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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR A

PROPOSED LOAN IN THE AMOUNT OF EURO 6.4 MILLION
(US$ 9.0 Million Equivalent)

TO

THE REPUBLIC OF SEYCHELLES

FOR A

DEVELOPMENT POLICY LOAN

October 5, 2009

Poverty Reduction and Economic Management Unit 2
Country Management Unit
Africa Region

REPUBLIC OF SEYCHELLES

Government Fiscal Year: January–December

Currency Equivalents

(Exchange Rate Effective as of September 1, 2009)

Currency unit	Seychelles Rupee
US$1.00	12.767
SR 1.00	0.078

Weights and Measures: Metric System

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
COMESA	Common Market of Eastern and Southern Africa
DPL	Development Policy Loan
EU	European Union
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GST	Goods and Services Tax
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
OECD	Organization for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
SMB	Seychelles Marketing Board
STC	Seychelles Trading Company Ltd.

Vice President:	Obiageli Ezekwesili
Country Director:	Johannes Zutt
Sector Director:	Sudhir Shetty
Sector Manager:	Kathie Krumm
Task Team Leader:	Tracey Lane
	(formerly Cevdet Denizer)

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Annexes

The proposed Development Policy Loan was prepared by an IBRD team led by Cevdet A. Denizer (Lead Economist) until September 1 and by Tracey Lane (Senior Economist) from September 1, and comprising Tony Verheijen (Senior Public Sector Specialist), Pia Schneider (Senior Health Economist), Csaba Feher (Senior Economist), Nightingale Rukuba-Ngaiza (Senior Counsel), Luis Schwarz (Senior Finance Officer), Peter Moock (Consultant), Wendy Ayres (Consultant), Henry Amuguni (Financial Management Specialist), Patrick Umah Tete (Senior Financial Management Specialist) and Dahir Warsame (Senior Procurement Specialist). Peer reviewers included Roland Clarke and Vivek Suri. The team benefited from the inputs and guidance of Kathie Krumm and Sudhir Shetty. The team gratefully acknowledges the excellent close collaboration of the Seychelles authorities and development partners, as well as the support and guidance of Johannes Zutt, Michel Wormser, Sudhir Shetty, Harold Bedoya, and Marie-Hélène Bricknell. Rosemary Otieno and Dora Harris assisted the team with the preparation of the program document.

SEYCHELLES

Development Policy Operation Summary

Recipient	Government of the Seychelles
Implementing Agency	Ministry of Finance
Financing data	Amount €6.4 million (US$9.0 million equivalent) IBRD Loan, fixed-spread loan in Euro, with 25.5 years maturity and a 10 year grace period.
Operation Type	Stand-alone single tranche operation. Standard International Bank for Reconstruction and Development terms.
Main policy areas	The proposed Development Policy Loan supports strengthened budget management, improved governance and accountability in public procurement, creation of a more efficient civil service and public administration, establishment of a targeted social safety net to protect the poorest, and reduction in the role of the state in the economy.
Key outcome indicators	• Primary balance rises from −2.0 percent of GDP in 2008 to exceed the original 6.2 percent of GDP primary surplus target for 2009 envisaged in the program. • National Tender Board established and fully functioning. • Staff of the public administration falls by 15 percent. • Public sector wage bill falls from 10.2 percent of GDP in 2007 to 7.5 percent of GDP in 2009. • Social Welfare Agency established and fully functioning. • Overall subsidies of the government to parastatals fall.
Program development objectives and contribution to Interim Strategy	The objective of the proposed operation is to help the Seychelles establish a stable macroeconomic environment and sustainable fiscal framework. This will be achieved through fiscal adjustment underpinned by public administration and civil service reforms and a reduction of the role of the state in commercial activities. The operation also supports establishment of a targeted social safety net. By providing foreign exchange in a timely manner, the operation will directly contribute to stabilization of the economy during a period of global slowdown and will help in building public support for the reform process.
Risks and risk mitigation	The operation faces five main risks. The first source of risk arises from external shocks generally and in particular that of the global economic slowdown which could make sound macro and fiscal management more challenging. The second risk is that the government's commitment to reforms may weaken if reform outcomes do not deliver results. Related to both these risks, is the risk that external arrears will

	subsequently build-up if the fiscal and macroeconomic reform program goes off track. However, the results of reforms are showing that the immediate effects of the shock have been absorbed and are now starting to stabilize (although there is still a significant shock to the real sector this year, with unemployment levels remaining below 5 percent). Nonetheless, government commitment to the program remains firm and, it is highly unlikely that there will be serious policy reform reversals. To some extent the risk is also being mitigated by the government's strategy to work closely with development partners that have made technical and financial commitments to support the government as these reform policies are implemented. The recent Paris Club debt relief agreement has also yielded tangible results that the government is able to demonstrate to the public, and this has added to the credibility of the reform process. This risk is limited by the focus of the proposed operation on fiscal and public sector reforms, where the main policy actions have already been implemented and reform reversal risk is minimal. The measures supported by the operation help achieve fiscal sustainability, including debt sustainability. The third risk is the fiduciary risks related to auditing capacity weaknesses, which is being mitigated by closely working with the IMF technical capacity team on the issues. The fourth risk is the sporadic piracy attacks on tuna fishing vessels using Seychelles' territorial waters. This reduced tuna exports earlier in the year. This risk is being mitigated by working closely with other countries (such as the United States and France) that are providing enhanced protection and assistance to Seychelles' coast guard.
Operation ID Number	P114822

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
PROGRAM DOCUMENT FOR A
PROPOSED DEVELOPMENT POLICY LOAN**

TO

REPUBLIC OF SEYCHELLES

1. INTRODUCTION

1. **This program document describes a development policy loan (DPL) designed to support the adjustment and reform strategy of the Government of the Seychelles.** The proposed operation involves a single tranche of €6.4 million (US$9 million equivalent) and is conceived as a one-time operation supporting structural reforms to put the Seychelles on a sustainable development path. The objective of the proposed operation is to help the Seychelles establish a stable macroeconomic environment and sustainable fiscal framework. This will be achieved through fiscal adjustment underpinned by public administration and civil service reforms and a reduction of the role of the state in commercial activities. The operation also supports establishment of a targeted social safety net. By providing foreign exchange in a timely manner, the operation will directly contribute to stabilization of the economy during a period of global slowdown and will help in building public support for the reform process. The proposed DPL is expected to achieve substantial measurable outcomes during 2009 and 2010 and to contribute to the achievement of restoring internal and external balances with the assistance of the international financial institutions and development partners.

2. **In late 2008, after many years of pursuing an unsustainable fiscal policy and managing a distorted and overvalued foreign exchange regime, the Government of the Seychelles embarked upon a fundamental economic reform program.** This program aims to put the economy on a path toward macroeconomic stability, and to redefine the role of the state in the economy to give the private sector the major role in operating commercial enterprises. The Seychelles faced acute economic difficulties in 2008 as a result of past economic mismanagement exacerbated by high global oil and food prices and the downturn in the global economy. This resulted in missed debt-service payments in mid-2008 and the subsequent downgrading of its credit rating by Standard & Poor's. Faced with these difficulties and the fact that Seychelles would not achieve external debt sustainability without a sizeable reduction in the present value of its debt, the authorities responded quickly by adopting in November 2008 a comprehensive reform program supported under a two-year Stand-By Arrangement with the International Monetary Fund (IMF). At the same time the authorities initiated debt restructuring negotiations with the Paris Club creditors and other private and official creditors. Following the successful completion of the first review of the Stand-By Arrangement, the Paris Club in mid-April 2009 granted exceptional debt relief to the Seychelles, providing an opportunity for the country to attain fiscal and external debt sustainability. The IMF in June completed its second review of the Stand-By Arrangement, noting that all quantitative performance criteria were observed and that the structural reform program was on track. A further disbursement of SDR 0.88 million (about US$1.4 million) was

approved by the IMF Board on 25 September. An IMF team plans to travel to the Seychelles in late October to discuss a follow-up arrangement under the Extended Fund Facility.

3. **The proposed DPL is based on the government's reform program as articulated in the detailed policy statements of the Ministry of Finance to the parliament for the 2008 and 2009 budgets and in the president's speech to the nation in late February 2009.** Both the 2008 and 2009 budgets aimed at achieving upfront strong fiscal adjustment with sizeable primary surpluses in both years despite the global crisis. Policy statements for 2008 and 2009 presented to the parliament specify how these targets would be achieved (for details see section 3 of this document). Policy measures supported by this operation directly focus on these areas. The current reform program is in line with the government's commitments under the IMF supported Stand By Arrangement. The long term vision for development in Seychelles ("Strategy 2017") is currently under review to reflect the current realities and the economic reform program. To support the development of a fully articulated medium-term plan, the Bank prepared a Public Expenditure Review (PER).[1] The PER helped the government to identify key fiscal reforms and develop a public sector reform roadmap, and the government has already implemented many of its recommendations. The PER is also providing the Bank and other donors with the analytical basis for potential financial support.

4. **The Seychelles reform package includes measures to protect vulnerable groups and to expand employment in the private sector to cushion expected job losses due to downsizing of the public sector**. As the foreign exchange depreciation has passed through to domestic inflation prices, real incomes and household consumption have been adversely affected. Although this effect has proved to be a one-off adjustment, the government introduced a new social welfare system to protect the most vulnerable. A new Social Welfare Agency Act was enacted in October 2008, establishing a new Social Welfare Agency and a new means-tested social welfare benefit. By August 2009, some 3,000 households were receiving benefits from the new agency. The new system replaces a system based on universal subsidies, which was both costly and inefficient. The authorities have also been implementing policy reforms to support the creation of new jobs in the fishing, tourism, and banking sectors. This is particularly important since the on-going public administration reforms are leading to staff reductions in the public sector. Flotation of the Seychelles Rupee, liberalization of domestic prices, and elimination of state monopolies are expected to boost private sector activities and hence generate new employment. The government expects these reforms will foster dynamic private sector led growth over the next decade.

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[1] "Seychelles Public Expenditure Review," Report 49273-SC, Poverty Reduction and Economic Management 2, Africa Region, World Bank, June 25, 2009.

2. COUNTRY CONTEXT

5. **The Seychelles is a remote, small island-state with middle-income country characteristics.** The estimated population of the Seychelles is 86,000 (2008). The per capita income of US$10,290 (2008) is among the highest of the middle-income countries group.[2] As with other island-states, the overall size of the economy is small (US$833 million GDP in 2008) and is predominantly service based, with tourism and transportation and the fishing industry important contributors to economic output. The Seychelles enjoys an exclusive economic zone of almost 1.4 million square kilometers in one of the world's major tuna fishing grounds. However, the limited land, capital, and human resources restrict the country's ability to benefit from economies of scale in production and economic diversification.[3] Unemployment has been low over the years, estimated at 5.5 percent in 2007. The Seychelles also has good quality-of-life indicators with life expectancy at Organization for Economic Co-operation and Development (OECD) levels of 73 years (see Table 1).[4] An open economy, with trade accounting for 250 percent of GDP, the Seychelles is naturally vulnerable to global shocks and terms-of-trade shocks, particularly those which affect tourist arrivals (notably from Europe). Furthermore, the Seychelles relies on imports for almost all raw materials, products, and specialized services.[5]

Table 1: Social Indicators for Seychelles and Comparators, 2007

	Barbados	**Seychelles**	**Mauritius**	**Cape Verde**	**Trinidad & Tobago**	**Fiji**	**Maldives**
Life expectancy (years)	77	73	72	71	70	69	68
Under-five mortality per 1,000	13	13	15	32	35	18	30
Births per 1,000	11	18	14	24	15	21	23
Primary completion rate (%):							
Boys	94	111	92	84	98	90	131
Girls	95	118	95	88	102	90	127

Source: World Development Indicators 2009.

[2] Calculated using the World Bank Atlas method. Note the GDP per capita in US$ was calculated before the effects of the exchange rate devaluation in November 2008 were felt.

[3] The Seychelles comprises 115 tropical islands spread over 1.374 million square kilometers in the western Indian Ocean, covering 455.3 square kilometers in land area. Only 2.2 percent of the land area is arable, and about 10 percent of the 60 square kilometers of potential agricultural land is in use. The mountainous terrain and low soil fertility are an impediment to agricultural productivity. Some 87 percent of the country is forested, and 50 percent is a forest preserve. About 90 percent of the population of the Seychelles lives on the largest island, Mahé, where the capital, Victoria, and the main fishing port are located.

[4] Data in this paragraph are from the World Development Indicators database.

[5] The Seychelles belongs to the Common Market of Eastern and Southern Africa, the Indian Ocean Commission, and the Southern African Development Community regional groups, and its major trading partners are the China, France, Italy, Japan, the Netherlands, Saudi Arabia, Singapore, South Africa, Spain, Taiwan, Thailand, United Kingdom, and the United States .

6. **The Seychelles is a multiparty democracy and has had seven presidential elections since independence from the United Kingdom in 1976.** A year after independence, a coup d'état established a one-party socialist state which lasted until December 1991, when President France Albert René of the Seychelles People's Progressive Front announced a shift to multi-party pluralism. President René won the first multiparty presidential elections in 1993 after the adoption of a new constitution. He governed Seychelles until April 2004 when he stepped down and appointed James Alix Michel as the interim president. President appointee Michel was elected in 2006 for a five-year term in a close race with majority opposition leader Wavel Ramkalawan of the Seychelles National Party. Since his election, President Michel has taken a robust approach towards good governance in the management of the country's political economy. The main thrust of the economic reform was to redefine the role of the government in the economy and society in a paradigm shift, which recognizes the need for political, economic, and social reforms. Under his leadership, the government is pursuing a sound policy framework which encourages entrepreneurship, proposes to dismantle an inefficient regulatory framework and make appropriate infrastructure investments, and attempts to attract new foreign direct investment. In this pursuit, President Michel has additionally accepted to engage in open and active discussions with the opposition parties, civil society organizations and the public in general, and has appeared regularly on television and in public addresses to demonstrate his commitment to the reform program.

7. **The Seychelles has two principal natural endowments, which are its comparative advantage**. The first is a physical environment that is largely pristine, with a tropical and hurricane-free climate. The second is an extensive maritime environment. As a result, the economy is predominantly service based and largely depends on tourism, and to a lesser extent fisheries, and off-shore services. Tourism accounts for 26 percent of GDP.[6] The relatively small agricultural sector has continued to decline. The Seychelles has the second-largest tuna cannery in the world; which a recent report estimated contributed 3.5 percent of GDP. However, its share of employment, GDP and foreign exchange generation has declined in recent years.[7] Bunkering, (the re-export of fuel) and the storage of fuel are profitable activities taking advantage of Seychelles geographic position in the middle of the Indian Ocean. Also a Seychelles parastatal company runs a successful international freighter service enterprise. Offshore business and financial services had been developing in the years prior to the onset of the global economic crisis.

A. Recent Economic Developments

8. **During the 1990s, the Seychelles managed an unsustainable fiscal situation, which was funded by domestic and external borrowing.** The emphasis on state-led development policies emphasized rapid capital accumulation, economic self-sufficiency, and the establishment of a generous welfare system to improve the well-being of the country's small population. The government sought to achieve these economic and social goals through central planning and public ownership of productive resources. Not

6 Seychelles National Statistics Bureau, national income accounts.

7 Oceanic Development Benchmark Tuna Process in Seychelles, 2008.

only did the government play a dominant role in the economy through extensive controls and regulations, but it also intervened directly in manufacturing, distribution, trade, and other economic activities through parastatals. Although this strategy resulted in impressive achievements in the social sectors, and the economy grew by an average of 5 percent during the 1990s, it also led to an accumulation of unsustainable domestic and external imbalances. Current account deficits were high throughout the 1990s and reached 23 percent of GDP by 2001.

9. **The government attempted to bring high public spending and unsustainable deficits under control in 2003, but these efforts were short-lived.** Fiscal deficits remained high and reached almost 18 percent of GDP in 2002, before the government responded with a fiscal consolidation program. Public debt stock accumulated over the period, and reached about 150 percent of GDP by 2008/9. GDP declined by 5.3 percent in 2003, and it was clear that the state-led development strategy pursued for more than a quarter century had reached its limits and become unsustainable. Although the government introduced a macroeconomic reform program in mid-2003, implementation was short-lived and significant internal and external imbalances persisted well into 2007. Despite the stop-go fiscal policy, economic growth during this period was strong, with real GDP growth averaging 8.5 percent between 2005 and 2007 (see Table 2).

Table 2: Macroeconomic Indicators and Medium Term Outlook 2008–12

	2005 Actual	2006 Actual	2007 Actual	2008 Est.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
National income and prices % change								
Nominal GDP (SR millions)	5,043	5,628	6,877	8,756	10,280	11,066	11,901	12,882
Real GDP (Percent change)	6.6	9.3	9.7	–0.9	–10.7	3.5	5.0	5.0
CPI (Annual average)	0.6	–1.9	5.3	37.0	35.1	4.1	2.5	3.2
GDP deflator average	0.8	2.1	11.4	28.4	31.4	4.0	2.4	3.1
Money and credit % change								
Net claims on private sector	1.9	0.4	9.3	58.4	24.3	20.2	..	..
Broad Money (M2)	1.7	6.1	–7.6	27.2	5.6	20.5	..	..
Reserve Money (% change)	3.4	32.7	–23.1	0.6	20.6	19.4	..	..
Savings and investment % of GDP								
Gross national savings	14.1	13.5	8.0	–13.7	–1.8	–3.8	1.6	8.0
Of which: government savings	5.8	0.4	–4.4	4.2	1.0	4.5	5.2	8.1
Gross investment	33.1	26.6	28.8	31.9	27.9	29.3	31.8	32.1
Of which: government investment	5.1	7.7	5.5	2.1	4.3	5.0	6.9	7.3
Government budget % of GDP								
Total Revenue and Grants	40.6	41.2	32.2	36.4	35.6	34.3	33.6	33.7
Of which Tax revenues	31.1	29.9	27.6	28.1	29.8	28.5	28.7	28.8
Total Expenditure and Net Lending	38.9	47.0	40.9	39.8	35.6	32.9	35.1	32.8
1. Current expenditures	33.8	39.4	36.3	28.6	34.2	29.6	28.2	25.5
Wages and salaries	11.1	11.6	10.2	7.9	7.5	6.2	6.1	6.1
Goods and services	8.2	7.1	7.3	5.6	6.4	6.8	6.8	7.1
Interest payments	5.4	5.3	6.6	7.2	11.4	8.4	6.9	3.9
Foreign interest	1.3	1.4	3.2	3.9	5.3	3.9	3.6	1.1
Domestic interest	4.2	3.9	3.4	3.3	6.2	4.4	3.3	2.8
Transfers	8.9	15.3	12.1	7.9	8.6	8.2	8.4	8.4
Social programs and SSF	3.9	7.1	6.7	5.4	6.2	6.8	7.2	7.3
To rest of public sector	5.0	8.1	5.5	2.5	2.4	1.4	1.2	1.2
2. Capital expenditure	5.1	7.7	5.5	2.1	4.3	5.0	6.9	7.3
3. Net Lending	..	–0.1	-0.9	9.1	–3.9	–2.6	0.0	0.0
4. Contingency					1.0	0.9	0.0	0.0
Overall balance, including grants	1.6	–5.9	–8.7	–3.3	0.0	1.4	–1.5	0.9
Primary balance	7.1	–0.5	–2.0	3.8	11.4	9.8	5.4	4.8
Total public debt	141.8	132.4	129.8	139.4	149.7	121.7	84.1	76.9
Domestic	96.9	81.4	65.8	52.3	41.8	30.5	26.3	21.6
External	44.9	51.0	63.9	87.1	108.0	91.2	57.8	55.3
External sector								
Current account balance after official transfers	–19.0	–13.2	–20.8	–45.6	–29.7	–33.0	–30.3	–24.1
Total stock of arrears ($ millions)	184.0	123.5	160.4	97.8	133.6	..	..	..
Total external debt outstanding (% of GDP)	53.0	51.1	69.2	87.1	108.0	91.2	..	..
Terms of trade (= - deterioration)	4.4	–0.2	–1.2	0.7	–2.1	..	..	..
Real effective exchange rate (end of period)	2.7	–9.7	–25.4	–18.4	..	..	..	..
Gross official reserves (US$ millions end of year)	56.1	112.7	9.8	50.9	108.4	158.4	208.4	258.4
In months of imports	0.0	1.3	0.1	0.7	1.3	1.8	2.3	2.6
Exchange rate								
Seychelles rupees per US$1 (end of period)	5.5	5.8	8.0	16.6	16.0	..	..	..
Seychelles rupees per US$1 (period average)	5.5	5.5	6.7	9.5	16.0	..	..	..

Source: IMF August 2009.

10. **Funded by new external borrowing, fiscal deficits widened to 8.7 percent of GDP in 2007, and both the fiscal and external debt sustainability situation worsened.** In 2007, the overall fiscal deficit was about 8.7 percent of GDP, compared with the start of the year's target of a fiscal surplus of 5 percent, as expenditures were not

contained. Despite the efforts with fiscal reforms at the beginning of the decade, public spending remained high and above that of other small island comparator countries. Already relatively high, spending for social services and safety nets increased further between 2005 and 2007. Social security spending—which averaged 29.8 percent of expenditures, or 8 percent of GDP, during 2000–05—is on a par with that of European countries, and at the top end of middle-income countries, as well as higher than a comparator group of small island-states' averages. As shown by the 2009 PER, average spending between 2000 and 2005 remained 6.6 percentage points of GDP above comparator countries. In fact, average primary spending in the Seychelles during 2000–05 was higher than that of two-thirds of OECD nations.[8] Wages and salaries accounted for more than 10 percent of GDP—high by international standards—and reforming the public sector had not (until recently) been on the agenda. Net transfers to public enterprises, which account for 30 percent of GDP and employ 41 percent of the labor force, steadily increased and reached 5.5 percent of GDP in 2007. With limited recourse to other finances, largely non-concessional external borrowing funded these deficits. In 2006, Seychelles borrowed US$230 million and in 2007, an additional €54.7 million and US$30 million bringing its total external debt stock to about 64 percent of GDP (up from 44.6 percent of GDP in 2004), and total public sector debt to 130 percent of GDP by the end of 2007.

11. **These growing imbalances proved unmanageable and in 2008 Seychelles defaulted on its debt and faced a severe foreign debt and balance-of-payments crisis.** After many years of managing an unsustainable fiscal and external debt situation, the Seychelles faced a foreign exchange shortage, which disrupted output in real sectors. The situation was aggravated by the oil and food crises which brought the unsustainable debt situation to a head. As a result, economic growth dropped sharply from 9.7 percent of GDP in 2007 to −0.9 percent in 2008. Inflation also was considerably higher in 2008, particularly after flotation of the Seychelles Rupee. At the end of 2008, annual average inflation was about 37 percent and end-of-period inflation about 63 percent compared with 5.3 percent in 2007. (though the official consumer price index may have understated true inflation in 2007 because of controls on prices that still existed then). Exacerbated by rising food and particularly energy prices, current account deficits widened considerably in 2008 and reached about −45.6 percent of GDP, from −20.8 percent in 2007. As a result reserves declined rapidly, and by mid 2008 the Seychelles was practically out of reserves as import coverage fell to less than one month. External transactions were increasingly financed by arrears accumulation. The external environment continued to deteriorate as the global credit crisis impacted tourism in the last quarter of 2008. In September 2008, the authorities announced that they would not be able to make a coupon payment on the US$230 million bond. The government approached the IMF and in November 2008 successfully negotiated a two year Stand-By Arrangement. Soon thereafter, the authorities initiated debt restructuring discussions with the Paris Club and other official and private creditors. The Paris Club creditors in April 2009 granted a face value reduction of 45 percent.

[8] The IMF's Fiscal Affairs Department recently conducted a similar exercise using a different small island-state comparator group and found that in 2007 primary spending in the Seychelles was 20 percent of GDP higher than the average. IMF 2008. "Strategy for Strengthening Budget management," Fiscal Affairs Department, IMF, 2008.

12. **The government's decisive implementation of the macro stabilization program and swift introduction of structural reforms successfully stabilized the economy by the end of first quarter of 2009.** Critically, the Government moved to float the Rupee in November 2008. The Rupee immediately depreciated by about 50 percent against the US dollar, where it broadly stabilized by early 2009. The currency has appreciated since April and it appears that the market is now fully functioning, with regular transactions taking place in the newly created inter-bank foreign exchange market. Notably, the parallel foreign exchange market has disappeared. Interest rate controls were also lifted and while rates initially rose sharply to 30 percent, by May they were back down to 15 percent, in line with falling inflation. The initial depreciation in November was passed through to prices, and inflation jumped by 24 percent in that month and finished the year at 63 percent on a year-on-year basis, but this proved to be a one-off adjustment, as expected and inflation is now expected to stay in the low single digits. With the tightening of monetary policy since the floatation of the Rupee and fiscal adjustment efforts as described below, inflation declined sharply to the low single digits, where it is expected to remain, in line with major trading partners' inflation. This indicates that the current macroeconomic framework is appropriate.

13. **Strong fiscal adjustment underpinned by structural reforms has been the main factor in stabilizing the economy.** The Government initiated several far reaching fiscal policy reforms in late 2008. It reduced current and capital expenditures sharply, including 3.8 percent reduction of public investment spending, mostly on new housing construction as well as wage restraint and tighter controls on spending. It enacted a new Procurement Act and tightened financial controls, which helped contain outlays on goods and services. The elimination of direct and indirect subsidies reduced expenditures by 1.5 percentage points. The wage bill reduction due to public administration and civil service reforms generated additional savings of about 1.5–2.0 percent of GDP in 2009. The downsizing of the civil service is greater than initially targeted, and some 2,500 staff had left the public service by April 2009, representing15 percent of the April 2008 public sector workforce. Subsidies to state enterprises were cut from 5.5 percent of GDP in 2007 to 2.1 percent in 2008 and onlending to the sector was eliminated in 2009. The non-use of the contingency fund (about 1 percent of GDP) for possible bank recapitalizations has also helped contain expenditures. Revenue performance mobilization of external grants at about 3 percent of GDP (Abu Dhabi, China, and South Africa for a total of US$19.9 million) has helped to soften adjustment. These measures have led to projections of a primary surplus of 11.4 percent of GDP in 2009.

B. Macroeconomic Outlook and Debt Sustainability

14. **The global recession has hit the Seychelles hard and GDP is expected to decline by around 10 percent in 2009 and to recover to only 3.5 percent growth in 2010**. The global slowdown began to affect tourism revenues in the fourth quarter of 2008. Although tourism arrivals recovered in the second quarter of 2009, there is a 15 percent fall in tourism revenues anticipated for the year as a whole. Given the share of tourism in the economy, this will contribute to an expected real GDP decline of around 10.7 percent, the largest in the history of the Seychelles since independence. The initial rebound will depend upon the recovery in the tourism sector, which has been a traditional

driver of growth. In the medium term, a positive reaction from the private sector is expected as the government's role in commercial activities is reduced and the playing field is leveled between the public and private sectors. Given the stable macroeconomic outlook with low projected inflation the rebound will also depend on the speed with which service based small and medium-sized enterprises respond to the improved fundamentals. Provided that tourism sector goes back to its traditional performance and with improved global economic conditions attaining average economic growth rates of 5 percent would seem to be within reach.

15. **External accounts are expected to improve in the next couple of years, but only gradually, on account of the global crisis.** The current account situation has deteriorated in 2009 as the global downturn and piracy are expected to constrain exports and tourism earnings in 2009 and 2010. Based on the first six months of 2009, growth in the tourism sector is expected to decline by 15 percent, while tuna exports are projected to decline by about 20.5 percent in 2009 over 2008 and by a further 6.9 percent in 2010. Over the medium term, tourism growth is expected to recover and register around 10-11 percent annual growth by 2012, but projections depend on the rate and extent of recovery in the global economic environment. Tuna exports are expected to grow by about 4.5 percent between 2010 and 2011. Imports are projected to have contracted by about 40 percent in 2009 and are expected to recover slowly, with 11 percent growth in 2010. Over the medium term, net foreign direct investment is projected to stabilize at around 25 percent of GDP over 2011-14. Reserve build-up is expected to continue in 2009 reaching 2 months of import cover by 2011. Given these projections, the current account deficit is projected to reach 30 percent of GDP in 2009 depending on reaching an agreement with private creditors as interest payments will be large if a deal cannot be reached. Even if a deal is reached, current account deficits are not likely to fall below 25 percent during the 2009–12.

16. **The restructuring agreement of Paris Club debt was an important step in the achievement of debt sustainability**. On April 16, 2009 Paris Club creditors granted Seychelles exceptional treatment under the Evian approach, recognizing the strong commitment of the government to reforms and the limited debt repayment capacity of the country.[9] A total of US$140 million of arrears were normalized. Under the agreement nominal claims are reduced by 45 percent in two tranches (July 2009 and 2010) following the second review of the current Stand-By Arrangement and the first review of the successor arrangement in June 2010. The remainder is rescheduled over 18 years with five years grace, with graduated payments. The Paris Club agreement is not tenable on its own, since a formal requirement for the effectiveness of the agreement is securing comparability of treatment from other creditors. The government is in advanced negotiations with non-Paris Club bilateral and private creditors (the majority of which are the holders of a US$230 million bond and a €55 million (face value) amortizing note) and it is expected that most agreements will be reached by end December 2009.

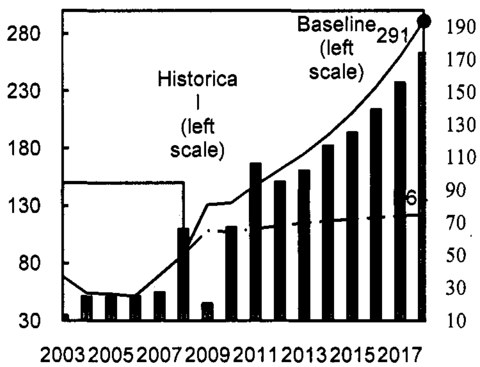
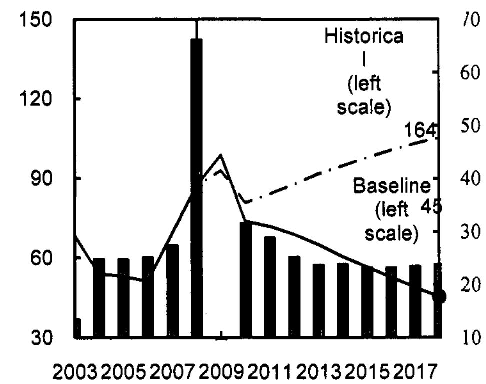
[9] The agreement covered all debt to Paris Club. South Africa, a significant non-Paris Club creditor participated in the meeting and was a signatory of the minutes.

Table 3: External Debt[1]

	End-2008
External debt stock[2]	802.2
Multilateral	57.0
Bilateral	267.4
Paris Club	151.7
Non-Paris Club	115.8
Commercial	477.7
External debt arrears	333.5
Multilateral	0.0
Bilateral	184.5
Paris Club	124.2
Non-Paris Club	60.4
Commercial	149.0

1 Preliminary and subject to reconciliation with creditors. Includes central bank external debt.
2 Includes arrears
Source: IMF

17. **The debt sustainability analysis, based on the Paris Club deal results in a significant reduction in debt ratios, but without further restructuring from other creditors on comparable terms, public debt remains unsustainable.** Based on macroeconomic projections related to the main indicators, a debt sustainability analysis has been completed by the Fund (Annex 5). The first scenario assumes Paris Club restructuring for Paris Club debt and no restructuring for private debt, with the additional assumption that this non-restructured debt (including arrears) is serviced and the financing gaps are closed by a flow rescheduling on market terms. The result is that by 2017 the external debt ratio would increase steadily to 259.9 percent of GDP (Figure 1) and to 326.2 percent of GDP by 2019. Despite strong fiscal adjustment, the analysis also shows that overall public sector debt would also rise, and reach 278.7 percent of GDP by 2017. The second scenario assumes that public external debt (using debt stock at end 2008) is restructured on comparable cash-flow terms. External debt would then decline steadily to 48.9 percent of GDP by 2017 (Figure 2) and remain under 50 percent of GDP through 2019. Total public debt, including domestic debt, would decline to 62.5 percent of GDP over the same period. The analysis also shows that Seychelles's public debt is particularly exposed to current account and interest rate shocks, which put a premium on prudent economic management.

Figure 1: Bound Tests for Baseline Scenario (Paris Club Restructuring and Non-concessional Refinancing)[10]	Figure 2: Bound Tests for Alternative Scenario (assuming comparability of treatment for other creditors), 2003–19
	

Source: IMF Debt Sustainability Analysis

18. **Negotiations with non-Paris Club bilateral and commercial creditors for debt to be restructured on comparable terms are well advanced.** Before the end of 2009 the government is expected to make a formal tender offer to bondholders to exchange outstanding bonds for a new bond on restructured terms. Successfully completing the tender will raise the country's creditworthiness, and allow it to potentially benefit from a proposed second World Bank-financed Development Policy Loan in the second half of 2010.

3. GOVERNMENT'S PROGRAM AND PARTICIPATORY PROCESSES

19. **The government's program is based on a strong political consensus for a new development strategy that emerged in mid 2008, is heavily frontloaded and deals with the underlying causes of the crisis.** President James Michel's popular mandate and endorsement of reforms by the opposition and civil society, including labor unions, have given the government the support needed to break with the past. An initial assessment of the effects of reforms was made by the government during the Seychelles Forum in May 2009, which brought together development partners, multilateral institutions, civil society members, and the opposition. There was a broad endorsement of the new development strategy and results achieved so far, and the president asked for continued donor support, noting that debt relief provided by the Paris Club enhanced the credibility of reforms. The IMF and the government had successfully concluded the second review of the Stand-By Arrangement prior to the forum. During the event, the

[10] External financing gap is assumed to be closed by external borrowing at LIBOR plus 1300bps, with 3 year maturity. Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks (two standard deviations for growth shock). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

Bank presented the main elements of its Interim Strategy Note, which is being submitted to the Bank's Board along with this operation.

20. **The government is consulting widely with the public on the reform program** with meetings held in all 25 electoral districts. The president, all ministers present in the country, numerous principal secretaries, member of parliament and chief executive officers of parastatals, travel to district administration offices to explain the objectives of the program and the measures that the government is taking to ease its short-term impact. The president and ministers answer questions. The principal secretaries and parastatal chiefs are expected to follow up on issues raised and to meet with citizens after the meetings. The meetings generally last 90–150 minutes. The story is regularly broadcast on local media, two or three days after the event and is reported in The Nation newspaper the following day. State House also issues a monthly newsletter which summarizes the government's priority reforms and outcomes so far. The newsletter also presents the main issues discussed by the cabinet during the month. The newsletter is distributed to all government ministries and agencies and is available on the state house website. These measures are proving effective in building consensus among citizens for reform, as demonstrated by the lack of organized public resistance to the changes.

21. **The reform program, as presented to parliament for the 2008 and 2009 budgets, aimed at stabilizing the economy, and contained well-sequenced structural reform measures to foster a market-oriented economy**. The Government is on track to achieving its goal to create a stable macroeconomic environment and transform the role of the state to a provider of public goods, thereby allowing the private sector to take the lead role in commercial production activities. By liberalizing the foreign exchange market fully and by eliminating price controls and some of the most obvious constraints on economic activity, the authorities aimed to boost employment in the private sector—particularly in tourism, banking, and the fishing industry—and to enhance real incomes. The reform program included the following elements:

- Liberalization of the exchange rate regime, elimination of all restrictions, and flotation of the Rupee, tight fiscal policy backed by public employment reforms and a reduction of direct and indirect subsidies;
- Social sector reforms and improved targeting of the social safety net;
- Reduction of the state in the economy through further privatization and improvement of the investment climate;
- Review of the tax regime and elimination of exemptions; and
- Reform of the monetary policy framework to focus on liquidity management based on indirect instruments.

22. **Many of these reforms were initiated in 2008, others were undertaken in 2009, and others are still under way.** Starting with the formulation of the 2009 budget, fiscal consolidation measures that began in 2008 continued. Actual outturn of the 2008

budget shows that the government was able to maintain fiscal discipline, following two years of budget overruns. Public enterprises are now required to operate with limited or no direct subsidies. Downsizing in the core public sector will continue as the reform program is being implemented. The government has already initiated welfare reform and established a better targeted safety net and a reduction in abuse of the current system. The government has also reformed the monetary policy framework and laid the foundation to create a financial system in which policies are implemented with indirect instruments.

23. **During 2008, the government initiated several efforts to reduce the number of employees on its payroll, such as an early retirement scheme, a voluntary departure scheme, and a new hiring freeze.** The Bank's PER indicated potential to achieve a wage-bill target of 6.5 percent of GDP in 2010 without undermining proper public sector management. The implementation of the first phase of reforms has been impressive and has demonstrated government's commitment to reform the public sector.

Table 4: Eliminated Direct and Indirect Subsidies

Action	*Timing*
Abolish fishermen's fuel subsidy coupons.	October 1, 2008
Eliminate indirect universal product subsidies and replace them with a targeted social safety net by enacting the Welfare Agency Act.	November 1, 2008
Eliminate SR 90 per month electricity rebate for households.	January 1, 2009
Raise and maintain Seychelles Public Transportation Company bus fare at operating cost recovery levels.	January 1, 2009
Eliminate implicit and explicit subsidies for Agro Industries, Hatcheries, Seychelles Trading Company, and Coëtivy Prawns.	January 1, 2009
Eliminate liquefied petroleum gas subsidy by the state-owned Seychelles Petroleum Company (about SR 3 per kilogram).	January 1, 2009

Source: Memorandum of Economic and Financial Policies 2008-9, Government of Seychelles.

24. **Recent fiscal reforms also included revenue-raising measures and removed distortionary exemptions**. To boost its fiscal position, the government announced a number of measures, which are summarized in Table 4 and Table 5. Given the global environment, tax revenues are expected to be affected by the growth slowdown, and lower tourism revenues. Reviewing tax policy options and ensuring a tax regime that is both consistent with fiscal targets and supportive of business climate reforms to help the private sector during the transition and downturn in global economic activity have become even more urgent. The authorities launched a fundamental tax reform in June. The medium-term strategy involves a modernization of the tax regime to eliminate sectoral preferences and exemptions, harmonize tax rates, and remove distortions and inefficiencies. A new business tax code and a personal income tax will be introduced in 2010, followed by a VAT by 2012. Major upgrades to tax administration are also in process, supported by continued technical assistance from the IMF. The IMF will be assisting the authorities by undertaking a detailed review of key issues and proposing

policy measures to deal with them. The Government continues to be on track with the implementation of all fiscal measures as documented in the IMF's first and second reviews of the Stand-By Arrangements.

Table 5: Revenue-Raising Measures in the Macroeconomic Reform Program 2008

Action	*Timing*
Raise and harmonize taxes on local and imported cigarettes to SR 500 per 200 cigarettes.	October 1, 2008
Introduce 10% withholding tax on interest income for residents.	October 1, 2008
Extend goods and services tax (GST) to all telecommunications companies.	October 1, 2008
Announce the introduction of 15 percent GST on residential rental income, effective January 1, 2009.	October 10, 2008
Announce the removal of the exemption on interest income to companies (Tax Act), effective January 1, 2009.	November 1, 2008
Reintroduce GST on locally produced soft drinks.	November 1, 2008.
Raise GST on tourism services from 7 percent to 10 percent.	November 1, 2008
Raise specific taxes and excise tax rates for locally manufactured and imported alcohol to adjust for inflation.	November 1, 2008
Raise the environmental levy to SR 25 from SR 10 per month per household.	January 1, 2009
Adjust fees, fines, charges, and rents and royalties for inflation.	January 1, 2009
Reinstate GST on liquefied petroleum gas.	January 1, 2009
Raise GST on tourism services from 10 percent to 12 percent.	November 1, 2009
Repeal all provisions for discretionary exemptions in the Trade Tax and Business Tax Acts.	January 1, 2009

Source: Memorandum of Economic and Financial Policies 2008-9, Government of Seychelles.

A. Public Financial Management Reforms

25. **Because budget credibility has been weak in the past, the government is strengthening the public financial management framework.** Budget outturns have tended to exceed the approved appropriation at the start of the fiscal year by an average of 22 percent per year during 2005–07. With the exception of spending on wages and salaries in very recent years, the budget was exceeded across the board. A key reason was that the macroeconomic assumptions underpinning fiscal policy analysis and budget

preparation are not prepared systematically or used consistently.[11] As a result, the macroeconomic framework and budget framework are internally inconsistent, and various revenue and expenditure items are not prepared using consistent macroeconomic assumptions. Another major reason has been that past budgets did not include sector ceilings, and ministries often exceeded their allocations.

26. **In addition to changing its budgetary processes, the government has created a new unit that will be responsible for producing internally consistent projections of main macroeconomic aggregates for budget preparation.** Previously, no unit had central responsibility for preparing projections of relevant macroeconomic variables, such as GDP growth, inflation rates, exchange rate, interest rates, or unemployment. The new unit is responsible for providing binding inputs to the 2010 budget formulation process. The 2009 budget has been consistent with the macroeconomic program and includes binding sector ceilings to ensure that the country's fiscal consolidation will be sustained. The government is continuing to consolidate the budget consistent with the definitions in the IMF's Government Finance Statistics Manual and the recommendations of the IMF.

B. Public Sector Reforms

27. **Public sector reforms aim to transform in an efficient manner the role of the state to one of provider of public services and goods and to improve governance.** Public sector reforms underpin the economic reform program and are critical in achieving fiscal stability. Of priority is the reform of public administration and civil service. Given the nature of the adjustment needed, a two-pronged approach is being followed: (a) transition from across-the-board retrenchment programs to a more strategic approach that takes into account the functions undertaken by the state and the way in which these functions are provided, and (b) wage system reform to ensure the public sector retains qualified and competent staff. The second component is the reduction of the role of the state in the economy. This goal will be achieved by first of all improving the government's oversight of the parastatals and by privatizing government's holdings in commercially-oriented enterprises to enable the private sector to assume the lead role in the economy. Reforms in this area are necessary to achieve fiscal sustainability and limit contingent liabilities from the public sector. They include policies to better exercise the ownership of the state. The third component is the improvement of overall governance. Although the country's overall ratings based on Transparency International Corruption Perceptions Index are at levels comparable to Greece and Italy, a recent assessment by the United Nations and the IMF's Safeguards Assessment found some important weaknesses. The government is now addressing these (for details, see paragraph 41, below).

28. **The government recognizes the need to safeguard the impressive development outcomes that the Seychelles has already achieved; and to ensure that the most vulnerable are protected during the transition. A targeted social safety net has therefore been established.** The policies to balance out any short-term adverse

[11] The first Public Expenditure and Financial Accountability (PEFA) assessment assigned a "D" rating for Seychelles' budget execution patterns. The Bank's 2009 PER identify additional reasons for this outcome.

impacts of the public sector reform program and how to improve delivery of services in health and education within a sustainable fiscal envelope are discussed in Section C.

29. **The government is committed to gradually reducing the size of the public administration in line with fiscal consolidation targets.** As shown by the PER, the public sector in the Seychelles is large even by small-state standards (about 40 percent of total employment), and government involvement in economic activity has crowded out the private sector. In collaboration with the private sector, the authorities have started a retraining initiative, actively seeking to identify jobs where former public sector employees could be hired. Of those employed in the private sector, about 26 percent work in the hotel and restaurant industry, 21 percent in construction, and 16.5 percent in manufacturing. The fishing and financial sectors are currently not significant employers, with 0.9 percent and 2.0 percent of total employment, respectively. The Seychelles also imports labor, predominantly in the private sector—in the hotel and construction industries and in the tuna-canning factory. Hence, these sectors have considerable capacity to employ local Seychellois. Indeed, private sector employment has increased from 24,000 in April 2008 to 27,000 in April 2009.[12]

30. **Public service reforms initiated in 2008 have already brought about wage-bill savings.** As an initial step to curb projected wage-bill growth, a manpower budgeting exercise was conducted at the end of the first quarter of 2008. The exercise included a cross-comparison of payroll and nominal roll data, including a review of supplements and allowances, self-assessments conducted by public sector organizations, and projected establishments of new posts. The objective of the exercise was to reduce the projected wage-bill "overrun" of SR 17.8 million (3 percent of the 2008 budgeted wage bill). Following the exercise, a projected "deficit" of only SR 4 million, or 0.62 percent of the wage bill, remained.[13] In 2009, the manpower budgeting exercise will be replaced with a strategic review of functions, which the Department of Public Administration will lead. The review is expected to generate additional savings in 2009 to 2011.

31. **The early retirement and voluntary departure schemes were introduced to bring about a more efficient public sector.** The early retirement scheme was introduced at the beginning of 2008 for civil servants over 55 years of age and will remain open until December 2009. Those eligible can apply for the scheme, which pays 40 percent of salary until the official retirement age of 63 years. The voluntary departure scheme offered a voluntary redundancy payout in two installments, the first at the end of December 2008 and the second in mid-2009. In total, the early retirement and voluntary departure schemes have reduced the number of staff members in post by more than the targeted 12.5 percent – the total number of public sector employees fell from 16,615 to 14,075 from April 2008 to April 2009, a reduction of 15 percent from 2008 levels. A preliminary review by the Department of Public Administration, estimated potential total wage-bill savings from the early retirement and voluntary departure schemes at approximately SR 100 million for 2009, or approximately 14.7 percent of the total wage

[12] National Bureau of Statistics employment data.

[13] This figure compares to an execution ratio of 99 percent in 2007 and 110 percent in 2006.

bill (2008 budget). The longer-term effect of the voluntary departure scheme in particular will be higher because part of the redundancy payout for staff members who accepted the offer in 2008 is paid from the 2009 budget. Current estimates project the wage bill to fall from 10.2 percent of GDP to 7.5 percent of GDP from 2007 to 2009.

32. **The government, with the assistance of the Bank, is developing a framework to achieve the medium-term rationalization objectives so that the Seychelles will be able to modernize its public administration without compromising its quality.** This framework includes taking measures to rationalize the structure of line ministries, outsourcing certain service functions (and stimulating the development of the private sector to take over those functions), and considering alternative service provision methods. In addition, reforms to the public sector wage system are planned to enhance transparency and to better integrate performance elements in the wage system. Initial reviews of eight ministries were undertaken from October to December 2008 to (a) identify potential efficiency gains and (b) identify functions that could be transferred to the private sector or to nongovernmental organizations. The methodology and results of these reviews are documented in the 2009 PER. In a summary report, the Department of Public Administration highlighted that the government has begun implementing a significant number of the proposed PER recommendations. Where organizational changes have already been made, staff members have generally taken the voluntary departure option. Table 6 reflects the cumulative effect of the rationalization efforts so far. Continuing the implementation of organizational reforms is important, including effectively changing the status of organizations that will fall under alternative service delivery arrangements. As noted, although several key changes have been introduced, status changes of other organizations will require additional time and effort.

Table 6: Estimates of Wage-Bill Savings Measures

	Savings from Manpower budgeting exercise		*Savings from early retirement*[a]		*Savings from voluntary departure scheme (including the effect of ongoing rationalization efforts)*	
Year	*SR million*	*% of wage bill*	*SR million*	*% of wage bill*	*SR million*	*% of wage bill*
2008	13.8	2.3	0		−11.5	−2.0
2009	0	0	14.4	1.9	86.0	12.8
2010	0	0	14.4	1.9	101.0	15.0

Source: World Bank staff estimates based on 2008 wage-bill levels, Ministry of Finance data.

a. Based on Department of Public Administration data, received in January 2009, on uptake of the voluntary departure scheme.

33. **In this context, the government has issued a clear policy document on further public administration reforms.** The Memorandum of Action Public Administration and Public Sector Reforms outlines the principles of review of functions, the rationale for seeking alternative service delivery mechanisms, and the way in which these mechanisms will be managed, as well as what type of functions will be considered for private provision. In the latter case, this effort relates both to internal service functions (cleaning, cooking, security guard services, and the like) and to service delivery

functions. These reforms would ensure the reform process goes beyond a one-time set of measures and instills a new way of management in the public sector. It would also allow the Department of Public Administration and the Ministry of Finance to manage and track reforms more easily and effectively.

34. **Fundamental reforms of public sector pay are planned.** To ensure that the remaining posts in the public sector can attract and retain qualified staff, the government is developing policies to reform the current system, which lacks transparency in wage setting because multiple allowance schemes are used, such as periodic allowances and public service supplements. As a result, the wage system is neither efficient nor transparent. It is not a competitive wage system that attracts and retains qualified senior staff. In short, these features arise from (a) including a large number of categories of staff; (b) setting artificially low base-wage levels for senior staff members, usually to give the impression of egalitarianism; and (c) fragmenting pay composition. Such wage systems typically lack transparency, are costly to administer (because payroll needs to take into account 10 or more components), are open to abuse, and make pay levels unpredictable for staff members. The compression ratio for current *real* salary levels (lowest paid staff to the average permanent secretary) is approximately 1:6, which is at the lower end of what would constitute an acceptable compression ratio in international comparative terms. The government is revising the wage grid following a fiscal impact assessment to ensure that this ratio is feasible in the near future. The current plan is to redesign the wage grid and other allowances and benefits in 2009.

35. **The Seychelles is taking measures to increase the market orientation of the economy and to support private sector development**. Although the Seychelles undertook some reforms in the mid-1990s to increase the market orientation of the economy, government controls continued to be widespread and parastatals dominated a number of sectors. The government is now moving in two main areas to reduce the state's role and to enable the private sector to take the lead in the economy. First, the government is accelerating its privatization program. Second, the government is taking measures to move from direct controls to transparent regulation and to improve the business environment. Considerable progress has occurred in privatization of parastatals, and the government in 2009 will continue executing its privatization program. Although some measures have already been implemented to improve the investment climate, fully achieving this objective is possible only in the medium term, pending the determination of key constraints to private sector development. The government has requested assistance, and the Bank in mid-2009 prepared the "Administrative Barriers to Private Sector Development and Business Environment in the Seychelles."

Box 1: Former Seychelles Marketing Board

An act of parliament founded the Seychelles Marketing Board (SMB) in 1984 to assure a steady supply of essential commodities at stable prices. Its chairman was the president of Seychelles. Until recently, its managing director doubled as the economic advisor to the president. Over the years, the SMB acquired growing monopoly powers and branched into other activities. SMB was a conglomerate with more than 1800 employees and consisted of:

- Import and distribution of "essential commodities" under a monopoly concession from the government. The definition of "essential commodities" encompasses some 48 goods including different categories of rice, edible oils, sugar, flour, meat and vegetables. Most of them had not been changed since the mid 1980s. SMB has developed long term relationships with a number of producers including Unilever, Gillate, Nestlé, and Smith Klein. To fulfill its mission of providing secure long term supplies of essential goods, SMB had priority access to foreign exchange from the central bank.

- Imports and distribution of commodities in competition with the private sector, such as imports of building materials, retail outlets and franchises.

- SMB's manufactured product lines included consumers goods (liquid long-life milk, fruit juices, fruit yogurt, tomato and other sauces, orange squash, jams and honey, processed meats, broiled chicken, prawns, and tea and coffee products); and producer goods (livestock feeds, shrimp feeds, and day- old chicks). The manufacturing division had six separate units: (1) poultry hatchery (broiler and layer day-old chicks); (2) Animal feed factory; (3) abattoirs (poultry and red meat), (4) Foodpro (processed meat); (5) Agro industries (long-life packaging and bottling); (6) Bois de Rose factory (water, snacks, soap, pasta). In addition the division had a quality assurance supporting unit and a joint venture, Kreolor, that manufactures gold jewelry and crafts) with an Italian entrepreneur. The criteria for deciding to manufacture in the Seychelles through SMB include (1) food security; (2) quality; (3) foreign exchange savings;[14] (4) value adding; (5) introduction of new technology in the country; (6) skills that can easily be mastered; and (7) job creation.

- Exports, in particular export of prawns.

- SMB had an agricultural division that produced hydroponic vegetables and flowers and imported and repackaged coffee. It exported some tea.

- SMB had a management unit, a finance division, a marketing division, and a human resources division and a support services section for the entire group. SMB had two large warehouses with 18 chillers of different size.

Well before the introduction of the IMF-supported reforms, the government decided to dismantle SMB. As a first step, assets formerly belonging to SMB were transferred to four separate new companies: Coetivy Prawns Limited, Seychelles Agro Industries Limited, Seychelles Hatcheries and Feeds Limited, Seychelles Trading Company Limited (STC). The liabilities of SMB were absorbed by the government.

The second phase of this process involved the sale or liquidation of the new entities. Coetivy Prawns Limited was liquidated in November 2008. Seychelles Agro Industries Limited was sold to local investors in early 2009, whilst Seychelles Hatcheries and Feeds Limited were sold to a farmers' cooperative, also in late 2008. STC has taken over a reduced role in the importation of food, and remains in state hands.

[14] If foreign exchange savings were achieved by importing the parts rather than the manufactured product, notwithstanding the Rupee costs associated with manufacturing in the Seychelles, the decision was made to manufacture it locally.

36. **Governance of public enterprises is being improved, and a medium-term plan for the sale of remaining large enterprises is being developed.** The Bank will be supporting the government with analytical work and technical assistance in identifying solutions. Initial reviews found a complex group of 44 enterprises with varying degrees of government involvement, exposure, and oversight. The sector has received increasing transfers from the budget in recent years (about 4 percent of GDP), while dividends back to the government have decreased over the same period. In line with the Bank's recommendations, the government is adopting a standardized approach to governance and accountability relations. This would mean one body for agency-type institutions (regulatory and inspection functions), one for non-commercial state enterprises, one for commercial state enterprises with over 50 percent government ownership, and one for commercial state enterprises where the government has a minority shareholding, until government shares in these enterprises were divested. These reforms would significantly reduce government exposure to risks and contingent liabilities and facilitate a more systematic approach to reforming the sector. The government plans to establish this framework by mid-2009. Audits now being carried out on the largest firms including those of several state-owned enterprises that will strengthen the Ministry of Finance's ability to address concerns.

37. **The privatization of parastatals and publicly-owned banks accelerated in 2007 and 2008.** The government initially started transferring public assets to the private sector in 2005 with the sale of State Assurance Corporation of Seychelles in June 2006 to a strategic investor and to the public. In 2007, the Government began a public information campaign and made efforts to build consensus for privatizing large public enterprises. Current government plans give priority to those state-owned enterprises that have a distortionary effect on the economy and those that are causing a net fiscal drain. One such parastatal is the former Seychelles Marketing Board (SMB), a state trading conglomerate and supplier of basic consumer goods, which was restructured in March 2008 by discontinuing some of the operations and separating the rest of the activities into separate entities. Eight profitable business units of the former SMB were privatized and all loss-making units were liquidated in 2008. The government still owns the Seychelles Trading Company, which operates eight business units on fully commercial basis. The government is committed to privatizing these units in 2009.

38. **The Seychelles has made significant progress on governance-related matters in 2008 and in early 2009.** In August 2008, the government adopted the Public Officers Ethics Act, which provides for a code of conduct and ethics for all civil servants, requiring financial declarations and prohibiting conflicts of interest. In November, the president and each member of the cabinet signed and submitted declarations of their assets to the ethics commission as required by the newly enacted law. Based on Bank advice, the government prepared the Public Procurement Act modeled on the COMESA standard, which is a major reform supported by this operation. Parliament approved the act in December 2008. The law standardizes procurement procedures within the government by modernizing and harmonizing regulations and procedures. Transparency, competitiveness, and efficiency have been enhanced, and tender procedures now ensure

competitive bidding through strict and uniform requirements regarding minimum number of bidders and public disclosure of all bills. In December 2008, a new Public Debt Act established procedures and defined roles and responsibilities of agencies involved in debt contracting and management. The law authorizes the Ministry of Finance as the only body to contract debt. The deficiency in the previous law contributed to building debt to unsustainable levels.

C. Social Sectors and Social Protection Policies

39. **A key reform objective of the government in the health and education sectors is improving efficiency without undermining the achievements of the past.** Reviews undertaken by government agencies and the Bank's PER show considerable potential to improve efficiency in both health and education. This improvement can be achieved by reducing spending on service delivery areas that are underused and by reducing expenditures on cash transfers that are not well targeted. However, achieving expenditure savings within the sector would not automatically imply a reduction in overall sector spending because a healthy and well-educated labor force is critical for long-run growth. The authorities are aware that low value for money of investments in these sectors, particularly in education, must be addressed for the Seychelles to develop and achieve its developmental aspirations. The government is planning, therefore, to invest any savings beyond the wage bill savings generated by reforms in improving outcomes in both of these sectors.

40. **Reforms are being introduced to substantially reduce the health sector wage bill by identifying and releasing staff members in areas of low productivity**. Half of government health spending is for wages and salaries, which is high, especially considering that expensive tertiary-level care (with highly paid medical staff) is not provided in the country. The number of health sector employees has been increasing, as has the share of ancillary staff members (which is also high compared to other countries). Additionally, average monthly incomes for public workers in the health sector are high compared with those of workers in the rest of the public sector. In some cases, the medical staff is not working at full capacity; for example, physicians in public hospitals see on average four hospitalized patients per week. The government is planning to both (a) contract out core services and (b) reduce staff in unproductive positions. Preliminary analysis conducted for the PER suggests staff reductions could reduce the health sector wage bill by almost SR 13 million per year, reflecting 6.4 percent of 2007 total government health spending.

41. **Low use rates, comparable to European levels, characterize the health sector, and new measures are being adopted to rationalize facilities.** The share of the total health budget spent on hospital care (46 percent) is very high, especially when compared with that of European countries with more sophisticated hospital care. The Seychelles has an oversupply of health care facilities and more hospitals and beds per capita than other middle-income countries. It has more hospital beds than needed, as evidenced by extremely low occupancy rates in hospitals off Mahé Island and in wards within the main hospital in Victoria. To increase the average acute care occupancy rate in hospitals to 80 percent, the government is advised to close about 50 beds initially. In addition, the

government plans to contract specialized secondary and tertiary care in the country, including open heart surgery, renal transplantation, hemodialysis, and cosmetic surgery, thereby reducing spending on overseas treatment. The Ministry of Health and the Department of Public Administration are undertaking a review of facilities and staffing needed.

42. **Reforms in education aim to reallocate resources to generate savings that will be used to improve quality and results without cutting the overall spending envelope.** Recent reviews of the education sector have raised concerns about quality and examination results. Many candidates do not pass and are particularly unsuccessful in mathematics. Given the relatively modest—and recently declining—government expenditures on education, government spending on education will not be cut. Instead, expenditure improvements will be largely reinvested in sector reforms aimed at increasing quality of education and education outcomes. As is typical, public education spending is principally on personal emoluments for school-based staff members. This area is also where there is the most potential to improve efficiency of spending by removing unproductive posts. Strategic staffing reductions will be introduced, and core and non-core services will be contracted out. The government has already reduced office staff in the Ministry of Education, and by contracting out school cleaning and meal provision, it has been able to reach the target of a 12.5 percent reduction of the wage bill. Savings generated from these reforms will be spent on measures to improve the quality of education, and the Ministry of Education will focus on results. It is in the process of developing a new strategy.

43. **A well-targeted social safety net is replacing the costly and inefficient direct and indirect product subsidies.** Over the past 20 years, the government has provided a generous and broad-based social safety net through universal subsidies that proved to be inefficient. Such subsidies also have been a disincentive to sustainable employment in the private sector. Because the initial effects of reforms and exchange rate adjustment resulted in higher prices, real incomes are expected to decline on a one-time basis. To protect the poor, the government has designed a new, targeted social protection system. A new Social Welfare Agency Act was enacted in October 2008, and the government has issued the eligibility criteria. It will provide about SR 1,300 per month, or about US$3.40 per day per single individual. For households with children, a formula-based system is being used. The approach is to protect the most vulnerable with monetary assistance and to go beyond financial transfers to also provide assistance in the form of incentive-to-work schemes. The agency is already assisting people who left the public sector. Applicants receive a response within ten days.

4. BANK SUPPPORT TO THE GOVERNMENT'S PROGRAM

A. Linkages to the Interim Country Assistance Strategy

44. **The proposed DPL is a key component of the two-year Interim Strategy Note that covers the World Bank's program in the Seychelles for fiscal 2009–11.** The Interim Strategy Note aims to support the government's macroeconomic stabilization program in the short run and to initiate the structural reform process in line with the

Seychelles longer-term economic recovery strategy. The proposed DPL is fully consistent with this objective and is the first Bank lending operation after 2002, when the Seychelles fell to suspension status because of payment arrears to the International Bank for Reconstruction and Development (IBRD). All payment arrears were cleared in October 2006. By initiating policy dialogue on main reform issues, the DPL will contribute to development of a longer-term World Bank engagement, perhaps through a four-year Country Assistance Strategy.

B. Collaboration with the IMF and Other Donors

45. **The World Bank has been working very closely with the IMF.** A Joint Management Action Plan guides the joint collaboration of the Bank and the IMF and seeks to prevent duplication of efforts, but it also points to the Bank's independent view of macroeconomic and fiscal policy issues emerging from its own analytic work. Evidence of successful IMF program reviews will be used to judge and determine developments in the reform program. The Bank has been participating in IMF missions, and close cooperation exists at all levels of the two institutions. A joint World Bank IMF mission will take place at the end of October 2009 as the intension is to put in place a three year Extended Fund Facility program in late 2009.

46. **A number of donors operate in the Seychelles, and they have capacity-building programs.** Because of the external debt arrears situation, the European Union (EU) engagement has been limited. The only EU member states with a diplomatic presence in the Seychelles are France and the United Kingdom. The French government cooperates in the environmental, educational, and cultural fields and provides long-term technical assistance, particularly in the fisheries sector. The Seychelles signed a regional cooperation agreement with Réunion Island (France) that will allow sharing of a wide range of technical expertise in areas such as health, training, environment, and natural disaster management. Umeå University in Sweden has signed a memorandum of understanding with the Seychelles to enable students, teachers, and in-service personnel from the Seychelles to benefit from studies and training in Sweden, while Germany, Greece, the Netherlands, and Spain have been providing scholarships to Seychelles citizens. Other donors are involved in grants and soft loans in housing finance. The Bank team has had discussions with the EU representatives in the Seychelles and briefed them about the DPL. China has a number of capacity-building programs. A fisheries agreement with China was signed in June 2006. India has had longstanding technical and financial cooperation with the Seychelles, and the Seychelles has a number of scholarships and exchanges with Indian universities. Through the Pan African Network System, India is establishing a satellite terminal station to facilitate telemedicine. Cuba and Nigeria have bilateral cooperation agreements, and Australia and Japan provided assistance in the context of the 2004 tsunami. There has been an increase in Australian technical assistance provided in the last few months in support of the economic reform program.

47. **The African Development Bank (AfDB) is an important partner.** The AfDB approved a €15 million economic governance reform program loan, signed into effect on August 25, 2009. The AfDB began operating in Seychelles in 1978 and has since

approved 19 operations comprising 14 projects, one study, three lines of credit, and one emergency assistance operation, amounting to 85.6 million units of account.[15] No approvals occurred between 2001 and November 2006, when the country was under sanctions, except for an emergency assistance operation worth US$500,000 that was granted in January 2005 to deal with the tsunami. Cumulative approvals net of cancellations as at March 13, 2008, amounted to unit of account 65.23 million, of which 67 percent was from the AfDB window, 16 percent from the Nigeria Trust Fund window, and the remaining 14 percent from the African Development Fund window. The DPL team has been working closely with the AfDB, and there is discussion of developing a joint reform program.

C. Lessons Learned

48. **This first DPL benefits from the lessons captured by past evaluations of the Bank's development policy lending experience by its International Evaluation Group**. In particular, (a) multi-tranching contributes to slow program implementation, particularly if it makes the operation overly complex; (b) classic ex-post conditionality weakens reform ownership; and (c) rapidly changing policy environments are difficult to anticipate in loan design. These lessons, as well as the latest thinking on DPLs for well-performing middle-income countries, have influenced the design of this operation. Hence, particular attention has been paid to two main factors. The first is up-front action instead of ex-post conditionality. This DPL is based on prior actions, and the government has demonstrated its commitment to reform by fulfilling policy reforms supported by this operation. The second is the provision of support to a reform program instead of specific conditionality. This DPL supports the government's reform program that was presented to parliament for the 2008 and 2009 budgets.

49. **Useful lessons also arise from the AfDB Group interventions in the country.** Although operations, particularly in the social sectors, had made important contributions in helping the government to achieve the impressive results registered in education and health, a 1998 Country Portfolio Review revealed that macroeconomic imbalances adversely affected the AfDB's operations in the country, mainly because of the shortage of foreign exchange. As a result, some AfDB-financed projects had difficulties obtaining imported inputs. Moreover, some projects incurred cost overruns because of delays in obtaining foreign exchange approvals from the central bank. 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 problem of the country's capacity to timely execute projects. Several projects had been adversely affected by the shortage of adequately trained personnel in the country. Another issue was the need for better coordination of AfDB projects among the Ministry of Foreign Affairs, technical line ministries, and executing agencies, which was further compounded by the shared oversight responsibility for AfDB projects between the ministries of foreign affairs and finance.

[15] Unit of account 1 = US$1.51678 as at January 5, 2005.

Box 2: Good Practice Principles on Conditionality

Principle 1: Reinforce ownership

The proposed operation is based on the Government's aspirations to resolve the unsustainable macroeconomic imbalances of the 1990s and create an environment for a private sector led economy. Moreover, the president's consultation campaign being carried out throughout the country demonstrates clear commitment of the Government to the reforms. The successful implementation of the IMF-supported Stand-By Arrangement and interest of the government in a follow-on program under the Extended Fund Facility is further evidence of commitment to the reform agenda.

Principle 2: Agree upfront with the government and other financial partners on a coordinated accountability framework

The DPL program is summarized in an agreed policy matrix in annex 2. The matrix contains both policy actions and indicators of expected outcomes. The Ministry of Finance is responsible for monitoring progress with the agreed reform program and for coordinating the actions of the other agencies and ministries involved. The Bank consults regularly with other development partners in the Seychelles to ensure that aid is as effective as possible.

Principle 3: Customize the accountability framework and modalities of Bank support to country circumstances

The accountability framework is based on the 2009 Bank Public Expenditure Review, a report by IMF's Fiscal Affairs Department on budget management, and the IMF's staff reports related to the Stand-By Arrangement, and the central bank's safeguards assessment. The accountability framework has also been influenced by the 2008 PEFA assessment.

Principle 4: Choose only actions critical for achieving results as conditions for disbursement

The proposed DPL operation contains only six agreed prior actions and 8 milestones. All are focused on achieving critical improvements in fiscal management and policy.

Principle 5: Conduct transparent progress reviews conducive to predictable and performance-based financial support

Progress reviews of the policy actions in specific areas and of the operation as a whole are held regularly with government officials from ministries and agencies participating in the project. These reviews allow the Bank to update the matrix on the basis of actual and expected performance and to communicate to the government what is essential to enable the approval of the operation. As a one-off single tranche operation, there will be a review of performance presented in the Implementation Completion and Results Report. Monitoring indicators and outcomes were discussed and agreed with the government and draw on the government's own monitoring and evaluation efforts.

D. Analytical Underpinnings

50. **A number of recently produced studies supported this operation**. The Bank prepared an initial PER in 2009 on the basis of fieldwork in 2008 and 2009. The Bank also benefited from the EU-funded PEFA assessment which was prepared in 2008. The Bank produced a policy note "Administrative Barriers to Private Sector Development and Business Environment in the Seychelles" in 2009. This updated the 2006 Investment Climate Review prepared by the Foreign Investment Advisory Service. The Cabinet has endorsed the document and a high level task force has been established to ensure the implementation of the recommendations of the policy note. The Bank team also benefited from the IMF's work, including staff reports related to the Stand-By Arrangement, the first and second reviews of the arrangement, the central bank's safeguards assessment, and a report by IMF's Fiscal Affairs Department on budget

management. The Bank and Fund staffs have regularly updated debt sustainability analyses during 2008 and 2009 as the debt situation evolved.

5. PROPOSED OPERATION

A. Description of the Operation

51. **The proposed DPL is a one-tranche operation supporting the implementation of the initial phase of the Seychelles government's comprehensive stabilization and structural reform program**. This loan is conceived as a one-time operation, based on passage and implementation of fiscal stabilization and public financial management reforms that will achieve substantial measurable outcomes by the end of 2009. It is also designed to facilitate policy dialogue with the Seychelles authorities and establish a framework that may eventually be followed up by future DPLs under a programmatic framework. The borrower would be the Government of the Seychelles, and the total proposed amount of the loan is US$9.0 million equivalent, to be made available when the loan becomes effective.

B. Objectives, Themes, and Policy Areas

52. **The objective of the proposed operation is to help the Seychelles establish a stable macroeconomic environment and sustainable fiscal framework.** This will be achieved through fiscal adjustment underpinned by public administration and civil service reforms and a reduction of the role of the state in commercial activities. The operation also supports establishment of a targeted social safety net. By providing foreign exchange in a timely manner, the operation will directly contribute to stabilization of the economy during a period of global slowdown and will help in building public support for the reform process. These measures are integral to ensuring sustainable private sector employment and broad-based growth in the Seychelles. Table 7 presents the specific measures undertaken as prior actions for presenting the DPL to the IBRD Board of Directors. Annex 2 presents the development policy loan matrix with expected operation outcomes.

Table 7: DPL supported policy actions

Policy objectives	Policy action
Strengthen budget management	• **The Borrower has adopted the Government Finance Statistics classification for preparing the budget and for monitoring budget performance, thereby enhancing the credibility of budget execution** • Ministry of Finance established binding ministerial expenditure ceilings to prepare the budget, starting in 2008. • Fiscal monitoring reports issued quarterly starting in 2008.

Improve governance and accountability of public procurement	• **The Borrower has enacted the Public Procurement Act, 2008, modernizing and harmonizing procurement regulations and procedures, enhancing transparency, competitiveness and efficiency, and introducing strict and uniform requirements governing competitive bidding procedures.** • National Tender Board established January 29, 2009.
Create a more efficient civil service and public administration	• **The Borrower has through a combination of early departure and voluntary retirement schemes met the 12.5 percent target for reducing employment in the public sector.** • **The Borrower has secured cabinet approval of the Memorandum of Action on Public Administration and Public Sector Reform Policies, the objective of which is to bring about a modern and efficient administration, consolidate public sector reforms and roll-back the role of the government in commercial activities.**
Establish a well-targeted social safety net	• **The Borrower has enacted the Social Welfare Agency Act 2008, introducing a simple and effective program to provide targeted cash assistance to vulnerable segments of the population, and establishing the Social Welfare Agency to administer the program.** • Simple and effective targeting mechanism in use starting in 2008 to provide assistance to those who lost their jobs and other vulnerable people.
Reduce the role of the state in commercial areas of the economy	• **The Borrower has restructured the Seychelles Marketing Board, discontinuing some of its operations and separating the rest to be managed as separate units, privatizing the profitable business units and liquidating the loss-making ones.** • Eight profitable business units of the former SMB privatized in 2008. • All loss making units of the former SMB liquidated in 2008. • Subsidies to public enterprises reduced.

53. **The measures supported in this operation represent important steps toward achieving the medium-term program objectives that the government has defined for itself.** These are summarized in the Statement of Development Policies submitted to the Bank in support of this DPL and are explained in more detail in the government's economic policy frameworks and policy submissions to parliament in support of the 2008 and 2009 budgets. Policy reforms supported by this DPL are expected to contribute to

achieving macroeconomic stabilization in the short run by ensuring that fiscal policies are consistent with the IMF program. Additional measures are likely to be needed to reach those objectives over the medium term, and obtaining debt relief from the private creditors at similar terms to the recent Paris Club deal will be critical for debt sustainability. In the near term, success of the reforms supported by this loan will be evaluated on the basis of outcomes measurable at the end of 2009 and 2010.

54. **Strengthening budget management involves introducing principles of sound fiscal management and bringing fiscal budgeting and accounting in line with international best practices.** The Government faces a number of challenges, namely: (i) strengthening adherence to the existing legislative requirements within a traditionally weak financial management framework; and (ii) improving budget management practices. To date the government has strengthened budget credibility by adopting standard Government Finance Statistics (GFS) classification for preparing and monitoring budget performance. Timely, quarterly reports are now being prepared to allow the government to monitor budgetary outcomes and ensure consistency with the macroeconomic framework. Nascent macroeconomic modeling has started with a team from the Ministry of Finance, the Revenue Commission and the central bank.

55. **Further work is planned to improve consolidation of extra-budgetary funds with the Social Security Fund expected to be brought into the 2010 budget.** Next steps also include better coordination between capital budget plans and recurrent cost implications. In budget execution progress has been made with improved cash management and the setting up of a Treasury Single Account. Anticipated results from improved public financial management are achieving the primary fiscal surpluses set out in the Government's reform program, consistent with improving the macroeconomic stability and debt sustainability objectives.

56. **In the area of public administration and civil service reform, the government's objective is to bring about a modern and efficient administration without undermining the capabilities of the state and without causing sharp increases in the overall unemployment situation.** To improve efficiency in the public sector, the government has implemented several programs to deal with excess staff such as the voluntary departure and early retirement schemes. These programs have already achieved 12.5 percent targeted public service staff reductions. Non-core state functions such as provision of school cleaning and maintenance services have already been outsourced to the private sector and standard bidding documents to roll-out the contracting-out approach have been developed. The government has undertaken a review of core State functions, and as per the prior policy action approved an action plan for implementing the results of these functional reviews.

57. **Next steps include contracting out all cleaning and security services and school meal provision in 2010.** There have also been on-going reform efforts to develop a revised wage grid. This would ensure greater transparency in public sector wages and result in a compression ratio consistent with attracting and retaining qualified staff at senior levels of the civil service. The government has developed several active-labor market policies aimed at assisting former public sector workers with retraining and

redeployment in the private sector, especially the tourism sector. To date 115 people have applied and 85 attended such training courses. Policy reforms launched to date are expected to lead to rapid growth of the private sector and hence employment opportunities for those who have left the public sector. To date an additional 3,000 jobs in the private sector have been registered in April 2009 over April 2008.

58. **The privatization program aims at reducing government's contingent liabilities, rolling back the State from commercial activities and increasing the role of the private sector to lead economic growth.** To date reforms have largely centered around improving governance and monitoring of the public enterprise sector through more effective oversight mechanisms and effective Board membership. The principle of removing the State from commercial activity is accepted, and to this end the government has restructured the Seychelles Marketing Board into 16 commercial units. Eight commercially viable units have already been sold, and all non-viable units have been liquidated. The remaining units have been combined in an umbrella company still with government ownership called Seychelles Trading Corporation. Since the beginning of 2009 STC has been successfully, commercially managed without government subsidy.

59. **More broadly, the government is developing a strategy for dealing with the public enterprise sector including commercial and regulatory bodies in which government has full or partial ownership.** The Public Enterprise Monitoring Unit has already been established and has developed a strategic plan. The next steps for SMB/STC are to transfer the remaining commercial entities of STC to the private sector. The government proposes to assess the effectiveness of the public enterprise reform program by measuring the size of the private sector in GDP; and the reduction in subventions to the broader public sector. Furthermore, the elimination of subsidies and privileges to the government-owned commercial interests was creating a distortion and hampering private sector activity. The reduction of government subsidies has helped to level the playing field for the private sector. Anticipated results are a more vibrant private sector as indicated by the private sector contribution to GDP referred to above.

60. **In the social protection area, the government has already established a new Social Welfare Agency,** which has been fully operational since January 2009. From an initial 900 households receiving welfare payments, there are as of June 2009 3150 households receiving the targeted cash assistance. Already, the Agency has developed robust verification systems to check claimant's information and has access to a variety of other government department databases for validation purposes. The Agency adopted a formula-based means test that is simple and transparent. The average household on welfare is receiving SR 1,300 per month. Next steps are to review the efficiency and effectiveness of the new welfare program. While the impressive ability to verify claimant's information gives policy-makers little concern that there are fraudulent cases, there is some concern to ensure that all eligible households are indeed receiving their entitlements. The World Bank under the second PER is proposing to assist with this analytical work.

61. **The government is committed to implementing the next steps in the reforms of the policy areas supported by the DPL.** Maintaining momentum on reforms in four

key policy areas would be important: (a) public financial management; (b) public administration; (c) public enterprise reform and privatization and (d) administrative barriers that hamper the investment climate.

62. **All these policy areas are under consideration by the government who are planning next steps in the reforms, and are areas where both the World Bank and the IMF have planned to provide analytical support.** In public financial management, the necessary next steps are based on analysis developed by the IMF's Fiscal Affairs Department and include strengthening the process by which the sector ceilings are developed based on existing and new policies, rather than current year's actual spending. In public administration reform, implementation of the Memorandum of Action will be key, including the important step of contracting out non-core government functions. In public enterprise reform, steps continue to be taken to strengthen the governance and monitoring of the government's state-owned enterprises and parastatals and further work to assist the authorities is planned under the Public Expenditure Review II. Furthermore, the PER II is also expected to assist with a review of the effectiveness of the new social protection system to ensure that all eligible households are receiving support. New policies targeting improvements in the business climate are also needed and are on the government's radar. World Bank and Foreign Investment Advisory Service (FIAS) advice on next steps is planned for October 2009.

6. OPERATION IMPLEMENTATION

A. Poverty and Social Impact

63. **The impact on real incomes and hence household consumption are likely to be negative in the very short run, although the stabilization of the Rupee and rapidly falling inflation has begun to mitigate such effects.** Real wages have fallen between October 2008 and June 2009 due to high inflation caused by the devaluation, and as households cope with the immediate foreign exchange adjustment resulting in higher food costs. As noted this impact has been a one-time adjustment because households initially have Rupee-denominated incomes and predominantly import-related expenditures. The appreciation of the Rupee since April 2009 and the fall in inflation to single digits during 2009 are both indications that the initial impact of the reforms is now behind the Seychellois. Civil society members and other development partners attending the Seychelles Forum held in May 2009 welcomed this development. Official data however do show that there has been an increase in the number of private sector jobs from 24,000 to 27,000 between April 2008 and April 2009.

64. **The welfare impact on households in the near term is being mitigated with a well-targeted social safety net, government assistance to place the unemployed, and retraining**. As previously noted, the government has designed a new means-tested welfare system to mitigate the impact of the reforms on the poorest. Social security contributions will continue to fund statutory benefit schemes detailed in the Social Security Act. About half of the former staff of the public service has found new employment. The government is actively involved in placing people, and a task force headed by the Minister of Employment and including the principal secretary of the

Ministry of Employment, the principal secretary of the Department of Public Administration, and the chief executive officer of the National Human Resources Development Council reports to the cabinet weekly and briefs the minister of employment about the employment situation. The Ministry of Employment is coordinating this work. It has contacted most of the people who became unemployed and explained how they may apply to the new welfare agency. Along with the National Human Resources Development Council, the ministry is coordinating the retraining program currently run by the Seychelles Institute of Management and the Seychelles Tourism Academy. As of the end of May 2009, the program had more than 250 trainees. The ministry is also planning to work with the Seychelles Investment Bureau to train people for attracting foreign investments and for the financial services industry.

65. **The most recent draft report on the household income/expenditure survey for 2007 indicate that less than 1 percent of the population lives on less than US$2 per day and less than 7 percent live on less than US$3.5 per day.** However, when using the national thresholds for the share of population able to afford a balanced diet or the national food poverty line, the 2007 household budget survey shows that 18 percent of the population is estimated to be living below the national food poverty line of SR 38.9 per adult per day. This estimate is roughly equivalent to US$6.00 per day. When factoring food and non-food basics (including shelter and non-replaceable utilities) into what is called the national basic needs poverty line, the survey shows that an adult needed SR 50 per day or around US$7.5 per day. These are very high thresholds for international standards. The latest poverty assessment done on Seychelles, the 1994 World Bank report entitled "Poverty in Paradise" (Report No. 12423 SEY), characterized the poor in four groups: (a) single women-headed households, (b) households headed by a school drop-out; (c) households headed by people without marketable skills, and (d) households headed by retired people on limited pensions. The distribution of income is also unequal with a Gini Coefficient of 0.40 in 2007, roughly similar to Mauritius and Ghana, both with Gini of 0.39. The Gini, however, has declined overtime from 0.47 in 1984. The government may consider a new household survey with support from the World Bank given the new price structure and evolving earnings situation. Findings are expected to be compiled in an updated poverty assessment report which will allow the authorities to better assess the impact of reforms and contribute to possible improvements to the social safety net.

66. **Although the downturn in economic growth and civil service reform are likely to affect employment, one of the positive features of the current situation is the very low rate of unemployment in the country.** The total number of employees in the formal sector increased by 5.2 percent from 2006 to 2007, and by a further 3.7 percent in the first quarter of 2008. Employment increased in the private, parastatal, and government sectors from 2006 to 2007 but fell in government and parastatal sectors during the first quarter of 2008. Although the private sector accounts for about two thirds of GDP, it employs only 59 percent of employees; 15 percent are in the parastatal sector and 27 percent in the government. The labor force profile in the private sector also includes a large number of non-Seychellois, which could adjust to absorb increased Seychellois participation. Stimulating private sector employment is one of the dimensions covered in the Bank's investment climate work.

B. Environmental Aspects

67. Policy actions supported by this DPL are not expected to have significant impacts the environment, forests, or other natural resources.

C. Implementation, Monitoring, and Evaluation

68. ***Executing agency.*** The Ministry of Finance is the executing agency. Other line agencies and decentralized institutions will support the ministry. The Ministry of Finance and the Bank have agreed to monitor progress in the program supported by the DPL in the context of the Implementation Completion Report for this loan and preparations of a new country assistance strategy (programmed for fiscal 2012). The Ministry of Finance is charged with collecting from the appropriate sources the data necessary to assess implementation progress. Reviews by the Ministry of Finance and the Bank team will aim to identify the main strengths and weaknesses of the reform program, to identify possible assistance needs to sustain the forward momentum toward the government's planned medium-term outcomes, and to address possible downside risks.

69. ***Monitoring and evaluation.*** Bank staff has regularly monitored implementation of the policy reform program laid out in table 7. Country capacity for monitoring is strengthened through a grant from the Bank-managed Statistical Capacity Building Trust Fund. An implementation completion report will be issued within six months following the closing date of the operation.

D. Fiduciary Aspects

70. **The government is addressing identified fiduciary issues**. As noted earlier, the Bank has recently prepared a PER, and a PEFA assessment has been supported by the EU. The IMF has prepared a safeguards report and considered the adequacy of central bank's financial management practices. The report found a number of deficiencies pointing to risks in the central bank's safeguards framework. The authorities have already taken remedial measures with respect to some of the issues raised by the IMF. These measures included signing a new contract with external auditors in 2008 and bringing accounts in compliance with international accounting standards. The Ministry of Finance and the Central Bank of Seychelles signed a memorandum of understanding in December 2008 to strengthen and formalize the terms and conditions under which the central bank transacts on behalf of the government. The government will be implementing measures to deal with the rest of the deficiencies identified in the safeguards assessment during 2009. The new Central Bank of Seychelles Act was approved by the National Assembly April 28, 2009 and came into effect in early May. The new financial institutions law was signed by the President on July 9, 2009. This was a condition for completion of the first Stand-By Arrangement review. As noted already, the Seychelles enacted a modern procurement law in December 2008, which was a structural benchmark under the IMF standby program.

E. Disbursement and Auditing

71. **The Bank would make the single loan disbursement to a Designated Account in the Central Bank of Seychelles denominated in Euros. The central bank will credit the Seychelles Rupee equivalent amount to the Ministry of Finance's Treasury Single Account.** The Treasury Single Account centralizes government expenditures and revenues for financing of public spending. Upon its deposit the DPL disbursement will become available to finance budgeted expenditures. The funds will be audited to confirm that they have been received into the Treasury Single Account. The audit will be undertaken by an independent auditor using international auditing standards. The audit report will be submitted to the Bank as soon as available but no later than four months after the date of the Bank's request for the audit through a letter submitted to the Minister of Finance.

F. Risks and Risk Mitigation

72. **External shock vulnerability and the global economic slowdown continue to threaten macroeconomic performance, which may delay the reform program should Government waiver in putting in place a program that can be supported with international financial assistance.** The global economic slowdown could be worse than anticipated, with adverse effects on tourism, growth prospects, and—to a lesser extent—solvency of the banking sector. External financing availability may prove more difficult to mobilize than has been anticipated, and the global financial turbulence may increase the risk of protracted discussions with private creditors, thus compromising IMF, AfDB, and IBRD program financing and debt sustainability (Annex 5). Moreover Paris Club creditors have made the full implementation of their own treatment conditional on the respect of the comparability of treatment with non Paris Club creditors. The risk to the stabilization and reform program is limited in the proposed operation by the focus on fiscal and public sector reforms, where the main policy actions have already been implemented and reform reversal risk is minimal. The measures supported by the operation help achieve fiscal sustainability, including external debt sustainability. The authorities have shown strong commitment to implementing the stabilization program, as demonstrated by the up-front measures already taken and measures outlined in the president's 2009 budget speech. Meanwhile, the risks of debt unsustainability related to delays or unsatisfactory negotiations with non Paris Club creditors are addressed through the ongoing efforts of the authorities to secure debt restructurings with their external creditors and progress already made with some non Paris Club creditors. The two DPLs envisaged under the Interim Strategy Note are linked to the IMF quarterly and yearly reviews and the second DPL will also require evidence of an agreement with private creditors, including bondholders, on a debt restructuring program. This will also provide some assurances of program commitment and debt sustainability before extending further IBRD financing.

73. **Erosion of political support and delayed policy reforms caused by social dissatisfaction may occur.** The government's stabilization program supported by the IMF will adversely affect some groups and may result in social tensions if not managed carefully. Although the government has made a major effort to inform the public about

the necessity and possible effects of reforms, delayed positive outcomes may affect the process of transforming the economy of the Seychelles. In particular, policy reforms may halt or even reverse, leading to slower economic recovery and failure to lift the reform process beyond the first year and into the medium term. The government is addressing potential income disparities and intends to target the most vulnerable populations through a social safety net, a comprehensive communications strategy, and interventions in key islands and communities. In parallel, the government is taking complementary measures to remove constraints to private sector growth and employment, which are critical to mitigating social tensions. The Bank will assist the government with technical capacity on the design of a medium-term economic reform program to ensure greater inter-ministerial coordination on the reform program as well as support private sector development from the overall World Bank Group.

74. **Associated with the first two risks, is the possibility of external arrears building up once again if the macroeconomic program goes off-track.** The Bank is engaging with Seychelles only now that a determined reform effort over the last 12 months has been implemented, which through fiscal consolidation has improved the debt sustainability outlook considerably. After four years in suspension status, Seychelles repaid both loans to the IBRD in full and currently has no outstanding obligations to IBRD. Seychelles went into non-accrual status in August 2002 for violating the negative pledge clause and not meeting its debt payment obligations to IBRD. Seychelles cleared all payment arrears (US$770,000) in October 2006. Seychelles subsequently prepaid in full its small outstanding balance to IBRD and cleared remaining issues with the negative pledge clause. Mitigation measures include working very closely with other development partners who are supporting the reform efforts such as the IMF, the European Commission and the AfDB. This enables active supervision and monitoring of the reform efforts and ensures a consistent message to the authorities to assist them in staying on track with the reform program. Timely, and predictable financial support through adjustment operations will also assist the authorities manage the challenges of an adverse external environment; and at the same time a possible second IBRD DPL will only be prepared following progress with debt restructuring negotiations with non-Paris Club bilateral and private creditors.

75. **Fiduciary risks could delay program implementation.** There are several weaknesses in the fiduciary framework that are being addressed. Given the lack of Bank engagement for many years, analysis of the country's public financial management is planned to take place during the implementation of the Interim Strategy Note 2009-11. A financial management assessment in 2008 concluded that capacity constraints faced by the internal audit department related to insufficient staff in the Ministry of Finance to monitor compliance with internal control systems and procedures in ministries. The Auditor General's Office also faces staffing constraints in conducting project audits; and does not have the legal mandate to audit all government institutions. The IMF's most recent safeguards assessment of the Central Bank of Seychelles, also found some weaknesses of accounting and auditing and these risks are being mitigated with technical support of the IMF. The first and second review of the IMF's Standby Arrangement has shown that the central bank has made good progress toward dealing with the deficiencies identified earlier.

76. **Finally, piracy activities in Seychelles territorial waters may require additional fiscal resources, and may lower economic growth prospects.** During the second quarter of 2009 there was a threat of piracy attacks on tuna fishing vessels and the Government has had to request a supplementary budgetary allocation from the Parliament to support the operations of its coast guard. While such expenses are not yet likely to undermine fiscal adjustment efforts of the government piracy attacks may have an impact on export revenues. The Government has now negotiated assistance programs from a number of countries (including the United States and France) who are providing personnel and equipment to bolster the resources of the Seychelles coast guard.

Annex1: Letter of Development Policy

The President

STATE HOUSE, VICTORIA, MAHE
REPUBLIC OF SEYCHELLES

16th September 2009

Mr. Robert Zoellick
President
World Bank
Washington, DC

Dear Mr. Zoellick

1. In mid 2008, the global slowdown and knock-on effects of the sharp food and fuel price increases of 2007 and early 2008 brought longstanding vulnerabilities in Seychelles to a head. Although we had sought to gradually address imbalances from the 1990s, our efforts were insufficient: reliance on external borrowing to fund infrastructure investments progressively weakened public finances; government intervention in key sectors limited the adjustment of the economy to new global conditions; foreign exchange restrictions only accelerated our loss of competitiveness and capital flight. With reserves near rock bottom, arrears spreading across all categories of creditors, and financing impossible to obtain, we launched a truly dramatic reform program. On 31 October I announced the reforms in an address to the nation, on 1 November we allowed the currency to float freely (it lost half its value in the day), and in November and December we reduced our public sector workforce by 17%. We also cut subsidies to our bloated state enterprises, and instead began providing targeted subsidies to those who needed help after the devaluation the most.

2. Our reforms have achieved broad based support. As we designed the program, we carefully consulted with our partners in civil society, the opposition, and business. Despite a healthy difference of views among parties, every single reform has been unanimously approved in Parliament. This domestic consensus has been bolstered by the

international community, which has long played an important role in our country. In April 2009, the Paris Club group of creditors provided a 45% debt cancellation and 18 year deferral of maturities—an exceptional treatment for a middle income country. The Club's willingness to front load assistance was due in part to the steadfast praise we have received from the International Monetary Fund, which has provided us our first ever borrowing program, a SDR 17.6 million Stand By Arrangement.

3. Early successes of reform implementation are becoming apparent though Seychelles has not been spared the deterioration in the global economy. Supported by tight fiscal and monetary policies, the nominal exchange rate stabilized in late 2008 and has slowly appreciated against the US dollar since Q1 2009. As of the end of August, prices have actually declined since the beginning of the year—a remarkable reversal from last year's average inflation of 37%. External reserve accumulation has been well above target throughout our IMF program, while reserve money was contained by over performance on the fiscal side. Yet our economy depends on tourism, and the global downturn has brought a startling slowdown. After contracting by 0.9% in 2008, our economy is expected to decline by 11.7% this year due in large part to a decline in tourism spending of 25%.

4. A key component of our reform program is placing our public sector debt on a sustainable footing. Since late 2008 we have engaged our external creditors in discussions about the nature of the problems in the economy and public finances as well as the severe financing shortfalls we face over the next decade. Although the Paris Club agreement has provided an important benchmark, it covered only about a third of the debt stock that must be restructured. We anticipate that holders of capital market instruments will be asked to provide relief through an exchange for new bonds in Q4; commercial banks and non-Paris Club bilateral creditors are expected to sign bilateral loan amendments in Q4 or early 2010. Although the restructuring discussions have been challenging given the magnitude of relief required to achieve sustainability, we are encouraged by the long term view taken by many of our creditors. Assuming we obtain comparable treatment from them we expect that our remaining financing gaps would be closed.

5. It is in this connection we are seeking the assistance of the World Bank for ensuring that we continue to implement our reform program with determination and there are no financing gaps which could undermine the credibility of the reform process. The objective of this Letter of Development Policy (LDP) is to present policy reforms we implemented in 2008 and 2009 which are based on our economic policy frameworks that accompanied 2008 and 2009 budget submissions to our Parliament. The measures we implemented in 2008 and in early 2009 are fully in line with our "Seychelles 2017" approved by our government in March 2007, a broad based 10 year reform strategy which aims at doubling of per-capita income in ten years and a reduction of public debt from 145 percent of GDP to 60 percent. During my speech to the people of Seychelles on our National Day of 18 June, 2009 I stated that achieving our reform has been one of

the greatest challenges that our country has ever faced. I am convinced that we are now headed in the right direction and have encouraged the Government to embark on additional round of reforms under a successor arrangement with the IMF. For this purpose, we have requested that the IMF provide an Extended Fund Facility to ensure that we have a medium to long term outlook in our policy focus.

I. SEYCHELLES REFORM PROGRAM

I.1 Overview

6. Over the past two decades Seychelles has successfully promoted social development. In Africa, Seychelles leads in human development with a life expectancy of 72.2 years and high literacy rate of 96.6 percent. It is ranked 50th on the 2007 United Nations Development Program Human Development Index, a level comparable to many OECD countries. However, since the mid-1990s these achievements have been put increasingly at risk due to persistent macroeconomic imbalances, external shocks and long-standing structural problems. Current account deficits were high throughout the 1990s and reached 23 percent by 2001. Fiscal deficits also remained high and reached about 20 percent of GDP in 2002; the external debt stock reached almost 85 percent of GDP and Seychelles fell into arrears with some of its creditors. GDP declined by 5.3 percent in 2003 signaling that domestic and external imbalances were having a negative impact on the economy and welfare.

7. Recognizing these challenges, in 2003 we began a reform and modernization effort and introduced a Macro Economic Reform Program (MERP) in June 2003. MERP emphasized a large immediate fiscal adjustment through a combination of revenue increases and expenditure reducing measures. It also included liberalization measures such as a privatization program. As a result the economy started to recover in the latter half of 2005 driven by a sharp increase in tourist arrivals, a construction sector boom financed by record-high foreign direct investment inflows as well as short-term high public spending (during the 2006 election year and in 2007 as election promises were implemented). Real GDP grew by 6.3 percent in 2007. However, the fiscal adjustment was not sustained, and significant internal and external imbalances remained. After a brief period of a near-balanced budget between 2003 and 2005, fiscal performance deteriorated in 2006 and 2007, partly as a result of spending associated with the presidential and parliamentary elections. While there were step devaluations and the exchange rate moved from SR 5.5 to SR 8 per US$1, in the absence of fundamental liberalization of the regime parallel markets continued to flourish with rates of SR 12 or 13 to US$1. Price controls and restrictive regulatory framework remained in effect which hindered private sector growth.

8. The maintenance of a pegged exchange rate, which was not compatible with fiscal and monetary policy, together with pervasive foreign exchange restrictions has led to an overvaluation of the Seychelles rupee, a growing parallel market, and persistent foreign exchange shortages. This in turn has increasingly hampered competitiveness and economic growth. In 2007-08, the global oil and food price shock hit the Seychelles economy particularly hard given its dependence on basic imports, with inflation rising sharply to 38 percent (year-on-year) by August 2008. Notwithstanding gradual adjustment of the exchange rate from 5 to 8 rupees to the US dollar between October 2006 and October 2007, the currency remained overvalued, exchange shortages persisted, and official external reserves were virtually exhausted. These imbalances came to a head in July 2008 when we missed a payment due on a privately-placed external debt issue. In October 2008, we were unable to make a coupon payment on our outstanding Eurobond. As of the end of June 2009, Seychelles' public sector debt had risen to roughly 150% of GDP, a level that is clearly not sustainable.

II. MAIN ELEMENTS OF POLICY REFORMS

9. This situation called for a radical break with past financial and economic policies. In early November we introduced the following set of fundamental reforms:

- Full liberalization of the foreign exchange regime by floating the Rupee
- Tight fiscal policy backed by public sector reforms and a reduction in direct and indirect subsidies, and public financial management measures.
- Social sector reforms and improved targeting of the social safety net.
- A reform of the role of government and a reduction of the state in the economy through further privatization and improving the investment climate.
- Reform of monetary policy formulation process and the banking system

II. 1 Foreign Exchange Regime

10. Following the float of the rupee in early November the exchange rate lost about 60 percent of its value against the U.S. dollar, and it has nominally appreciated since Q1. Monetary policy has been tightened to support the free floatation of the currency. In addition to the exchange rate the trends in other monetary aggregates have showed very encouraging movements, notably the interest rates, which after initially rising strongly—T-bill rates rose to over 29 percent in late December—have fallen to around 12% in August. We have now achieved full convertibility of the Rupee and we are confident that

this major regime change will have a positive impact on private sector development in general.

II. 2 Fiscal Reforms and Fiscal Policy Framework

11. Strong fiscal adjustment has been and is central to the achievement of debt sustainability and sound public finances. We are committed to implementing a large and sustained fiscal adjustment that will help both anchor the move to a floating exchange rate regime and allow for a gradual reduction in public debt. In 2008 our primary surplus was over 9 percent of GDP—well over the program target of 6.2 percent. These objectives have been achieved through a combination of expenditure restraint, including the elimination of subsidies and a reduction of the wage bill in real terms (from about 9.1 percent of GDP in 2008 to 6.4 percent of GDP in 2010) as part of our plan to reduce the size of the public sector, tax policy measures including the removal of exemptions, strengthened tax administration and public financial management, public sector reform, and further privatization of public enterprises. To consolidate reform, exceptionally high primary surpluses of about 10 percent of GDP will be maintained in 2009-10, easing gradually over the medium term.

12. We have introduced measures to reinforce fiscal revenue and results to date have been encouraging. We have applied the goods and services tax (GST) to all locally-manufactured and imported goods, except for 13 basic food items, and removed discretionary powers to grant exemptions. The following revenue measures have been introduced in the fourth quarter of 2008 as per the schedule below.

Table 1: Revenue Raising Measures Agreed in the MEFP, 2008

Action	Timing
Raise and harmonize taxes on local and imported cigarettes to SR 500 per 200 cigarettes.	October 1, 2008
Introduce 10 percent withholding tax on interest income for residents.	October 1, 2008
Extend GST to all telecom companies.	October 1, 2008
Announce the introduction of the GST of 15 percent on residential rental income, effective January 1, 2009.	October 10, 2008
Announce the removal of the exemption on interest income by companies (Tax Act) effective January 1, 2009.	November 1, 2008
Reintroduce GST on locally produced soft drinks.	November 1, 2008.
Raise GST on tourism services from 7 percent to 10 percent.	November 1, 2008
Raise specific taxes/excise tax rates for both locally manufactured and imported alcohol to adjust for inflation.	November 1, 2008
Raise environmental levy to SR 25 from SR 10 per month per household.	January 1, 2009
Adjust fees, fines, charges and rents and royalties for inflation.	January 1, 2009
Reinstate GST on LPG.	January 1, 2009
Raise GST on tourism services from 10 percent to 12 percent.	November 1, 2009
Repeal all provisions for discretionary exemptions in the Trade Tax and Business Tax Acts	January 1, 2009

As part of the 2009 budget, we have introduced the following revenue measures:

Action	Timing
Raise environmental levy to SR 25 from SR 10 per month per household.	January 1, 2009
Adjust fees, fines, charges and rents and royalties for inflation.	January 1, 2009
Reinstate GST on LPG.	January 1, 2009
Raise GST on tourism services from 10 percent to 12 percent.	November 1, 2009
Repeal all provisions for discretionary exemptions in the Trade Tax and Business Tax Acts	January 1, 2009

13. More frequent adjustments toward cost-recovery levels for water and electricity prices are reducing government subsidies to the public utility company, and petroleum product prices are now adjusted monthly to reflect international prices. Despite inflationary pressures, primary spending has also been contained due to low public sector wage rises and tighter spending controls. Increased tax on fuel and a new import levy on automobiles have more than made up for a shortfall on goods and services tax (GST) due to the elimination of GST on 13 basic food items and cooking gas (LPG).

II. 3 Budget Credibility and Public Financial Management Reforms

14. Strengthening the public financial management framework and the budgetary process is one of our key objectives. In the past the credibility of our budget has been low as budget outcomes have tended to exceed the approved appropriations approved by the Parliament at the beginning of the fiscal by a large margin, as much as 22 percent on average between 2005-2007. This was in part due to the fact that our budgetary process and budget classification systems were outdated and international standards were not used. In order to deal with this issue we have strengthened the budget formulation and execution process by adopting the IMF's GFS classification system and established spending limits for line ministries. We have also strengthened the budget preparation, implementation and monitoring processes, including through the preparation of a consistent medium-term macroeconomic framework by creating a new unit within the Ministry of Finance. These reforms enabled us to better monitor fiscal outturns and improved our budget execution rate which in turn allowed us and to achieve our primary surplus targets as indicated above.

II. 4 Public Sector Reforms and Reforming the Role of the State

15. Our main objective in this area is to transform the role of the State to one of provider of efficient public administration and public goods and services. This required action in three areas. First, Seychelles needed to reduce the size of its public administration and our analysis of the situation has shown that this was critical for attaining fiscal sustainability. Prior to reforms public administration accounted for over 40 percent of total employment, a large figure by small island standards. The Manpower

Budgeting Exercise (MBE) we carried out in 2008 has shown that there was considerable scope for public sector employment rationalization. We aimed to reduce the number of government employees by 12.5 percent by early 2009 and by mid 2009 this target was more than achieved. This objective was achieved through three schemes. First, under the MBE we reduced the projected wage bill overrun from SR 17.8 million to 4 million. Second, an early retirement scheme was also introduced at the beginning of 2008 for civil servants over the age of 55. The scheme has remained open for the remainder of 2009. Third, a voluntary departure scheme has been conducted in October/November 2008, and this was followed by a freeze in non-essential vacancies. Reductions in public employment cut the wage bill from 9.8 percent of GDP to 6.8 percent in 2009 thus generating the budgetary savings in part to attain our primary surplus targets. Those who left government have been provided with a separation package and have been eligible to seek assistance from the newly created Social Welfare Agency as explained in paragraph 19 below. A strategic plan to modernize our public administration was endorsed by cabinet in August and implementation is already underway.

16. Privatizing commercially oriented enterprises with a view to enable the private sector to assume the lead role in the economy is the second leg of our broader public sector reforms. Reforms in this particular area also include polices to better exercise the ownership of the State and are necessary to achieve fiscal sustainability. We have initially started our privatization program by selling the State Assurance Corporation of Seychelles (SACOS) in June 2006 to a strategic investor and to the public. In 2008 we have focused state owned enterprises that have a distortionary impact on the economy and those that are causing a net fiscal drain. One such parastatal was the former State Marketing Board, a State trading conglomerate and supplier of basic consumer goods, which was closed in February 2008. The former SMB was unbundled in March 2008 and five new different companies were created and some of the assets have been sold in 2008 and the government is committed to complete the sale of former SMB in 2009. Our privatization program will continue over the next year with the divestiture of the Seychelles Savings Bank and Nouvobanq Going forward we intend to avoid retaining minority stakes in the firms we privatize.

17. We are committed to enforce the highest standards of transparency and accountability in the public and private sectors. A new *Public Debt Management Act was encated in December 2008* establishing procedures and defining roles and responsibilities of agencies involved in debt contracting and management. The Law authorizes the Ministry of Finance as the only body to contract debt. The deficiency in the previous law contributed to the build-up in debt to unsustainable levels. In August 2008 we enacted *the Public Officers Ethics Act*, which provides for a code of conduct and ethics for civil servants, requiring financial declarations and prohibiting conflicts of interest. *The Public Procurement Act*, modeled on the COMESA standard, was enacted in December 2008. The objective of the act is to standardize procurement procedures within the government by modernizing and harmonizing regulations and procedures. Transparency,

competitiveness, and efficiency will be enhanced as tender procedures will ensure competitive bidding through strict and uniform requirements regarding minimum number of bidders and public disclosure of all bids. In July 2008, we amended the Anti-Money Laundering (AML) Act to establish a Financial Intelligence Unit with powers of investigation and sanction, and to strengthen the proper enforcement of AML regulations by enabling the Supreme Court to order civil proceedings for the preservation and disposal of proceeds of criminal conduct under the Act.

II. 5 Reforming Social Sectors and Improving Health and Education

18. Our main objective in health and education sectors is to improve efficiency and maintain the standards we attained since independence. We have undertaken reviews in both sectors with the assistance of the Bank and found that there was and there is still considerable potential to make considerable improvements to efficiency in both health and education. This can be achieved by reducing spending on service delivery areas that are underutilized and reducing expenditures on cash transfers that are not well targeted. In the health sector reforms have been introduced to substantially reduce the health sector wage bill by identifying and releasing staff in areas of low productivity. The health sector is characterized by low utilization rates comparable to European levels and new measures are being adopted to rationalize facilities. A facilities and staffing review is being undertaken by MOH and Department of Public Administration and based on this review we will begin to rationalize our health facilities.

19. Improving efficiency and generating savings without reducing overall education spending is one of the main goals of our government. Recent reviews, both by the government and our development partners have shown that quality and examinations results are issues as many candidates do not pass exams. We will not reduce budgetary allocation to this sector but instead expenditure improvements will be largely re-invested in sector reforms aimed at increasing quality of education and education outcomes. Most public education spending is principally on wages and salaries and this is also where most potential to improve efficiency of spending by removing unproductive posts. We have carried out strategic staffing reductions and reduced office staff in MOE and by contracting out school cleaning and meal provision has been able to reach the target of 12.5 percent reduction of the wage bill. Savings generated from these reforms is being spent on measures to improve the quality of education and the MOE will focus on results and is in the process of developing a new strategy.

20. We have replaced costly and inefficient direct and indirect product subsidies with a well-targeted social safety net. The universal subsidy scheme our government provided over the past two decades was too generous and it proved to be inefficient. We have

eliminated the subsidies indicated below and established a Social Welfare Agency in October 2008.

Action	Timing
Abolish fishermen fuel subsidy coupons.	October 1, 2008
Eliminate indirect universal product subsidies and replace with a targeted social safety net by enacting the Welfare Agency Act.	November 1, 2008
Eliminate SR 90 per month electricity rebate for households.	January 1, 2009
Raise and maintain Seychelles Public Transportation Company (SPTC) bus fare at operating cost-recovery levels.	January 1, 2009
Eliminate implicit and explicit subsidies for Agro ,Industries, Hatcheries, Seychelles Trading Company (STC), and Coetivy Prawns.	January 1, 2009
Eliminate LPG subsidy by the state oil company (SEPEC) (about SR 3 per kg.).	January 1, 2009

The agency will protect the most vulnerable segments of our population that have been hard hit by the rise in inflation, particularly increased food prices, as well those who left their jobs in the public sector. Applicants receive a response within 3-7 days and our initial assessment is that the agency is working reasonably well as it has been able to provide assistance to those who left the public sector.

Conclusion

As the above indicate, the government of the Republic of Seychelles is strongly committed to undertaking necessary reforms actions to promote economic growth and modernize our country. In this context, the support of the World Bank through approval of the Second Programmatic Development Policy Finance would be important to successful implementation of the government's reform agenda.

Accordingly, the government of the Republic of Seychelles requests that this first Development Policy Loan be approved.

Yours Sincerely

James Alix Michel

Annex 2: Seychelles Development Policy Loan Policy Matrix

Policy objectives	Policy action	Outcomes (end 2009)
Strengthen budget management	• **The Borrower has adopted the Government Finance Statistics classification for preparing the budget and for monitoring budget performance, thereby enhancing the credibility of budget execution.** • Ministry of Finance established binding ministerial expenditure ceilings to prepare the budget, starting in 2008. • Fiscal monitoring reports issued quarterly starting in 2008.	**Primary balance rises from −2.0 percent of GDP in 2008 to exceed the original 6.2 percent of GDP primary surplus target for 2009 envisaged in the program.** *Source:* Ministry of Finance.
Improve governance and accountability of public procurement	• **The Borrower has enacted the Public Procurement Act, 2008, modernizing and harmonizing procurement regulations and procedures, enhancing transparency, competitiveness and efficiency, and introducing strict and uniform requirements governing competitive bidding procedures.** • National Tender Board established January 29, 2009.	**National Tender Board established and fully functioning** (46 contracts have been subject to National Tender Board procedures since its establishment, of which 39 were approved and 7 returned for retender). *Source:* National Tender Board.
Create a more efficient civil service and public administration	• **The Borrower has through a combination of early departure and voluntary retirement schemes met the 12.5 percent target for reducing employment in the public sector.** • **The Borrower has secured cabinet approval of the Memorandum of Action on Public Administration and Public Sector Reform Policies, the objective of which is to bring about a modern and efficient administration, consolidate public sector reforms and roll-back the role of the government in commercial activities.**	**Staff of the public administration falls by 15 percent** (from 16,615 civil servants and parastatal employees in April 2008 to 14,075 in April 2009). *Source:* National Statistics Bureau employment data. **The public sector wage bill falls in relation to GDP** (from 10.2 percent of GDP in 2007 to 7.5 percent of GDP in 2009). *Source:* Ministry of Finance.

Establish a well-targeted social safety net	• **The Borrower has enacted the Social Welfare Agency Act 2008, introducing a simple and effective program to provide targeted cash assistance to vulnerable segments of the population, and establishing the Social Welfare Agency to administer the program.** • Simple and effective targeting mechanism in use starting in 2008 to provide assistance to those who lost their jobs and other vulnerable people.	**Social Welfare Agency established and fully functioning in all 25 districts of the Seychelles.** **Social Welfare Agency drawing on relevant government databases to establish eligibility of claimants, as provided for in the Social Welfare Agency Act.** **Claimants receive response from Social Welfare Agency within 10 days.** *Source:* Social Welfare Agency.
Reduce the role of the state in commercial areas of the economy	• **The Borrower has restructured the Seychelles Marketing Board, discontinuing some of its operations and separating the rest to be managed as separate units, privatizing the profitable business units and liquidating the loss-making ones.** • Eight profitable business units of the former SMB privatized in 2008. • All loss making units of the former SMB liquidated in 2008. • Subsidies to public enterprises reduced.	**Overall subsidies of the government to former SMB falls** (from SR 68 million in 2007 to zero in 2009). **Overall subsidies of the government to state owned enterprises falls** (from SR 239 million in 2007 to SR 78.5 million in 2008). *Source:* Ministry of Finance.

Annex 3: Joint World Bank-IMF Work Program, 2009

Title	Products	Timing of mission	Delivery date
A. Mutual Information on Relevant Work Programs			
Bank	**A. Strategy and analytical work**		
	Interim Strategy Note	November 2008 and February 2009	November 2009
	Public Expenditure Review	October 2008	April 2009
	Public Expenditure Review Phase 2	October 2009	February 2010
	Update to FIAS report (improving the business environment and private sector development)	October 2009	February 2010
	Joint Country Procurement Assessment Report and Country Financial Accountability Assessment	Ongoing Identification mission: November 2008	Ongoing
	B. Ongoing and new projects		
	Global Environment Fund grant implementation (tsunami reconstruction, disaster management, fisheries capacity)	Identification mission: November 2009	April-May 2009
	Development Policy Loan	May 2009	November 2009
	Development Policy Loan 2	March 2010	October 2010
Fund	**Program and surveillance work**		
	1. Article IV consultation and approval of 2-year Stand-By Arrangement		November 14, 2009
	2. Quarterly program and financing assurances reviews under the Stand-By Arrangement		March 27, 2009
	First review	February 2009	June 2009
	Second review	May 2009	September 2009
	Third review	August 2009	December 2009
	Fourth review (if needed)	October 2009	December 2009
	3. Discussion on medium-term structural reform agenda that could be supported by a successor arrangement under the Extended Fund Facility.	October 2009	
	Technical assistance and capacity building		March 2009
	1. Fiscal Affairs Department technical assistance mission on tax policy and revenue administration review.	February 2009	July 2009
	2. Fiscal Affairs Department technical assistance mission on Public Financial Management.	June 2009	Ongoing
	3. Monetary and Capital Markets Department technical assistance on reforming the monetary policy framework (long-term monetary advisor, automation of interbank market, reserve money management) strengthening bank supervision, and Central Bank Seychelles governance.	Ongoing	March 2009
	4. Monetary and Capital Markets Department technical assistance on public debt management.	Ongoing	

Title	Products	Timing of mission	Delivery date
B. Requests for Work Program inputs			
Bank request to Fund	1. Medium-term macro-economic and fiscal framework to inform Public Expenditure Reviews	n.a.	Ongoing
	Debt Sustainability Analysis	n.a.	March 2009
Fund request to Bank	2. Assessment of the poverty impact of Rupee float and strategy on strengthening the social safety net and enhancing targeting of social assistance.	To be determined	October 2009
	3. Policy note on parastatal reform and privatization.	October 2009	December 2009
	4. Strategy on improving business environment and promoting private sector investment	October 2009	December 2009
	5. New wage grid proposal for public sector	October 2009	December 2009
C. Agreement on Joint Products and Missions			
Joint products	Joint mission to discuss a medium-term structural reform agenda focusing on: social safety net targeting; civil service reform, parastatal reform; and promoting private sector investment	October 2009	December 2009 (preliminary)

Annex 4: IMF Press Release on the Completion of the Second Review Under Seychelles' Stand-By Arrangement

IMF Executive Board Completes the Second Review Under Seychelles' Stand-By Arrangement and Approves US$1.4 Million Disbursement

Press Release No.09/246
June 30, 2009

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Seychelles' economic performance under its two-year Stand-by Arrangement, and completed the latest quarterly financing assurances review. The Board's decision enables Seychelles to receive a disbursement in an amount equivalent to SDR 0.88 million (about US$1.4 million).

The Executive Board also approved the modification of quarterly quantitative performance criteria, and agreed to establish a schedule of semi-annual program reviews, while maintaining quarterly quantitative performance criteria, and financing assurances reviews.

The two-year SDR 17.6 million (about US$27.3 million) Stand-By Arrangement for Seychelles was approved on November 14, 2008 (see Press Release No. 08/282).

Following the Executive Board discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"Seychelles' commitment to reform and prudent financial policies has brought about rapid progress on macroeconomic stabilization. The significant fiscal consolidation effort, backed by the new market-based monetary policy, has restored confidence in the Rupee and helped bring inflation down rapidly.

"Economic policies are geared toward consolidating this progress. The fiscal stance aims to support the disinflation objective and contribute to public debt sustainability, while preserving priority social spending. The market-based floating exchange rate regime is serving the economy well, and monetary policy should aim to maintain interest rates positive in real terms in order to anchor price stability. Efforts should continue to expand monetary policy instruments and modernize the legal and institutional framework for the financial sector.

"Structural reforms are needed to lay a firm foundation for sustained recovery. The authorities have strengthened tax administration and launched a fundamental tax policy reform, which are key to improving the investment climate, reducing economic distortions, and securing fiscal sustainability. Progress has also been made in strengthening public financial management and expenditure control. Further efforts in this direction, including to reinforce financial discipline and accountability in public enterprises, will be essential to ensuring fiscal sustainability and raising productivity.

"Good progress is being made with public external debt restructuring. Following the favorable agreement with the Paris Club, the authorities have shown good faith efforts to normalize relations with all creditor groups. In view of the high public debt level, the authorities are pursuing a debt restructuring with non-Paris Club creditors that is consistent with Seychelles' limited payments capacity. The authorities should reinforce their debt management capacity, supported by Fund technical assistance," said Mr. Kato.

Annex 5: Debt Sustainability Analysis

The debt sustainability analysis confirms that public debt in Seychelles remains unsustainable even after restructuring of Paris Club debt in April 2009. The highly concessional restructuring agreement with Paris Club creditors in mid-April 2009, which recognized Seychelles' limited payments capacity, was an important step toward achieving sustainability. However, even with the strong and sustained fiscal adjustment assumed under the program, a further significant reduction of the external debt burden is required to restore longer-term sustainability. Against this background, engagement in good-faith discussions with all external creditors to achieve a restructuring on comparable terms is critical.

Macroeconomic assumptions

The debt sustainability analysis is based on the macroeconomic framework presented in the present staff report:

- Near-term economic growth outlook has been revised downwards on account of the global recession, with real GDP expected to shrink by about 10.7 percent in 2009. Growth is expected to recover only gradually from 2010 onwards, supported by resumption of foreign direct investment-financed projects and recovery of tourism, and stabilize at around 5 percent a year in the long term.

- Supported by tight fiscal and monetary policy, inflation has declined sharply and is expected to remain in the low single digits for the remainder of 2009, aided by sharp declines in world food and fuel prices. It is assumed to remain at around 3 percent going forward in line with major trading partners' inflation.

- The near-term current account outlook has worsened from the previous analysis (done at the time of the first review) as piracy and the global economic crisis are expected to restrain exports and tourism earnings in 2009–10. The tourism forecasts for 2009 have been revised to a 22 percent drop, from the originally projected 25 percent decline, while tuna exports are expected decline by 21 percent and by a further 6 percent in 2010. Nevertheless, over the medium-term, tourism growth is expected to recover, peaking at 10.6 percent in 2013 and moderating to a long-run steady rate of around 8 percent a year. Given its comparative advantage, tuna exports are expected to revive by 4.5 percent in 2011.

- Net foreign direct investment inflows are expected to decline sharply in 2009 to 27 percent of GDP, as a number of large hotel projects have been postponed or slowed. This reflects tighter credit conditions and lower near-term outlook for tourism inflows. Foreign direct investment flows are expected to recover from 2010 and stabilize at 26 percent of GDP over the long-run.

- Official foreign exchange reserves are targeted to build-up gradually to about 3.8 months of imports by 2019, a necessary recovery from the depleted levels of 2008.

Evolution of the debt stock and debt burden

- Public external debt is estimated at US$802.2 million (87.1 percent of GDP) at end-2008 (table 1). About 60 percent of the debt was owed to commercial creditors, while the Paris Club countries account for about 19 percent of the total. Seychelles has no arrears with multilateral creditors. At end-2008 some 42 percent of the debt stock was in arrears (US$333.5 million).

- In April 2009, Paris Club creditors granted exceptional treatment to Seychelles under the Evian approach.[1] US$140 million of arrears were normalized (including South Africa). The restructuring of Seychelles debt will involve both flow and stock rescheduling with the debt stock reduced by 45 percent in two tranches and the remaining amounts rescheduled over 18 years including a five-year grace. No repayments will be made in 2009 other than a "goodwill" payment of US$1 million by end-June, with very limited payments due in the next few years as moratorium interest is partially deferred.

- Despite the Paris Club debt restructuring, the stock of public external debt is expected to rise to 108 percent of GDP by end 2009, primarily reflecting disbursements from multilateral agencies and the depreciation of the Rupee.

Baseline Scenario

The Paris Club agreement leads to a significant reduction in the debt ratios but without further restructuring from other creditors on a comparable basis public debt remains unsustainable (Tables 2, 2a). However, the Paris Club agreement is not tenable on its own, since a formal requirement for the effectiveness of the agreement is securing comparability of treatment from other creditors. This scenario assumes that the non-restructured debt (including arrears) is serviced and that the financing gaps are closed, as assumed in earlier analyses, by a flow rescheduling on market terms at LIBOR plus 1300 basis points and with a three-year maturity.[2] Over the next ten years, the public external debt ratio would rise steadily to around 326 percent of GDP (310.5 percent of exports) in 2019. Furthermore, the bound tests highlight that the external debt is extremely sensitive to the underlying assumptions, with even moderate shocks triggering dramatic explosive dynamics (Figure 1a). Notwithstanding the strong fiscal adjustment (Table 2b and Figure 1b), the analysis indicates a similar unsustainable profile for overall public sector debt over the medium run, at 342.7 percent of GDP, driven by dynamics of external debt.

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[1] The agreement covered all the debt to Paris Club. South Africa, a significant non-Paris Club creditor, participated in the meeting and was a signatory of the minute.

[2] The assumed risk premium is designed to mimic the current level of EMBI spreads on sovereign external debt of other highly indebted countries with significant vulnerabilities, for which trading of debt securities is more active.

Alternative Scenario [3]

Under this scenario, public external debt at end-2008 is restructured on comparable cash flow terms with the Paris Club agreement (the agreement with Paris Club creditors requires Seychelles to seek promptly from all other external commercial and bilateral creditors debt restructuring on comparable terms). Public external debt would decline steadily to 60.4 percent in 2014 and remain under 60 percent through 2019 (Table 3a and Figure 2a). Total public debt (including domestic debt) would decline to 62.5 percent of GDP by 2019 (Table 3b, Figure 2b). However, assuming key variables are at their historical averages the external debt ratio would rise steadily to 104.9 percent of GDP, pointing to the vulnerability of the outlook.

Standardized bound tests show that Seychelles's public debt is particularly exposed to current account shocks and interest rate shocks. Assuming a half standard deviation shocks to the current account (8.3 percent increase in the deficit); the debt stock would increase to 493.2 percent (baseline scenario) in 2019 and 118.7 percent (alternative scenario).

Table 1. External Debt [1]

	End-2008
External debt stock [2]	802.2
Multilateral	57.0
Bilateral	267.4
Paris Club	151.7
Non-Paris Club	115.8
Commercial	477.7
External debt arrears	333.5
Multilateral	0.0
Bilateral	184.5
Paris Club	124.2
Non-Paris Club	60.4
Commercial	149.0

[1] Preliminary and subject to reconciliation with creditors. Includes Central Bank of Seychelles external debt.
[2] Includes arrears.

[3] This hypothetical scenario is included for illustrative purposes only. It is based on technical assumptions regarding the restructuring of debts to all other non-Paris Club creditors on terms comparable to those agreed with Paris Club creditors, without pre-judging the terms of such a restructuring.

Table 2. Seychelles: Balance of Payments Baseline Scenario (Assuming Paris Club Restructuring), 2007-19

(Millions of U.S. dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
		Prel.	Proj.	Proj.									
Current account	-213	-420	-250	-343	-422	-445	-500	-578	-659	-772	-911	-1,082	-1,283
(Percent of GDP)	-21	-46	-37	-45	-51	-48	-50	-53	-56	-61	-66	-73	-80
Trade balance	-175	-386	-146	-187	-172	-142	-127	-119	-104	-100	-97	-97	-92
Income, net	-72	-103	-155	-215	-311	-363	-435	-523	-620	-739	-882	-1,054	-1,262
Of which: interest payments due [1]	-33	-33	-92	-124	-202	-236	-290	-357	-432	-525	-642	-786	-962
Current transfers, net	33	69	52	60	60	61	62	63	65	66	68	70	71
Capital and financial account	261	172	483	380	472	500	561	634	711	822	961	1,132	1,333
Capital account	8	5	37	37	5	5	5	6	6	6	6	6	6
Financial account	254	167	446	342	467	495	555	628	705	816	955	1,126	1,327
Direct investment, net	225	346	183	213	236	239	258	289	301	326	352	381	411
Portfolio investment, net	31	1	0	0	0	0	0	0	0	0	0	0	0
Other investment, net	-2	-180	263	129	232	257	297	339	403	490	602	745	915
Net errors and omissions	-8	101	23	0	0	0	0	0	0	0	0	0	0
Overall balance	40	-147	257	37	50	56	60	56	51	50	50	50	50
Financing	-40	147	-257	-37	-50	-56	-60	-56	-51	-50	-50	-50	-50
Change in net international reserves (increase: –)	49	-27	-54	-37	-50	-56	-60	-56	-51	-50	-50	-50	-50
Change in gross official reserves (increase: –)	49	-36	-58	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50
Prospective liabilities to IMF, net	0	10	4	13	0	-6	-10	-6	-1	0	0	0	0
Other NFA (increase: –)	0	0	-10	0	0	0	0	0	0	0	0	0	0
Exceptional financing	-89	174	-193	0	0	0	0	0	0	0	0	0	0
Change in arrears (increase: +) [3, 4]	-89	174	-333	0	0	0	0	0	0	0	0	0	0
Clearance of arrears		...	140	0	0	0	0	0	0	0	0	0	0
Financing gap [5]	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing gap (before closing)	0.0	0.0	337	273	638	638	783	1,003	1,192	1,466	1,810	2,224	2,740
Memorandum items:													
Gross international reserves (stock, e.o.p.) [6]	10	51	108	158	208	258	308	358	408	458	508	558	608
Months of prospective imports of goods and services	0.1	1	1	1.8	2.3	2.6	3.0	3.2	3.4	3.6	3.7	3.8	3.8
Public external debt [1,4, 6]	710	802	885	1,008	1,229	1,477	1,766	2,088	2,486	2,971	3,572	4,318	5,233
(Percent of GDP)	69.2	87	130	132.3	147.5	161.0	175.1	191.7	211.1	233.6	259.9	290.8	326.2
Of which: arrears [1, 3,4]	160	333	0	0	0	0	0	0	0	0	0	0	0
(Percent of GDP)	15.6	36	0	0	0	0	0	0	0	0	0	0	0
GDP	1,026	921	679	762	833	918	1,009	1,090	1,177	1,272	1,374	1,485	1,604

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.

[1] Projections are based on identified new borrowing and rescheduled Paris Club debt. It assumes comparable cash flow treatment for one bilateral creditor that also signed the agreement, and no debt restructuring for the remaining creditors. Arrears restructuring leads to higher rescheduled interest payments.

[2] Based on Paris Club agreement, the payments of principal and most interest during 2008 and through June 2009 are deferred.

[3] In 2008, includes accelerated amortizing notes.

[4] Debt forgivenesss reflects: (i) the first stage of debt reduction (about 22.5) percent in July 2009; (ii) the second stage reduction (about 22.5 percent) in July 2010 on Paris Club debt and one bilateral creditor. Assumes debt reduction comparable to the Paris Club agreement on

[5] Financing gaps are assumed to be closed by a hypothetical 3-year maturity amortizing loan at libor plus 13 percent.

[6] Starting with 2007, refers to CBS gross international reserves net of blocked deposits and project accounts.

Table 2a. Seychelles: External Debt Sustainability Framework for Baseline Scenario (PC Restructuring only and Nonconcessional Refinancing), 2008-19
(in percent of GDP, unless otherwise indicated)

						Projections						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
			I. Baseline Projections									
External debt [1]	**87.1**	**130.4**	**132.3**	**147.5**	**161.0**	**175.1**	**191.7**	**211.1**	**233.6**	**259.9**	**290.8**	**326.2**
Change in external debt	17.9	43.4	1.8	15.2	13.5	14.0	16.6	19.5	22.5	26.3	30.9	35.5
Identified external debt-creating flows (4+8+9)	15.9	12.9	2.7	11.1	8.9	9.5	13.5	16.1	19.3	23.2	27.9	32.7
Current account deficit, excluding interest payments	43.4	-5.4	28.5	26.2	22.6	20.8	20.3	19.4	19.4	19.6	19.9	20.0
Deficit in balance of goods and services	41.9	-9.2	24.5	20.6	15.5	12.6	10.9	8.8	7.8	7.0	6.5	5.8
Exports	109.3	139.5	106.2	105.4	104.4	103.5	104.0	104.6	104.7	104.8	104.6	105.1
Imports	151.1	130.4	130.8	126.0	119.9	116.1	114.9	113.5	112.6	111.9	111.2	110.8
Net non-debt creating capital inflows (negative)	-37.6	-26.9	-28.0	-28.3	-26.0	-25.6	-26.5	-25.6	-25.6	-25.6	-25.6	-25.6
Automatic debt dynamics [2]	10.1	45.2	2.1	13.1	12.3	14.2	19.8	22.4	25.6	29.3	33.6	38.3
Contribution from nominal interest rate	2.2	14.0	16.5	24.4	25.8	28.8	32.8	36.7	41.3	46.7	52.9	60.0
Contribution from real GDP growth	0.7	12.6	-4.1	-6.0	-6.7	-7.3	-8.1	-8.9	-9.8	-10.8	-12.0	-13.5
Contribution from price and exchange rate changes [3]	7.2	18.5	-10.2	-5.3	-6.8	-7.2	-4.9	-5.4	-5.9	-6.6	-7.3	-8.2
Residual, incl. change in gross foreign assets (2-3)	2.0	30.5	-0.8	4.2	4.6	4.5	3.1	3.3	3.1	3.1	3.0	2.8
External debt-to-exports ratio (in percent)	79.7	93.5	124.5	139.9	154.2	169.1	184.3	201.8	223.0	248.0	277.9	310.5
Gross external financing need (in billions of US dollars) [4]	0.6	0.1	0.5	0.9	0.9	1.0	1.3	1.5	1.8	2.1	2.6	3.1
in percent of GDP	66.1	20.5	67.1	105.8	94.9	101.8	117.0	125.2	139.3	155.7	173.8	195.0
Key macroeconomic assumptions												
Nominal GDP (US dollars)	0.9	0.7	0.8	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.6
Real GDP growth (percent)	-0.9	-10.7	3.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Exchange rate appreciation (US dollar value of local currency, change in percent)	-29.5	-37.3	4.3	1.7	1.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator in US dollars (change in percent)	-9.4	-17.6	8.5	4.1	4.9	4.7	2.9	2.9	2.9	2.9	2.9	2.9
Nominal external interest rate (percent)	2.9	11.8	14.2	20.2	19.3	19.6	20.2	20.7	21.1	21.6	22.0	22.3
Growth of exports (US dollar terms, percent)	15.3	-6.0	-14.5	8.5	9.1	9.0	8.5	8.7	8.2	8.1	7.8	8.5
Growth of imports (US dollar terms, percent)	32.9	-36.5	12.7	5.4	4.8	6.4	6.9	6.7	7.2	7.4	7.4	7.7
Current account balance, excluding interest payments	-43.4	5.4	-28.5	-26.2	-22.6	-20.8	-20.3	-19.4	-19.4	-19.6	-19.9	-20.0
Net non-debt creating capital inflows	37.6	26.9	28.0	28.3	26.0	25.6	26.5	25.6	25.6	25.6	25.6	25.6
			II. Stress Tests for External Debt Ratio									
A. Alternative scenarios												
A1. Key variables are at their historical averages in 2008-13 [5]	**87.1**	**108.1**	**107.1**	**109.6**	**112.4**	**115.1**	**116.5**	**118.1**	**119.5**	**120.8**	**121.9**	**122.8**
B. Bound tests												
B1. Nominal interest rate is at baseline plus one standard deviation	**87.1**	**133.6**	**138.7**	**157.9**	**176.2**	**195.8**	**219.6**	**247.8**	**280.9**	**320.1**	**366.7**	**421.2**
B2. Real GDP growth is at baseline minus two standard deviations	**87.1**	**135.8**	**140.2**	**158.7**	**175.7**	**193.5**	**214.0**	**238.2**	**265.9**	**298.3**	**336.3**	**380.3**
B3. Non-interest current account is at baseline minus one standard deviations	**87.1**	**138.8**	**149.1**	**174.3**	**198.4**	**224.0**	**254.5**	**289.6**	**329.9**	**376.7**	**431.0**	**493.2**
B4. Combination of B1-B3 using 1/4 standard deviation shocks	**87.1**	**134.0**	**139.0**	**158.2**	**176.0**	**194.8**	**217.2**	**243.4**	**273.8**	**309.3**	**351.0**	**399.2**
B5. One time 15 percent of additional real depreciation in 2009	**87.1**	**153.6**	**150.9**	**163.9**	**175.1**	**186.8**	**200.7**	**217.5**	**236.9**	**259.7**	**286.7**	**317.7**

[1] Includes CBS external debt.

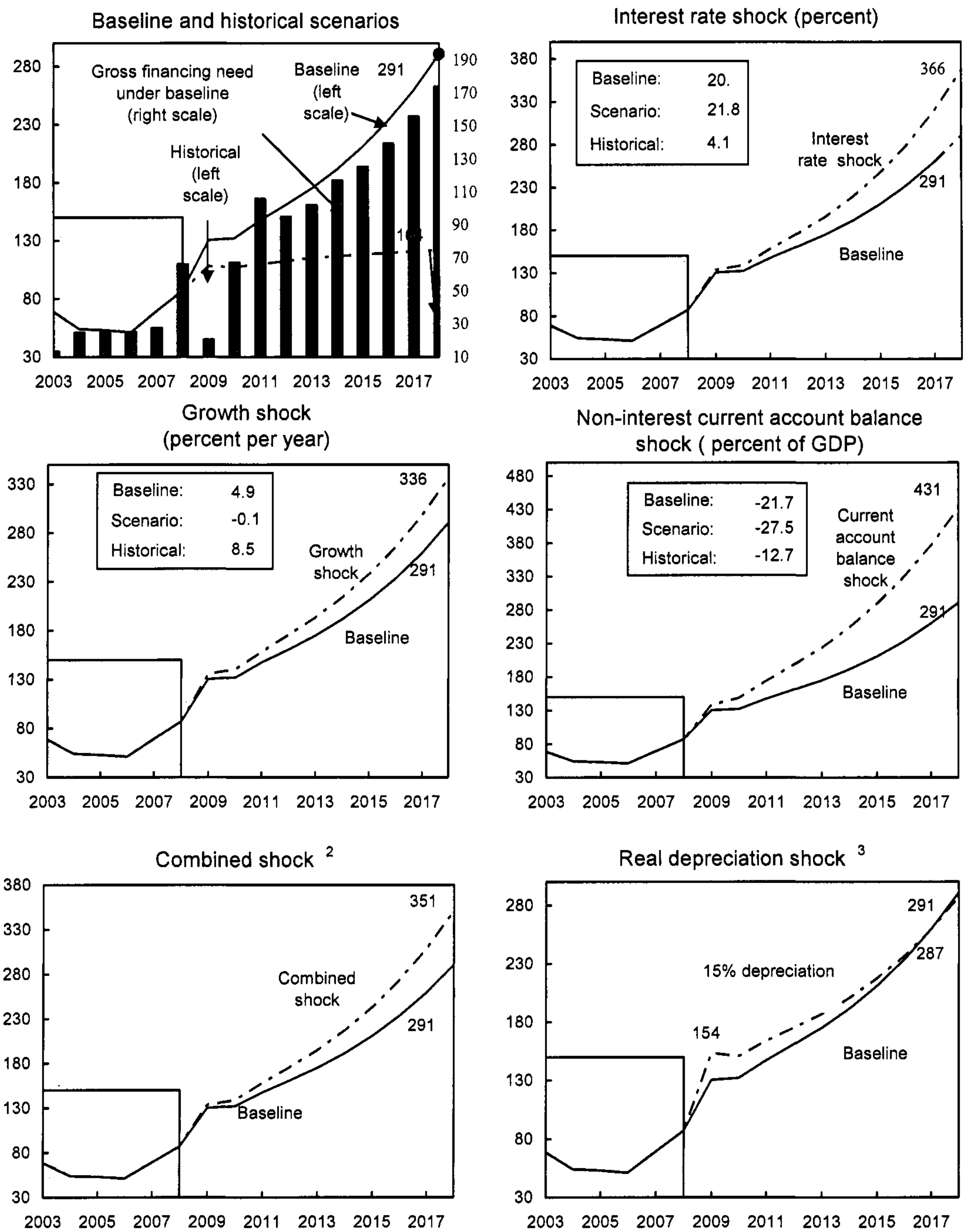
[2] Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

[3] The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

[4] Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

[5] The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

Figure 1a. External DSA: Bound Tests for Baseline Scenario (PC Restructuring and Nonconcessional Refinancing)[1](External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

[1] External financing gap is assumed to be closed by external borrowing at LIBOR plus 1300bps, with three year maturity. Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks (two standard deviations for growth shock). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

[2] Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

[3] One-time real depreciation of additional 15 percent occurs in 2009.

Table 2b. Seychelles: Public Sector Debt Sustainability Framework for Baseline Scenario (PC Restructuring only and Nonconcessional Refinancing of Private Sector Creditors), 2006-19

(Percent of GDP, unless otherwise indicated)

	Actual			Projections										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public sector debt [1]	132.4	129.8	**139.4**	**172.2**	**162.8**	**173.8**	**183.8**	**195.4**	**210.8**	**229.5**	**252.2**	**278.7**	**309.3**	**342.7**
o/w foreign-currency denominated	51.0	63.9	87.1	130.4	132.3	147.5	161.0	175.1	191.7	211.1	233.6	259.9	290.8	326.2
Change in public sector debt	-9.4	-2.6	9.6	32.8	-9.4	11.0	9.9	11.6	15.4	18.7	22.7	26.5	30.6	33.4
Identified debt-creating flows (4+7+12)	-7.5	-7.7	-5.5	25.7	-6.9	7.0	6.1	8.1	14.3	17.1	21.2	24.9	29.2	33.9
Primary deficit (negative means surplus)	0.5	2.0	-3.9	-11.4	-9.8	-5.4	-4.8	-4.9	-4.2	-4.1	-3.3	-3.3	-3.3	-3.4
Revenue and grants	41.2	32.2	36.4	35.7	34.3	33.6	33.7	34.3	34.1	34.9	34.4	34.7	34.7	34.8
Primary (noninterest) expenditure	41.7	34.2	32.5	24.3	24.5	28.2	29.0	29.4	30.0	30.7	31.2	31.4	31.4	31.4
Automatic debt dynamics 2/	-9.3	-7.8	1.3	40.9	4.7	13.4	11.7	13.8	19.3	22.0	25.2	28.9	33.2	37.9
Contribution from interest rate/growth differential [3]	-9.4	-17.4	-20.6	-8.2	10.4	15.9	14.5	16.8	19.3	22.0	25.2	28.9	33.2	37.9
Of which contribution from real interest rate	2.4	-6.9	-21.5	-20.9	16.0	23.4	22.5	25.3	28.4	31.8	35.8	40.6	46.1	52.2
Of which contribution from real GDP growth	-11.8	-10.5	0.9	12.7	-5.6	-7.6	-8.0	-8.5	-9.0	-9.8	-10.6	-11.7	-12.9	-14.3
Contribution from exchange rate depreciation [4]	0.1	9.6	21.9	49.1	-5.7	-2.4	-2.7	-3.0	0.0	0.0	0.0	0.0	0.0	0.0
Denominator = 1+g+p+gp	1.1	1.2	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other identified debt-creating flows	1.2	-2.0	-2.9	-3.8	-1.8	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7
Privatization receipts (negative)	-3.6	-2.0	-2.9	-3.8	-1.8	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7
Recognition of implicit or contingent liabilities	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3)	-1.9	5.1	15.1	7.1	-2.5	3.9	3.9	3.5	1.1	1.6	1.5	1.6	1.4	-0.5
Public sector debt-to-revenue ratio [1]	321.6	403.1	383.0	482.3	475.0	517.3	544.6	569.7	617.4	658.1	732.0	802.7	891.6	985.7
Gross financing need [5]	53.1	39.4	45.1	35.8	63.8	101.0	91.8	97.6	106.5	109.9	122.5	136.8	151.9	198.6
in billions of U.S. dollars	0.5	0.4	0.4	0.2	0.5	0.8	0.8	1.0	1.2	1.3	1.6	1.9	2.3	3.0
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	9.3	9.7	-0.9	-10.7	3.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Average nominal interest rate on public debt (in percent) [6]	4.2	6.1	7.1	10.5	14.2	18.0	17.3	17.9	18.7	19.3	19.9	20.4	20.9	21.3
Average nominal interest rate on forex debt (in percent) [6]	2.6	7.5	4.4	11.4	13.7	20.1	19.1	19.5	20.1	20.6	21.0	21.5	21.9	22.2
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.1	-5.3	-21.3	-20.9	10.2	15.6	14.2	15.0	15.8	16.4	17.0	17.5	18.0	18.4
Nominal depreciation of local currency (LC per dollar)	0.4	21.4	41.8	59.4	-4.2	-1.7	-1.7	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Nominal appreciation (increase in US dollar value of local currency, in percent)	-0.4	-17.6	-29.5	-37.3	4.3	1.7	1.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	2.1	11.4	28.4	31.4	4.0	2.4	3.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	36.0	-10.0	-5.8	-33.3	4.4	20.6	8.1	6.7	6.8	7.8	6.5	5.8	5.0	5.0
Primary deficit	0.5	2.0	-3.9	-11.4	-9.8	-5.4	-4.8	-4.9	-4.2	-4.1	-3.3	-3.3	-3.3	-3.4
A. Alternative scenarios														
A1. Key variables are at their historical averages in 2008-12 [7]			**139.4**	**187.4**	**183.7**	**190.5**	**197.4**	**204.1**	**211.5**	**219.8**	**228.3**	**237.4**	**246.6**	**254.2**
A2. No policy change (constant primary balance) in 2008-12			**139.4**	**185.6**	**188.4**	**209.0**	**228.2**	**250.0**	**277.1**	**308.8**	**345.5**	**388.1**	**437.0**	**491.4**
B. Bound tests														
B1. Real interest rate is at baseline plus one-half standard deviations			**134.9**	**171.9**	**167.9**	**184.7**	**201.3**	**220.6**	**245.7**	**275.9**	**312.6**	**356.2**	**407.6**	**470.2**
B2. Real GDP growth is at baseline minus two standard deviation			**139.4**	**180.3**	**178.9**	**201.1**	**224.7**	**253.3**	**290.5**	**336.4**	**393.0**	**461.5**	**543.6**	**629.8**
B3. Primary balance is at baseline minus one standard deviation			**139.4**	**177.1**	**172.9**	**189.6**	**205.6**	**223.8**	**247.0**	**274.4**	**307.0**	**344.7**	**388.2**	**436.8**
B4. Combination of B1-B3 using one-quarter standard deviation shocks			**139.4**	**184.3**	**186.1**	**211.1**	**236.9**	**267.5**	**306.5**	**354.1**	**412.1**	**482.2**	**566.2**	**665.4**
B5. One time 15 percent additional real depreciation in 2009 [8]			**134.9**	**206.4**	**198.0**	**211.9**	**224.4**	**239.1**	**258.8**	**282.5**	**311.0**	**344.2**	**382.6**	**429.1**
B6. 10 percent of GDP increase in other debt-creating flows in 2009			**139.4**	**182.2**	**173.1**	**184.9**	**195.6**	**208.2**	**224.8**	**245.0**	**269.3**	**297.8**	**330.7**	**367.4**

[1] Public sector covers non-finacial public sector and the IMF loan to the CBS. Debt is on a gross basis. External and domestic financing gaps are assumed to be closed by additional borrowing.

[2] Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

[3] The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

[4] The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

[5] Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

[6] Derived as nominal interest expenditure divided by previous period debt stock.

[7] The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

[8] Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

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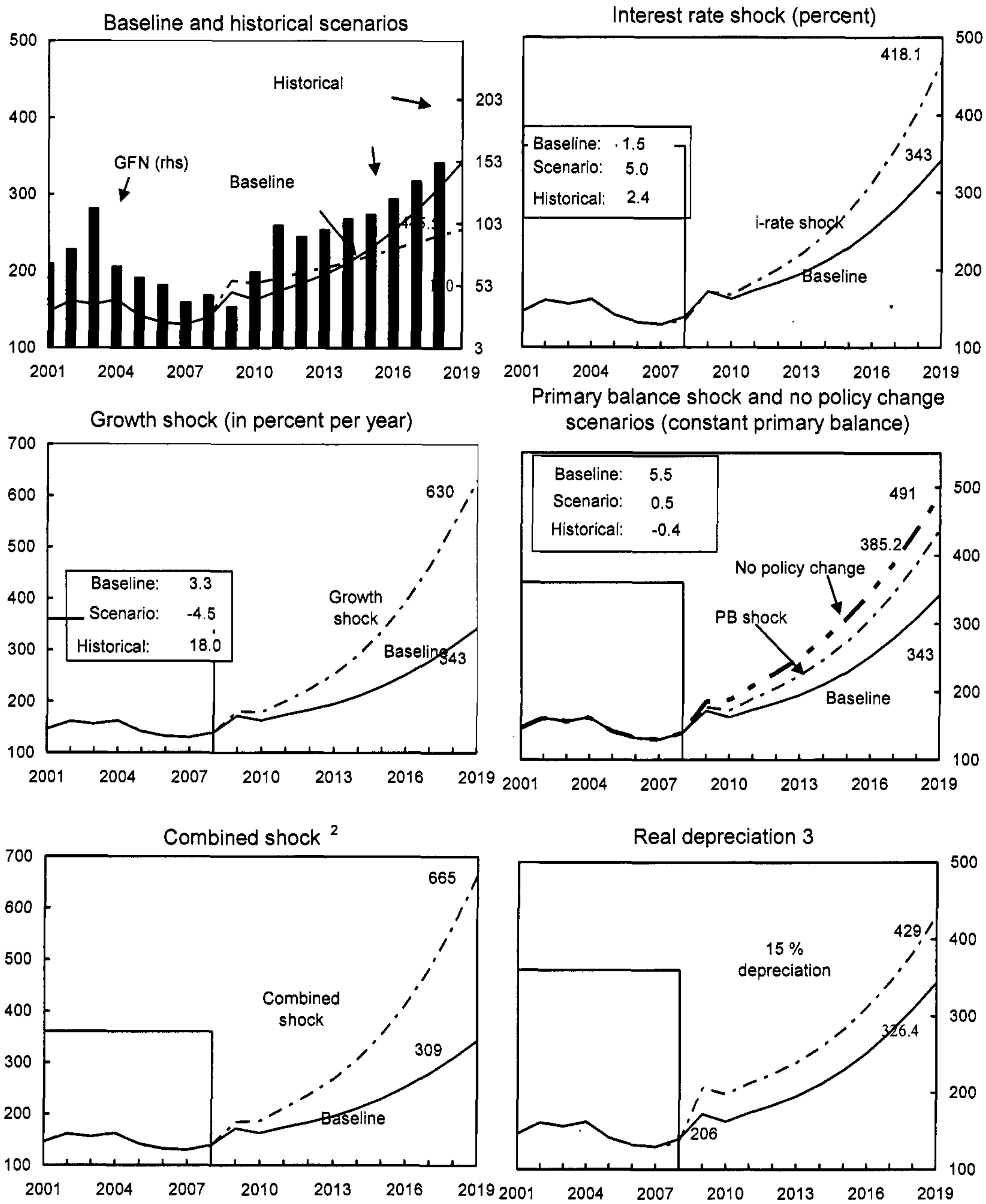
Figure 1b. Public DSA: Bound Tests for Baseline Scenario (PC Restructuring and Nonconcessional Refinancing of Private Sector Creditors [1]
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

[1] Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks (two s.d. for growth). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

[2] Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

[3] One-time additional real depreciation of 15 percent in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 3. Seychelles: Balance of Payments Alternative Scenario (Assuming Comparibility of Treatment for other Creditors), 2007–19

(Millions of U.S. dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
		Prel.	Proj.	Proj.									
Current account	-213	-420	-195	-240	-240	-230	-234	-249	-260	-279	-303	-331	-346
(Percent of GDP)	-21	-46	-29	-31	-29	-25	-23	-23	-22	-22	-22	-22	-22
Trade balance	-175	-386	-146	-187	-172	-142	-127	-119	-104	-100	-97	-97	-92
Income, net	-72	-103	-101	-112	-129	-149	-169	-194	-221	-246	-274	-303	-325
Of which: interest payments due [1]	-33	-33	-25	-21	-21	-23	-25	-29	-34	-34	-36	-37	-28
Current transfers, net	33	69	52	60	60	61	62	63	65	66	68	70	71
General government, net	10	43	27	35	35	36	36	37	38	39	39	40	41
Other sectors, net	23	26	25	25	25	26	26	27	27	28	29	29	30
Capital and financial account	261	172	231	280	298	291	299	318	320	341	362	385	413
Capital account	8	5	158	158	5	5	5	6	6	6	6	6	6
Financial account	254	167	73	122	293	286	294	311	314	335	356	379	407
Direct investment, net	225	346	183	213	236	239	258	289	301	326	352	381	411
Portfolio investment, net	31	1	0	0	0	0	0	0	0	0	0	0	0
Other investment, net	-2	-180	-110	-91	58	47	36	22	12	9	4	-2	-5
Net errors and omissions	-8	101	23	0	0	0	0	0	0	0	0	0	0
Overall balance	40	-147	59	40	58	61	65	68	60	62	59	55	66
Financing	-40	147	-59	-40	-58	-61	-65	-68	-60	-62	-59	-55	-66
Change in net international reserves (increase: –)	49	-27	-64	-40	-58	-61	-65	-68	-60	-62	-59	-55	-66
Change in gross official reserves (increase: –)	49	-36	-68	-53	-58	-55	-55	-62	-59	-62	-59	-55	-66
Prospective liabilities to IMF, net	0	10	4	13	0	-6	-10	-6	-1	0	0	0	0
Other NFA (increase: –)	0	0	-10	0	0	0	0	0	0	0	0	0	0
Exceptional financing	-89	174	15	0	0	0	0	0	0	0	0	0	0
Change in arrears (increase: +) [3,4]	-89	174	-333	0	0	0	0	0	0	0	0	0	0
Clearance of arrears		...	348	0	0	0	0	0	0	0	0	0	0
Financing gap [5]	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing gap (before closing)	0	0	-10	0	0	-5	-5	-12	-9	-12	-9	-5	-16
Memorandum items:													
Gross international reserves (stock, e.o.p.) [6]	10	51	119	172	230	285	340	402	461	523	582	637	703
Months of prospective imports of goods and services	0.1	1	1	2.0	2.5	2.9	3.3	3.6	3 9	4.1	4.2	4.3	4.4
Public external debt [1,4,6]	710	802	669	561	599	632	655	659	665	670	672	672	668
(Percent of GDP)	69.2	87	99	73.7	71.9	68.9	65.0	60.4	56.5	52.7	48.9	45.2	41 7
Of which: arrears [1,3,4]	160	333	0	0	0	0	0	0	0	0	0	0	0
(Percent of GDP)	15.6	36	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP	1,026	921	679	762	833	918	1,009	1,090	1,177	1,272	1,374	1,485	1,604

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.

[1] Projections are based on identified new borrowing and rescheduled Paris Club debt. It assumes restructuring of debt to other creditors on comparable cash flow treatment. Arrears restructuring leads to higher rescheduled interest payments.

[2] Based on Paris Club agreement, the payments of principal and most interest during 2008 and through June 2009 are deferred.

[3] In 2008, includes accelerated promissory notes.

[4] Debt forgivenesss reflects: (i) the first stage of debt reduction (about 22.5) percent in July 2009; (ii) the second stage reduction (about 22.5 percent) in July 2010 on Paris Club debt. Assumes debt reduction comparable to the Paris Club agreement on

[5] Negative financing gaps (surpluses) are added to official reserves.

[6] Starting with 2007, refers to CBS gross international reserves net of blocked deposits and project accounts.

Table 3a. Seychelles: External Debt Sustainability Framework for Alternative Scenario (Assuming Comparibility of Treatment for other Creditors),2005-2019

(Percent of GDP, unless otherwise indicated)

	Actual			Prel	Projections										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Baseline: external debt	53.0	51.1	69.2	**87.1**	**98.7**	**73.7**	**71.9**	**68.9**	**65.0**	**60.4**	**56.5**	**52.7**	**48.9**	**45.2**	**41.7**
Change in external debt	-0.9	-1.9	18.1	17.9	11.6	-25.0	-1.8	-3.0	-3.9	-4.5	-4.0	-3.8	-3.8	-3.7	-3.6
Identified external debt-creating flows (4+8+9)	6.0	-5.7	-1.4	8.7	-14.9	0.4	-2.9	-4.1	-5.5	-6.6	-6.3	-6.3	-6.0	-5.6	-6.2
Current account deficit, excluding interest payments	18.3	12.1	17.7	43.4	-7.5	27.9	25.7	22.3	20.7	20.2	19.2	19.3	19.4	19.8	19.8
Deficit in balance of goods and services	18.0	13.2	17.0	41.9	-9.2	24.5	20.6	15.5	12.6	10.9	8.8	7.8	7.0	6.5	5.8
Exports	78.5	84.1	85.1	109.3	139.5	106.2	105.4	104.4	103.5	104.0	104.6	104.7	104.8	104.6	105.1
Imports	96.5	97.3	102.1	151.1	130.4	130.8	126.0	119.9	116.1	114.9	113.5	112.6	111.9	111.2	110.8
Net non-debt creating capital inflows (negative)	-8.6	-13.5	-21.9	-37.6	-26.9	-28.0	-28.3	-26.0	-25.6	-26.5	-25.6	-25.6	-25.6	-25.6	-25.6
Automatic debt dynamics [1]	-3.7	-4.3	2.8	2.9	19.5	0.5	-0.3	-0.5	-0.7	-0.3	0.0	0.1	0.2	0.2	-0.3
Contribution from nominal interest rate	0.7	1.1	3.1	2.2	6.9	3.6	3.1	2.8	2.5	2.7	2.8	2.7	2.7	2.5	1.8
Contribution from real GDP growth	-3.3	-4.4	-4.9	0.7	12.6	-3.1	-3.4	-3.3	-3.1	-3.0	-2.8	-2.6	-2.4	-2.3	-2.1
Contribution from price and exchange rate changes [2]	-1.2	-0.9	4.6	...	...	...	...	...	...	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) [3]	-6.9	3.8	19.5	9.2	26.5	-25.4	1.1	1.1	1.6	2.1	2.4	2.5	2.3	2.0	2.6
External debt-to-exports ratio (in percent)	67.5	60.8	81.3	79.7	70.7	69.4	68.2	65.9	62.8	58.1	54.0	50.3	46.6	43.2	39.7
Gross external financing need (in billions of US dollars) [4]	0.2	0.3	0.3	0.6	0.0	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4
in percent of GDP	24.7	25.1	27.3	66.1	1.6	31.4	28.8	25.1	23.7	23.8	23.2	23.1	23.4	23.7	23.1
Key macroeconomic assumptions underlying baseline															
Real GDP growth (percent)	6.6	9.3	9.7	-0.9	-10.7	3.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	0.0	-0.4	-17.6	-29.5	-37.3	4.3	1.7	1.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator (change in domestic currency)	2.3	2.1	11.4	28.4	31.4	4.0	2.4	3.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9
GDP deflator in U.S. dollars (change in percent)	2.3	1.7	-8.2	-9.4	-17.6	8.5	4.1	4.9	4.7	2.9	2.9	2.9	2.9	2.9	2.9
Nominal external interest rate (percent)	1.4	2.2	6.2	2.9	5.8	4.1	4.6	4.2	3.9	4.5	5.1	5.1	5.4	5.5	4.2
Growth of exports (U.S. dollar terms, in percent)	14.7	19.2	1.8	15.3	-6.0	-14.5	8.5	9.1	9.0	8.5	8.7	8.2	8.1	7.8	8.5
Growth of imports (U.S. dollar terms, in percent)	33.5	12.1	5.6	32.9	-36.5	12.7	5.4	4.8	6.4	6.9	6.7	7.2	7.4	7.4	7.7
Current account balance, excluding interest payments	-18.3	-12.1	-17.7	-43.4	7.5	-27.9	-25.7	-22.3	-20.7	-20.2	-19.2	-19.3	-19.4	-19.8	-19.8
Net non-debt creating capital inflows	8.6	13.5	21.9	37.6	26.9	28.0	28.3	26.0	25.6	26.5	25.6	25.6	25.6	25.6	25.6
II. Stress Tests for External Debt Ratio															
Scenario with key variables at their historical averages 5/				87.1 #	92.9	80.7	84.1	87.9	91.7	94.7	97.7	100.6	103.1	105.2	104.9
B. Bound Tests															
B1. Nominal interest rate is at historical average plus one standard deviation				87.1	101.8	79.0	78.9	77.5	75.0	72.0	69.5	67.0	64.6	62.2	55.3
B2 Real GDP growth is at historical average minus one standard deviations				87.1	102.8	77.3	75.2	71.2	65.5	58.0	50.3	41.7	31.9	20.9	9.2
B3. Non-interest current account is at historical average minus one standard deviations				87.1	107.0	89.7	95.5	99.6	102.4	104.9	108.1	111.2	114.3	117.5	118.7
B4. Combination of B1-B3 using 1/2 standard deviation shocks				87.1	102.0	79.5	80.0	79.0	77.0	74.4	72.2	70.1	67.9	65.6	63.1
B5. One time 30 percent real depreciation in 2006				87.1	116.8	82.7	76.3	69.4	61.9	53.6	46.2	38.9	31.8	24.7	50.9

[1] Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

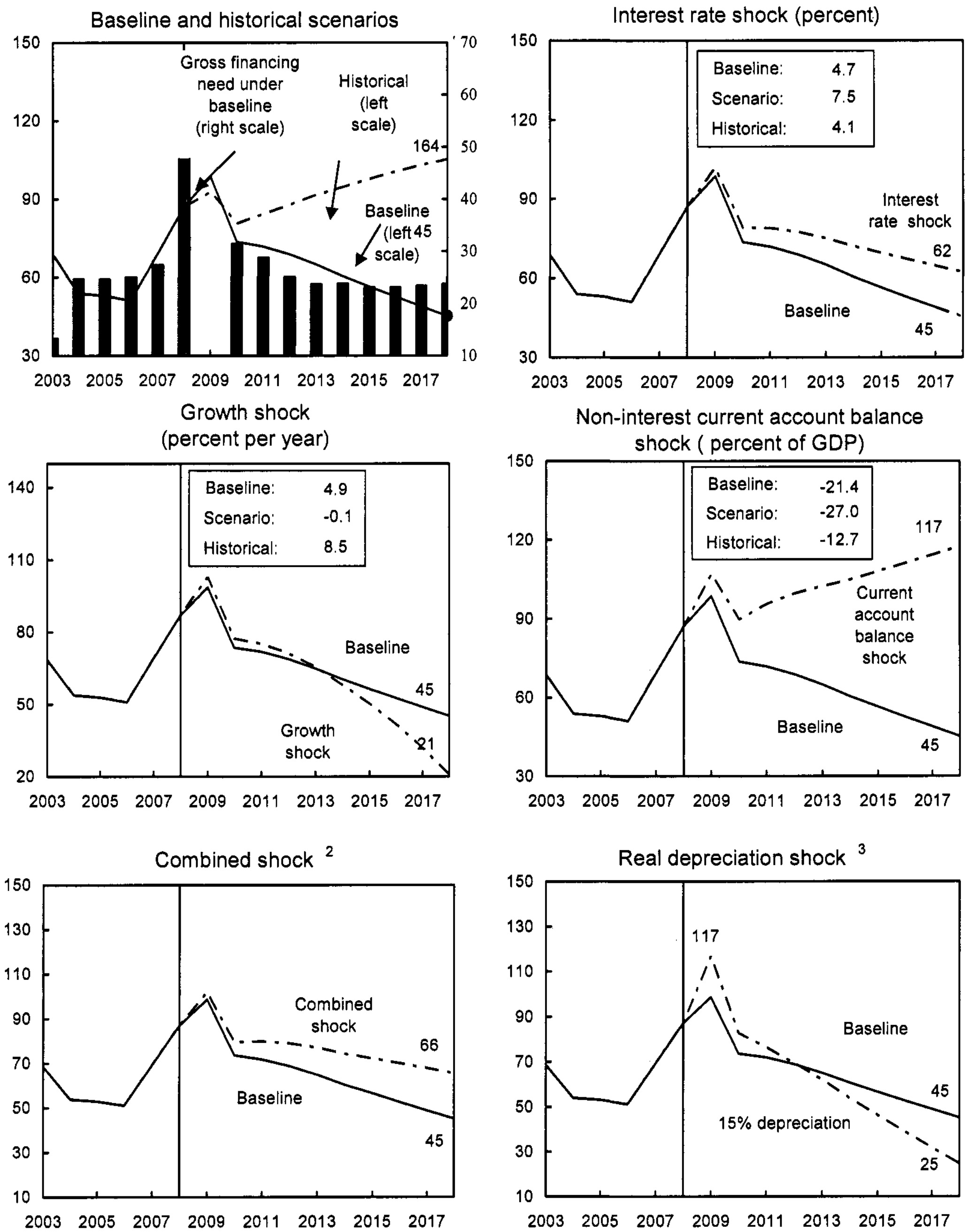
[2] The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

[3] For projection, line includes the impact of price and exchange rate changes.

[4] Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

[5] The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

Figure 2a. External DSA: Bound Tests for Alternative Scenario (Assuming Comparibility of Treatment for other Creditors), 2003-19[1] (External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

[1] External financing gap is assumed to be closed by external borrowing at LIBOR plus 1300bps, with 3 year maturity. Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks (two standard deviations for growth shock). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

[2] Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

[3] One-time real depreciation of additional 15 percent occurs in 2009.

Table 3b. Seychelles: Public Sector Debt Sustainability Framework for Concessional Refinancing Scenario, 2006–19

(Percent of GDP, unless otherwise indicated)

	Actual				Projections										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public sector debt [1]	141.8	132.4	129.8	**139.4**	**140.9**	**113.8**	**107.7**	**100.9**	**94.0**	**87.3**	**81.5**	**76.6**	**71.9**	**67.0**	**62.5**
o/w foreign-currency denominated	44.9	51.0	63.9	87.1	98.7	73.7	71.9	68.9	65.0	60.4	56.5	52.7	48.9	45.2	41.7
Change in public sector debt	-20.4	-9.4	-2.6	9.6	1.5	-27.1	-6.0	-6.8	-6.9	-6.7	-5.8	-4.9	-4.8	-4.8	-4.5
Identified debt-creating flows (4+7+12)	-46.9	-7.5	-7.7	-4.6	19.1	-15.7	-9.1	-9.9	-9.8	-7.5	-6.9	-5.8	-5.6	-5.4	-5.1
Primary deficit (negative means surplus)	-7.1	0.5	2.0	-2.9	-11.4	-9.8	-5.4	-4.8	-4.9	-4.2	-4.1	-3.3	-3.3	-3.3	-3.4
Revenue and grants	40.6	41.2	32.2	35.5	35.7	34.3	33.6	33.7	34.3	34.1	34.9	34.4	34.7	34.7	34.8
Primary (noninterest) expenditure	33.5	41.7	34.2	32.5	24.3	24.5	28.2	29.0	29.4	30.0	30.7	31.2	31.4	31.4	31.4
Automatic debt dynamics [2]	-38.6	-9.3	-7.8	1.3	34.3	-4.2	-2.7	-4.2	-4.1	-2.5	-2.0	-1.8	-1.5	-1.4	-1.1
Contribution from interest rate/growth differential [3]	-38.6	-9.4	-17.4	-20.6	-12.3	-0.2	-1.5	-3.1	-3.0	-2.5	-2.0	-1.8	-1.5	-1.4	-1.1
Of which contribution from real interest rate	3.1	2.4	-6.9	-21.5	-25.0	4.4	3.8	1.9	1.7	1.9	2.1	2.0	2.0	1.9	2.0
Of which contribution from real GDP growth	-41.7	-11.8	-10.5	0.9	12.7	-4.6	-5.3	-5.0	-4.7	-4.3	-4.0	-3.8	-3.5	-3.3	-3.1
Contribution from exchange rate depreciation [4]	0.0	0.1	9.6	21.9	46.6	-4.0	-1.2	-1.2	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Denominator = 1+g+p+gp	1.4	1.1	1.2	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other identified debt-creating flows	-1.3	1.2	-2.0	-2.9	-3.8	-1.8	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6
Privatization receipts (negative)	-1.3	-3.6	-2.0	-2.9	-3.8	-1.8	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6
Recognition of implicit or contingent liabilities	0.0	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3)	26.5	-1.9	5.1	14.2	-17.7	-11.4	3.0	3.1	2.9	0.8	1.1	0.9	0.8	0.5	0.6
Public sector debt-to-revenue ratio [1]	349.5	321.6	403.1	392.9	394.6	331.8	320.5	299.0	274.0	255.7	233.8	222.4	207.0	193.3	180.3
Gross financing need [5]	59.1	53.1	39.4	46.1	24.1	32.7	28.9	24.5	21.1	17.4	15.9	15.5	14.5	13.9	14.9
Billions of U.S. dollars	0.5	0.5	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Key macroeconomic and fiscal aAssumptions															
Real GDP growth (in percent)	35.0	9.3	9.7	-0.9	-10.7	3.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Average nominal interest rate on public debt (in percent) [6]	3.7	4.2	6.1	7.1	7.0	7.5	6.1	5.2	4.9	5.2	5.6	5.6	5.9	5.9	6.3
Average nominal interest rate on forex debt (in percent) [6]	1.7	2.6	7.5	4.4	5.8	4.1	4.6	4.2	3.9	4.5	5.1	5.1	5.4	5.5	4.2
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.9	2.1	-5.3	-21.3	-24.4	3.5	3.7	2.1	2.0	2.3	2.7	2.7	3.0	3.0	3.4
Exchange rate (LC per US dollar)	5.5	5.5	6.7	9.5	15.2	14.5	14.3	14.0	13.8	13.8	13.8	13.8	13.8	13.8	13.8
Nominal depreciation of local currency (LC per dollar)	0.0	0.4	21.4	41.8	59.4	-4.2	-1.7	-1.7	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	-0.4	-17.6	-29.5	-37.3	4.3	1.7	1.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	0.8	2.1	11.4	28.4	31.4	4.0	2.4	3.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	0.4	36.0	-10.0	-5.8	-33.3	4.4	20.6	8.1	6.7	6.8	7.8	6.5	5.8	5.0	5.0
Primary deficit	-7.1	0.5	2.0	-2.9	-11.4	-9.8	-5.4	-4.8	-4.9	-4.2	-4.1	-3.3	-3.3	-3.3	-3.4
A. Alternative scenarios															
A1. Key variables are at their historical averages in 2008-12 [7]				**139.4**	**165.1**	**153.6**	**159.4**	**165.4**	**171.6**	**177.5**	**184.1**	**190.7**	**197.4**	**204.0**	**211.1**
A2. No policy change (constant primary balance) in 2008-12				**139.4**	**154.3**	**138.6**	**139.5**	**138.2**	**136.7**	**135.1**	**134.4**	**133.6**	**133.1**	**132.4**	**132.3**
B. Bound tests															
B1. Real interest rate is at baseline plus one-half standard deviations				**139.4**	**146.6**	**123.9**	**121.6**	**118.1**	**114.3**	**110.8**	**108.0**	**106.0**	**104.1**	**102.0**	**100.3**
B2. Real GDP growth is at baseline minus two standard deviation				**139.4**	**147.8**	**126.1**	**127.2**	**128.2**	**130.1**	**133.4**	**139.1**	**147.0**	**156.6**	**167.6**	**180.8**
B3. Primary balance is at baseline minus one standard deviation				**139.4**	**145.8**	**123.5**	**122.2**	**119.8**	**117.0**	**114.7**	**113.3**	**112.6**	**112.1**	**111.4**	**111.2**
B4. Combination of B1-B3 using one-quarter standard deviation shocks				**139.4**	**151.6**	**132.3**	**134.2**	**134.8**	**135.1**	**135.6**	**137.2**	**139.5**	**142.0**	**144.5**	**147.6**
B5. One time 15 percent additional real depreciation in 2009 [8]				**139.4**	**180.2**	**151.9**	**145.0**	**136.7**	**128.3**	**120.7**	**114.2**	**108.6**	**103.2**	**97.7**	**92.8**
B6. 10 percent of GDP increase in other debt-creating flows in 2009				**139.4**	**150.9**	**123.5**	**117.2**	**110.0**	**102.7**	**95.8**	**89.8**	**84.7**	**79.8**	**74.8**	**70.2**

[1] Public sector covers non-finacial public sector and the IMF loan to the CBS. Debt is on a gross basis. External and domestic financing gaps are assumed to be closed by additional borrowing.

[2] Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

[3] The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

[4] The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

[5] Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

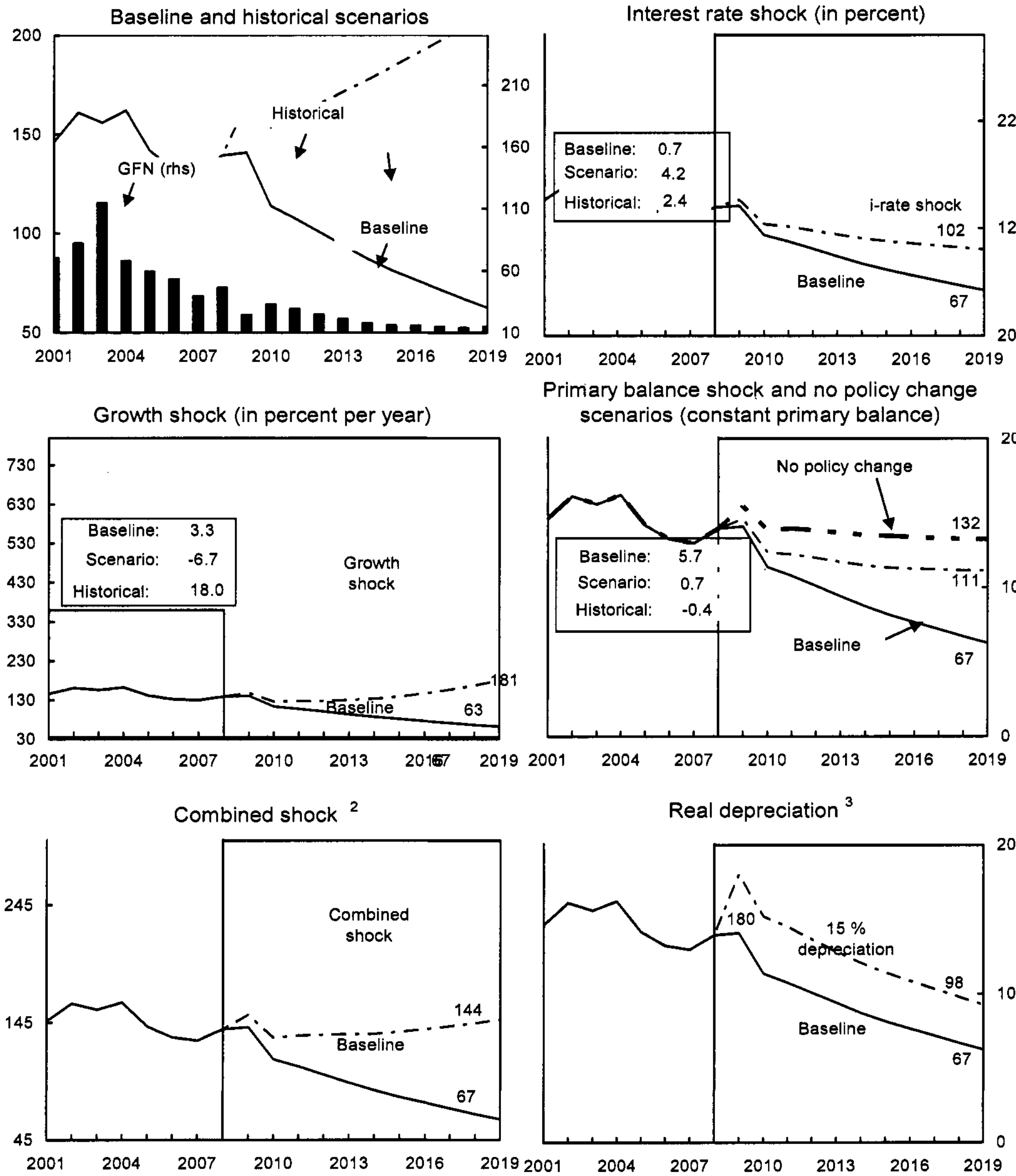
[6] Derived as nominal interest expenditure divided by previous period debt stock.

[7] The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

[8] Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 2b. Public DSA: Bound Tests for Restructuring Scenario [1]

(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

[1] Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks (two s.d. for growth). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

[2] Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

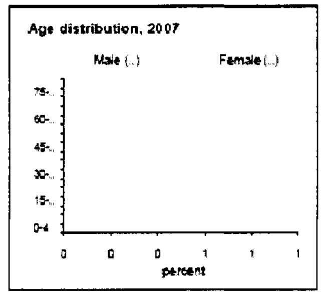
[3] One-time additional real depreciation of 15 percent in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Annex 6: Country at a Glance
(includes country map)

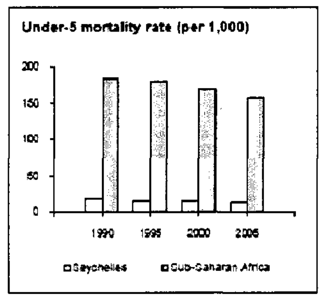
Seychelles at a glance

9/24/08

Key Development Indicators	Seychelles	Sub-Saharan Africa	Upper middle income
(2007)			
Population, mid-year (millions)	0.09	800	823
Surface area (thousand sq. km)	0.5	24,242	41,497
Population growth (%)	0.5	2.4	0.6
Urban population (% of total population)	54	36	75
GNI (Atlas method, US$ billions)	0.8	762	5,750
GNI per capita (Atlas method, US$)	8,960	952	6,987
GNI per capita (PPP, international $)	8,670	1,870	11,868
GDP growth (%)	6.3	6.2	5.8
GDP per capita growth (%)	5.8	3.7	5.1
(most recent estimate, 2000–2007)			
Poverty headcount ratio at $1.25 a day (PPP, %)	..	50	..
Poverty headcount ratio at $2.00 a day (PPP, %)	..	72	..
Life expectancy at birth (years)	72	50	70
Infant mortality (per 1,000 live births)	12	94	22
Child malnutrition (% of children under 5)	..	27	..
Adult literacy, male (% of ages 15 and older)	91	69	94
Adult literacy, female (% of ages 15 and older)	92	50	92
Gross primary enrollment, male (% of age group)	126	99	112
Gross primary enrollment, female (% of age group)	125	88	109
Access to an improved water source (% of population)	87	58	95
Access to improved sanitation facilities (% of population)	..	31	83

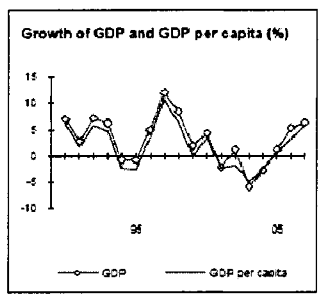


Age distribution, 2007



Under-5 mortality rate (per 1,000)

Net Aid Flows	1980	1990	2000	2007 ᵃ
(US$ millions)				
Net ODA and official aid	22	36	18	14
Top 3 donors (in 2006):				
European Commission	1	1	8	4
France	6	13	2	3
Belgium	0	5	0	2
Aid (% of GNI)	15.1	10.0	3.1	1.9
Aid per capita (US$)	334	508	225	165



Growth of GDP and GDP per capita (%)

Long-Term Economic Trends	1980	1990	2000	2007	1980–90	1990–2000	2000–07
Consumer prices (annual % change)	13.6	3.9	6.3	12.8			
GDP implicit deflator (annual % change)	22.0	5.6	1.3	7.3			
Exchange rate (annual average, local per US$)	6.4	5.3	5.7	6.7			
Terms of trade index (2000 = 100)	..	69	100	191			
					(average annual growth %)		
Population, mid-year (millions)	0.1	0.1	0.1	0.1	0.8	1.5	*0.7*
GDP (US$ millions)	147	369	615	728	3.7	4.5	*-0.2*
		(% of GDP)					
Agriculture	6.9	4.8	3.0	3.0	-1.1	0.3	*-0.2*
Industry	15.6	16.3	29.0	28.4	4.3	11.6	*1.8*
Manufacturing	7.4	10.1	19.2	17.0	6.1	8.3	*-4.2*
Services	77.5	78.9	68.0	68.6	3.9	2.7	*-1.3*
Household final consumption expenditure	44.2	52.0	53.9	79.8	-0.5	6.9	9.9
General gov't final consumption expenditure	28.7	27.7	24.2	22.6	4.9	1.7	-0.1
Gross capital formation	38.3	24.6	25.2	41.6	*10.3*	16.5	3.4
Exports of goods and services	68.0	62.5	78.2	136.4	*19.3*	5.8	*7.2*
Imports of goods and services	79.1	66.7	81.4	180.4	*16.0*	10.5	*10.0*
Gross savings	..	21.7	17.2	-0.3			

Note: Figures in italics are for years other than those specified. 2007 data are preliminary. .. indicates data are not available.
a. Aid data are for 2006.

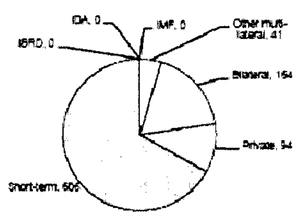
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	**2000**	**2007**
(US$ millions)		
Total merchandise exports (fob)	195	495
Total merchandise imports (cif)	341	510
Net trade in goods and services	-18	-321
Workers' remittances and compensation of employees (receipts)	2	4,910
Current account balance	-45	-302
as a % of GDP	-7.3	-41.5
Reserves, including gold	43	78

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	39.4	48.4
Tax revenue	31.4	38.1
Current expenditure	41.0	45.5
Overall surplus/deficit	-13.0	-3.4
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	304	*905*
Total debt service	21	*181*
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	49.4	*116.8*
Total debt service (% of exports)	4.4	*20.8*
Foreign direct investment (net inflows)	24	*146*
Portfolio equity (net inflows)	0	*0*

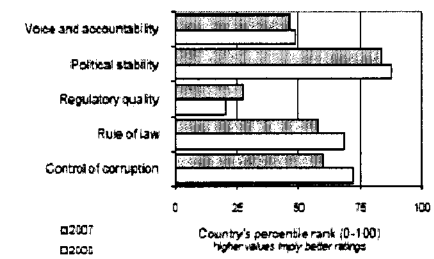
Composition of total external debt, 2006



US$ millions

Private Sector Development	**2000**	**2008**
Time required to start a business (days)	–	38
Cost to start a business (% of GNI per capita)	–	8.3
Time required to register property (days)	–	33
Ranked as a major constraint to business	**2000**	**2007**
(% of managers surveyed who agreed)		
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2007



Source: Kaufmann-Kraay-Mastruzzi, World Bank.

Technology and Infrastructure	**2000**	**2007**
Paved roads (% of total)	*84.5*	*96.0*
Fixed line and mobile phone subscribers (per 1,000 people)	57	115
High technology exports (% of manufactured exports)	*0.0*	*3.1*

Environment		
Agricultural land (% of land area)	13	*13*
Forest area (% of land area)	87.0	*87.0*
Nationally protected areas (% of land area)	..	*8.3*
Freshwater resources per capita (cu. meters)	..	..
Freshwater withdrawal (% of internal resources)	..	..
CO2 emissions per capita (mt)	7.0	*6.6*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

World Bank Group portfolio	**2000**	**2007**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	3	0
Disbursements	0	0
Principal repayments	1	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Total debt service	0	0
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	12	0
of which IFC own account	12	0
Disbursements for IFC own account	7	0
Portfolio sales, prepayments and repayments for IFC own account	3	0
MIGA		
Gross exposure	–	–
New guarantees	–	–

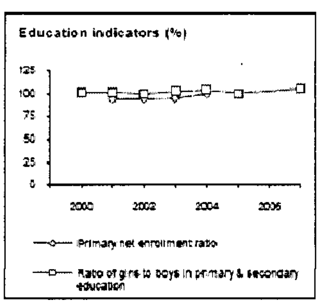
Note: Figures in italics are for years other than those specified. 2007 data are preliminary. 9/24/08
.. indicates data are not available. – indicates observation is not applicable.

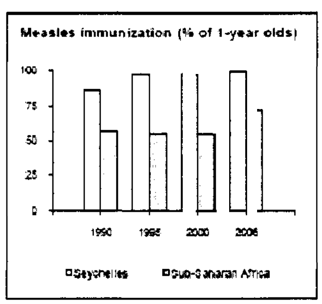
Development Economics, Development Data Group (DECDG).

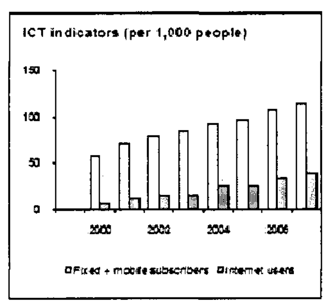
With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

Seychelles

Goal 1: halve the rates for extreme poverty and malnutrition	1990	1995	2000	2007
Poverty headcount ratio at $1.25 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest quintile (%)	..	..	..	..
Prevalence of malnutrition (% of children under 5)	..	..	..	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	*94*	99
Primary completion rate (% of relevant age group)	..	..	113	114
Secondary school enrollment (gross, %)	..	..	113	112
Youth literacy rate (% of people ages 15-24)	..	99	*99*	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	101	106
Women employed in the nonagricultural sector (% of nonagricultural employment)	49	..	..	..
Proportion of seats held by women in national parliament (%)	16	27	24	24
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	19	16	15	*13*
Infant mortality rate (per 1,000 live births)	17	14	13	*12*
Measles immunization (proportion of one-year olds immunized, %)	86	97	97	99
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)				
Births attended by skilled health staff (% of total)	..	..	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	..	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	43	40	37	*33*
Tuberculosis cases detected under DOTS (%)	..	*82*	83	*62*
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	..	88	87	..
Access to improved sanitation facilities (% of population)	..	..	..	..
Forest area (% of total land area)	87.0	..	87.0	*87.0*
Nationally protected areas (% of total land area)	..	..	..	*8.3*
CO_2 emissions (metric tons per capita)	1.6	2.5	7.0	*6.6*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	12.4	17.4	25.4	24.2
Mobile phone subscribers (per 100 people)	0.0	0.1	32.0	90.9
Internet users (per 100 people)	0.0	*0.7*	7.4	37.6
Personal computers (per 100 people)	..	..	13.6	21.2







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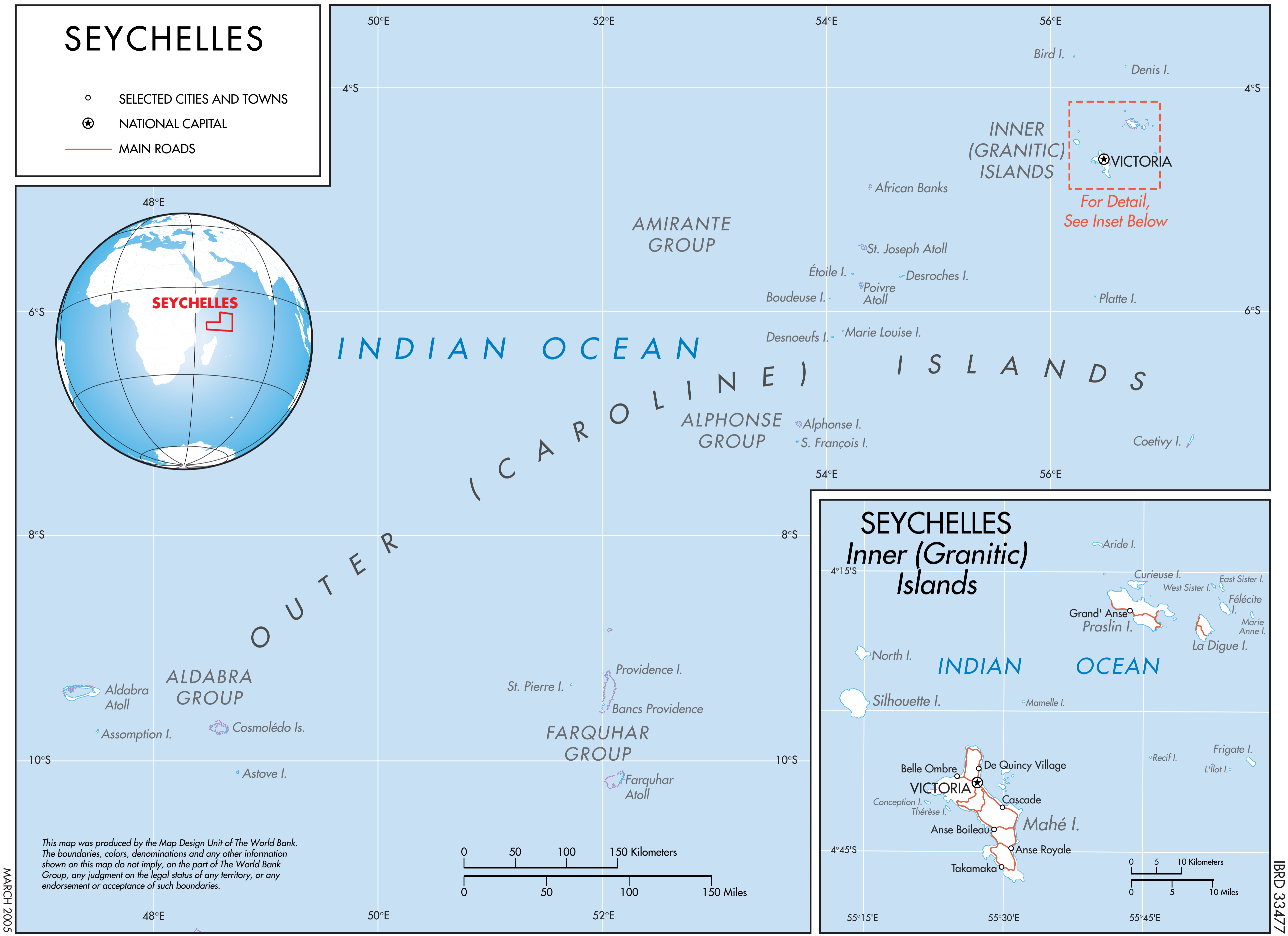
Development Economics, Development Data Group (DECDG).

MAP SECTION


SEYCHELLES
SELECTED CITIES AND TOWNS
NATIONAL CAPITAL
MAIN ROADS
SEYCHELLES
INDIAN OCEAN
OUTER (CAROLINE) ISLANDS
INNER (GRANITIC) ISLANDS
VICTORIA
For Detail, See Inset Below
Bird I.
Denis I.
African Banks
AMIRANTE GROUP
St. Joseph Atoll
Étoile I.
Desroches I.
Poivre Atoll
Boudeuse I.
Platte I.
Desnoeufs I.
Marie Louise I.
ALPHONSE GROUP
Alphonse I.
S. François I.
Coetivy I.
ALDABRA GROUP
Aldabra Atoll
Assomption I.
Cosmolédo Is.
Astove I.
St. Pierre I.
Providence I.
Bancs Providence
FARQUHAR GROUP
Farquhar Atoll
4°S
6°S
8°S
10°S
48°E
50°E
52°E
54°E
56°E
0 50 100 150 Kilometers
0 50 100 150 Miles
This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.
MARCH 2005
SEYCHELLES
Inner (Granitic) Islands
INDIAN OCEAN
Aride I.
Curieuse I.
East Sister I.
West Sister I.
Félicite I.
Grand' Anse
Praslin I.
Marie Anne I.
La Digue I.
North I.
Silhouette I.
Mamelle I.
Recif I.
Frigate I.
L'Îlot I.
Belle Ombre
De Quincy Village
VICTORIA
Conception I.
Thérèse I.
Cascade
Mahé I.
Anse Boileau
Anse Royale
Takamaka
4°15'S
4°45'S
55°15'E
55°30'E
55°45'E
0 5 10 Kilometers
0 5 10 Miles
IBRD 33477