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COUNTRY PROFILE

2017



SEYCHELLES





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2017



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Abbreviations and acronyms

AfDB	African Development Bank
AGDI	African Gender and Development Index
CBS	Central Bank of Seychelles
CIF	cost insurance and freight
COMESA	Common Market for Eastern and Southern Africa
ECA	Economic Commission for Africa
EIU	Economist Intelligence Unit
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
ICT	information and communications technology
IMF	International Monetary Fund
MFTEP	Ministry of Finance, Trade and Economic Planning
NBS	National Bureau of Statistics
OECD	Organisation for Economic Co-operation and Development
RECs	regional economic communities
SADC	Southern African Development Community
SeyCCAT	Seychelles Conservation and Climate Adaptation Trust
UNICEF	United Nations Children's Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
WHO	World Health Organization
WTTC	World Travel and Tourism Council

Seychelles at a glance

General information		Index	Rank	Out of a total of	Year	Source
Subregion	Eastern Africa	Human development index	63	188	2015	UNDP
Official language	English, French, Seychellois Creole	Gender inequality index	ND	ND	2016	
Currency	Seychellois rupee (SCR)	Ibrahim index of African governance	2	54	2016	Mo Ibrahim Foundation
Capital	Victoria	Ease of doing business index	95	190	2017	World Bank
Membership of regional economic communities and intergovernmental organizations	Common Market for Eastern and Southern Africa, Indian Ocean Commission, Southern African Development Community	Corruption perceptions index	ND	ND	2016	

Economic performance



Economic growth slowed to 4.6 per cent in 2016 compared with 5 per cent in 2015, due mainly to declines in sectors such as manufacturing. The rate is estimated to have dropped to 4 per cent in 2017 and is forecast to grow at 3.4 per cent in 2018. Primary engines of economic growth remain the tourism and fisheries sectors, with the dynamic accommodation and food services sector accounting for 14.3 per cent of gross domestic product (GDP) in 2016.

Fiscal policy



The country has begun an ambitious fiscal reform and consolidation process to achieve a 50 per cent government debt-to-GDP ratio by 2020, from 67 per cent in 2017. The Ministry of Finance, Trade and Economic Planning (MFTEP) is working with the Central Bank of Seychelles (CBS) on debt management strategies to ensure the target is met. Significant domestic resource mobilization has been recorded, notably through new taxes. Over the past decade, a positive fiscal balance has been maintained, though the overall budget ran into a small deficit in 2017 (equivalent to 0.2 per cent of GDP) due to sustained social expenditure patterns.



Inflation and monetary policy

The average consumer price inflation rate dipped by 1 per cent in 2016 compared with 4 per cent in 2015. The sustained low level was partly driven by a decrease in food and oil prices, coupled with the government's strategy on poverty and income distribution. The Central Bank of Seychelles also reduced excess liquidity by issuing short-term government securities in 2016. Saving and lending rates both declined marginally in 2016, to 2.91 and 12.42 per cent respectively.



Current account

The country's current account has consistently remained in deficit, equivalent to 18.4 per cent of GDP in 2016. Most goods consumed locally are imported, particularly food items, which represent 27 per cent of all imports. This is reflected in a trade balance deficit, standing at more than SCR 7,032 million in 2016, despite sustained export earnings (7.8 per cent growth from 2015 to 2016). Canned tuna represents 92 per cent of all goods exports.



Capital and financial accounts

Seychelles attained high-income status in 2015, resulting in a decline in overseas development assistance (ODA), from \$27 million in 2013 to \$8 million in 2015. Foreign direct investment has also been falling over the past five years, from a high of \$261 million in 2012 to \$155 million in 2016. The overall financial account continues to sustain a surplus, although this has been declining, from \$275 million in 2014 to \$252 million in 2016. The stock of currency reserves, in terms of both value and months, has kept falling, from \$535.5 million and 4.3 months in 2015 to \$524 million and 4.1 months in 2016.



Demographics

The population stood at 95,843 in 2017. Growth, at 1.1 per cent per annum, is slow. Despite this, the population remains largely youthful, with only 10.6 per cent classed as elderly (65 years and above).



Poverty and Employment

Seychelles' Human Development Index reached 0.782 in 2015, ranking number 63 of 188 globally, the highest in Africa. Only 0.25 per cent of the population live on \$1.25 or less a day. The Poverty Report for 2013, however, citing the Household Budget Survey, revealed a national poverty headcount rate of 39.3 per cent and a Gini index¹ of 0.46. This suggests substantial income inequality with direct impact on the poverty rate, indicative of the multidimensional nature of poverty.



Health

The Seychelles has free health services and impressive health-care indicators, with low maternal mortality and 99.5 per cent of births attended by skilled personnel. There has also been progress in reducing child mortality. The major threats to health and the health sector involve risks associated with new lifestyles. Non-communicable conditions, including cardiovascular disease (representing 30 per cent of mortality cases), cancer, diabetes and lung disease are the main causes of morbidity and mortality.



Education

With a literacy rate of 97 per cent, the Seychelles has surpassed the provision of universal primary (and secondary) education, with a net enrolment ratio of 121 and 119 per cent in primary and secondary education. In 2016, the primary completion rate was 107 per cent for both sexes. Until December 2015, free, compulsory education was for 10 years, from the age 6 to 15, with six years in primary education and four years in secondary education. From January 2016, that was increased to 11 years, with an additional secondary year.



Gender equality

Seychelles has made progress in achieving gender equality. Females have an advantage relative to males in enrolment in secondary and tertiary education and life expectancy at birth. The gross enrolment in tertiary education for females is 20 per cent, compared with 9 per cent for males. The proportion of women in parliament could be improved.

Overview

Seychelles has the highest per capita GDP on the African continent and ranks favourably on social indicators. Since independence on 29 June 1976, it has maintained fairly consistent economic growth. Most of the Millennium Development Goals were achieved, especially those relating to education, health and social development. A combination of factors, however, including substantial reductions in official development assistance, increased borrowing at commercial rates, accumulated debt arrears and a heavy reliance on the volatile fisheries and tourism sectors, has threatened the social achievements of past decades.

The situation has been exacerbated by other factors relative to small island developing States, namely the small domestic market, weak economies of scale, limited capacity for economic diversification, distance from markets, limited labour supply, high dependence on imports and exacerbated vulnerability to climate change. The resultant macroeconomic instability up to 2008 was characterized by large gaps in the balance of payments and a debt crisis that required debt restructuring and fiscal reforms supported by the International Monetary Fund (IMF). Interventions started in November 2008 and led, eventually, to the economy stabilizing.

The tourism sector and fishing-related activities continue to be key pillars of the economy. There were more than 300,000 visitors in 2017, three times the size of local population. The fisheries sector also has a promising future, a result of recent increased private investment.

In terms of social development, the Human Development Index, life expectancy and literacy rates are all high due to continued public investment in social protection, health and education.

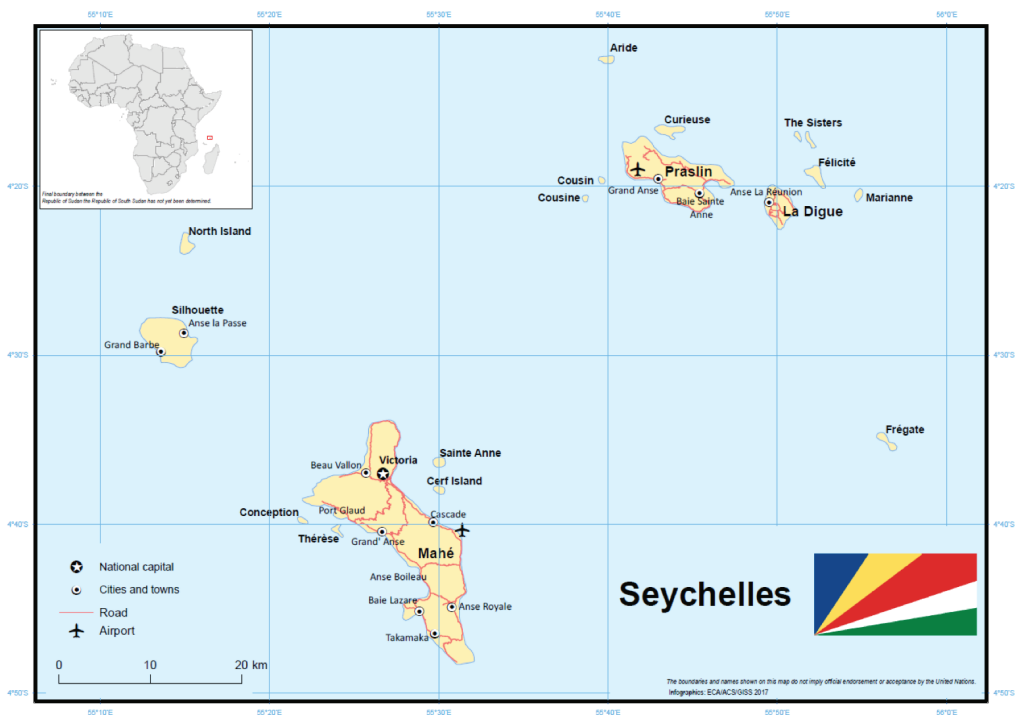
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National and subregional context

The Seychelles is an Indian Ocean archipelago of 115 islands, only 13 of which are inhabited. The capital, Victoria, the smallest capital city in Africa, is on the main island of Mahé, lying south-east of mainland eastern Africa (see map 1).

Seychelles is developing a policy framework for sustainable development that includes Vision 2032 and the forthcoming national development strategy 2018–2022. The country will take stock of existing strategic documents such as the Seychelles Sustainable Development Strategy 2012–2020, mainstream the Sustainable Development Goals and anchor the principles of the pioneering blue economy initiative. Since 2014, Seychelles has implemented the blue economy roadmap, Defining a Pathway to Prosperity, emphasizing sustainable use of its marine resources, an essential socioeconomic pillar for the country, and in line with its development vision.

Map 1: The Republic of Seychelles in the south-east Indian Ocean

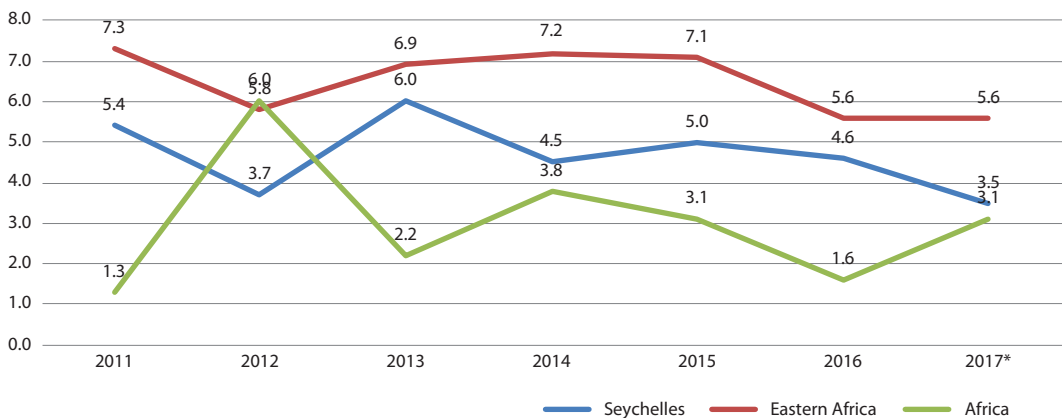


Source: ECA.

Seychelles is a member of two regional economic communities (RECs): the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). It has operated under the COMESA Free Trade Area since 2009 and is one of the most compliant members. According to the African Regional Integration Index¹ it performs above the average of other COMESA countries in regional integration indicators. It is ranked fifth in COMESA, scoring highly on regional infrastructure and free movement of persons (see box 1). An average performer within SADC, until 2016 it took part in programmes within its RECs. The macroeconomic impact of its regional integration, particularly from SADC, have predominantly been on economic stability. In 2002, SADC passed the Memorandum of Understanding on Macroeconomic Convergence to promote economic stability through various restrictions, such as low and stable inflation rates. Accordingly, Seychelles has sustained a low-level single digit inflation rate since 2012, recording inflation below the target 5 per cent in 2012.²

The economy continued to grow in 2016 at a positive 4.6 per cent, driven primarily by the tourism and information and communications technology (ICT) sectors. However, this represented a marginal slowdown compared to the 5 per cent posted in 2015 (see figure 1), primarily owing to a fall in main exports (NBS, 2017a, p. 25). The country's real GDP is estimated to have grown at 4.2 per cent in 2017, still sustained by the tourism and fisheries sectors.³

Figure 1: Real GDP growth rates from 2011 to 2018*



Source: NBS, 2017; African Development Bank, 2018; Ministry of Finance, Trade and Economic Planning, 2017; and ECA calculations.

¹ A continent-wide ranking in which African countries from all RECs are compared is also added to updates of ECA country profiles. For information about Seychelles, see <https://www.integrate-africa.org/rankings/country-profiles/country/seychelles/>.

² SADC, 2012.

³ Ministry of Finance, Trade and Economic Planning, 2017a.

On both current United States dollars and purchasing power parity basis, the Seychelles has the highest GDP per capita in Eastern Africa (at \$15,410),⁴ and has enjoyed a high-income status since July 2015. The key driver of economic performance has predominantly been the tourism and fisheries industries, which contributed significantly not only in terms of real GDP growth but also foreign exchange. Regional trade remains limited. In view of that, the country is developing a regional integration strategy under REC and multilateral agreements to guide its policies and their implementation (AfDB, OECD, UNDP, 2017 p. 6).

Box 1: Africa regional integration index

The Africa Regional Integration Index measures the extent to which each country is meeting its commitments under various pan-African integration frameworks, such as Agenda 2063 and the Abuja Treaty. The index, a joint project by the African Development Bank, the African Union Commission and the Economic Commission for Africa, covers free movement of people, trade integration, productive integration (developing regional value chains), regional infrastructure, and financial integration and macroeconomic policy convergence. The five dimensions and their indicators are analysed as follows:*

Overall rank

Fifth in COMESA (score 0.51), with Kenya the best performing country (score 0.57). Eighth in SADC (score 0.48), with South Africa the best performing country (score 0.74).

Free movement of persons	Trade integration	Productive integration	Infrastructure	Financial integration and macroeconomic policy
Best performer COMESA (score 0.70)	17th in COMESA (score 0.22); best performer is Zambia (score 1)	11th in COMESA (score 0.40); best performer is Egypt (score 0.76)	Best performer in COMESA (score 0.71)	Best performer in COMESA (score 0.50)
Joint first with Swaziland (score 0.70) in SADC	14th in SADC (score 0.25); best performer is South Africa (score 1)	9th in SADC (score 0.29); best performer is Zimbabwe (score 0.74)	2nd in SADC (score 0.67); best performer is Botswana (score 0.82)	4th in SADC (score 0.50); best performer is South Africa (score 0.92)

Source: <https://www.integrate-africa.org>.

Free movement of persons: The best performer in both COMESA and SADC. The country is visa-free for African countries, among others, including COMESA and SADC member States.

Trade integration: Performs relatively poorly in COMESA (17th) and SADC (14th). The performance in regional trade is partly explained by high tariffs on intraregional trade. The average value of applied tariffs on regional imports to Seychelles amounts to nearly 12 per cent and 7 per cent respectively for SADC and COMESA member States (based on data used in calculating the index). Tariff barriers may have impeded trade between Seychelles and countries within the RECs. Over the period 2010–2013, its share in intraregional trade flows was less than 1 per cent in both COMESA and SADC.

Productive integration: An average performer, ranked 11th in COMESA and 9th in SADC. The country shows low integration into regional value chains. The values of the UNCTAD Merchandise Trade Complementarity Index for Seychelles are below 0.15 (on a scale of 0 to 1) in the two RECs, implying trade structure compares poorly with other countries.

⁴ World Bank, 2017b.

Infrastructure: Performs well in terms of infrastructure, ranking first in COMESA and second in SADC. The country has relatively well developed infrastructure assets that are critical for its tourism sector. Seychelles is among the top performers based on the African Development Bank Infrastructure Index, with scores above 0.80 during the calculation period for the Regional Integration Index.

Financial integration and macroeconomic policy convergence: The best performer in COMESA and ranked fourth in SADC.

Seychelles is well integrated in COMESA and SADC with regards to free movement of people and infrastructure, but does not perform as well on trade and productive integration. Improving regional integration would result in greater penetration in regional value chains while lowering tariff barriers to support regional trade.

* A technical description of the indicators can be found at <https://www.integrate-africa.org/>.

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Economic performance

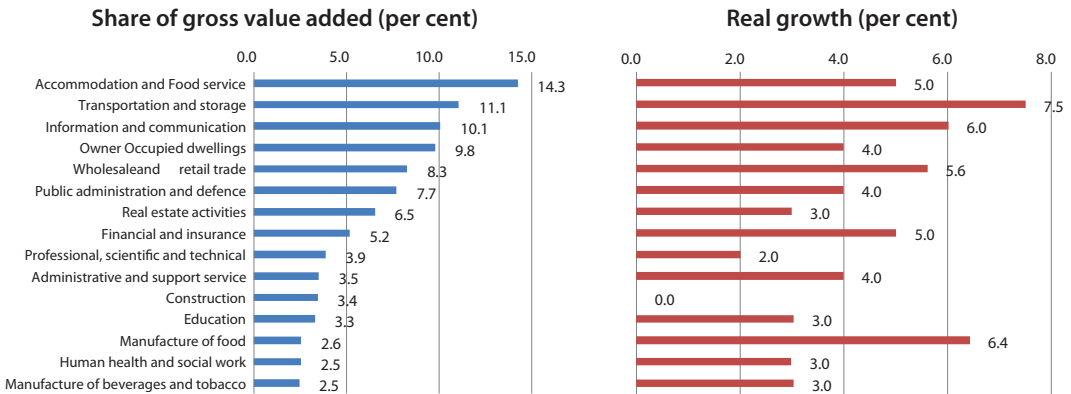
3.1. Economic growth

Recent growth patterns suggest prospects for the future look promising, particularly if vulnerability to global phenomena is managed. Sustained growth over recent years has been supported in part by weak global commodity prices, particularly oil, which has had a positive impact on the balance of payments. The tourism industry has continued to play a key role in the economy, and the country reached a major milestone in 2016 with more than 300,000 visitors for the first time. This was an increase of 9.8 per cent over 2015, and generated \$414 million in receipts. Revenues may have been higher had it not been for political uncertainty in the first quarter of 2016 following the closely-fought 2015 presidential election, and, later in 2016, the opposition coalition's victory in the parliamentary elections.

With a contribution of more than 75 per cent of GDP, Seychelles is mainly a service driven economy. In 2016, due to increased tourism, the accommodation and food services sector was the main driver of the economy, with a GDP share of 14.3 per cent and a growth rate of almost 5 per cent (see figure 2). The transportation and storage sector, with a GDP share of 11.1 per cent and a growth rate of 7.5 per cent, was also key. ICT, growing at 6 per cent in 2016 and, given its 10 per cent share of GDP, is also emerging as a crucial sector. Other sectors included owner-occupied dwellings (9.7 per cent), public administration and defence (8.3 per cent), real-estate activities (6.5 per cent) and financial services and insurance (5.2 per cent).

There was some stagnation, however, and in certain sectors that have historically been important economic drivers. For instance, in 2016, despite having a GDP share of 3.4 per cent, there was no growth in the construction sector. That could be attributed to the government's decision to limit large-scale tourism infrastructure, or to the decline in concrete, rock products and glass manufacture, where growth dipped by 3.8 per cent in 2016.

Figure 2: Subsector shares and real growth 2016



Source: Central Bank of Seychelles, 2016.

Box 2: Comparing economic forecasts

Several organizations produce economic growth forecasts for Seychelles, including the African Development Bank (AfDB), the Economist Intelligence Unit (EIU), the International Monetary Fund (IMF) and World Bank. Forecasts diverged by as much as 15 percentage points for the period 2008–2017 (see figure 3). The EIU provided the most optimistic forecast, averaging 4.5 per cent for the period. The most optimistic growth rate estimates for 2017 were from AfDB and EIU (3.7 per cent), followed by the IMF (3.5 per cent).

Accuracy of forecasts is important, and ECA analysed which forecasts tended to be more accurate over the period from 2008 to 2014, calculating the root mean square error and the mean absolute error. Generally, the higher the value of the errors, the less accurate the forecasts.* ECA analysis indicates that the IMF forecasts were relatively more accurate, followed by those from the World Bank. The forecasts of the EIU had high forecast errors (see figure 4).

Figure 3: Forecast GDP real growth rates

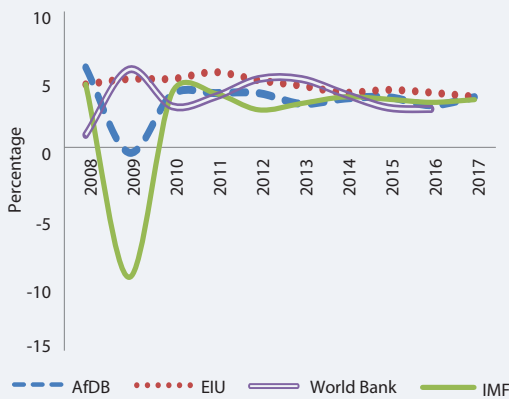
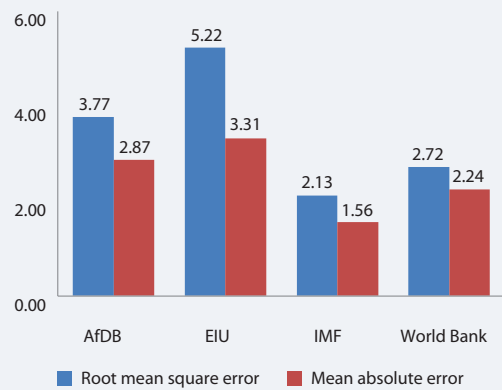


Figure 4: Forecast error 2008-2014



* ECA, 2015.

3.2. Fiscal policy

Seychelles has embarked on an ambitious fiscal reform and consolidation process to achieve a 50 per cent government debt-to-GDP ratio by 2020, from 67 per cent of GDP in 2017.^{5, 6} The high level of debt is mainly a consequence of vulnerability to external shocks and the elevated dependency on imports, both exacerbated by the country's geographic situation as one of the small island developing States. The Ministry of Finance, Trade and Economic Planning has been working with the Central Bank of Seychelles on debt management strategies to ensure that the target is met.

In recent years, domestic resource mobilization has improved. Over recent years, the country has attained a constant primary budget surplus,⁷ translating into an increase of 20 per cent in total revenues and grants collected in 2016 compared with 2012.⁸ That is the result of introducing a value-added tax (VAT) and a flat-rate personal income tax during the period, and the adoption in 2014 of a Public Financial Management reform programme (2015–2017) by the ministry.⁹ In 2016, total tax revenues reached SCR 6.2 billion, a 14 per cent increase from 2015,¹⁰ or 32.9 per cent of GDP (see table 1).¹¹ The Seychelles has the highest tax-to-GDP ratio in the Eastern African subregion.

Major fiscal changes proposed by the Government with a view to increasing revenues¹² are subject to stakeholder review and expected to enter into force in 2018. The government intends to equip the Seychelles Revenue Commission with modern information technology¹³ and additional staffing in 2017–2018 to improve revenue collection and implement new strategic operations and controls.

⁵ Ministry of Finance, Trade and Economic Planning, 2017a.

⁶ Ministry of Finance, Trade and Economic Planning, 2017b.

⁷ The IMF Executive Board in June 2014 approved a three-year arrangement under the Extended Fund Facility to support the authorities' economic programme (IMF, 2014). Total disbursements of SCR 11.445 million (\$15.8 million) were made by mid-2017 (IMF, 2017). In 2017, Seychelles was the first IMF country to request a Policy Coordination Instrument to secure its economic stability.

⁸ In July 2017, ratings agency Fitch Ratings affirmed Seychelles' long-term foreign and local currency issuer default ratings at BB- with a stable outlook (BB – Speculative rating indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments). (AfDB, OECD and UNDP, 2017).

⁹ AfDB, OECD and UNDP, 2017. The Government-piloted programme performance-based budgeting in the Education ministry and the Fisheries and Agriculture ministry to ensure alignment with policy objectives and improved resource allocation and use. The programme will continue until 2019.

¹⁰ Ministry of Finance, Trade and Economic Planning, 2018.

¹¹ Ibid.

¹² Fiscal changes/new measures are embedded in the Government budget for 2017 (Ministry of Finance, Trade and Economic Planning, 2017c) and 2018 (Ministry of Finance, Trade and Economic Planning, 2017d), and in White Papers on progressive income tax, taxation of businesses and property tax.

¹³ This will facilitate electronic settlement of fees, trades tax, VAT and efficient clearance of goods at the airport and port. Once fully equipped, revenue collection will increase by an estimated 20 per cent. Reducing the time spent on clearance-related activities is expected to have a positive impact on the cost of goods. See <https://www.src.gov.sc>.

Table 1: Summary of fiscal outcome 2012–2017, in millions of SCR

	2012	2013	2014	2015	2016	2017
Total revenue and grants	6 145.70	5 467.00	5 902.70	6 349.00	7 376.50	8 135.00
Total revenue	5 443.30	5 423.20	5 808.40	6 133.40	7 105.90	7 735.00
Tax revenue	4 414.60	4 696.30	5 185.80	5 428.30	6 192.20	6 677.00
Non-tax revenue	771.60	726.90	622.50	705.10	913.70	1 057.90
Total grants	702.40	43.80	94.40	215.60	270.60	400.00
Expenditure and net lending	5 443.30	5 244.80	5 725.30	5 475.10	7 529.74	8 177.90
Recurrent expenditure	4 035.60	4 174.50	4 652.30	4 535.30	6 493.50	6 871.00
Fiscal balance	702.40	222.20	177.40	873.90	-153.20	-42.90

Source: NBS, 2017; and Ministry of Finance, Trade and Economic Planning, 2018.

The first fiscal measure established a new progressive income tax addressing income inequality. Under phase one in April 2016, income tax was removed on all salaries up to SCR 5,050, with a reduced rate on wages between SCR 5,50 and SCR 5,941.17. As of July 2016, income tax was no longer levied on earnings up to SCR 8,555.50. Tax rates on a staggered scale of 15 per cent, 20 per cent and 30 per cent tax will be introduced on higher salaries. These changes are thought to have benefited 98 per cent of citizens and may lead to reduced revenues from income tax in coming years.¹⁴ Simplification of the business tax regime is underpinned by a further important reform. Business tax represents 17 per cent of total revenue collection and 5.5 per cent of GDP. Small to medium-sized businesses will pay taxes based on their turnover. Seychelles Maritime Safety Administration will increase port, berth, marine environment protection, marine safety and port clearance dues, which may secure a substantial stream of income given the increasing number of yachts and other boats mooring in the country. The Seychelles Civil Aviation Authority is planning to implement an additional \$10 passenger service fee for non-residents.

In the light of longer lifespans and the need to consolidate the financial sustainability of the Seychelles Pension Fund, since July 2017 employees have been contributing an extra 1 per cent of their gross monthly salary.¹⁵ To counter the effect of heavy sugar consumption on obesity, estimated by the World Health Organization (WHO) to affect one quarter of the population, the Ministry of Finance, Trade and Economic Planning, together with the Ministry of Health, has proposed a sugar tax policy. A 10 per cent increase in excise tax will also be applied on imported and locally produced alcohol and tobacco.

¹⁴ Ministry of Finance, Trade and Economic Planning, 2017b.

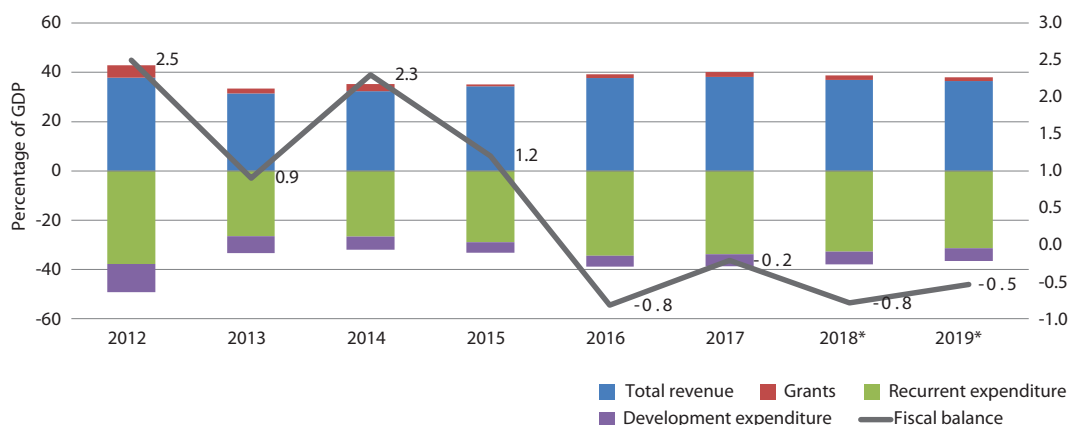
¹⁵ Additional annual increase of 0.5 per cent in 2018 and 2019.

Over the past decade, tourism, agriculture and fisheries, the mainstays of the Seychelles economy, have benefited from tax concessions.¹⁶ The Government is seeking a way to harmonize tax exemptions linked to VAT, trades tax, excise tax, business tax and income tax. To prevent financial leakage (the transfer of funds outside of the country), it intends to make these sectors liable to business tax once their certificates expire at the end of 2018. The Government also plans to amend transfer pricing rules to ensure efficient application. A tax on foreign-owned property equivalent to 0.25 per cent of capital value has also been proposed, with a view to increasing revenue and influencing the land market through a downward effect on base prices.

Total expenditure and net lending were estimated at 40.3 per cent of GDP in 2017.¹⁷ As a result, the overall budget ran into a small deficit (equivalent to 0.2 per cent of GDP), due to sustained spending patterns on social welfare programmes (see figure 5).¹⁸

Total public debt has reduced by half since 2008.¹⁹ In 2017, total debt stock comprised 46.8 per cent external debt (35 per cent multilateral, 22 per cent bilateral, 8 per cent commercial banks, 35 per cent private) and 53.2 per cent public debt (16 per cent loans, 82.8 per cent securities, 1.2 per cent other liabilities) (see table 2). Debt risk management will continue to guide policy measures. One possibility is a currency swap option of the existing \$154 million bond, which matures in 2026.²⁰ An overall balance of SCR 171 million is forecast within the 2018 debt financing plan.

Figure 5: Government revenue, expenditure and fiscal balance 2012–2019*



Source: Ministry of Finance, Trade, and Economic Planning, 2018.

Note: 2018* and 2019* are estimates.

¹⁶ Holders of investment and promotion, tourism, or agriculture and fishery incentive certificates.

¹⁷ Ministry of Finance, Trade and Economic Planning, 2018.

¹⁸ A minimum wage of SCR 5,050 was introduced in April 2016. A 13th month of salary was introduced from 31 December 2016 onwards, equivalent to the basic salary payable to employees in the public and private sectors (CBS, 2016).

¹⁹ Ministry of Finance, Trade and Economic Planning, 2017a.

²⁰ Ministry of Finance, Trade and Economic Planning, 2017c.

Table 2: Overall financing

Overall financing	SCR (million)
Total financing (overall budget deficit)	-171
Foreign financing (net)	500
Domestic financing (net)	-479
Privatization	150

Source: Ministry of Finance, Trade, and Economic Planning, 2018.

The country has pioneered the blue economy and in 2016 established the Seychelles' Conservation and Climate Adaptation Trust (SeyCCAT). Also in 2016, the Government launched a Blue Bond on the international capital market. It is anticipated that SeyCATT and the bond will help to mobilize domestic resources as a complement to foreign direct investment. The bond is expected to support transition to sustainable fisheries by mobilizing public and private investments. In September 2017, the World Bank approved a package of \$20 million, including a loan of \$5 million from the International Bank for Reconstruction and Development (IBRD) and a grant of \$5.3 million from the Global Environment Facility (GEF), as well as a guarantee of €5 million from IBRD and a credit of \$5 million from the GEF's non-grant instrument pilot to facilitate issuance of the bond.²¹ Eighty per cent of the proceeds should directly support sustainable fisheries projects; the remaining 20 per cent will be transferred to SeyCATT for a Blue Grants Fund.

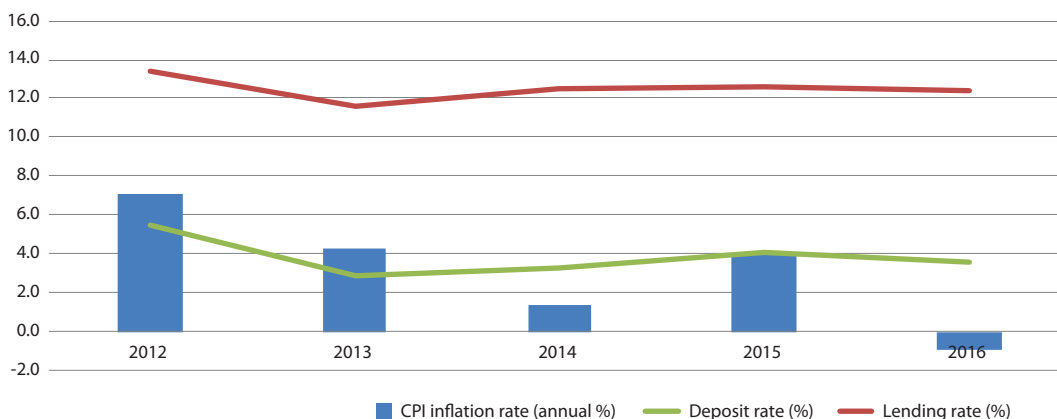
3.3. Monetary policy

The Central Bank of Seychelles has over the past nine years continued a tight monetary policy with an emphasis on managing liquidity through reserve money targeting. This stringent and largely successful policy was prompted by the economic challenges of the 1980s, 1990s and 2000s, which were characterised by huge public-sector deficits, high debt-to-GDP ratios (reaching almost 200 per cent by 2005), and domestic borrowing that limited credit to other productive sectors. Together with rising commodity and food prices, that resulted in the commercial foreign debt default in 2008. The monetary policy was relaxed slightly in the last quarter of 2015, and tightened again at the end of the second quarter of 2016. However, the Bank proposed it should be relaxed in the third quarter of 2017 to spur domestic economic activity.²²

Inflation has generally been declining and contained at single-digit levels since 2012, when it averaged 7.1 per cent (see figure 6). The low level, particularly in 2016, has been due to weak international commodity prices, mainly oil and food. Along with the government strategy on poverty alleviation and income distribution leading to higher disposable incomes, and increased overall demand, this prompted the Central Bank in 2016 to reduce excess liquidity by issuing

²¹ World Bank, 2017a.

²² Laurence, 2017a

Figure 6: Inflation and interest rates 2012–2016

Source: NBS, 2017.

short-term government securities, which helped to contain inflation. Owing to the relatively low imported inflation and stable import demands, there was no major volatility of the local currency unit (LCU) against major international currencies in 2016 and 2017.

The prevailing monetary policy has not had a significant impact on interest rates, given the declining trend in both saving and lending rates. The average saving rate in 2016 was 2.92 per cent. In 2015 the average lending rate was 12.6 per cent, compared with 12.4 per cent in 2016. Positively, the interest rate spread declined from 11.5 per cent in 2012 to 9.5 per cent in 2016. In 2016, there was an increase in local currency savings (20 per cent) and fixed term deposits (17 per cent), valued at SCR 488 million and SCR 157 million respectively, while foreign currency deposits at \$372 million grew by 3.5 per cent compared with 2015. Domestic debt increased by 13 per cent in 2016 compared with 2015, with expansion of credit to the private sector in relation to previous years. In 2016, private sector credit allocation was 10 per cent of the total, compared with 7.7 per cent in 2015. Of the 10 per cent, there was an 80 per cent increase in the allocation to the manufacturing sector, though manufacturing only accounted for 3.6 per cent of total private sector credit. Generally, this points to the small size of the sector. In 2016, there was also a 9.8 per cent increase in loans to private households and non-profit organizations, 15 per cent in mortgages and 22 per cent in wholesale and retail.

3.4. Current account

Seychelles' current account has remained in deficit in recent years, estimated at \$261 million²³ or 18.4 per cent of GDP in 2016, an increase on 2015 (CBS, 2016). Most of the goods consumed locally are imported, essentially food items, which represent 27 per cent of all imports (NBS, 2017) (at CIF value²⁴) (see figure 7). That is reflected in a trade balance deficit, standing at SCR 7,032.3 million in 2016 (though slightly decreased by a 7 per cent increase from 2015 (NBS,

²³ An increase of \$5 million compared with 2015 due to higher demand for imported food items.

²⁴ CIF: cost, insurance, freight (additional costs vs. free on board value).

2017)), despite sustained export earnings (7.8 per cent growth from 2015 to 2016). Total exports including domestic exports and re-exports, amounted to SCR 6,131.2 million (NBS, 2017) at free on board value in 2016, 11 per cent up on 2015. This was due to the rise in exports of canned tuna, from SCR 3,032.1 million in 2015 to SCR 3,471.5 million in 2016 (NBS, 2017). Canned tuna represents 92 per cent of all goods exports (see figure 8).

The country has an open trade regime, and 94 per cent of imports enter at a zero tariff, with average tariffs of 4.6 per cent on agricultural products and 0.3 per cent on non-agricultural products.²⁵ Traditional trade partners for both imports and exports include France, the United Kingdom, South Africa and United Arab Emirates. Exported goods are increasingly received by Germany and Italy, while imports from South Africa have soared by 100 per cent since 2013 (NBS, 2017). Trade with neighbouring African countries, however, remains marginal due to poor air and maritime connectivity, and the prohibitive transport costs that ensue. This is exacerbated by the relatively high tariffs on intraregional trade. For example, imports of horticultural products from Kenya remain negligible compared with goods imported from Europe. Seychelles is developing a regional integration strategy to harmonize its engagement and interventions under various RECs and multilateral agreements to increase trade opportunities for the private sector.²⁶

As a member state of COMESA, Seychelles participates in programmes such as the Free Trade Area, the Customs Union, and the Common Investment Area.²⁷

It also became an official member of the Southern African Development Community Free Trade Area in August 2015, paving the way for enhanced intraregional trade, in particular with the Southern African region, a milestone towards improving its business and private sector environment.²⁸ The country is involved in the setting-up of the trading block of the EAC-COMESA-SADC Tripartite Free Trade Area, which is yet to be established.

Seychelles became the 161st member of the World Trade Organization in April 2015 and ratified the new Trade Facilitation Agreement (TFA)²⁹ in January 2016. As well as diversifying the range

²⁵ Seychelles signed the Interim Economic Partnership Agreement with the European Union in 2009 (negotiations for the full Partnership Agreement are ongoing). Under it, Seychelles will eliminate tariffs on 97.5 per cent of total imports from the EU (in value terms) over 10 years from 2013. In return, exports will be granted duty-free access to the EU market. See http://www.mfa.gov.sc/static.php?content_id=33.

²⁶ AfDB, OECD and UNDP, 2017. The World Bank Group flagship report, Doing Business 2017, again ranked Seychelles at 93 out of 190, after Mauritius (49) and South Africa (74). Recurrent challenges include a longer duration to start a business and insufficient access to credit. See <http://documents.worldbank.org/curated/en/336081478691424087/pdf/110006-WP-DB17-PUBLIC-Seychelles.pdf>.

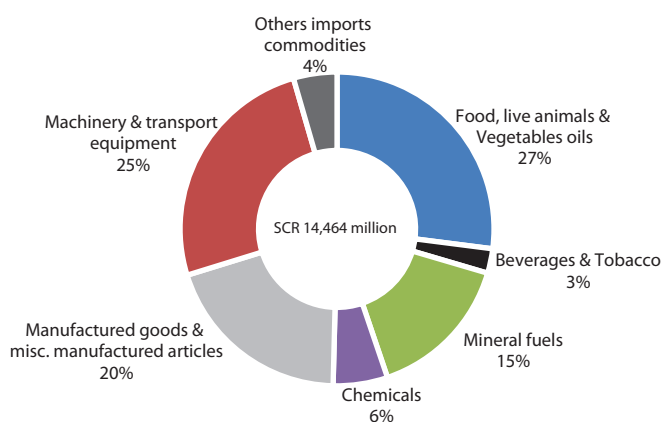
²⁷ COMESA is assisting Seychelles to combat piracy through the programme to promote Maritime Security.

²⁸ See <http://www.seychellestradeportal.gov.sc/news/enhanced-trade-expected-between-seychelles-and-southern-african-region-community-sadc-member>.

²⁹ Measures under the TFA refer to improving customs clearance procedures, reducing excessive documentation, transparency in import/export requirements and cooperation between Customs and other government agencies. See <http://www.seychellestradeportal.gov.sc/news/seychelles-government-strengthens-commitment-facilitate-trade-private-sector>.

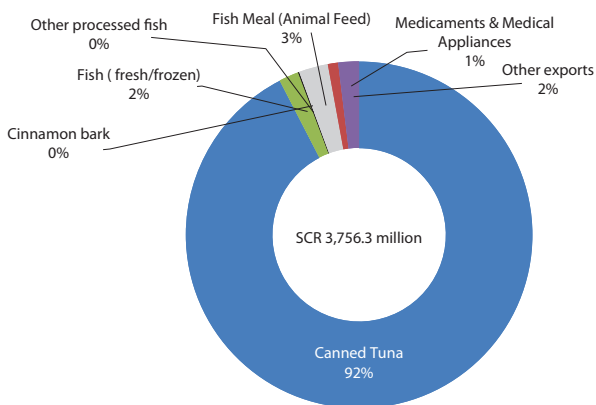
of trading partners at the regional level, Seychelles expects this to facilitate private sector trade, boost the local trade environment, and bring innovation and benefits for local consumers and producers. Contrary to its goods accounts, Seychelles has registered a permanent surplus in its services account. In 2016 (see figure 9), the export of services stood at \$879 million (9.2 per cent up from 2015) due to an improved performance by the tourism industry (5.3 per cent increase in earnings that reached \$414 million in 2016). However, average spending per visitor continued to be a concern, given the decline from \$1,708 in 2014 to \$1,366 in 2016 (United Nations World Tourism Organization, 2017). The value of services from non-residents reached \$505 million in 2016, slightly up on 2015. The net value of services exports amounted to \$373 million in 2016, 16 per cent higher than in 2015 (CBS, 2016).

Figure 7: Breakdown of main import products 2016, by percentage

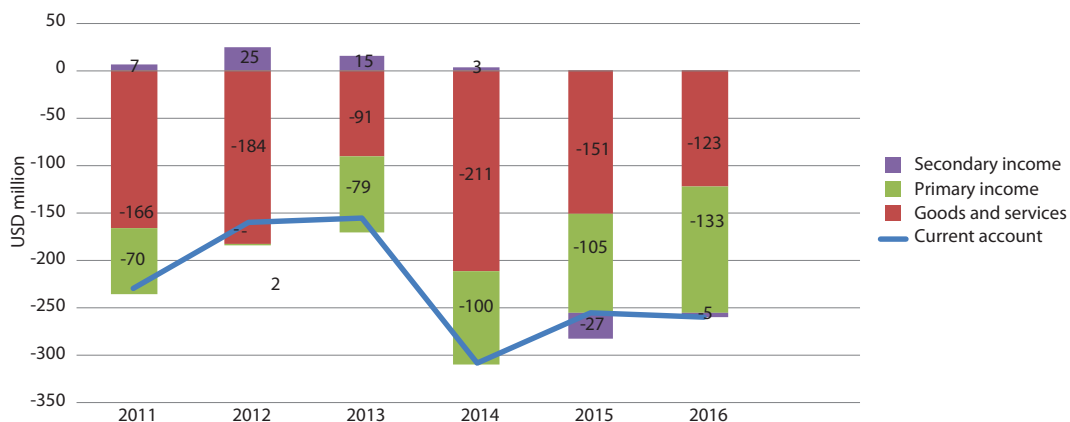


Source: NBS, 2017.

Figure 8: Breakdown of main export products 2016, by percentage



Source: NBS, 2017.

Figure 9: Current account balance 2011–2016, in millions of United States dollars

Source: Central Bank of Seychelles, annual reports 2011–2016.

3.5. Capital and financial accounts

Economic reforms undertaken by the Government over recent years have arguably been successful, with the country attaining high-income status in 2015. This achievement, however, comes with implications, such as issues relating to overseas development assistance, which declined from \$27 million in 2013 to \$8 million in 2015, and is projected to fall further in the coming years.³⁰ With its limited economic diversification, this suggests Seychelles needs alternative strategies to attract the investment necessary to sustain its current economic growth and development. This is being constrained by its slip down the rankings for global ease of doing business, from 74th position in 2013 to 95th position in 2016. It currently lies at 93rd position.³¹

Persistent challenges include limited access to credit, especially for small and medium-sized enterprises, infrastructure-related issues, particularly on energy; the high cost of production in terms of labour and rental; and a lack of qualified labour (AfDB, OECD, UNDP, 2017).

Foreign direct investment inflows have also been declining over the past five years, from a high of \$261 million in 2012 to \$155 million in 2016 (UNCTAD, 2017). The overall financial account continues to sustain a surplus but this has been declining since 2014, when it was valued at \$275 million, to \$252 million in 2016. In addition, there was a slight decline in the stock of currency reserves, in terms of value and months of CIF imports, from \$535.5 million and 4.3 months in 2015 to \$524 million and 4.1 months in 2016.

Despite this, the prevailing trend over the past five years is indicative of the fact that both the stock of national reserves and import months are increasing. Personal remittances are negligible (1 per cent of GDP in 2015), most of them being outbound.

³⁰ See <http://www.oecd.org/dac/stats/documentupload/Africa-Development-Aid-at-a-Glance.pdf>.

³¹ See <http://www.doingbusiness.org/reports/global-reports/doing-business-2017>.

4

Social developments

4.1. Demography

The small population is a major challenge to the Seychelles economy, second only to climate change, and it has potentially negative effects on both the tourism and fisheries sectors. The demography ultimately limits the supply of local skilled labour necessary for social and economic development. The country has, however, achieved a higher level of development compared with other small island developing States, such as Comoros and Sao Tome and Principe.³²

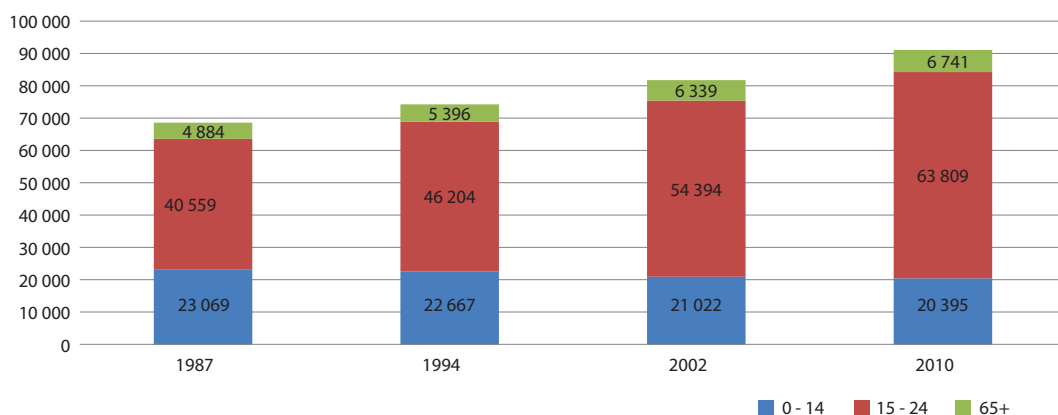
The population is growing by an average 1.1 per cent annually, standing at 95,843 in 2017, with 48,793 males and 47,050 females (NBS, 2017). This slow trend is expected to continue, but bodes well for the relative sustainability of the growth model, given the natural constraints of island living (for example, the increasing effects of climate change).

Population density is estimated at some 163 people per square kilometre, but 434 people per square kilometre on Mahé Island. Approximately 90 per cent of the population lives on the coastal plateau of Mahé, the remaining islands being sparsely populated or not inhabited at all. The four main inhabited islands are Mahé, Praslin, La Digue and Silhouette. The most populated areas are districts of the capital, Victoria, with a density of about 3,000 people per square kilometre.

As in many other African countries, the Seychelles population is youthful. According to the most recent census (2010), the youth population (less than 25 years old) accounts for 38 per cent of the total mid-year population, with only 10.6 per cent classified as elderly (see figure 10).

At the national level, the urbanization rate is estimated at 2.2 per cent per year, which makes Seychelles the most rapidly urbanizing country among Indian Ocean Commission member States. The main driver has been increased internal migration, which has been influenced by employment, education and housing opportunities.

³² See ECA report, *African small island developing States*. Available from <https://www.uneca.org/africansmallislanddevelopingstates/pages/african-small-island-developing-states>.

Figure 10: Seychelles population distribution by age group

Source: NBS, Population and Housing Census Reports 2002 and 2010.

4.2. Poverty and employment

Seychelles joined the World Bank's high-income nations list in 2015.³³ Its Human Development Index reached 0.782 in 2015, 63 out of 188 globally, and the top ranking in Africa (UNDP, 2016). Only 0.25 per cent of the population live on \$1.25 or less a day, according to 2007 statistics (AfDB, OECD, UNDP 2017, p. 10). However, the Poverty Profile Report³⁴ for the 2013 Household Budget Survey, prepared by the National Bureau of statistics (NBS), revealed a national poverty headcount rate of 39.3 per cent, with 24.3 per cent of the population living below the ultrapoverty line,³⁵ and a Gini index of 0.46, revealing substantial income inequality with a direct impact on the poverty rate. Central 2, the least populated region, has the highest poverty incidence (52.5 per cent), a high value of poverty severity (12.3 per cent) and a poverty gap of 20.6 per cent.

The poverty report also correlated people's employment status with poverty. In 2013, individuals in full-time employment had the lowest rate of poverty (28.3 per cent), followed by those in part-time employment (36.2 per cent) and other employment (39.3 per cent). Self-employed individuals had the highest incidence of poverty, estimated at 50.1 per cent. The poverty headcount rate (29.6 per cent) among people employed in the services sector, which accounts for 82 per cent of the employed population, was lower than for people employed in the industry sector (34.1 per cent), accounting for 15 per cent of the employed population.

Findings from the report showed that poverty also correlated with receiving social protection and other income as the main source of household income. In 2016, 19,759 Seychellois (21 per cent of the population) benefited from social security, up 22 per cent from 2015, receiving a total amount

³³ Gross national income per capita of \$14,760, Atlas method (World Bank, 2015).

³⁴ NBS, 2016.

³⁵ Ibid. Based on estimated gross income.

of SCR 857 million (NBS, 2017). The severity of poverty was significantly higher in households whose main source of income was social welfare.³⁶ Most households had access to electricity and 92 per cent to treated water. Ownership of dwellings is estimated at 82 per cent, with no difference between the poor and the non-poor. However, a 2017 survey of 125 households in four districts with the highest percentage of poverty (Plaisance, Les Mamelles, Roche Caiman and Mont Fleuri)³⁷ revealed, “poor housing conditions with no running water and electricity, overcrowding and no proper toilet facilities in some houses, unemployment and drug abuse”.³⁸

The growing impact of these issues was recognized in the creation of two senior government positions by President Danny Faure in October 2016, the Secretary of State responsible for Poverty Alleviation and Secretary of State responsible for Prevention of Drug Abuse and Rehabilitation. The Office of the Secretary of State for Poverty Alleviation is devising a rapid response programme and has put in place a social coaching programme aimed at providing counselling and psychosocial support to affected households. The goal is to prepare a national anti-poverty strategy. The two Secretaries of State are collaborating on the design of related policies targeting the most vulnerable groups, including unemployed youth, with a view to improving standards of living.

Some economists³⁹ have used the term multidimensional to characterize poverty in Seychelles, and adopted a new empirical approach to measure it. The results show a “non-negligible” portion of the population could be considered poor due to insufficient shelter and food (3.7 per cent were found to be shelter destitute, 4.7 per cent food destitute). Another finding – corroborated by international organizations – relates to the fact that coverage of the poor by social welfare programmes is low, while “leakage of social benefits to the non-poor is very large”.⁴⁰

The working age population (those aged 15 to 64) represents 59.1 per cent (57,039 people) of the total population. The employed population is 39,285.⁴¹ Those in the 15-44 age bracket make up 44.8 per cent of the total population, and the median age is 34. The prominent hiring sectors are accommodation and food services (46 per cent); construction (27 per cent), lately affected by the moratorium on building big hotels; and public administration and defence (24 per cent). In general, this configuration is stable, with little variation over the years (see figure 11).

The unemployment rate fell from 4.2 per cent in quarter one of 2016 to 3.9 per cent in the first quarter of 2017; there are jobs for virtually all Seychellois. The official youth unemployment

³⁶ Seychelles provides a wide number of social welfare and social protection programmes. In 2014, 15 per cent of the population benefited from some form of social welfare (AfDB, OECD and UNDP, 2017).

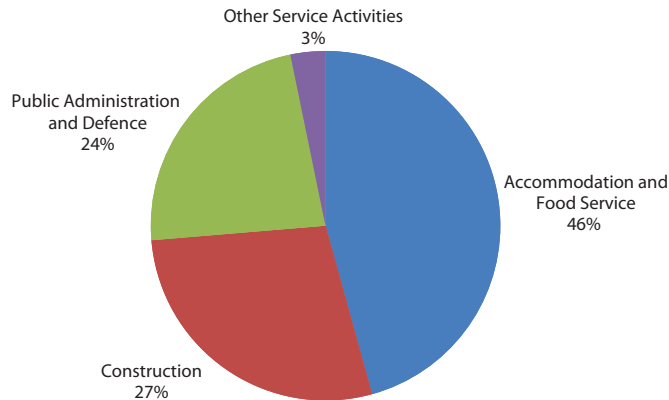
³⁷ Phase two of the survey is expected to cover the whole country by 2018.

³⁸ Laurence, 2017b.

³⁹ Muller, Kannan and Alcindor, 2013.

⁴⁰ A social impact assessment to understand related features began in 2016. (AfDB, OECD and UNDP, 2017, p. 10).

⁴¹ Ministry of Employment, Immigration and Civil Status brief for visit of the ECA Sub-Regional Office for Eastern Africa in September 2017.

Figure 11: Employment by industry

Source: NBS, 2017.

rate, identified as a priority issue, is 11.8 per cent (10.4 per cent male, 13.6 per cent female).⁴² It often results from and aggravates social problems such as substance abuse, complex family backgrounds, attitudes to work, lack of skilled labour and mismatched skills, and informal employment. The foreign labour rate is 16.05 per cent (15,386 people). The highest number of foreign workers, mainly from India and Bangladesh, are in the construction sector, followed by the accommodation and food service activities, where workers are increasingly from China, and the wholesale and retail trade sectors.⁴³ Though recognizing their role in the local economy, authorities are concerned over foreign labour trends and are working to ensure that related contributions are sustainable in the long term. Industry requirements for contract terms, time shifts, career development prospects and wages do not often meet job-seekers' expectations, creating a disconnect between foreign companies and their day-to-day involvement with the population. This situation has been exacerbated by financial outbound leakages.

Planned interventions, tackling youth unemployment in particular, include job creation policies such as the "My First Job" scheme, skills development programmes, employment training schemes, job assistance to vulnerable groups, and promoting entrepreneurship and the use of modern technologies. To address counterproductive dynamics linking welfare, unemployment and poverty, the ministry is finalizing an employment relief scheme. Due to come into operation in 2018, it will reduce unemployment among welfare recipients through a system of allowances that reward skill acquisition. All institutions are collaborating towards ensuring a social dialogue. Activities are under way looking at social reintegration of ex-convicts and changed approaches to work after years of a generous welfare system to ensure contributions to the country's pension fund.

The NBS Labour Force Survey 2011/2012 showed that 16.8 per cent of people were employed in the informal sector and 44.5 per cent of workers in all companies were informally employed

⁴² Ibid.

⁴³ Ibid.

(39.4 per cent female, 49.4 per cent male). The Ministry of Employment, Immigration and Civil Status⁴⁴ has prioritized poverty reduction and welfare improvement for the most vulnerable, targeting youth unemployment, informal employment, flexible employment, training and reskilling for vulnerable groups, labour market research and labour migration, especially migrant workers in the country. Through its projects and programmes, the ministry has been active in the following areas:

- promoting a culture of hard work and responsibility;
- developing programmes to address unemployment;
- youth sensitization and employment-related education;
- organizing fairs and campaigns;
- promoting international labour standards.

With the Ministry of Education and Human Resource Development and the University of Seychelles, the ministry is discussing introducing entrepreneurship learning in schools to foster the culture from the start of education. It is also working with the Department of Information and Communications Technology on a reliable labour market information systems (LMIS) database. Seychelles is also developing a National Labour Migration Policy with assistance from the International Labour Organization, and in 2017 launched the first National Occupational Safety and Health Policy.

4.3. Health

Seychelles has free health services and impressive health-care indicators. According to a 2016 study measuring progress towards the Sustainable Development Goals,⁴⁵ Seychelles ranked as the topperforming African country out of 188 in meeting health targets, with a total score of 71 (healthrelated Sustainable Development Goal index based on 33 selected health indicators).

Also in 2016, the NBS surveyed food insecurity for the first time.⁴⁶ It found a majority of Seychelles households experienced low food insecurity during the 12 months preceding the first quarter of 2016. Some 12 per cent of households experienced moderate to severe food insecurity, and at the individual level, 3.2 per cent were estimated to be living in severely food-insecure households, well below the estimated 28 per cent in Eastern Africa.⁴⁷

⁴⁴ Ibid. Legislation regulating employment is the Employment Act 1995 and the Conditions of Employment and Regulations 1991. Other aspects are governed by the Occupational and Health Decrees 1991 and the Industrial Relations Act 1994. These are being reviewed in line with International Labour Standards. The ministry has also ratified 37 International Labour Organization conventions and the United Nations International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families. A national employment policy, launched in April 2014, will be reviewed every five years.

⁴⁵ Lim and others, 2016.

⁴⁶ Seychelles Food Insecurity Experience Survey applies the Food Insecurity Experience Scale of the Food and Agriculture Organization of the United Nations, which uses an experience-based metric to measure severity. Some 1,200 households were surveyed during the second quarter of 2016.

⁴⁷ Corresponding to 62 million individuals aged 15 years or above. See <http://www.fao.org/3/a-i6813e.pdf>.

Seychelles has almost no maternal mortality and skilled health personnel attend 99.5 per cent of births. There has been progress in reducing child mortality, with the infant mortality rate falling from 18.5 per 1,000 live births in 2013 to 10.7 in 2015 (NBS, 2016), but increasing to 13.4 in 2016 (NBS, 2017). The lack of availability of contraception for girls under 18 has led to an increase in teenage pregnancies. Although there is 100 per cent access to antiretroviral drugs for people living with HIV, incidence rates show that the disease has yet to be contained. Programmes such as 2012–2016 national strategic framework for HIV/AIDS and sexually transmitted infections focus on preventing HIV and providing care and support to those who are HIV-positive (AfDB, OECD and UNDP, 2017, p. 10).

The health sector receives the greatest share of the national budget (SCR 876.9 million in the 2017 budget, representing 11.2 per cent of spending). Strengthening the Public Health Authority and health-care agencies to enhance service delivery throughout the sector is emphasized in the national policy, with new health facilities planned for 2017–2018. The National Health Strategic Plan 2016–2020 stresses the need to further integrate health care to consolidate the gains of universal health coverage, secure sustainable financing for health, along with partnership and coordination, improve access to and quality of essential services and healthy living education, and bolster the health workforce, research and innovation. Though it has highly educated staff and improved investment in modern technology and systems, the sector still suffers from too few people and limited financial resources.⁴⁸ Some critical health services are lacking, such as special high-dependency and intensive care units for specialized pathologies, resulting in a significant number of patients having to travel abroad for treatment.⁴⁹

Current threats to the nation's health, and consequently the health sector, involve unbalanced dietary habits resulting from new lifestyles, including high sugar consumption leading to increased levels of type II diabetes and cholesterol-related diseases.⁵⁰ WHO estimates that a quarter of the population is obese, with trends among children of particular concern. Non-communicable conditions, including cardiovascular disease (representing 30 per cent of mortality cases), cancer, type II diabetes and obstructive pulmonary disease are the main causes of both morbidity and mortality in Seychelles (Ministry of Health, 2016). An annual national campaign, "My Health, My Responsibility", was launched in 2014 to alert citizens to the importance of good health and life choices. The 2016 theme, "Begin at home!" focused on dietary and nutrition education in family households. In its 2016–2025 Strategy for the Prevention and Control of Non-Communicable Diseases, the Government identified strengthening national capacity, leadership, governance, partnerships and multisectoral action, and monitoring and evaluation as the main areas for intervention.

⁴⁸ Newly registered doctors and dentists are mainly non-Seychellois (97 of 103 new registrants in 2016 for a total of 368 doctors and dentists registered). See Health Department Secretariat (HDS) Annual Report 2016, <http://www.health.gov.sc/wp-content/uploads/Health-Department-Annual-Report-2016-10TH-MARCH-Prefinal-Noon.pdf>.

⁴⁹ *Ibid.*, p. 72. In 2016, 252 patients were sent overseas for treatment.

⁵⁰ *Ibid.*

Growing drug abuse over the past decade also represents a prominent threat, leading in October 2016 to the new position of Secretary of State to oversee prevention and mitigation measures against drug abuse and trafficking. The Seychelles National Drug Control Master Plan 2014–2018, embedding the 2015 National Coordination of the Seychelles Response to Drug Abuse and Trafficking, highlights the fact that since 1993 targeting has changed from cannabis, alcohol and tobacco to harder drugs, such as cocaine, ecstasy and heroin, the first drug of choice since 2006. It also suggests that HIV and hepatitis C prevalence has been linked to drug use since 2010.

4.4. Education

Seychelles has a high literacy rate of 97 per cent.⁵¹ It has surpassed the provision of universal primary (and secondary) education, with a net enrolment ratio of 121 per cent in primary education, 119 per cent in secondary education⁵² and a primary completion rate of 107 per cent for both sexes in 2015.⁵³ Up to December 2015, compulsory education was for 10 years, from age 6 to 15. It covered six years in primary education and four years in secondary education, all of which was free. From January 2016, that has been augmented to 11 years, with an additional year in secondary education.⁵⁴ The Government provides benefits for post-secondary school students, including accommodation, allowances and transport subsidies, and there is a well-functioning scholarship scheme for university students.

There are, however, concerns over education quality and the pass rates at secondary and tertiary levels. Absenteeism in State secondary schools is a concern. A dedicated fund, introduced by education reforms in 2009–2010, is currently helping parents to provide school necessities for their children a view to curbing that and other related trends. Substance abuse and behavioural issues result in a significant number of suspensions and the efficiency of the sector is undermined by recurrent dropouts/termination of studies.

To address the challenges, in 2014 the Ministry of Education and Human Resource Development adopted a medium-term strategy for 2013–2017 to transform the system, including review of the entire curriculum and policies (AfDB, OECD and UNDP, 2017, p. 10). Ministry expenditure estimates increased by an annual average of 4.3 per cent between 2014 and 2017. Priorities for action include the following:

- Tackling human resource needs in a more relevant, responsive way through tertiary education;
- Fostering employability through technical and vocational education/training for both low performers and better-performing students;

⁵¹ Seychelles was the only country in Africa to have fully achieved education for all, in line with the six education goals set out by UNESCO for attainment in 2015 (Ministry of Education and Human Resource Development, 2014).

⁵² Ministry of Education and Human Resource Development, 2016.

⁵³ Ministry of Foreign Affairs and UNDP, 2015.

⁵⁴ Ministry of Education and Human Resource Development, 2016.

- Recruitment, development and training of teachers. Fourteen per cent of primary teachers are uncertified, and drop-out levels of teaching staff remain high (30-plus per year) due to poor working conditions, discipline and student/teacher attitudes.

Overall, the education sector remains robust and, together with the advanced welfare system and almost full employment, has contributed substantially to a high Human Development Index. The ministry works closely with the Ministry of Employment, Immigration and Civil Status on developing skills and “matching” with labour market needs, enhancing youth employability. Both ministries collaborate with the Agency for National Human Resource Development, established in 2014 to improve national skills and create a framework for developing human capital for both organizations and individuals. The agency is developing a national human resource development plan and strategy to assist with skills mapping and to provide orientation for enhanced matching with local market features.

4.5. Gender

The ECA has developed a monitoring tool, the African Gender Development Index (AGDI), to achieve the ECA target of measuring gender equality and women’s empowerment. It enables policymakers to assess their performance in implementing policies and programmes geared towards ending the marginalization of women. Calculation for the scoring is based on Gender Status Index data. The Gender Status Index is one of the components of the AGDI. For each key indicator, the score is calculated by taking the female to male ratio of the indicator values, multiplying it by 10 and rounding the result off to the nearest whole number. A score of zero represents the highest level of inequality, 5 shows middle parity level and 10 represents perfect parity. Parity levels exceeding 10 represent situations in which women have outperformed men, irrespective of the development level of the area assessed.

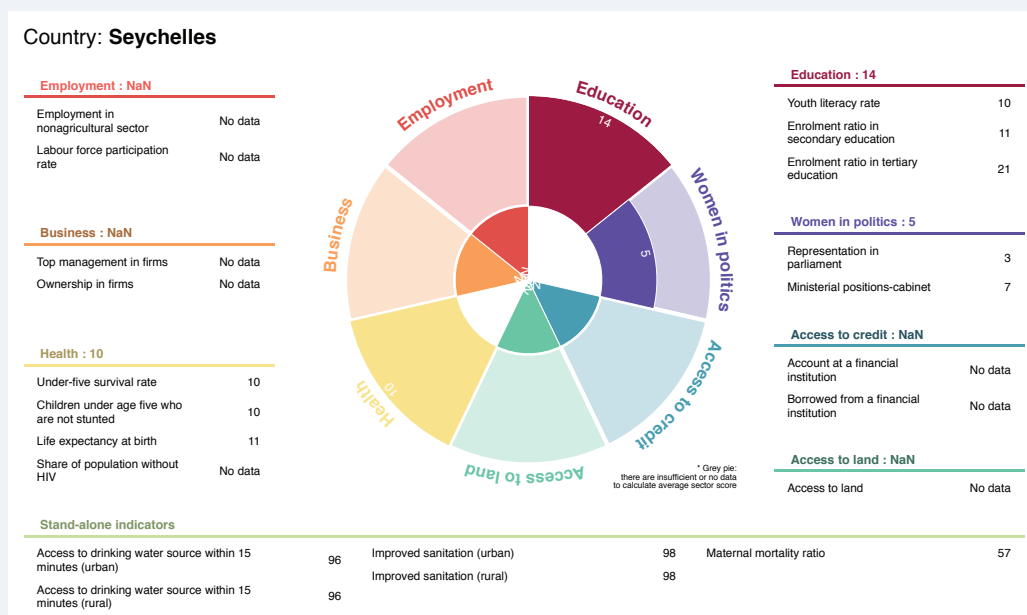
Most of the data used to calculate scores are drawn from latest nationally available data sources. For indicators in which the country has no disaggregated data, international data are used. Sources include the government website, Seychelles in Figures 2016, the AGDI Report for Seychelles, UNESCO statistical databases, the UNICEF report *The State of the World’s Children 2016*, UNICEF and WHO’s 2015 *Progress on Sanitation and Drinking Water* report and the Inter-Parliamentary Union.

Box 3: Status of gender equality

Gender equality is observed for the under-5 survival rate, children under 5 who are not stunted and the youth literacy rate. Females are at an advantage relative to males in terms of enrolment in secondary and tertiary education, and life expectancy at birth. According to the UNESCO Institute of Statistics, gross enrolment in tertiary education for females was 20 per cent, compared with 9 per cent for males.

There is significant gender disparity in political representation. According to data from the Inter-Parliamentary Union, seven women were elected to parliament in the 2016 elections, compared with 26 men. In a cabinet of 12 ministers, excluding the Vice-President, five are women.

According to the AGDI Report for Seychelles, the country registered only four cases of maternal death in the period 2006–2015. UNICEF estimates the maternal mortality ratio at 57 per 100,000 live births. Access to a drinking water source is 96 per cent, and to improved sanitation 98 per cent.



Source: ECA calculations.

Major policy challenges

The economy continued to grow in 2016, buoyed by the tourism and fisheries sectors. Tourism was the main driver of growth, and will be for at least the next decade. The fisheries sector is the second most important sector, in terms of both foreign exchange earnings and employment. Their success relies heavily on sound, sustainable use and management of marine resources, and both sectors are at the core of the ambitious Seychelles blue economy agenda.

The country, however, lacks sufficient diversification for sustainable and quality growth, and is particularly vulnerable to external shocks (Philpot, Gray and Stead, 2015). The effects of climate change also place its economy at risk. Another major concern is the small population. The low supply of local skilled labour and high cost of external transport and energy pose a challenge in deepening or diversifying its sources of growth, both locally and regionally.⁵⁵ Its size, geographic isolation, limited resources and concentration of markets with a few large trading partners, leaves Seychelles vulnerable in terms of its preparations to be competitive in its regional integration.

Seychelles faces development and infrastructure limitations similar to its neighbouring Indian Ocean islands. A small island developing State and a net importer, its shipping industry is important for the economy. The country relies heavily on international trade for importing goods, as well as for income. Its largest trading partner for imports and exports is the European Union, led by Spain, France and the United Kingdom. The role of regional integration has again been observed, and recently the African Shipowners Association has approached Seychelles – given its strategic location and its maritime role and leadership in the blue economy – for domiciling a pan-African shipping line in the country. The Indian Ocean Commission, COMESA and SADC, thanks largely to lobbying by island member States, have also done significant work on shipping, which may help to mobilize knowledge and resources.

Despite the challenges, Seychelles expects favourable economic development, with real GDP projected to grow at 3.5 per cent in 2017 and 3.4 per cent in 2018, driven by tourism, ICT and fisheries (AfDB, OECD and UNDP, 2017). The Government's blue economy policy framework, meanwhile, will concentrate efforts on diversifying the economy and sustaining the thriving tourism and fisheries sectors.

⁵⁵ World Bank, 2017b.

5.1. The tourism sector

The country's transition over the past four decades from a subsistent economy to one of the highest per capita incomes in Africa (and among small island development States) is mainly attributable to tourism. The sector surpassed the 300,000 mark in visitor arrivals in 2016, and increased that by 15 per cent in 2017, recording 349,861 arrivals (NBS, 2017). The direct contribution of tourism to GDP and employment is 22 per cent and 26.2 per cent (about 12,000) respectively (World Travel and Tourism Council, 2017). Tourism generated more than SCR 6.8 billion in visitor exports (39.1 per cent of total exports) and accounted for 29 per cent of total investments, valued at SCR 2.3 billion (World Travel and Tourism Council, 2017).

Despite this immense contribution, Seychelles faces a number of obstacles in realizing the full potential of the sector, notably sustaining growth, minimising leakages and strengthening links with the rest of the economy. In 2015, the Government issued a moratorium on building large-scale tourist accommodation facilities with more than 25 rooms. Under the national strategic plan, and in line with the high-value low-volume approach, the Government is seeking to cap tourist arrivals at 400,000 visitors by 2040. Geared towards ensuring sustainable development and enhancing opportunities for the local population, such measures appear to show that the growth of the sector is under control.

Concerns over leakages and linkages, however, remain. Given the fact that little is produced locally, the propensity to import is high. Moreover, given the isolation of the islands and their size, connectivity becomes an issue. Import costs are high, negatively affecting the balance of payment (Pratt, 2015). The small population implies limited domestic tourism, and local companies are unable to take full advantage of any economies of scale to become competitive.

The rapid transition to middle-income status, coupled with population size, has brought unique challenges, resulting in high leakages of tourism revenue. The inability of local enterprises to compete competitively has meant that the country continues to rely heavily on foreign investment for large-scale tourism development. The proportion of foreign ownership has meant substantial lost tourism revenue, especially given that most visitors buy their holidays abroad. Furthermore, owing to the accelerated depreciation of up to 145 per cent of total costs, most businesses have declared losses, thus avoiding taxes.

The country still struggles with human resources for the sector, despite concerted efforts. The main issue has been that the jobs are not attractive to local people, due to unfavourable working hours. Despite a quota for expatriate employment of between 35 and 45 per cent, most enterprises find it difficult to fill vacancies with local labour. While enrolment numbers at the Seychelles Tourism Academy have gone up, there is a preference for graduates to pursue alternative careers, mostly in the financial sector. As illustrated in a comparative study of small island developing States (American Samoa, Aruba, Fiji, Jamaica, Maldives and Mauritius), the sum effect is that for every \$1 million in tourism expenditure, only \$478,000 remains in the country (Pratt, 2015).

Likewise, local enterprises have had minimal involvement, despite the many opportunities. The challenges facing them and potential entrepreneurs include a lack of bankable projects and of appropriate skills and knowledge, and concentration on a narrow range of activities, mainly car rental, coupled with a deficit of innovative ideas and limited access to capital and credit. There are also concerns that, when they can access credit, local people have used it for consumption, with little going into production.

Seychelles continues to rely on a narrow range of tourism products that are predominantly nature-based and coastal, yet there is increasing evidence that small island developing States are particularly susceptible to climate change impact, including rising sea levels, beach erosion and coral bleaching. There is evidence that in some parts of the country the extent of coral bleaching has been up to 90 per cent.

Despite the economic importance of the sector, the country faces challenges that hinder the realization of its full potential. There is an urgent need, for example, to diversify the tourism product to tap into opportunities in which local people would have a comparative advantage. Such products could be based on both traditional and contemporary culture. It will also be necessary to explore the option of cruise tourism; if well developed, it would not require large-scale tourism infrastructure, but docking facilities. Measures to ensure a variety of activities provided by local people, such as restaurants, tours, souvenirs and arts, must be put in place. Similarly, it will be necessary to scale up action to minimize leakages of tourism revenue, such as reviewing fiscal policy (as has been proposed), including the transfer pricing issue, and to change attitudes to working in the sector. Strategic approaches must be undertaken to lower expatriate labour, enhance local access to credit, promote entrepreneurship ventures and establish a tourism innovation fund. Alongside this, intersectoral links, such as those between tourism and fisheries, must also be strengthened.

5.2. The fisheries sector

Agriculture, along with forestry, accounted for only 1.2 per cent of GDP in 2016. The sector is limited by a lack of arable land and extreme climate change effects (CBS, 2016). The Seychelles National Agricultural Investment Plan 2015–2020 provides a framework to harmonize, consolidate and accelerate implementing agriculture and food security and nutrition-related policies and strategies. Total arable land is estimated at 500 hectares, of which 50 per cent is used for agriculture (NBS, 2013). The country has an exclusive economic zone, extending to some 1.4 million square kilometres, which is adjacent to one of the world's major tuna fishing zones.

The Seychelles fisheries sector has been diversified into three components, namely the artisanal, semi-industrial and industrial subsectors. Artisanal fisheries are multispecies and used by local fishers in a variety of vessel categories. Semi-industrial fisheries were introduced to relieve pressure on demersal resources by targeting swordfish and tuna caught in deeper waters outside the continental plateau. Industrial fishing is conducted by Seychelles-flagged

tuna vessels and foreign tuna fleets, particularly European and Taiwanese. Industrial fisheries are a major pillar of the economy, while the artisanal fisheries remain of great importance in terms of food security, employment and cultural identity (FAO, 2014).

The sector has significant multiplier effects on the economy, supporting local employment along the processing-to-marketing chain. Fishing and its related activities also contribute approximately 30 per cent of GDP. Preliminary statistics in 2016 showed that the industry grew by 3 per cent in 2016 (CBS, 2016), following two consecutive years of contraction in value-added contribution. The outcome was mainly supported by the growth of new private investment in the fisheries industry and strict measures against overfishing to safeguard the sustainability of species.

Total catches, including domestic production and industrial catch, increased by 17 per cent between 2015 and 2016. Semi-industrial catch recorded an exponential growth, whereas artisanal catches dropped by 22 per cent. The purse seine catch increased by 22 per cent in 2016 (see table 3). Skipjack was dominant, accounting for 56 per cent of the total catch, an increase of 44 per cent in 2016 compared with 2015, while yellowfin tuna made up 37 per cent of the total catch, an increase of 3 per cent.⁵⁶ An increase of 19 per cent was recorded in exports of canned tuna in 2016 (Ministry of Agriculture and Fisheries, 2017)

To support the fisheries sector, the Government has set out a strategic vision, with the priority goal of creating wealth through a focus on industrial tuna fisheries. Maximizing domestic processing has been emphasized, along with promoting exports and increasing the Seychellois stakeholding in the industry. The Government role is primarily to facilitate increased local and international participation and investment in the sector. It has set a general scope to increase the value-added contribution of the sector, as well as its long-term sustainability.

Aquaculture is due to play an increasing role in sustaining the sector in the long term. In June 2016, the Seychelles Fishing Authority started work on a mariculture project⁵⁷ to increase exports (Athanasé and Bonnelame, 2016). A mariculture master plan was introduced in June 2017 as a tool to develop a sustainable marine aquaculture sector; one that is integrated into the country's economic vision and respects the unique nature of the marine environment.⁵⁸ It is expected to further reduce pressure on the sector and increase artisanal fishing production from around 4,900 tonnes per year to between 20,000 and 50,000 tonnes (Athanasé and Bonnelame, 2016).

⁵⁶ Assan, Lucas and Lucas, 2017.

⁵⁷ Mariculture is a specialized branch of aquaculture involving the cultivation of marine life for food and other products.

⁵⁸ Seychelles Aquaculture is a government initiative for the development of marine aquaculture in the country. See <https://www.seyaquaculture.com>.

Table 3: Fisheries production rates 2012–2016

Metric ton	2012	2013	2014	2015	2016	Percentage change (2015/2016)
Artisanal catch	2 502	4 150	3 633	3 214	2 516	-22
Semi-industrial catch	271	262	82	195	969	397
Canned tuna	31 400	36 826	32 219	32 068	35 569	11
Smoked fish	28	40	41	57	50	-13
Fish meal	6 597	7 337	6 927	6 820	6 382	-6
Fish oil	871	691	870	373	390	5
Sea cucumber	80	47	64	52	43	-17
Others*	13	3	1	170	101	-41
Total domestic production	41 762	49 356	43 837	42 949	46 020	7
Purse seine catch**	50 938	57 324	60 255	88 874	108 583	22
Longliner catch**	12 164	11 431	10 457	12 518	14 486	16
Total industrial catch**	63 102	68 755	70 712	101 392	123 069	21
Grand total	104 864	118 112	114 549	144 341	169 089	17

Source: Ministry of Agriculture and Fisheries, 2017.

Notes: *Sharks and rays; **Seychelles-flagged vessels only.

There is a strong synergy between the tourism and fisheries sectors. A rise in the performance of the tourism sector contributes to the fisheries sector through increasing foreign exchange. There is also recreational fishing, which involves mostly charters and serves as a tourist attraction. In Seychelles, one such fishery operates both on and up to the edge of the Mahé Plateau, as well as on outlying islands, the Amirantes Plateau in particular. The availability of ice and bait remains one constraint on industry performance. To help overcome this, in 2015 the Seychelles Fishing Authority purchased two containerized ice plants each with a capacity of 10 tonnes, which will increase total production capacity to 47 tonnes.⁵⁹

The extreme vulnerabilities to climate change that affect the tourism industry also place stress on the fisheries sector, in particular on tuna exports. The \$15 million Blue Bond is expected to help to address this, accelerating implementation of the sustainable fisheries management plan. A Blue Investment Fund, administered by the Development Bank of Seychelles and to be replenished with 80 per cent of the bond's proceeds, will be created for commercial loans to projects consistent with those plans. The remaining 20 per cent will be transferred to SeyCCAT for a Blue Grants Fund. The aim is to support projects in the artisanal, semi-industrial, aquaculture or sports recreational fisheries subsectors, with strong links to the national marine spatial planning process and associated marine protected areas.

⁵⁹ Seychelles Fishing Authority, 2015.

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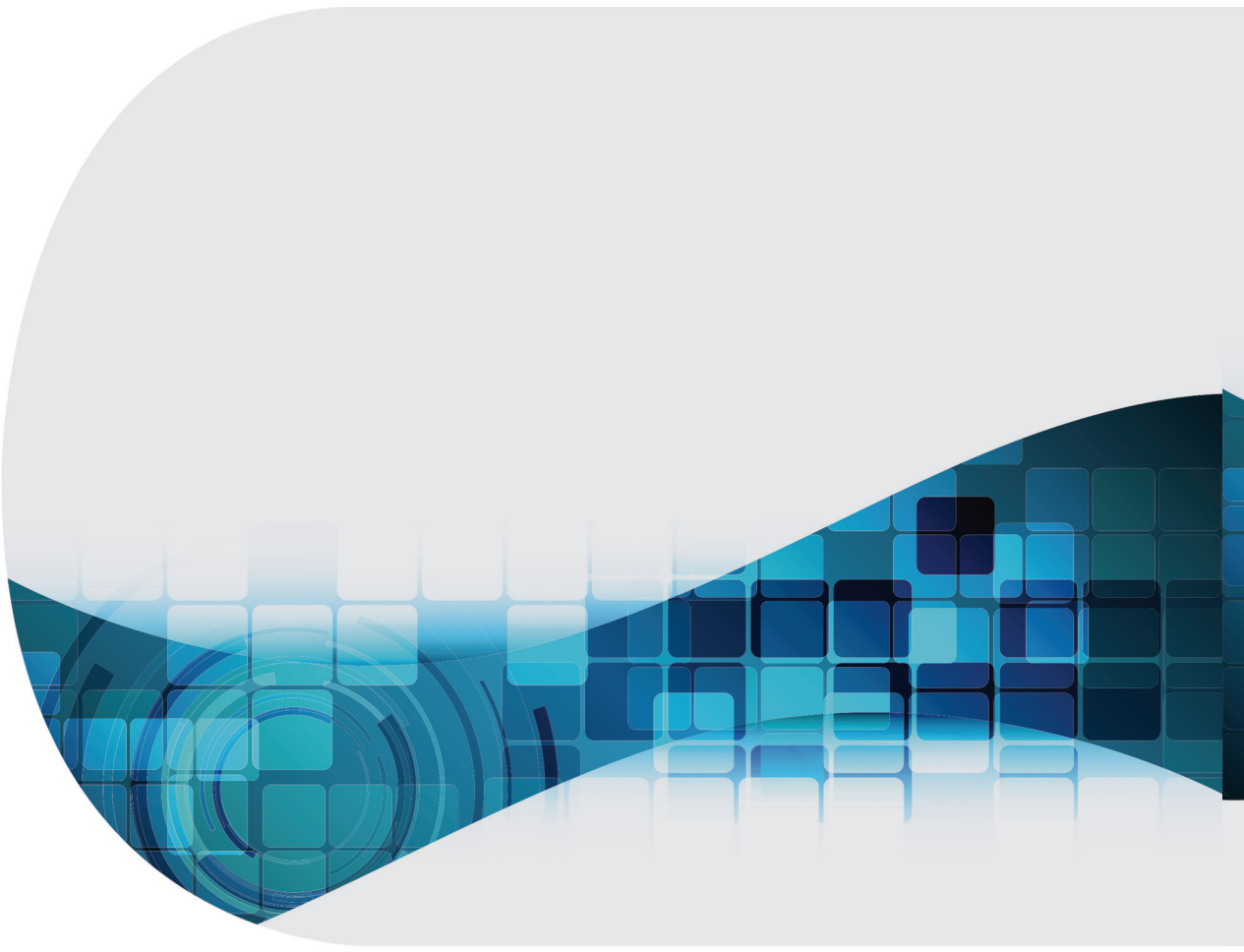
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