dollars. This creates a positive combined effect on the trade balance (making foreign exchange earning activities more competitive relative to imports). As a matter of fact, the trade balance improved slightly or remained stable between 2014 and 2017. Trade in services also improved slightly from its level in 2014.

### Economic co-operation, regional integration and trade

Trade policy in Seychelles is geared towards establishing an interdependent trade regime that creates an environment conducive to the growth and productivity of businesses. Over the years, the Government of Seychelles has adopted a deliberate trade liberalization programme. The objective of the trade liberalization agenda was to stimulate economic growth prospects by bringing about the reallocation of investment resources from non-tradable to tradable sectors.\(^1\) Traditionally, Seychelles’ main trading partners have been Europe and Asia. In recent years, it has diversified, looking to other countries in Africa and the Middle East. In its pursuit of further regional integration, Seychelles has become a member of regional trading blocs, including the Common Market for Eastern and Southern Africa (COMESA), the Free Trade Area (FTA), the Indian Ocean Commission (IOC), and the Southern African Development Community (SADC).

There is scope for further diversification of its trading partners. In addition, Seychelles is a member of the Eastern and Southern Africa Economic Partnership Agreement. It officially became the 161st member of the World Trade Organization on 26 April 2015.

Seychelles has attained a status as one of the more liberalized economies in both COMESA and SADC due to its tariff regime. Seychelles’ trade policy is currently driven by its objective to fulfill its obligations under the World Trade Organization. Exports grew by an estimated 3.5% in 2017 compared to 2016. The forecasts also show that their value for 2018 is likely to remain at about 35.4% of GDP. In 2019 they are forecast to rise to 36.5% of GDP. An increase in imports is also projected, and a growing current account deficit is forecast (see Table 3).

### Debt policy

As part of the economic reform programme following the 2008 financial crisis, the authorities undertook a major exercise to reform public debt management. The National Assembly approved a Public Debt Law in late December 2008 which was an important step in strengthening the transparency and management of public debt. Through the revenue collection scheme, discretionary tax exemptions were also eliminated. Some taxes were raised, new taxes introduced, and fees, rents, and licenses were adjusted for inflation. This exercise was also extended to expenditure measures, which replaced universal subsidies on fuel and other goods with a targeted social safety net, and substantially reduced the public sector workforce, primarily through a voluntary departure scheme.

The Government is mindful of its commitment to debt management. According to the CBS, fiscal discipline coupled with effective debt restructuring over the years has supported the Government’s debt reduction and management strategy. The initial target was to reduce public debt to less than 50% of GDP by 2018; this deadline has been adjusted to 2020. The country is on track; total debt currently stands at around 64% of GDP;\(^2\) and the target should not strain Government’s planned expenditure during the years to come. The CBS has amassed sufficient foreign reserves to help the country meet external obligations, most notably the servicing of foreign currency debt.

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1. Seychelles Study on Regional Integration – The way forward with respect to the goods regime, 2011.
2. Of which, in August 2017, 58.8% was domestic and 41.2% external.

<table>
<thead>
<tr>
<th>Table 4. Current account (percentage of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="https://example.com/table4.png" alt="Table 4" /></td>
</tr>
</tbody>
</table>

Source: Data from domestic authorities; estimates (e) and predictions (p) are based on the author’s calculations.
ECONOMIC AND POLITICAL GOVERNANCE

Private sector
FDI continues to be strong especially in the hospitality sector, thereby boosting the entire economy. The continuous growth in tourism revenue (almost 20% growth in mid-2017 compared with 2016) has been a key driver of economic growth in the country. Domestic private investment in MSMEs is also becoming increasingly important. Government is keen to pave the way for private sector-led growth by promoting FDI and improving the business environment for local investors and businesses.

To promote growth, Government seeks to ensure that its fiscal expenditures do not result in reduced private sector borrowing (i.e., do not crowd out the private sector). Growth in the medium-term is expected to be driven and supported by strong investment, both foreign and domestic, and improved labour productivity. This growth will be supported by increased activity in the financial services, fisheries and tourism sectors. Nonetheless, if the growth strategy is to be sustained, inflation should be kept under control and the exchange rate should remain stable. Achieving both objectives will partly depend on the global economic outlook. Stability in the exchange rate is crucial, however, in order to maintain overall macroeconomic stability and attract more investment, especially FDI.

According to IMF Country Report No. 17/160, 3 economic diversification in Seychelles will depend primarily on improving the business climate. Yet, as of now progress is still lagging. The country has dropped from 80 to 93 in the World Bank’s Doing Business indicators over the past three years. Access to electricity is the component where Seychelles ranks most unfavourably. Businesses often complain that they are held back by the high cost of electricity, which partly results from cross-subsidization. 4 The Government is keen to improve the business environment through continued reforms to reduce the time and cost of business registration and operation, and through investing more in electricity production.

Financial sector
In Seychelles, financial sector development and access to financial services, are unsatisfactory. Currently, the financial market is comprised primarily of nine banks; only seven of them are considered full-fledged commercial banks. Other financial institutions and financial service providers include the Development Bank of Seychelles; the Credit Union, a cooperative bank; the Housing Finance Company; four insurance companies; and 25 licensed Bureaux du Change. The country has only recently launched its first ever stock exchange, which is expected to revolutionize the financial sector and money markets. Individuals and businesses will have greater opportunities to invest in money, stocks and other assets, as well as access credits through more primary and secondary markets.

The banking sector in Seychelles is well capitalized and most banks are profitable; risks of failures are well contained. The unsustainable debt level that led to the 2008 reforms would suggest that banks’ high exposure to Government debt instruments remains a cause for concern and is a significant source of vulnerability.

Although well capitalized, profitable and at minimal risk, banks in Seychelles have remained excessively prudent and have attracted some strong criticisms for reportedly:

- Not giving easy access to credit.
- Imposing high lending rates, but offering low interest on deposits, thereby making excessive profit margins.
- Offering sub-standard services and electronic banking that lacks the advanced features of modern e-banking facilities.
- Offering limited cash and trade products.

The banking sector has considerable potential to support economic growth in Seychelles in a way that does not impact on the environment, helps diversification, and promotes the creation of highly skilled employment. Currently, the main issues in the banking sector include the high volatility of the local currency (which discourages certain types of investment), lack of local skills needed to expand the sector, inadequate infrastructure (e.g., ICT), and the issue of corresponding banks, which might hinder expansion of the sector.

Public sector management, institutions and reforms
Seychelles has made significant progress in public sector management, but must make further efforts to reap the benefits of recent reforms. The civil service in Seychelles comprises 13 ministries, each headed by a politically appointed minister. The day-to-day running of each ministry is mostly overseen by the principal secretary, who is the administrative head. The principal secretary is not politically appointed but nominated by the President of the Republic. Apart from the main ministries, the civil service also consists of parastatal organizations, mainly commercial organizations, and a number of institutions that are constitutionally appointed.

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3. 2017 Article IV Consultation and sixth review under the extended arrangement – Press Release.
Seychelles’ current environmental legislation provides a basic framework for the conservation and sustainable use of biodiversity. However, the country is experiencing loss due to deforestation, wetland destruction, coral reef degradation and population growth.

**Political context**

Seychelles gained independence in 1976 and became a republic. The country was ruled by a coalition Government until 1977, when a one-party system was established. Following a referendum, the one-party system was abolished in 1993 after which a new constitution was adopted. This marked the birth of the third republic and a new multi-party system. The political transition in Seychelles has been very smooth and peaceful, and the country enjoys a high level of political stability.

On the surface, Seychelles has strong formal institutions. It has a well-established parliamentary culture but also shows signs of social and political polarization. This sometimes makes it challenging to reach consensus on policies that are in the broad public interest and entail a long planning horizon. There has been no violence associated with politics besides ad hoc disputes and grievances about freedom of speech or other issues viewed as undermining a level political playing field and democracy.

Seychelles ranks 142 (of 165 countries) on the political stability index, indicating a stable political environment. The country was ranked 2 in the Mo Ibrahim Governance Index (behind Mauritius) in 2017, up by two places from its previous position. The Reporters without Borders’ World Press Freedom Index ranked the country 92 (of 180 countries) in 2016, down from 65 (of 178 countries) in 2010.

**SOCIAL CONTEXT AND HUMAN DEVELOPMENT**

**Building human resources**

The management of human resource development in Seychelles is guided by the national human resources development policy, which was formulated in 2005. Through the Department of Human Resource Development and the Agency for National Human Resource Development (ANHRD), Government, the Government is preparing a new national human resources development strategy. The strategy will replace the previous national development plan (2012-2016) and update the national human resources development policy, bringing it in line with the country’s national employment policy and socio-economic environment.

The institutional framework for matching labour demand with supply in terms of education and training is set at national level.
ANHRD is mandated to develop human resources nationally, and determines national policies and strategies related to human resource development. The Ministry of Education provides education and training to citizens at all levels, from primary to post-secondary. The Ministry of Employment, Immigration and Civil Status monitors the labour market in Seychelles.

While the authorities recognize the importance of skilled labour for stimulating national growth and employment, human resource limitations are a problem at all levels of the public and private sectors. Due to its small size, the country must contend with a serious lack of technical expertise and limited human resources in certain areas. (This situation has been confirmed by all stakeholder meetings and analyses.) To address this risk, the country has sought technical assistance to enhance skills and capacity in a number of areas.

While the introduction of foreign labour was seen at first as a short-term solution to human resource limitations in the country, it has gradually become permanent. Employment of foreign labour has increased more than three-fold since 2006. The Ministry of Employment, Immigration and Civil Status is monitoring the situation to ensure that the employment of foreigners and the employment of locals is well coordinated and managed.

### Poverty reduction, social protection and labour

Seychelles has almost eradicated absolute poverty, but poverty as measured by the national poverty line is still high (estimated at almost 40%). According to a 2015 publication from a study of poverty and inequality by the National Bureau of Statistics, 39.3% of the population live at or below the national poverty line, based on the 2013 household expenditure survey. The national poverty line is equivalent to an adult monthly income of SCR 3 945. Notably, the minimum wage in 2013 was SCR 3 375, which is below the income poverty line. In 2014, the minimum wage was revised to SCR 4 050 per month for a 35-hour work week, in line with the cost of living. In the state of the nation address in February 2016, the Government announced that the minimum wage would be revised again to SCR 5 050 per month (for a 35-hour work week) from April 2016.

The Government remains the major player in providing social support. The Agency for Social Protection (ASP) provides social support, in particular financial support, to the less privileged and those on low income. ASP is the sole provider of social financial benefits to persons who are justifiably unemployed and those gainfully employed but whose total household income is below the minimum required for basic needs and social upkeep. Following the 2008 macroeconomic reforms, ASP received 3 500 applications for financial support. While this measure was welcomed as a way of supporting those in need and simultaneously ensuring a socially stable and equitable society, there has been criticism of its implementation. Indeed, there have been reported abuses of the system, as many opted for social support rather than gainful employment. The majority of welfare assistance recipients are women and 70% are between 36 and 62 years old. Of welfare recipients who are unemployed, the majority are women and over 70% are between 26 and 62 years of age.

To provide a safety net to protect workers from exploitation and poverty, the Government has introduced various programmes, including a national minimum wage applied to all workers; a 13th month salary; revision of the income tax; and the re-introduction of the unemployment relief scheme. The minimum wage, currently set at SCR 33.30 per hour for a regular worker and SCR 38.38 for a casual worker, is mandatory. Its revision is subject to changes in the socio-economic situation of the country. The latest revision, in April 2016, included an adjustment to the retirement pension to bring it to parity with the minimum wage. The revision also included introduction of a progressive income tax (in July 2018), which will exempt from paying tax workers whose salary falls below the threshold of SCR 8 550.55.

### Gender equality

Seychelles is one of the few countries in which women are well represented in political affairs and decision making, although there was a drop in the number of women delegates in Parliament from 44% to 20% in the recent parliamentary election (2016). The Constitution guarantees equal legal rights to both men and women.

The adoption of the national gender policy in 2016 is another sign of Government’s commitment to gender equality and equity as prescribed in the Constitution and in the various treaties to which Seychelles is a signatory. These include the United Nations Convention on the Elimination of All Forms of Discrimination against Women, The Beijing Declaration and Platform for Action, and The Commonwealth Plan of Action for Gender Equality 2005-2015.

Although Seychelles has made strides in empowering women, there are challenges to be addressed, including, but not limited to, gender-based violence, higher levels of poverty among single-parent households (predominantly headed by women), the gender dimensions of HIV and AIDS, and the unavailability of sex-disaggregated data.

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5. As at 1st April 2016.
THEMATIC ANALYSIS: INFRASTRUCTURE FINANCING

Seychelles today has one of the best infrastructure services in Africa. Over 90% of its population has access to electricity (97% in 2010),7 safe drinking water,8 a good information communication system and a good road network, particularly by African standards.

Impact of Government capital expenditure on private sector development

As the economy expanded rapidly during the late 1980s and 1990s, concerns grew about sustainability of the growth model, because flat land was becoming increasingly scarce. To further boost the economy as infrastructure development expanded towards the mid-1980s, Seychelles embarked on an ambitious land reclamation plan on the east coast of the main island Mahé and on part of Praslin. Massive lands areas were reclaimed from the sea under strict environmental supervision. This was the biggest infrastructure development project ever undertaken by the Seychelles Government, and it was implemented in three phases. The last phase was completed in 2002. Purely from an expenditure perspective, the project significantly contributed to the country’s fiscal deficit. Nevertheless, it addressed the shortage of flat land. Seychelles did not have much choice but to venture into this project, despite the huge capital cost.

A large part of the reclaimed land today has been devoted to business hubs, housing estates, education and health infrastructure (schools and hospital) as well as to Government institutions, including the National Assembly and Supreme Court. Furthermore, a number of small to large businesses and shops have their headquarters there, and they are expanding rapidly. The Government has also built a good road network that links the reclaimed land with the main island. This place, which was once ocean, is gradually emerging as an industrial, service and business centre for Seychelles. Its contribution to the economy is enormous, perhaps immeasurable. Without this endeavour, far fewer private businesses would be operating.

Information and communications technology

The Department of Information and Communications Technology (DICT) is responsible for harnessing the ongoing ICT revolution. Although ICT has made progress, there is still room for improvement. DICT has realized many crucial projects, including major infrastructure developments such as connecting Seychelles to an international fibre optic cable in 2012 with support from the African Development Bank. That project helped Seychelles to benefit from the technological revolution; develop and implement a national ICT policy; review ICT legislation from the perspective of ICT needs, the business environment, human resource development, and technological infrastructure; deploy an integrated Government information technology infrastructure with the roll-out of several dedicated information systems and general-purpose technology across Government ministries; promote the ICT industry; shift successfully from copper to fibre; achieve the change from a second to a third generation network; and embrace a PPP initiative to invest in the submarine cable to create further scope for ICT-induced economic and social development.

Health infrastructure

Over the past four decades, Seychelles has made remarkable progress in health development. The national health plan is characterized by large investments in health infrastructure, including the renovation and expansion of existing health centres, construction of new ones, and modernization and expansion of the Victoria Hospital. A primary health care approach is extended to the community through health centres, schools, work place health services, community centres and other organizations. At the same time, Victoria Hospital offers specialized services and secondary level care. Loans and grants from international financing institutions such as the African Development Bank and some developed countries helped finance infrastructure developments. These undertakings were crucial to facilitate access to the full range of services by all citizens.

There is adequate infrastructure to cater for public health in terms of physical infrastructure and in terms of the geographical spread of facilities around the country. Facilities are distributed nationally based on the principles of equity and access. Healthcare services reach people in all 16 health administrative districts. The population per doctor ratio in 2016 stood at 1 455.

Housing infrastructure

The provision of adequate housing has proven challenging in Seychelles. The country has had excellent housing policies and initiatives that aimed to benefit all citizens, including poor families and other vulnerable and at-risk groups. Seychelles Vision 2020 continues to recognize that housing is an important component of economic and social development. It is an important part of national infrastructure and pivotal to social development, national competitiveness and economic growth.

Despite looming economic and financial difficulties, the Government of Seychelles remained committed to provide housing for

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8. According to the Population Census Report 2012, 93.3% of households have access to treated water.
citizens. Between 2006 and 2014, 1,404 houses were allocated, in addition to the Ile Perseverance housing project, which has made an estimated 1,055 units available to families. From 2006 to the end of the project, approximately 2,000 houses will have been handed over to ordinary Seychellois families.

According to the new official plan, which started in 2017, the authorities envision building new housing estates in all 25 districts of the country. When completed, the plan will reduce the pressure of congestion around Victoria and its suburbs. The Ile Perseverance housing estate will remain the largest urban area, with about 2,000 houses for an estimated 8,000 people. This concentration in housing development will of course put extreme pressure on basic infrastructure (road, transport, water, sewerage, electricity, waste management) that needs to be properly planned. It is also important to manage urbanization sustainably. This can be best achieved by placing housing developments out of the city, and making use of more PPP initiatives to finance housing development, to reduce reliance on Government and cash-strapped public enterprises, such as home mortgage finance and property management companies.

As the Seychelles sustainable development strategy 2012-2020 makes clear, competing land use is a significant challenge, because the same spaces support unique and especially fragile ecosystems. The main population centres are on the islands of Mahé, Praslin and La Digue, and only small working populations inhabit other islands. The east coast of Mahé is the most urbanized region in the country, and there are large districts such as Anse Etoile, where 5.3% of the population live. Major infrastructure development is also happening on the east coast of Mahé, which has been subject to extensive reclamation to provide more land for housing, industry, business and other services. A total of 372 hectares of new land have been reclaimed around Mahé, Praslin and La Digue, which have a total of 36 km of new coastline. At the moment, only three districts have land use plans and efforts to develop more are constrained by lack of capacity and resources.

**Climate change impact on infrastructure**

Seychelles is highly vulnerable to climate change and rising sea levels. The majority of infrastructure along the coast and in coastal zones is at risk of erosion and other damage. The 2004 tsunamis, for example, caused direct damages estimated at USD 30 million (about 3.5% of GDP at that time). More recent disasters included the tropical cyclones Fellen in 2013 and Fantana in 2016. Fellen caused major flooding in three districts (Aux Caps, Aux Pins and Pointe La Rue) and cost an estimated USD 9 million in losses and damage to infrastructure. Fantana destroyed most of the infrastructure on Farquhar island, causing damage and losses valued at approximately USD 5 million. All of these disasters are linked to climate change, and have impacted economic activity in all sectors. Together with damages to social infrastructure, they caused damage amounting to approximately USD 45 million.

**Water resources infrastructure**

Water is becoming one of the greatest concerns for the country. This assessment focusses on water catchment areas, water storage, and other water infrastructure and facilities. The dependency of both the economy and society on water resources is such that the extended drought is causing major problems. These challenges are, of course, exacerbated by the fact that there is no efficient way to store adequate water for the dry season due to limited storage infrastructure, such as dams or barrage. An estimated 95% of freshwater resources are lost in the sea as catchment and storage capacities are inadequate. Lack of fresh raw water remains a threat to economic activities, especially tourism, agriculture and light manufacturing.

**Risks and disaster management**

Land use planning is a very important component of disaster risk management. Accordingly, Seychelles formulated a new strategic land use and development plan in 2015. The plan covers a range of issues, including the protection of the natural environment and ensuring climate change resilience, among others. The plan also takes into consideration needed infrastructure development, thereby ensuring reasonable disaster risk reduction.