

A large, abstract graphic in shades of blue and teal covers the background. It features a complex network of interconnected nodes (circles of various sizes) and thin lines, suggesting a global or digital network. A prominent, thick, wavy line runs diagonally across the middle of the page, creating a sense of movement and flow.

Empowering the Private Sector to Diversify Seychelles' Economy

Discussion Paper
November 2021



About the Report

This Discussion Paper is a product of the United Nations Development Programme (UNDP) Mauritius, prepared with financial and technical support of the Strategy Analysis and Research Team of the UNDP Regional Bureau of Africa.

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Acronyms

AfCFTA	Africa Continental Free Trade Area
AFPES	Association of Fish Processors and Exporters of Seychelles
APAS	Agricultural Producers Association of Seychelles
CBS	Central Bank of Seychelles
COE	Certificate of Entitlement
FA4JR	Financial Assistance for Job Retention
FBOA	Fishing Boat Owners Association
FDI	Foreign Direct Investment
GOP	Gainful Occupation Permit
HHI	Herfindahl-Hirschmann Index
HS	Harmonized System
ICT	Information Communication and Technology
IDC	Island Development Company
IEA	Industrial Estates Authority
IMF	International Monetary Fund
JEC	Joint Economic Council
MCB	Mauritius Commercial Bank Seychelles Ltd
NBS	National Bureau of Statistics
SBA	Seychelles Bankers Association
SCCI	Seychelles Chamber of Commerce and Industry
SeyCCAT	Seychelles Conservation and Climate Adaptation Trust
SFA	Seychelles Fishing Authority
SHTA	Seychelles Hotel and Tourism
SIB	Seychelles Investment Board
SIDS	Small Island Developing
SMB	Seychelles Marketing Board
STC	Seychelles Trading Company
SUT	Supply Use Table
VAT	Value Added Tax

Acknowledgement

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Highlights of the report

1. The 2008 economic reforms undertaken by the Government of Seychelles played an important role in empowering the private sector, but the country faces a challenge to improve its competitiveness to levels closer to other high-income economies. According to the 2019 Global Competitiveness Report, the country ranks 74th out of 140 economies and last among high income economies.
2. Prior to the COVID-19 pandemic, the Seychelles' economy was on a steady path of economic growth, with impressive performance in human development indicators. The pandemic has, however, reinforced a widely held concern about the high vulnerability of the economy due to over-reliance on the tourism sector, justifying the Government's current efforts to advance the economic diversification agenda.
3. To advance the diversification agenda, there is a need for policy engagement to deepen the existing linkages across sectors to strengthen the capabilities and competitiveness of the domestic private sector. For instance, placing emphasis on increased investment in real estate could have forward linkages with sectors such as fisheries, manufacturing, wholesale and retail and financial services, and backward linkages to energy, transport, and financial services among others.
4. It is also imperative for the Government to undertake a comprehensive review and upgrading of the legal framework to address bottlenecks to private sector investment. For instance, the private sector actors highlighted several provisions in the registration of companies and regulations pertaining to labour that require review to build a dynamic private sector.
5. The analysis of 23 sectors based on a Supply Use Table (SUT) developed by the National Bureau of Statistics (NBS) reveals strong linkages across activities in the economy. Specifically, the report identified 121 strong linkages across sectors. Strong backward linkages were observed in arts and entertainment (9), public administration (9), accommodation and food services (9), real estate (8), wholesale and retail (8), manufacture of food (7), financial services (7), and education (7). Strong forward linkages were found in manufacturing (22), real estate (15), professional and services, and transport (12).
6. The tourism sector still has a place in the diversification journey given the strong connection it has with several sectors of the economy. To harness its potential, it is critical to support the private sector in strengthening the key value chains with backward and forward linkages to the sector, while building mechanisms to ensure their resilience to external shocks. Doing so may require repositioning Seychelles as a destination for long-term tourism along which other sectors can grow.
7. In 2017, the Government commenced efforts to establish the national private sector development strategy. New engagement is required to prepare this strategy to facilitate coordinated action within the public sector, and between the public and private sector. The strategy should propose interventions for creating an enabling business environment, strengthening business linkages, and enhancing productivity.
8. The private sector must improve on its coordination for effective engagement. The proliferation of private sector associations has made it difficult to harmonise efforts while engaging with the Government. The sector needs to better coordinate its engagement efforts to facilitate delivery of tangible outcomes. This could be complemented by regular dialogue throughout the public policy cycle to deliberate on issues affecting the private sector.



Introduction

1



Introduction

Following a prudent macro-economic reform programme supported by the IMF in 2008 that enabled the revival of the economy, Seychelles joined the high-income economies in 2015. These reforms contributed to an average growth of 4.2 percent per annum between 2009 and 2019, largely driven by the services sector due to an increase in earnings from tourism, and growth of the fishing industry. Like most countries, Seychelles has been hard-hit by the COVID-19 pandemic. Over the three years prior to the pandemic, the economy was on a steady growth path of around 3.5 percent per year, despite challenges of sustainable financing. The pandemic resulted in a contraction of real GDP by about 13 percent; and a reduction in the primary balance from a surplus of 2.8 percent in 2019 to a deficit of 16.3 percent in 2020 following the undertaking of necessary measures to protect the economy and the rise in debt levels. By December 2020, the debt to GDP ratio was estimated at 99 percent, and anticipated to reach 108 percent in 2021, on account of low production and more than 60 percent fall in revenue. This represents a set back against the impressive trend from 190 percent at the time of the IMF reform to 58.7 percent in 2019. The country's budget deficit is expected to reach 15.3 percent of GDP in the 2021/2022 financial year. Despite efforts of the Government to cut recurrent expenditure, the burden of expanding social protection needs resulting from the pandemic could continue to constrain the economy amidst limited sources of financing. These challenges are mainly spread across most Small Island Developing States (SIDS), that depend largely on a service economy established predominantly around the tourism sector.

Prior to the pandemic, the impressive performance of the economy was accompanied by significant gains in human development, with the country maintaining a high human development status with its index rising from 0.764 in 2010 to 0.796 in 2019. However, placed with other countries in the high-income category, Seychelles has faced an uphill task to position itself at par with its high-income peers. All high-income countries, except for Seychelles, and two SIDS - Antigua and Trinidad and Tobago - are in the very high human development category.

During consultations that informed the UN Country Team 'COVID-19 Socio-Economic Impact Assessment' undertaken in 2020 and led by UNDP, there was an urgent call for Seychelles to advance an economic diversification agenda to enhance competitiveness and enable the country to sustain its human development gains. Economic diversification is usually pointed out as one of the most relevant drivers for economic growth and development, given its centrality in enabling transition from dependence on a few sectors towards a broader range of sources of production. More diversified economies provide for multiple benefits including, but not limited to, lessening exposure to external shocks, increasing international trade, promoting higher

productivity of capital and labour, increasing economic integration, and the adoption of new technologies that facilitate the upgrade of production systems. Achieving this end requires engineering an agenda in which the private sector plays a significant role in driving the economy. The need for this agenda was further amplified by the new Government that was elected to office in October 2020.

This paper has been prepared to stimulate debate on strategies for repositioning the private sector to effectively contribute to the country's economic diversification. It highlights the structure of the Seychelles' economy with emphasis on the place of the private sector and assesses the trends of economic diversification drawing on different measures. Moreover, it articulates the efficacy of the legal policy and institutional environment in facilitating private sector development in comparison with other countries and proposes a mix of short-term and medium-term reforms necessary to implement the diversification agenda. Analysis in this paper, and the recommendations drawn therefrom, have been informed by extensive consultations with key actors in the public and private sector, including insights from ministers and senior government officials highlighting the strategic direction of the Government in rebuilding the economy.

The paper acknowledges the current efforts of the Government to facilitate private sector operations. Some of these include: the COVID-19 recovery support measures to build the resilience of businesses, the articulation of a digitalization agenda to enhance the ease of doing business, and efforts to involve the private sector in planning processes. Advancing the diversification agenda requires the mobilisation of collective action to enable the private sector to unleash its entrepreneurial potential. Some of the key interventions identified in the paper include deepening support to sectors with the highest forward and backward linkages; the urgent need to establish a private sector development strategy critical for guiding priority investment areas of government; a dialogue on the efficacy of the existing legal framework and areas that require overhaul or review; and improving the coordination arrangements in the public and private sector for effective dialogue.

The paper is organized in 5 sections as follows: Section 1 and Section 2 provide analytics on the evidence of economic diversification in Seychelles, building on widely used measures. These sections also provide evidence of inter-sector linkages, highlighting sectors with highest potential for deepening investment in the economy. Section 3 summarises the results of intensive consultations with the public and private sector regarding business environment and challenges, and opportunities for the private sector. Given that the consultations richly addressed varied areas of private sector engagement, specific insights will feature in subsequent briefs to inform policy. Section 4 provides recommendations of the study while Section 5 concludes the paper.

The state of economic diversification in Seychelles

2



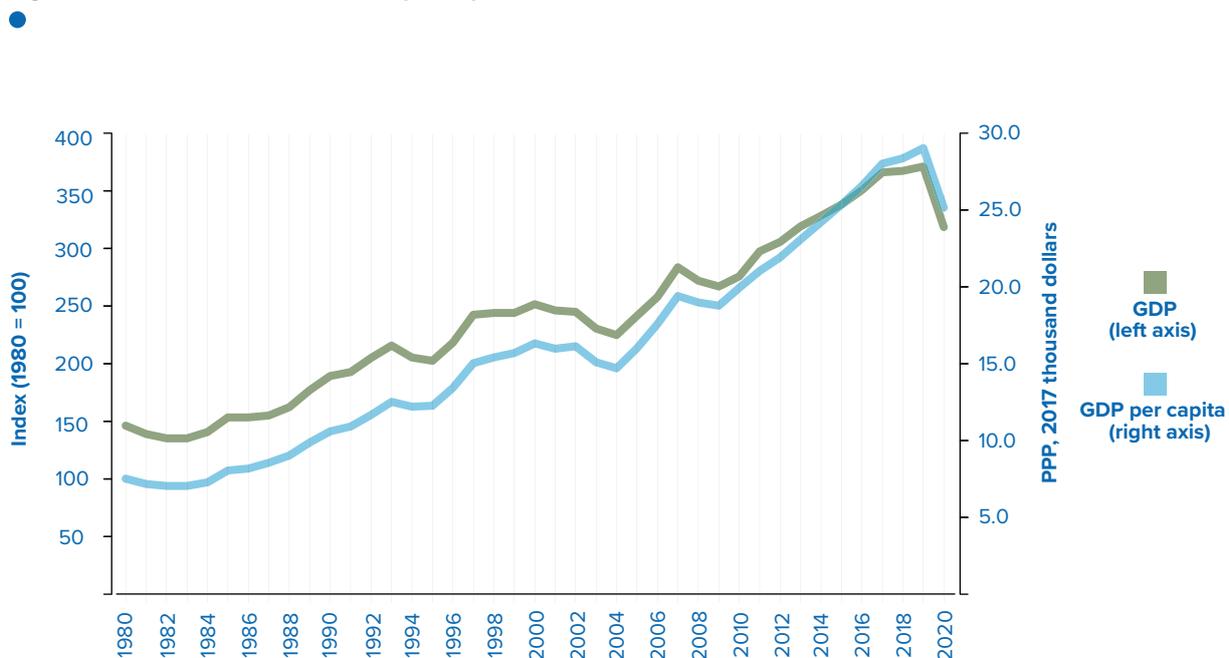
The state of economic diversification in Seychelles

2.1. Structural change

The Seychelles' economy has experienced a period of sustained economic growth over the last four decades. Before the outbreak of the COVID-19 pandemic, GDP increased by almost four times since 1980 (Figure 1). The GDP per capita by 2019 was USD 28,035 at 2017 PPP, almost three times larger than the early 1980s. The average annual growth rate of the GDP per capita was 2.1 percent and 2.9 percent in the 1980s and 1990s respectively, but declined to 0.8 percent in the first decade of the current century. Following the impressive performance of the tourism sector, the annual growth of GDP per capita increased at an average of 3.3 percent during the decade preceding the outbreak of the COVID-19 pandemic. Even though this successful

performance helped to set impressive initial conditions, the high dependence on tourism caused a drop in the GDP of Seychelles by more than 13 percent in 2020, above the 9 percent average fall among the SIDS and 3.3 percent estimated for other developing countries. Given the observed high vulnerability of the economy, there has been much concern about the over-reliance on tourism. Indeed, in the absence of appropriate policy measures, a persistent contraction in tourism activity due to COVID-19 could affect the prospects for sustained economic growth in the long term. This justifies the Government's emphasis on accelerating transformation to a more diversified economy.

Figure 1. Evolution of GDP and GDP per capita.

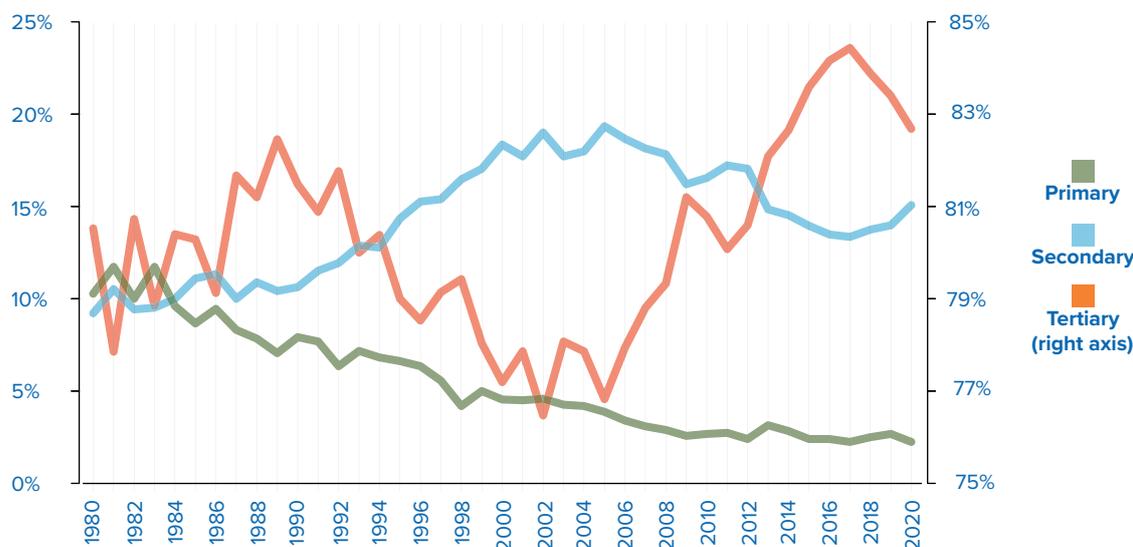


Source: Authors' calculations based on IMF data

The economy has undergone structural transformation similar, in qualitative terms, to the international evidence (Figure 2 and Table 1). However, most of the change occurred between the primary and the secondary sector, while keeping the share of the service sector at around 80 percent of GDP with a slight upward trend over time. The share of the service sector has always been high

due to over-reliance on revenues from tourism, which boosted sectors like transportation, accommodation, and food services, among others. According to the National Bureau of Statistics (NBS), the direct impact of tourism (part of the tertiary sector) on the GDP is greater than 25 percent.

Figure 2. Structure of GDP by aggregate sectors.



Source: Authors' calculations based on NBS.

Over the last four decades there has been a significant contraction of the contribution of the primary sector to GDP at an average of 2.6 percent compared to 9.5 percent in the 1980s (Table 1). This is evident in the contraction of the share of agriculture and to a lesser extent in primary fisheries activities¹(Table 2). The share of the secondary sector increased from 10.2 percent in the 80s to around 15 percent in the 2010-2019 period, with gains evident in manufacturing and to some extent in construction. In 2020, the structure of GDP did not change significantly,

but there were changes within the aggregate sectors worth mentioning. For instance, in the secondary sector there was an increase in the share of manufacturing and a drop in the contribution of the construction sector of a similar magnitude. There was also a change in the composition of economic activity within the service sector, with a large drop in accommodation/food service and transportation activities, and an increase in the contribution of the health, public administration, financial, and professional activities industries (Table 2).

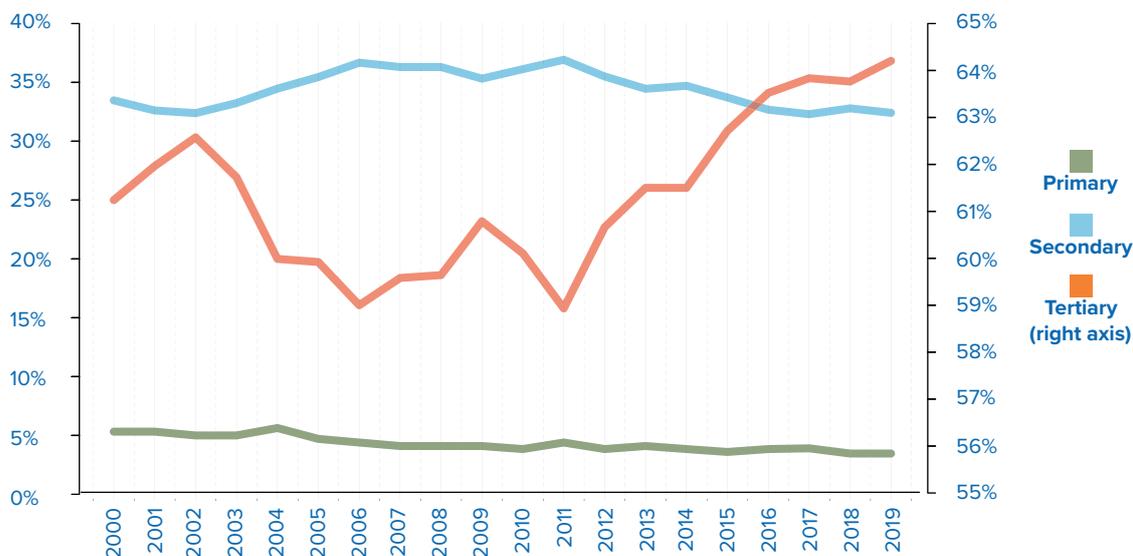
Table 1. Structure of GDP by aggregate sectors.

SECTORS	1980-89	1990-99	2000-09	2010-19	2020
Primary	9.5	6.3	3.8	2.6	2.3
Secondary	10.2	13.8	18.1	14.9	15.0
Tertiary	80.3	79.9	78.1	82.5	82.7
Total	100	100	100	100	100

Source: Authors' calculations based on NBS.

¹This fall in the share of primary fishing activities did not prevent the development of the fishing value chain with an increase in exports of fishing manufactured products. Indeed, the Supply Use Tables analysis suggests that inputs of primary fishing represent only 8 percent of the total output of the fishing manufacturing sector.

Figure 3. Structure of GDP by aggregate sectors, bottom high-income countries.

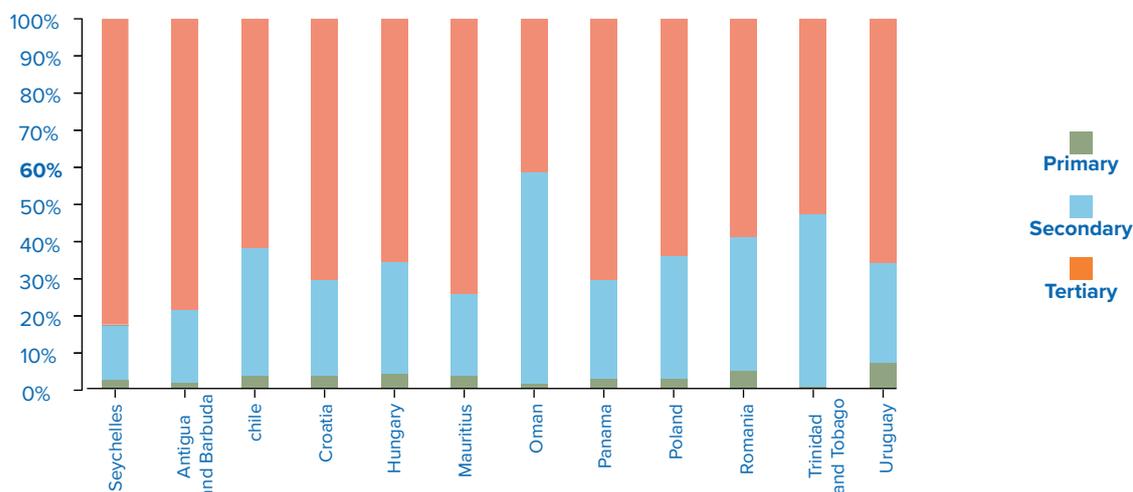


Note: Bottom high-income countries weighted average, including Antigua & Barbuda, Chile, Croatia, Hungary, Mauritius, Oman, Panama, Poland, Romania, Trinidad & Tobago, and Uruguay. Source: Authors' calculations based on World Bank Open Data

There is a noticeable difference in the structure of the country's GDP by aggregate sector in quantitative terms as evidenced by a higher averaged share of the service sectors than in the other countries, and a significantly

smaller share of manufacturing (Figure 4). Only Antigua and Mauritius have productive structures that look like Seychelles.

Figure 4. Structure of GDP, bottom high-income countries. Average decade 2010-2019.



Source: Authors' calculations based on NBS and World Bank, Open Data.

Seychelles has registered interesting shifts in the composition of the tertiary sector, with increases in the shares of tourism related industries, such as hotels, restaurants, and transportation, and a larger participation of financial services and information/communication. The last decade reflects a large drop in the contribution of public administration to GDP, which has reverted in 2020 given the increased public expenditure associated to the policies implemented to mitigate the economic impact of

COVID-19². At a more disaggregated level, half of GDP during the last decade was dominated by five sectors including real estate, accommodation and food services, transportation, public administration and defence, and compulsory social security. These sectors, together with information and communication, wholesale and retail, financial and insurance activities, and construction, contribute to more than 80 percent of the country's GDP.

²Given there has been a change in the methodology for aggregating sectors in 2004, it is not possible to have a full list of sectors for the whole period under analysis. Instead, Table in the Appendix presents the composition of GDP based on a full list of 18 sectors from 2004 to 2020.



Table 2. Evolution of the contribution of relevant sectors to GDP by decade.

SECTORS	1980-89	1990-99	2000-09	2010-19	2020
Agriculture	5.7	3.7	2.2	1.5	1.7
Fishing	3.8	2.7	1.6	1.1	0.5
Manufacturing	4.7	6.8	10.0	8.1	9.5
Construction	3.3	4.5	5.9	4.4	2.1
Accommodation and Food Service Activities	9.4	10.9	13.4	15.5	6.3
Banks, Insurance and Real Estate (excluding owner occupied dwellings)	5.7	6.9	8.0	11.7	11.2
Public administration and defence, compulsory social security	14.2	12.7	10.1	7.7	10.9
Transportation and storage	9.6	10.0	10.2	11.5	11.1
Information and communication	2.3	3.2	4.4	5.6	7.2

Source: Authors' calculations based on NBS.

The composition of employment remained stable over the last decade, with the primary sector contributing to around one percent of total employment (Figure 5), while the tertiary sector employed between 74 and 77 percent of the workforce³. Accommodation and food services are the largest employer accounting for 17.9 percent by 2019, followed by the construction sector (12.4 percent), wholesale and retail (8.7 percent), transportation (7.9 percent) and manufacturing (7.6 percent).

There are significant differences in productivity across sectors, with the primary sector being the most productive, and the secondary sector contributing the least (Figure 6). In 2020, the labour productivity in the secondary sector was 51 and 57 percent of the level of the tertiary and primary sector respectively, even when the measure of labour productivity is adjusted by

informal employment. Thus, the evidence shows that the secondary sector is on average the least productive. On the other hand, the data do not show significant variations in the evolution of productivity over time.

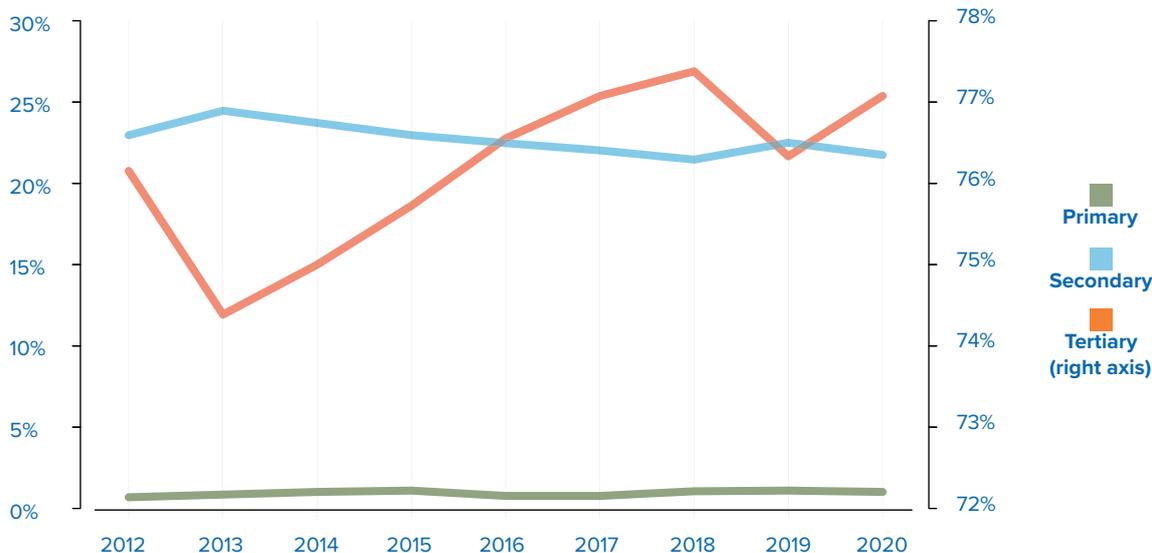
Labour productivity is highly heterogeneous within aggregate sectors⁴. In the tertiary sector, information and communication, professional, scientific and technical activities, wholesale and retail and public administration have particularly high productivity levels; while in the secondary sector, manufacturing and electricity are significantly more productive than construction and water supply⁵. Among the largest employers, public administration, wholesale-retail and manufacturing display high productivity per worker, while construction, accommodation and food services, and transportation have low productivity levels.

³The full description of the composition of employment across the 18 sectors is presented in Table in the Appendix.

⁴See Table for the data of labour productivity by each of the 18 sectors in the period 2012-2020.

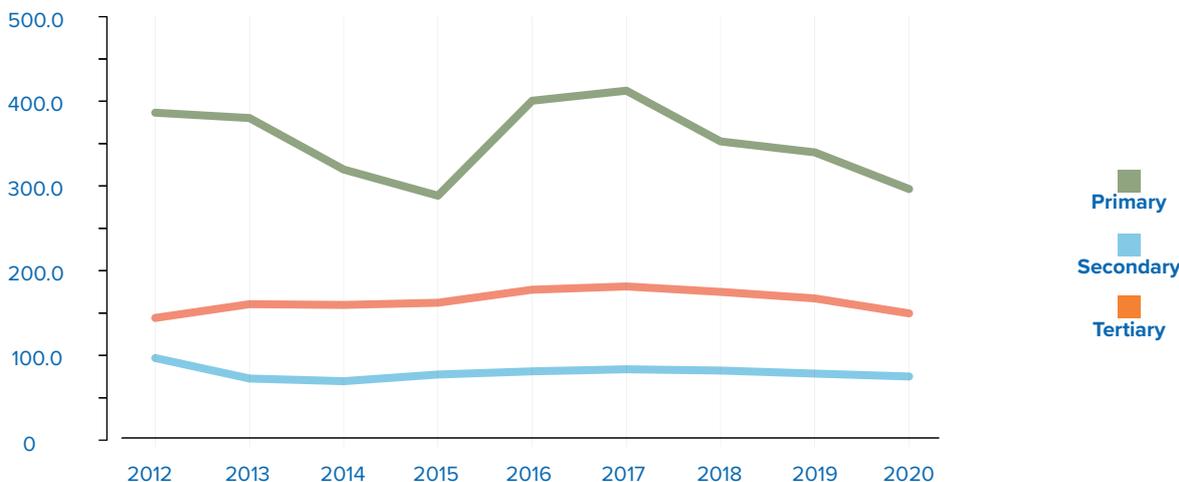
⁵The real estate sector shows a very large labour productivity, but this measure is distorted by the effect of the contribution to the GDP by owner occupied dwellings.

Figure 5. Total employment by aggregate sectors.



Source: Authors' calculations based on NBS.

Figure 6. GDP per worker by aggregate sectors. 2006 thousand Seychellois rupees.



Source: Authors' calculations based on NBS.

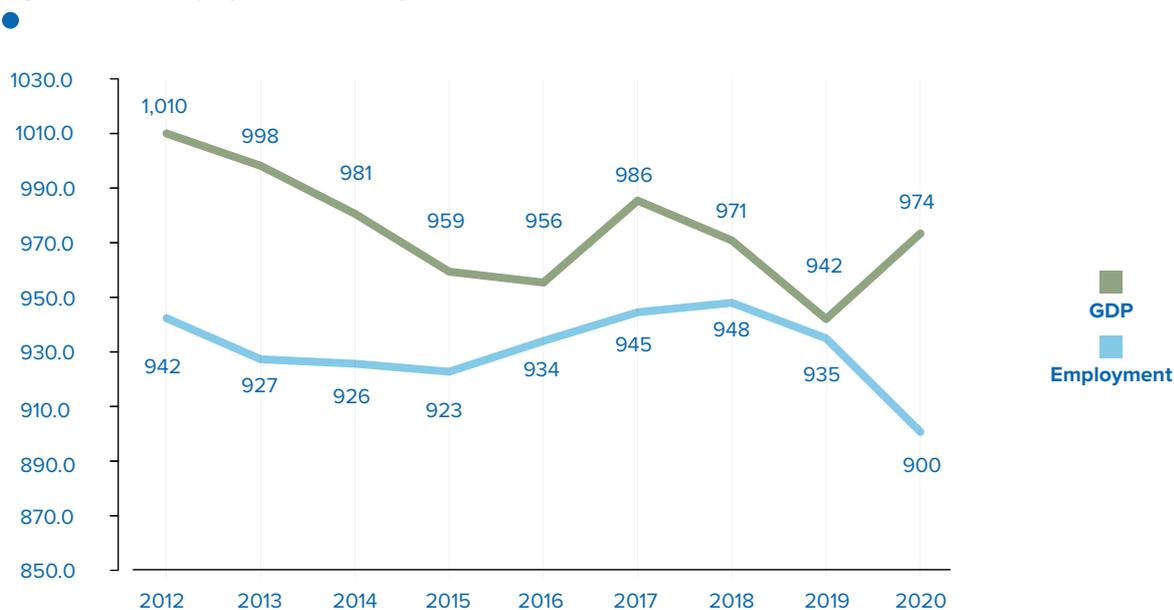
2.2. Economic diversification

Figure 7 presents the evolution of a Herfindahl-Hirschmann Index (HHI) for employment and output in the Seychelles in the last decade⁶. The series starts in 2012, the first year for which reliable and comparable information for 18 industries was available. According to the literature, an HHI index below 1000 indicates an acceptable level of diversification. Based on the two concentration measures reported in the graph,

Seychelles appears to have a diversified economy. Moreover, there is a slight downward trend in the two measures over time that would suggest a greater diversification of production. However, these measures do not capture the high dependence of the economy on the tourism that drives economic activity in other sectors. The inflow of tourists generates forward linkages mostly to activities in the tertiary sector, such as food and accommodation, transportation, retail, financial services, and manufacturing, which help diversify the economy.

⁶The HHI is an absolute specialisation index of market concentration and economic diversity. It measures the extent of the relative contribution of the different sectors to overall economic activity. The index is calculated as $\sum_{i=1}^n s_i^2$ where s_i^2 is the percent share of economic activity for sector i in the total GDP and n is the number of sectors. The value of the index ranges between 0 and 10000, where higher values indicate less diversification or more specialization. An HHI index below 1000 indicates an acceptable level of diversification. For the case of the HHI reported for Seychelles we consider 18 sectors. The value of the index ranges from

Figure 7. GDP, Employment & Earnings Herfindahl-Hirschmann index.

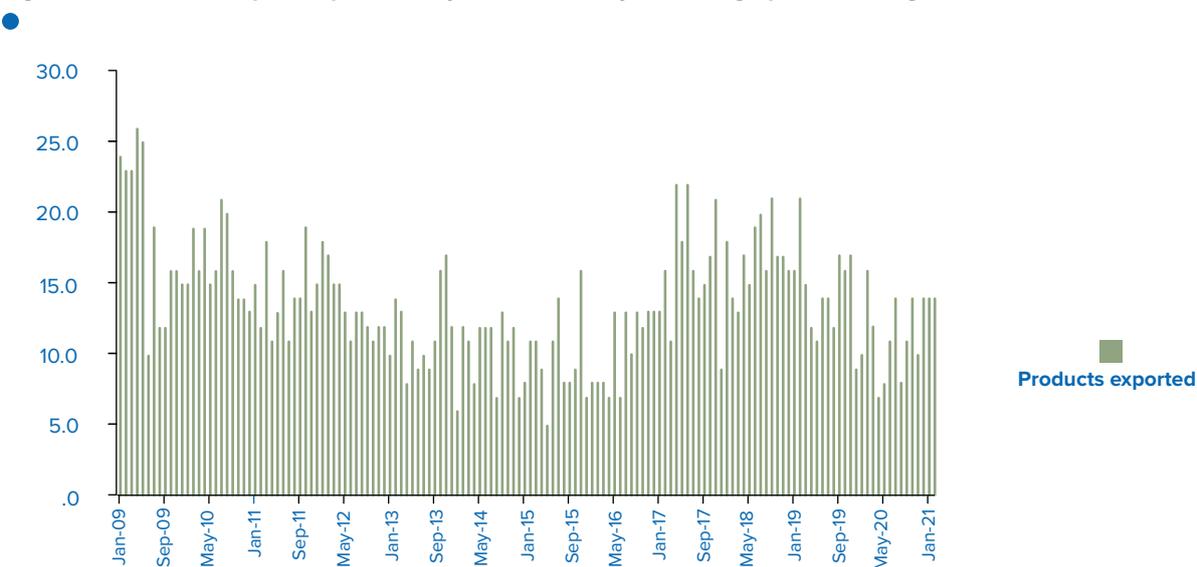


Source: Authors' calculations based on NBS.

Conversely, Figure 8 plots the evolution of the number of exported products based on the Harmonized System (HS) 2-digit product categories⁷; and considering there is a total of 99 HS product categories overall, the data reflects a low diversification of the exported products

mix in the Seychelles economy, as the country never exported more than 27 product categories, on account of low level of private sector activity outside of fishing and tourism sector.

Figure 8. Number of exported products by Harmonized System 2-digit product categories.



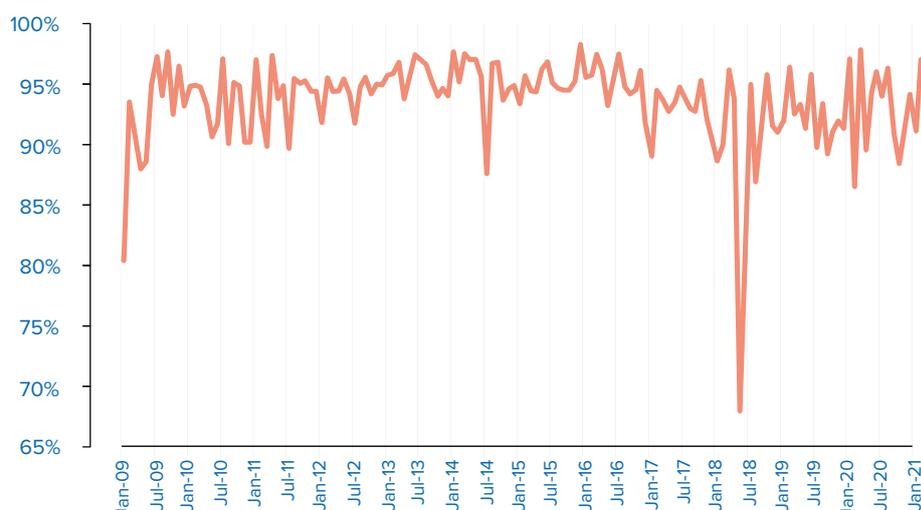
Source: Authors' calculations based on NBS.

In terms of the value, there is a significant predominance of the fishing sector, in particular the manufacturing of fishery products, which contributes to more than 90 percent of total merchandise exports (Figure 9) and has been the main exporting industry over the last decade. On the one hand, this pattern reflects a low diversification

of the merchandise goods production structure for exports in the Seychelles and, on the other hand, a high degree of specialization of the manufacturing sector on its core competencies on which the economy can capitalise to develop linkages with other sectors.

⁷The Harmonised System (HS) is an international nomenclature (a six-digit code system) for the classification of internationally traded products. It allows participating countries to classify traded goods on a common basis. The HS includes around 5300 products arranged in 99 chapters; the two-digit code identify the chapter. For more details see <https://unstats.un.org/unsd/tradekb/Knowledgebase/50018/Harmonized-Commodity-Description-and-Coding-Systems-HS>.

Figure 9. Exports of fish and fishery products. Percentage of total exports.



Source: Authors' calculations based on NBS

Table 3 shows the whole list of exported products with revealed comparative advantage greater or equal to 5 over the period 2008-2018. Fish related products appear in the list in every year over the period considered.

Those products are frozen fish, fish oils, prepared or preserved fish, and flours of fish among other of the fishing value chain⁸. The rest of the exported products in the list appear on an irregular basis.

Table 3. Structure of GDP by aggregate sectors.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fish products	X	X	X	X	X	X	X	X	X	X	X
Bananas											X
Mixed fertilizers										X	
Aluminium ore, molybdenum, cobalt			X					X	X	X	
Other breathing appliances and gas masks	X				X	X	X	X	X	X	
Electronic integrated circuits										X	
Tungsten (wolfram)						X				X	
Vitamins								X			
Wires of stainless steel							X	X			
Fruits dried	X	X				X		X			
Printed or illustrated postcards							X				
Artificial filament tow							X				
Binoculars and telescopes						X					
Stainless steel ingots					X						
Copper bars, rods and profiles					X						
Wood marquetry					X						
Unused stamps			X	X							
Surveying instruments	X			X							
Soybean oil, Palm oil	X										

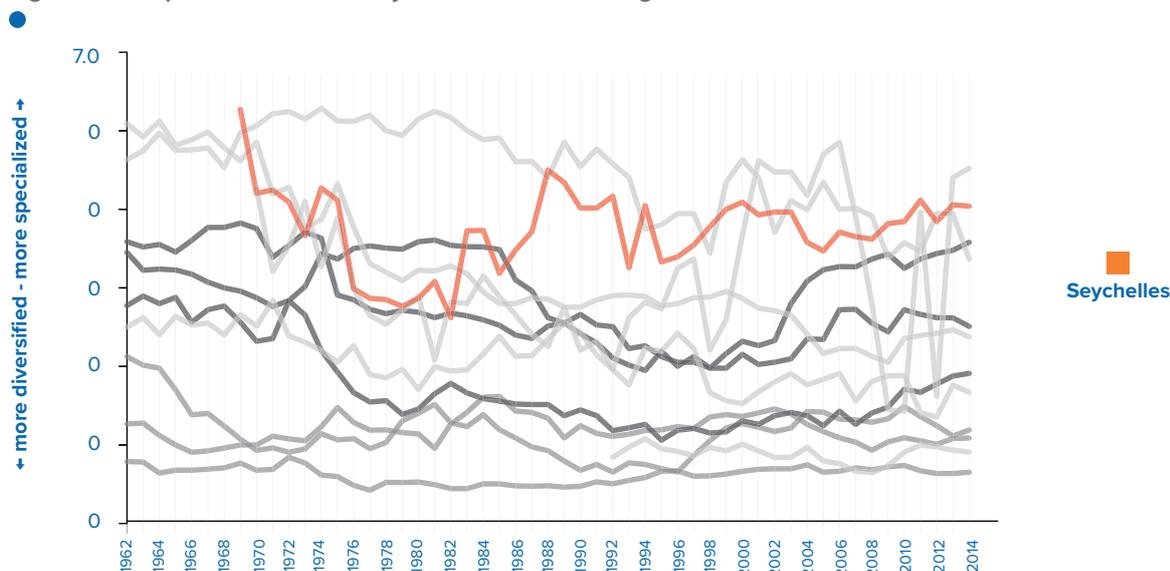
Source: Authors' computation from the Atlas of Economic Complexity, Growth Lab at Harvard University.

⁸Other products like pleasure and sport boats, and tobacco products, seem also important but based on merchandise trade data from NBS they correspond to re-exports.

Figure 10 plots the Theil Index of exports comparing Seychelles with other bottom-high income countries and other SIDS. The index is a widely used tool to measure exports diversification. One of its advantages is that it allows for identification of the contribution of new and existing productive sectors to economic diversification. Given that higher values of the Theil Index correspond to lower export diversification⁹, the data for Seychelles, as expected, depicts a low level of exports diversification not only compared with other high-income countries but also with other SIDS. Additionally, the Theil Index for Seychelles remained constant over time, implying marginal changes in the diversification of exports during the past decades.

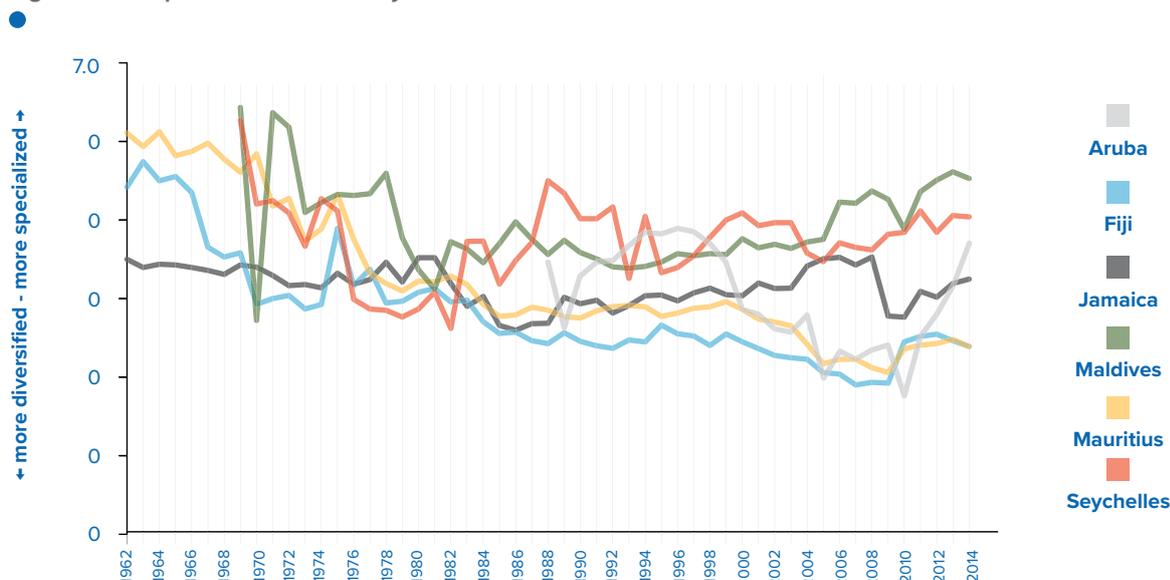
It is worth mentioning that the analysis of export diversification does not consider the exports of services, for which there is no disaggregate data available. Notwithstanding, the export of services is very important for the Seychelles economy. According to data from the World Bank World Integrated Trade Solution (WITS), by 2019 the service sector contributed to more than 68 percent of total exports. Travel and transporting services, both related to tourism, account for most of the exports of services.

Figure 10A. Exports Theil index | Seychelles and bottom high-income countries.



Note: bottom high-income countries considered are Antigua & Barbuda, Chile, Croatia, Hungary, Mauritius, Oman, Panama, Poland, Romania, Trinidad & Tobago, and Uruguay. Source: Authors' calculations based on IMF, Export Diversification and Quality Database, 2017.

Figure 10B. Exports Theil index | Seychelles and other SIDS.



Source: Authors' calculations based on IMF, Export Diversification and Quality Database, 2017

⁹For details on the calculations see <https://www.imf.org/external/datamapper/Technicalpercent20Appendixpercent20forpercent20Exportpercent20Diversificationpercent20database.pdf>

2.2.1. What could be driving economic diversification in Seychelles?

Table 4 presents a Dot-Plot matrix representation of the interlinkages among 23 sectors of economic activity based on a Supply Use Table (SUT) produced by the NBS for 2014¹⁰. The figure highlights every linkage representing at least 2 percent of total sectoral output. This cut-off level was set in order to consider sectoral linkages above a lower bound of relevance in economic activity. The dots across columns for each row represent forward linkages, identifying the sectors with strong demand for each of the activities displayed by rows.

The dots across rows for each column show backward linkages, that is activities from which each sector demand intermediate inputs for production. For example, the agricultural sector (row 1) has important forward linkages with sector 4 (manufacturing of other food) and 12 (accommodation and food service). On the other hand, going across rows in column 1, it can be observed that the agriculture sector has backward linkages with sector 6 (manufacturing, other) and 14 (financial and insurance activities). Overall, there are 121 strong linkages that could be strengthened, out of 529 possible ones in the SUT¹¹.

Table 4. Dot-Plot Matrix representation. Total direct requirements per sector.

Sectors	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	
Agriculture	●			●								●												
Fishing			●																					
Manufacture of fishery products			●									●												
Manufacture of other food			●	●	●							●												
Manufacture of beverages and tobacco					●							●												
Manufacturing, other	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●
Electricity, gas, steam, and air conditioning supply				●	●			●	●		●	●	●		●				●	●		●	●	●
Water supply; sewerage, waste management and remediation activities																			●					
Construction									●					●					●	●		●	●	●
Wholesale and retail trade; repair of motor vehicles and motorcycles																								
Transportation and storage			●	●	●	●		●		●	●			●		●	●	●	●			●		
Accommodation and food service activities											●										●	●		
Information and communication										●				●	●				●	●		●	●	●
Financial and insurance activities	●									●		●								●	●			
Real estate activities		●		●	●					●	●	●	●	●	●		●	●	●		●	●	●	●
Owner occupied dwellings																								
Professional, scientific, and technical activities			●	●	●			●		●		●	●	●	●		●	●	●	●		●	●	●
Administrative and support service activities								●		●	●		●	●					●	●		●		
Public administration and defence; compulsory social security																								
Education																								
Human health and social work activities																						●		
Arts, entertainment, and recreation																								
Other service activities																								

Note: the figure plots the input–output total requirements matrix (direct requirements matrix A), defined as the amount of economy output used per output of each sector. Linkages representative of at least 2 percent of total output per sector are plotted with a dot. The activity “Manufacturing, other” includes textiles, clothing, footwear, and other leather products; wood, paper, and printed products; non-metallic mineral products; metal products; machinery and equipment; transport equipment and parts; furniture and repair; and installation services except for motor vehicles.

Source: Authors' calculations based on NBS.

¹⁰The SUT uses 35 products of the Seychelles Product Classification (SPC), a product classification based on the 2-digit level of the Central Product Classification (CPC), aggregated into 23 activities.

¹¹Ignoring sector 16 (Owner occupied dwellings), there are 121 out of 484 possible linkages across sectors.



Table 5 highlights the number of backward and forward linkages by sector, indicating whether the demand and supply for imports and exports are above or below the average for 2014. As opposed to the previous analysis, which focused on merchandise exports, exports and imports consider both goods and services. The demand

for imports are related to backward linkages to each sector from international markets, while the supply for imports relates to forward linkages to other sectors. Exports refer to demand of domestic varieties from international markets¹².

Table 5. Linkages, imports, and exports by sector.

Sector	Backward Linkages (sectors)	Forward Linkages (sectors)	Import supply	Import demand	Exports
Agriculture	3	3	Above	Below	Below
Fishing	2	1	Below	Above	Below
Manufacture of fishery products	6	2	Below	Below	Above
Manufacture of other food	7	4	Above	Above	Below
Manufacture of beverages and tobacco	6	2	Below	Above	Below
Manufacturing, other	3	22	Above	Above	Below
Electricity, gas, steam, and air conditioning supply	1	11	Below	Above	Below
Water supply; sewerage, waste management and remediation activities	5	1	Below	Below	Below
Construction	2	6	Below	Above	Below
Wholesale and retail trade; repair of motor vehicles and motorcycles	8	0	Below	Below	Below
Transportation and storage	5	12	Below	Above	Below
Accommodation and food service activities	9	3	Below	Below	Above
Information and communication	4	7	Below	Above	Below
Financial and insurance activities	7	8	Below	Below	Below
Real estate activities	8	15	Below	Below	Below
Owner occupied dwellings	0	0	Below	Below	Below
Professional, scientific, and technical activities	4	15	Above	Above	Above
Administrative and support service activities	5	8	Below	Below	Above
Public administration and defence; compulsory social security	9	0	Below	Below	Below
Education	7	0	Below	Below	Below
Human health and social work activities	5	1	Below	Above	Below
Arts, entertainment, and recreation	9	0	Below	Below	Above
Other service activities	6	0	Below	Above	Below

Note: Above and Below, refer to Above Average and Below Average, respectively. Imports Supply refer to supply coming from imports. Imports Demand refer to imports of intermediate goods. Source: Authors' calculations based on NBS.

¹² Imports and exports represent 37 percent and 17 percent of the total supply and demand for the average product. On the other hand, imports of intermediate goods represent on average 54 percent of total intermediate goods consumption.

Backward linkages

In terms of backward linkages, sectors closely related to tourism activities are strongly linked with the rest of the economy. Both “Accommodation and food service activities” and “Arts, entertainment and recreation” have an intensive consumption of inputs from 9 sectors of the economy. Both activities are supplied locally (not imported), have a low demand for imported intermediate goods, and contribute to the exports of services of Seychelles. However, even if both sectors are relevant for the diversification of economic activity, they are heavily dependent on tourism activities.

Other sectors with diverse backward links are “Public administration and defence; compulsory social security”, “Wholesale and retail trade”, “repair of motor vehicles and motorcycles” and “Real estate activities”. However, all of them are locally orientated. Similarly, the “Financial and insurance activities” have strong links with different providers but low penetration in international markets. While the role of education in the entire economy is widely appreciated, the SUT does not capture the critical forward linkages such as human capital that is supplied to all other sectors. An update of the SUT could consider such improvements. The “manufacturing of other food” sector has also strong backward linkages. However, most of its supply is from abroad, and the small domestic production that takes place in Seychelles implies a high demand for imports; at the same time this is not an exporting sector.

The fishing industry is one of the most thriving sectors of the Seychelles' economy, with low imports demand as intermediate goods and a high level of exports. This industry has an above average number of sectors with backwards relations, and it has a forward linkage with the food and accommodation sector. It should be mentioned that tuna is by far the most important fish which can be processed into a wide range of products. According to the SUT, processed fish represents 10.3 percent of total supply of the Seychelles' economy and 71 percent of production is exported. Though the import share of inputs for the sector is relatively low compared with other industries, it still accounts for 28 percent of total supply. This is mainly because raw tuna purchased by the canning factory from foreign flagged vessels are considered as imports. Similarly, the purchase of bycatch by local processors from foreign flagged vessels are also considered as imports.

Forward linkages

The “other manufacturing” sector, which includes, among others, textile, wood machinery and equipment, and transport parts, has strong links with all the economic sectors but most of the supply in this sector is imported, while the local production has a high import content and is not export-oriented. While promoting this sector could lead to import substitution industrialisation - which would help to diversify the economy - the high import content of a locally oriented production does not make this sector particularly competitive in Seychelles. Therefore, it is not clear if this sector should be included as part of a diversification strategy.

Another sector with strong forward links is real estate, which is also one of the most closely related to different types

of suppliers. Given its low imports demand and strong linkages with other sectors, the development of this sector could help diversify Seychelles' economy.

Professional, scientific, and technical activities also have strong forward links with real estate, but with lower backward connections. In addition, while these activities have a high level of exports, their supply rely heavily on imports. Given that these services are demanded by two thirds of the economy, it could also be one of the key sectors to boost to increase economic diversification.

While the transportation and storage sector have an average level of backwards linkages, it is one of the most important suppliers of the economy since it has a key role for the tourism value chain. While production in this sector is intensive in imported inputs, production is mostly served by locals and purchased by international consumers.

The electricity, gas, steam, and air conditioning supply are one of the most important suppliers in Seychelles. However, while being produced locally, imported inputs represent a high share of intermediate goods consumption in this sector, which only has a few backward linkages and is not an export activity.

The financial and insurance activities represent another interesting sector to consider. Though the sector is not heavily export oriented, it has above average backwards connections, and is served locally with below average imports demand. Therefore, this sector could have an important role in the diversification of Seychelles' economy.

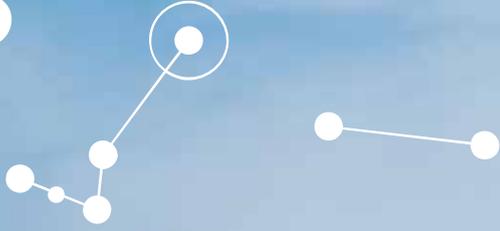
Finally, the ICT sector has strong forward connections with 7 sectors in its value chain. Supply in this sector comes mostly from local producers but requires a strong demand for imported intermediate goods. With the adoption of new technologies, this sector has potential for growth in the future.

There are four key aspects of the SUT analysis to be considered: First, the two sectors with the largest number of forward linkages (other than manufacturing and professional, scientific, and technical services) are largely supplied by imports. Second, sectors with low levels of demand for imports such as intermediate goods, like manufacturing of fishery products, accommodation and food service, and real estate, have strong backward linkages. Third, sectors with a large import demand for intermediates like fishing, electricity, and construction, have low backward connections. Fourth, most of the export-oriented activities, like fishing and tourism, have either strong backward or forward linkages.

Overall, this section demonstrates the presence of strong sectoral linkages that can be leveraged to drive the economic diversification agenda. Most of these linkages are largely driven by tourism and fisheries, which renders the economy vulnerable to external shocks as evidenced during the COVID-19 pandemic. However, there is opportunity to restructure and expand the productive system through empowering the private sector to generate linkages and stimulate sectoral productivity.

The place of the private sector in contributing to the diversification agenda

3



The place of the private sector in contributing to the diversification agenda

3.1. Context

Traditionally, the private sector has been a strong pillar of the Seychelles' economy. Prior to the opening of the international airport in 1971, the Seychelles economy was mostly agrarian-based and largely dependent on the export of cash crops including coconuts/copra, cinnamon, vanilla, and patchouli. The country was also quasi self-sufficient in food except for rice, sugar, potatoes, and certain condiments. All these export and import-substituting industries were operated by the private sector.

However, the sector began to face significant challenges in the late 1970s characterised by increased centralization of the economy. The Government nationalised several economic activities largely in tourism, fisheries, wholesale, and retail trade. The period that followed created some inefficiencies in the public and private sector. These developments were responsible for the chronic balance of payments deficits and the decline of Seychelles' external reserves which had started since the early 1990s. The excess demand for foreign exchange resulted in a parallel market which further crowded out the private sector, particularly those engaged in imports and wholesale.

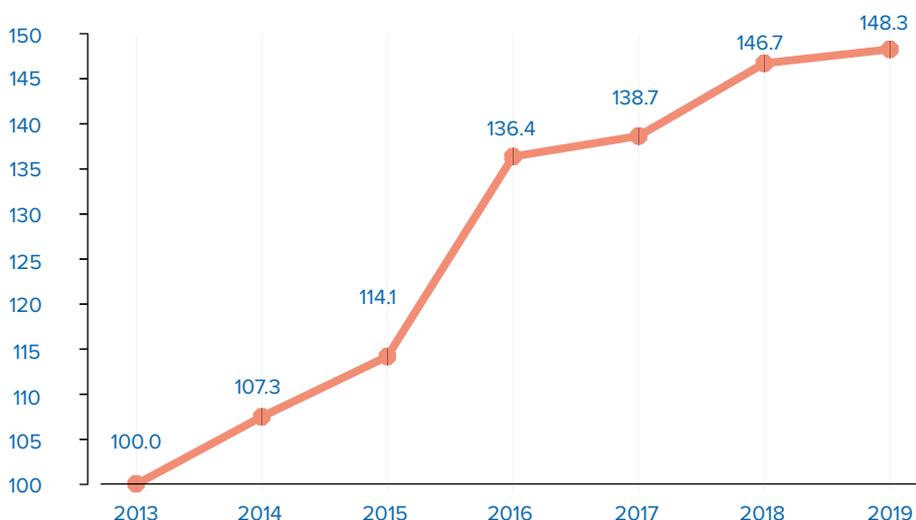
In 2008, the authorities engaged with the IMF to implement an ambitious structural adjustment programme to rescue the economy. The programme included the liberalisation of the economy, downsizing of the public sector, the adoption of a floating exchange rate regime and easing of most trade-related restrictions. For example, at the onset of liberalization, the Government held over 60 percent of bed capacity in the tourism accommodation sector, prior to privatization of all hotels. The Government also withdrew from other tourism activities such as tour operation and car hire operations. On the wholesale and

retail side, as early as 2004, the Seychelles Marketing Board (SMB) was restructured into the Seychelles Trading Company (STC) which reduced government monopoly, including on imported commodities. Following the 2008 reforms, the STC was further transformed and made more accountable. The company lost its monopoly on several imported essential commodities (e.g., rice, sugar, edible oil, potatoes, onions, milk) and started to publish audited accounts, in sharp contrast to its predecessor the SMB. The Government also reduced its workforce by one third to enable transformation into a leaner and more efficient public sector. Most of the workers formally employed by the Government were absorbed by the private sector.

In 2018, Seychelles became the first ever country to successfully undertake a debt for nature swap to protect the world's oceans. This swap came with several benefits to the public and private sector. The period of debt repayment on USD 21.6 million was extended from eight years to 20 years. This reduced the annual debt service by over USD 2 million, providing fiscal space to finance other development needs. One of the distinct cashflows of this arrangement is the Blue Grants Fund by the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT). This grant is accessible to Government entities, the private sector and civil society to implement marine protected area management, sustainable fisheries, ecosystem rehabilitation, climate change adaptation and Blue Economy businesses.

The reforms played a significant role in facilitating the recovery of the private sector, enabling it to contribute to about 67 percent of employment during the past decade. Value Added Tax has significantly increased from 12.5 percent in 2013 to 15 percent in 2019 with 53 percent of total VAT revenue generated by the tourism sector. As a result, the VAT revenue increased by 48.3 percent in real terms from 2013 to 2019 (Figure 11).

Figure 11. VAT Revenue Trends in real terms (2013=100).



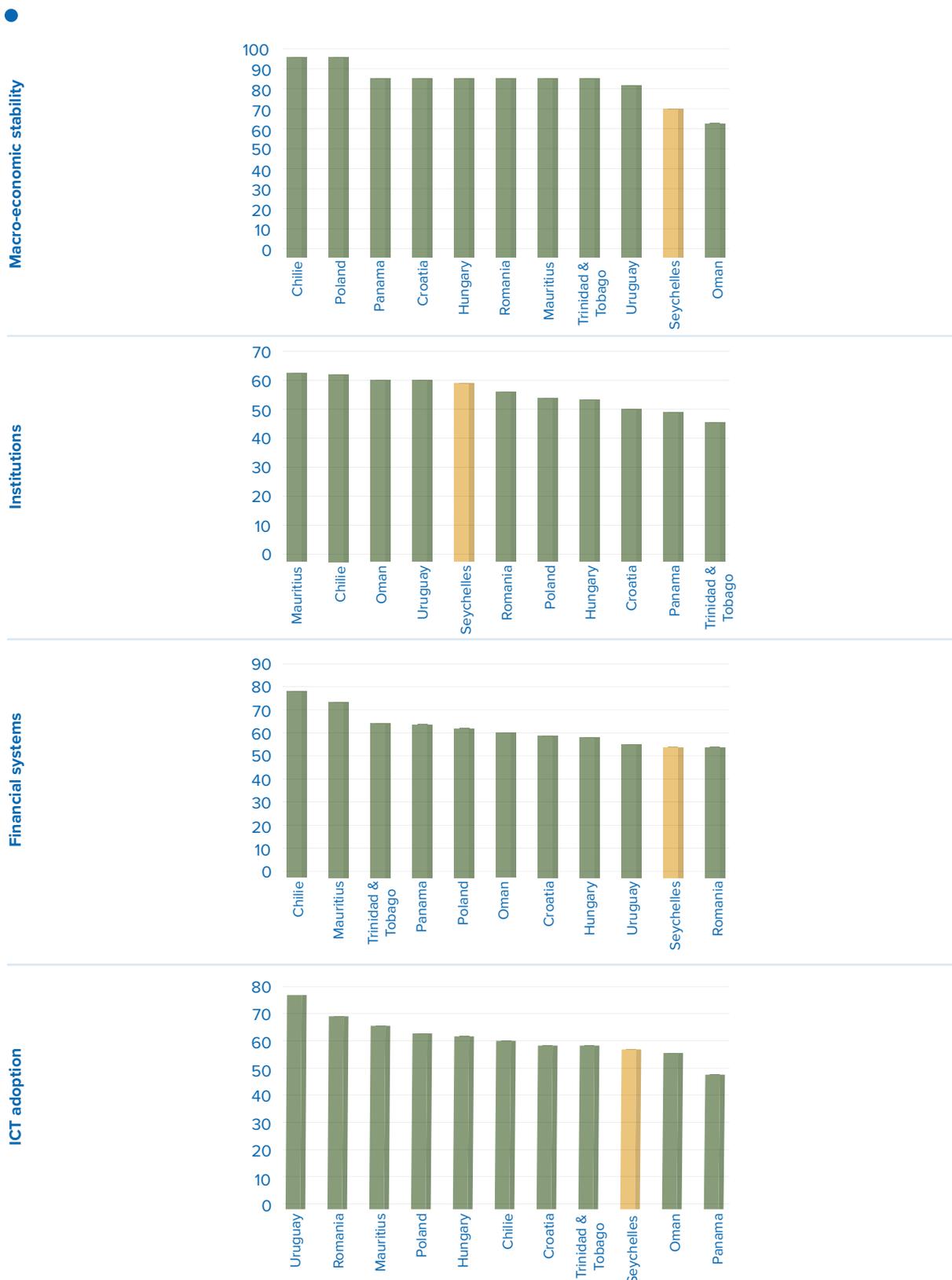
Source: Authors' calculations based on Seychelles Revenue Commission



Notwithstanding the positive trends that followed the period of reform, Seychelles has remained competitively disadvantaged compared to its high-income peers (Figure 12). According to the 2019 Global Competitiveness Report (WEF), the country ranks 74th out of 140 economies and is ranked lowest amongst high income economies. To improve on its standing within the high-income category,

the competitiveness report pointed towards the need for improvement in macro-economic stability, particularly debt management, strengthening of financial systems to facilitate private sector financing, and strengthening institutions with a focus on improvement on public sector performance, checks and balances, among other investments.

Figure 12. VAT Revenue Trends in real terms (2013=100).



Source: Computed from the Global Competitiveness Report 2019



3.2. Institutional Framework for Engagement

To leverage existing opportunities and foster deliberation on strategic entry areas for private sector engagement in the economy, it is critical to establish a more structured institutional framework of collaboration between the Government and private sector. On a positive note, actors in the public and private sector acknowledge the value of such engagement. To begin with, the Government made a noble attempt to prepare the national private sector development strategy in 2017 and more efforts are required to complete it. The preparation of this strategy requires comprehensive stakeholder conversations to ensure ownership and buy-in by the Government and the private sector. As a result of the absence of a guiding framework, the Government largely consults the private sector on an ad hoc basis. However, there has been efforts by the Ministry of Finance to hold more regular consultations with some private sector associations such as the Seychelles Chamber of Commerce and Industry (SCCI) and the Seychelles Hotel and Tourism Association (SHTA) as part of the budgetary preparation and changes in fiscal policy. While the Government is open to consult with the private sector, the major concern of policy makers is the limited representation of the private sector through the existing associations.

Coordination challenges are pronounced among private sector associations and are particularly noticeable in the fisheries and agriculture sectors. For example, the Fishing Boat Owners Association (FBOA) and the Association of Fish Processors and Exporters of Seychelles (AFPES) are new additions and at the top of the hierarchy of associations in that sector. However, they are not fully representative of fishers who are largely linked to the associations at district level. To help achieve a greater representation of fishers, FBOA has offered a seat on its Executive Committee to each of the district Fishermen's Associations. Similarly, in the agriculture sector, the Agricultural Producers Association of Seychelles (APAS) and the Seychelles Farmers Association run in parallel. Overall, there is consensus on the need to have a more structured framework for engagement, like the Joint Economic Council (JEC) in Mauritius. Such a Council would allow the Government to systematically consult the private sector on policy and legal regulatory formulation. It is imperative to establish an integrative approach so that all sectors become better represented by an umbrella organisation. There are significant gains in enhancing collaborative efforts among like-minded associations for instance the APAS and the Seychelles Farmers Association within the agriculture sector, and the FBOA, the AFPES and other Fishermen's



Associations within the fisheries sector. Similarly, the Seychelles Hotel and Tourism Association (SHTA) should be equally representative of large tourism operators as they are of the smaller operators e.g. self-caterings and guesthouses. Such an approach would recognise the value of all the key private sector associations both at the national, sectoral and local levels.

The Government is in a privileged position to facilitate this transition by incentivising the private sector to self-organize by, for instance, increasing its engagement with organisations with bigger representation and inclusivity. Through a South-South Cooperation arrangement, the private sector can also be supported to draw on good practices in other countries.

In the public sector, the institutional landscape could be strengthened further. The Seychelles Investment Board (SIB) has made efforts to act as a 'one-stop-shop' for investors, by coordinating key Government agencies (e.g. Planning Authority, Environment, Health and Safety, Registrar, Seychelles Licensing Authority, Department of Finance), but paper-based administration still constrains business facilitation. The Ministry of Finance has made progress in establishing a digital strategy expected to be presented to Cabinet during FY2021/2022 to ease business processes in the public sector. Similarly, the Office of the Attorney General has encountered delays in the implementation of several legal and regulatory reforms in part due to limited human resource capacity. The AG Office faces challenges in recruiting local lawyers since it cannot compete with remuneration offered to them in the private sector¹³. It also transpired that new measures, such as the need for companies to have a registered Company Secretary and the then proposed registration and licensing procedures, while instrumental from a governance, transparency and accountability perspective, require revisiting to ensure that private sector activity is effectively promoted.

3.3. Labour dynamics

One of the most important issues the country faces is the dearth of local manpower (both skilled and unskilled). As of June 2021, there were just under 800 Seychellois actively seeking formal employment, yet the

demand for employment by the business community exceeded 3,000, clearly manifesting an unmet demand in the local labour market. The problem is exacerbated by the selectivity of job seekers who prefer to remain unemployed rather than accept, even temporarily, low-paying or non-white-collar jobs.

While the Government understands that businesses' needs for both skilled and unskilled labour cannot be fully met locally, it is also cautious to strike a right balance between closing the labour gap with migrant or foreign labour and cognizance of the recent redundancies and uncertainty of job retention created by the COVID-19 pandemic. The existing quota system sets the maximum number of non-citizens that each business entity can employ and provides some room for importation of labour, but companies still have a challenge filling the labour gap. As the country strives to promote FDI and entry into the regional market, this system could provide more flexibility to expand labour force.

The SCCI conducted a comprehensive (post COVID-19) assessment of the employment legislation and regulations and proposed several adjustments to improve on employment provisions. Some of these include a simplification of the recruitment process for the non-Seychellois; a review of the Certificate of Entitlement (COE)¹⁴ system and a localization plan to enhance effectiveness. Other proposed adjustments encompass the enacting of a new employment act to replace the 1995 employment act and 1991 employment regulations, whose amendments have not been adequate to address current and evolving needs; including the abolition of the 13th month salary which does not reward hard work and undermines employers' incentives to provide discretionary bonuses.

3.4. Financing landscape for private sector

While Seychelles has traditionally been well served by the banking system, bank credit has become increasingly challenging both in terms of cost and accessibility. This has been exacerbated by the COVID-19 pandemic, which has made banks cautious of the potential of growth in non-performing loans (Figure 13)¹⁵.

¹³Foreign barristers and solicitors are not allowed to practice and represent clients in before Seychelles courts.

¹⁴A Certificate of Employment is given by the Ministry of Manpower to a business requesting to employ a foreigner in a particular post once such post has been advertised and the business can demonstrate that it was unable to recruit a suitable Seychellois candidate. Once a COE has been approved for a particular post, the employer may then proceed to identify a suitable foreign worker and request a Gainful Occupation Permit (GOP) from the Immigration Department.

¹⁵During the meeting held with the SBA, some banks confirmed that they are already experiencing a significant increase in NPLs but Nouvobanq the largest commercial bank informed that as of June 2021, they had not experienced any such increase but believed that should the tourism recovery in the second half of 2021 and beyond fail to live up to expectations then they too will face the prospect of a significant surge in NPLs.

Figure 13. Trend of Non-Performing Loans.



Source: Central Bank of Seychelles

Prior to the 2008 reforms, the spread of bank interest rates was regulated by the Central Bank with indicative rates for savings/deposits, and for credit. As part of the 2008 reform measures, all restrictions on bank interest rates were removed, resulting in an increase in the spread of interest rates¹⁶. This on a weighted basis may be about 8.1 percent in 2020 or 1.5 times the spread in Mauritius where it stood at 5.5 percent in 2020¹⁷.

Cognizant of the need to provide extra liquidity in the market following the onset of the COVID-19 pandemic and the collapse of the tourism industry, the Central Bank implemented two COVID-19 Private Sector credit line facilities made available through two Private Sector Relief Schemes in 2020. The first COVID-19 Private facility (SCR 500 million) which was launched in March 2020 was to assist commercial banks to provide concessionary credit to MSMEs at an annual interest rate of 1.5 percent. The second Scheme (SCR 750 million) was implemented, starting in June 2020, to provide concessionary credit to larger enterprises at 4.5 percent¹⁸.

These schemes were designed to complement the Financial Assistance for Job Retention (FA4JR) Scheme that did not cover salaries above SCR30,000 (about USD 2,130). The phasing out of FA4JR in March 2021 coincided with a successful vaccination programme and the reopening of the international airport which has resulted in a steady recovery of the tourism industry with daily arrivals averaging 500, albeit still much lower than the pre-COVID-19 average of 1,300. This must have also reduced the pressure on cashflow of businesses, large and small alike, and consequently the need for additional bank credit. The subsequent uptake under the

Private Sector Relief Schemes was also impacted by the introduction of the Small Business Support Fund (SBSF) set up by the Government in September 2020 at a 0 percent interest rate.

For stakeholders in the fishing sector, the conditions for borrowing have become more stringent with some banks demanding land and building as collateral as opposed to fishing vessels previously accepted for loan transactions, which boat owners are unable to meet. Actors in the agriculture sector face difficulty accessing concessionary credit from the Development Bank of Seychelles (DBS), given the time-consuming application process for such credit.

While the DBS has started to implement the USD 12M Blue Investment Fund, targeting project promoters that aim to support a transition to sustainable fisheries, it has placed some form of moratorium on its more conventional loans for projects in other sectors such as tourism and manufacturing.

This comes at a time when the Government has been escalating its borrowing from the domestic banking system by way of short-term Treasury Bills and longer-term Bonds. The Government successfully mobilized SCR 1.5 billion by way of three sets of Solidarity Bonds in the second half of 2020. These were for 3, 5 and 7 years respectively.

Overall bank credit to the private sector for the past 5 years has been dominated by the tourism sector at 23 percent followed by real estate at 13.3 percent and trade at 12 percent (figure 14).

¹⁶The interest rate spread is the difference between the interest rate on loans and that on deposits.

¹⁷<https://data.worldbank.org/indicator/FR.INR.LNDP?locations=SC>.

¹⁸Defined as enterprises with annual turnover of SCR25 million.



Figure 14. Bank credit to the private sector (2015-2020).



Source: Authors' computation using Central Bank of Seychelles data

In July 2021, the Government also successfully carried out a liability management operation to allow holders of Treasury Bills (90 percent of which are held by commercial banks) to voluntarily switch to long term bonds such that Government's borrowing would be less short-term and more long-term. This is likely to have a displacement effect on the commercial banks' ability and willingness to lend longer term to the private sector such as for financing investment projects, given competition from the public sector.

However, as part of the IMF Extended Fund Facility, there is a limit set on the Government's ability to further borrow domestically to avoid crowding out the private sector. The Central Bank also lowered its policy rate to 2 percent with effect from July 2021 and this is expected to reflect in lower lending rates by local commercial banks. In practice, the direction of response is not clear.



3.5. Access to land for industrial and agricultural development

Land is scarce in Seychelles. Industrial land for storage, warehousing and manufacturing is also difficult to purchase or lease. The Government had, in the past, reclaimed land on Mahé (Providence, Ile Du Port, Perseverance) and Praslin (Eve Island) for lease to private sector operators. However, in some cases the lessees have been known to engage in land speculation as the leases could be transferred and sold to a third party at a premium. Lessees have, in some cases, also used their premises for purposes different from what the land was originally intended.

Furthermore, several lessees have been allowed to build up rental arrears without any sanction by the Industrial Estates Authority (IEA), which manages such state land on behalf of the Government. The IEA has recently made clear its intention to repossess leases for which rental payment is in default. There has also been a moratorium on new allocation of land and transfer of leases including through change of shareholdings.

Given the high cost of freehold land, the dearth of land for industrial and warehousing purposes is a challenge for investors. However, some efforts exist in the public sector to secure land for investment. For instance, the Seychelles Investment Board (SIB) and the

Seychelles Port Authority have tendered some land in the port area for development of fish processing projects. The recent call for tenders by the Seychelles Fishing Authority (SFA) could also lead to a significant increase in value addition in fish processing for export. In the case of agriculture, access to arable land on the main granitic islands of Mahé, Praslin and La Digue is impeded by the topography characterized by steep mountain slopes and a very narrow flat coastal belt. The result is that in such contexts, agriculture must increasingly compete with tourism (hotels, restaurants etc), public infrastructure (roads, schools, health centres, recreational facilities) and housing. Underdeveloped land on the mountain slopes is largely in Protected Areas or costly to prepare for investment projects. While there is government commitment to revamp agricultural activity on the Government-owned outlying islands, transport logistics constitute a major cost.

The Government and the Island Development Company (IDC) had invited farmers to express interest in developing agriculture on Coetivy island, and some are assessing the feasibility to expand their operations there. The Government had also allocated 14 farming plots under the La Semence Youth Scheme based on a set of qualifying criteria. The private sector also emphasised the need to promote agriculture on Silhouette island on account of proximity to Mahé, which would reduce logistical challenges.

Core reforms for facilitating private sector engagement in the diversification agenda

4





Core reforms for facilitating private sector engagement in the diversification agenda

Horizontal policies to increase competitiveness.

Seychelles lags behind other high-income countries in competitiveness. The country ranks 74th out of 140 economies and ranked lowest amongst high income economies. This calls for the need of improvement in macroeconomic stability, in particular debt management, strengthening the financial system to facilitate private sector lending and strengthening institutions towards improving public sector performance. The report has highlighted the importance of imports for facilitating the availability of final goods for consumption and intermediate inputs for production, which for competitive sectors like fishing are transformed into exports with high value added. This emphasizes the importance of trade policies leading to reduce the costs of international trade, not only through trade agreements such as the AfCFTA but also with policies aimed at reducing bureaucracy and transportation costs.

Facilitate investment in sectors with strong linkages.

To advance the diversification agenda, policy engagement to deepen the existing backward and forward linkages across sectors and strengthen the

capabilities and competitiveness of the domestic private sector is required. For instance, placing emphasis on facilitating increased investment in real estate could have forward linkages with sectors such as fisheries, manufacturing, wholesale and retail and financial services, and backward linkages to energy, transport, and financial services among others. Regarding the fishing sector, Seychelles should increase the share of value addition to the tuna coming through Port Victoria, which requires the development of key infrastructure and services. These initiatives should be considered in a context of increased competitiveness and not in distorting market interventions.

Re-imagining the tourism sector.

The tourism sector still has a place in the diversification journey given the strong linkages it has with several sectors of the economy. To harness its potential, the private sector will need to strengthen key value chains with backward and forward linkages to the sector, while also building mechanisms to ensure their resilience to external shocks. Doing so may require repositioning Seychelles as a destination for long-term tourism alongside which other sectors can grow. In this sense,



a better understanding of the new patterns of tourism activities would be desirable to inform policy makers on new needs of the sector.

Strengthen public institutions:

Concrete reforms must be put in place to simplify the processes for starting a business, registering property, filing taxes, and accessing tax-related information. The SIB could be empowered to play its role of a 'one-stop-shop' more effectively for the private sector. In parallel, it is imperative to review and revisit the roles of Government agencies regarding private sector to minimize bureaucracy. It is also important to assess the effectiveness of the issuance of most licences by the Seychelles Licensing Authority, with a view to ensuring effective coordination and reducing potential delays that result from engaging respective sectors prior to issuance.

Fast-track the digitalization of Government processes:

The on-going effort by the Ministry of Finance to establish a digital strategy presents new opportunities to facilitate the development of the private sector. The digitalisation of public institutions such as the Seychelles Revenue Commission, the Department of Investment/SIB, the Department of Employment, the Department of Immigration, the Ministry of Health, the Seychelles Licensing Authority, and the Planning Authority will not only facilitate operational efficiency in the public sector, but also provide a learning platform for the private sector to adopt similar approaches. A digitalised public sector is also essential for attracting FDI.

Review legal infrastructure:

It is recommended that the Government undertake a comprehensive review and upgrading of the legal framework to address bottlenecks to private sector investment. For instance, private sector actors highlighted several provisions in the registration of companies and regulations pertaining to labour that require review to build a dynamic private sector. The requirement for companies to have a licensed Company Secretary was regarded by the private sector as a potential encumbrance on emerging and smaller players.

Develop the Private Sector Development Strategy.

In 2017, the Government commenced efforts to establish the national Private Sector Development Strategy. New engagement is required to prepare this strategy to facilitate coordinated action within the public sector and between the public and private sector. The strategy should propose interventions for creating an enabling business environment, strengthening business linkages, and enhancing productivity.

Establish a structured public-private engagement platform.

It is recommended that a public-private sector partnership forum be established at a senior level of representation as a formal forum for structured dialogue

on pertinent policy and regulatory issues related to the private sector. Such a platform is critical for promoting the interests of the private sector and strengthening partnership with the public sector on issues relating to socio-economic development.

Strengthen private sector associations.

The proliferation of private sector associations has made it difficult to harmonise efforts while engaging with the Government. To effectively engage, the private sector must improve its coordination architecture. Doing so requires a more structured and effectively facilitated conversation among the existing private sector associations, regarding the most appropriate, representative, and sustainable coordination arrangement. Such decisions can be informed by a diagnostic assessment of the existing associations, that would draw on good practices in other countries.

Facilitate land access.

To attract investment, the private sector should be facilitated to access land. The Government needs to fast-track current efforts to optimize the use of state land and incentivise timely development of leased land for intended investments. It is recommended that the Government makes use of the Assessment Study which was carried out by the Ministry of Land and Housing to inform policy decision to guide investment decisions on land.

Leverage the African Continental Free Trade Area (AfCFTA).

Following the ratification of the African Continental Free Trade Agreement, the Government must undertake some investments to enhance the readiness of the private sector to capture this opportunity. The above recommendations, if implemented, provide part of the valuable package to prepare the private sector to engage in the market. The private sector must be empowered to think outward, through the assessment of existing opportunities in the regional market and the identification of private-private partnerships within the region. Seychelles must invest in commercial diplomacy with an aim to promote Seychelles as a haven for investment. This can be complemented by the establishment of an attractive incentive package for FDI in selected sectors, especially services such as ICT and healthcare where the country has potential to compete.



Conclusion

5



Conclusion

This paper provides insights into the state of economic diversification in Seychelles, with an extensive analysis of sectors with potential for strong spill-over effects, given their forward and backward linkages. The analysis was complemented by consultations with experts in the public and private sector. The consultations were informative in enriching conversations on the status of the private sector in Seychelles, highlighting opportunities and challenges faced by businesses. The recommendations drawn in this paper provide a platform to further enhance the on-going public-private sector conversations on rebuilding the post-COVID-19 economy and upcoming engagements on positioning the private sector to benefits from the AfCFTA. Due to limitation of space, the additional rich insights from the consultations will be articulated in upcoming thematic policy briefs on the private sector.





Appendix

Table 6. Evolution of the GDP structure by sectors.

Sector	2012	2013	2014	2015	2016	2017	2018	2019	2020
Agriculture, forestry and fishing	2.4	3.1	2.8	2.4	2.4	2.3	2.4	2.6	2.3
Manufacturing	10.1	8.5	7.8	7.1	6.8	7.1	7.2	7.3	9.5
Electricity, gas, steam and air conditioning supply	1.2	2.5	2.4	2.7	2.7	2.4	2.2	2.2	2.9
Water supply; sewerage, waste management and remediation activities	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.5
Construction	5.2	3.4	3.8	3.7	3.4	3.3	3.8	4.0	2.1
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.5	8.1	7.7	8.2	8.3	8.4	7.3	6.6	7.0
Transportation and storage	10.2	10.2	11.2	13.3	13.2	12.4	12.5	12.5	11.1
Accommodation and food service activities	15.5	16.3	15.9	14.8	14.8	14.7	14.5	14.1	6.3
Information and communication	4.5	5.4	6.2	5.9	6.0	6.3	6.5	6.9	7.2
Financial and insurance activities	5.8	4.6	4.2	5.2	5.7	5.1	5.3	5.2	6.0
Real estate including owner occupied dwellings	18.6	18.1	17.6	16.2	16.1	17.6	17.3	16.5	20.1
Professional, scientific and technical activities	2.4	2.9	3.1	3.1	3.1	2.9	3.0	3.1	3.6
Administrative and support services activities	3.0	3.0	3.1	3.2	3.3	3.3	3.2	3.3	2.4
Public Administration and defence; compulsory social security	7.0	7.4	7.7	8.0	8.0	8.2	8.6	8.9	10.9
Education	2.8	2.7	2.6	2.5	2.5	2.4	2.5	2.8	3.5
Human health and social work activities	2.0	2.0	2.1	2.0	2.0	2.0	2.2	2.4	3.2
Arts, entertainment and recreation	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.6
Other service activities	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.5	0.8
Total	100								

Source: Authors' calculations based on NBS.

Table 7. Evolution of the total employment structure by sectors.

Sector	2012	2013	2014	2015	2016	2017	2018	2019	2020
Agriculture, forestry and fishing	0.9	1.0	1.1	1.1	0.9	0.9	1.1	1.1	1.1
Manufacturing	9.3	9.3	8.8	9.1	8.9	8.8	8.0	7.6	7.6
Electricity, gas, steam and air conditioning supply	0.9	1.0	1.0	1.1	1.2	1.3	1.2	1.2	1.2
Water supply; sewerage, waste management and remediation activities	1.6	1.6	1.4	1.3	1.3	1.2	1.2	1.2	1.4
Construction	10.9	12.5	12.6	11.5	11.1	10.6	11.0	12.4	11.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.4	8.0	8.1	8.5	8.8	8.0	8.3	8.7	9.2
Transportation and storage	6.9	6.9	7.0	7.2	7.7	8.6	8.5	7.9	8.2
Accommodation and food service activities	19.2	18.5	18.6	18.8	18.6	18.8	18.5	17.9	16.7
Information and communication	2.2	2.1	2.0	2.2	1.9	1.8	1.8	1.7	1.7
Financial and insurance activities	3.4	3.5	3.5	3.5	3.6	3.6	3.6	3.5	4.0
Real estate including owner occupied dwellings	1.8	2.1	2.3	2.2	2.1	2.1	2.0	2.3	2.0
Professional, scientific and technical activities	3.0	2.9	3.1	3.3	3.1	2.7	2.6	2.9	3.0
Administrative and support services activities	7.0	6.6	6.8	6.3	7.6	6.7	7.0	7.5	7.5
Public Administration and defence; compulsory social security	10.9	9.3	9.1	9.5	10.0	11.4	12.1	11.1	11.4
Education	6.6	6.5	6.6	6.4	5.8	5.9	5.5	5.4	5.6
Human health and social work activities	3.5	4.0	4.0	4.0	4.0	4.0	4.0	3.9	4.1
Arts, entertainment and recreation	2.3	2.3	2.3	2.1	1.6	2.1	2.2	2.3	2.2
Other service activities	1.6	1.3	1.5	1.4	1.5	1.2	1.1	1.0	1.1
Total	100								

Source: Authors' calculations based on NBS.



Table 8. Evolution of the GDP per worker by sectors. 2006 thousand Seychellois rupees.

Sector	2012	2013	2014	2015	2016	2017	2018	2019	2020
Agriculture, forestry and fishing	386.1	380.1	319.6	289.1	401.7	412.5	355.1	338.9	296.5
Manufacturing	142.6	119.4	112.6	115.6	124.3	130.2	145.6	152.8	146.1
Electricity, gas, steam and air conditioning supply	196.1	135.8	127.6	152.6	114.2	103.3	98.7	103.4	108.3
Water supply; sewerage, waste management and remediation activities	39.8	44.5	50.7	52.5	53.7	51.3	46.8	42.9	43.3
Construction	61.4	36.7	39.9	44.6	46.7	46.7	41.5	35.7	31.8
Wholesale and retail trade; repair of motor vehicles and motorcycles	137.7	142.0	131.2	138.0	144.8	168.0	133.4	109.7	140.4
Transportation and storage	172.7	185.1	199.3	212.5	230.7	199.7	171.3	175.0	57.4
Accommodation and food service activities	99.7	112.9	108.9	107.6	114.0	118.3	120.6	117.0	46.7
Information and communication	434.1	579.7	717.8	637.1	835.6	977.7	1030.1	1027.6	1184.5
Financial and insurance activities	228.0	184.2	166.7	211.7	234.0	230.0	212.6	203.3	199.6
Real estate including owner occupied dwellings	1271.7	1168.8	1027.0	1045.8	1191.9	1225.7	1293.2	1060.8	1228.4
Professional, scientific and technical activities	139.9	180.6	178.4	172.9	200.4	231.9	244.4	212.9	226.3
Administrative and support services activities	65.8	72.8	69.9	80.0	72.3	86.6	77.7	71.9	32.3
Public Administration and defence; compulsory social security	87.1	112.2	117.1	116.2	116.8	108.0	104.5	111.0	164.5
Education	80.2	77.1	74.8	74.3	87.9	87.3	86.6	88.4	77.2
Human health and social work activities	95.7	87.8	90.3	91.2	95.5	101.3	102.4	104.2	76.1
Arts, entertainment and recreation	47.3	44.1	42.9	40.6	54.2	42.8	35.7	32.7	33.2
Other service activities	74.4	83.4	83.5	82.5	84.2	108.8	102.3	115.8	101.6
Total	100								

Source: Authors' calculations based on NBS.

Table 9. Evolution of the GDP structure by sectors.

Sector	2012	2013	2014	2015	2016	2017	2018	2019	2020
Agriculture, forestry and fishing	2.4	3.1	2.8	2.4	2.4	2.3	2.4	2.6	2.3
Manufacturing	10.1	8.5	7.8	7.1	6.8	7.1	7.2	7.3	9.5
Electricity, gas, steam and air conditioning supply	1.2	2.5	2.4	2.7	2.7	2.4	2.2	2.2	2.9
Water supply; sewerage, waste management and remediation activities	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.5
Construction	5.2	3.4	3.8	3.7	3.4	3.3	3.8	4.0	2.1
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.5	8.1	7.7	8.2	8.3	8.4	7.3	6.6	7.0
Transportation and storage	10.2	10.2	11.2	13.3	13.2	12.4	12.5	12.5	11.1
Accommodation and food service activities	15.5	16.3	15.9	14.8	14.8	14.7	14.5	14.1	6.3
Information and communication	4.5	5.4	6.2	5.9	6.0	6.3	6.5	6.9	7.2
Financial and insurance activities	5.8	4.6	4.2	5.2	5.7	5.1	5.3	5.2	6.0
Real estate including owner occupied dwellings	18.6	18.1	17.6	16.2	16.1	17.6	17.3	16.5	20.1
Professional, scientific and technical activities	2.4	2.9	3.1	3.1	3.1	2.9	3.0	3.1	3.6
Administrative and support services activities	3.0	3.0	3.1	3.2	3.3	3.3	3.2	3.3	2.4
Public Administration and defence; compulsory social security	7.0	7.4	7.7	8.0	8.0	8.2	8.6	8.9	10.9
Education	2.8	2.7	2.6	2.5	2.5	2.4	2.5	2.8	3.5
Human health and social work activities	2.0	2.0	2.1	2.0	2.0	2.0	2.2	2.4	3.2
Arts, entertainment and recreation	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.6
Other service activities	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.8
Total	100								

Source: Authors' calculations based on NBS.



Table 10. Evolution of the total employment structure by sectors.

Sector	2012	2013	2014	2015	2016	2017	2018	2019	2020
Agriculture, forestry and fishing	0.9	1.0	1.1	1.1	0.9	0.9	1.1	1.1	1.1
Manufacturing	9.3	9.3	8.8	9.1	8.9	8.8	8.0	7.6	7.6
Electricity, gas, steam and air conditioning supply	0.9	1.0	1.0	1.1	1.2	1.3	1.2	1.2	1.2
Water supply; sewerage, waste management and remediation activities	1.6	1.6	1.4	1.3	1.3	1.2	1.2	1.2	1.4
Construction	10.9	12.5	12.6	11.5	11.1	10.6	11.0	12.4	11.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.4	8.0	8.1	8.5	8.8	8.0	8.3	8.7	9.2
Transportation and storage	6.9	6.9	7.0	7.2	7.7	8.6	8.5	7.9	8.2
Accommodation and food service activities	19.2	18.5	18.6	18.8	18.6	18.8	18.5	17.9	16.7
Information and communication	2.2	2.1	2.0	2.2	1.9	1.8	1.8	1.7	1.7
Financial and insurance activities	3.4	3.5	3.5	3.5	3.6	3.6	3.6	3.5	4.0
Real estate including owner occupied dwellings	1.8	2.1	2.3	2.2	2.1	2.1	2.0	2.3	2.0
Professional, scientific and technical activities	3.0	2.9	3.1	3.3	3.1	2.7	2.6	2.9	3.0
Administrative and support services activities	7.0	6.6	6.8	6.3	7.6	6.7	7.0	7.5	7.5
Public Administration and defence; compulsory social security	10.9	9.3	9.1	9.5	10.0	11.4	12.1	11.1	11.4
Education	6.6	6.5	6.6	6.4	5.8	5.9	5.5	5.4	5.6
Human health and social work activities	3.5	4.0	4.0	4.0	4.0	4.0	4.0	3.9	4.1
Arts, entertainment and recreation	2.3	2.3	2.3	2.1	1.6	2.1	2.2	2.3	2.2
Other service activities	1.6	1.3	1.5	1.4	1.5	1.2	1.1	1.0	1.1
Total	100								

Source: Authors' calculations based on NBS.

Table 11. Evolution of the GDP per worker by sectors. 2006 thousand Seychellois rupees.

Sector	2012	2013	2014	2015	2016	2017	2018	2019	2020
Agriculture, forestry and fishing	386.1	380.1	319.6	289.1	401.7	412.5	355.1	338.9	296.5
Manufacturing	142.6	119.4	112.6	115.6	124.3	130.2	145.6	152.8	146.1
Electricity, gas, steam and air conditioning supply	196.1	135.8	127.6	152.6	114.2	103.3	98.7	103.4	108.3
Water supply; sewerage, waste management and remediation activities	39.8	44.5	50.7	52.5	53.7	51.3	46.8	42.9	43.3
Construction	61.4	36.7	39.9	44.6	46.7	46.7	41.5	35.7	31.8
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Financial and insurance activities	228.0	184.2	166.7	211.7	234.0	230.0	212.6	203.3	199.6
Real estate including owner occupied dwellings	1271.7	1168.8	1027.0	1045.8	1191.9	1225.7	1293.2	1060.8	1228.4
Professional, scientific and technical activities	139.9	180.6	178.4	172.9	200.4	231.9	244.4	212.9	226.3
Administrative and support services activities	65.8	72.8	69.9	80.0	72.3	86.6	77.7	71.9	32.3
Public Administration and defence; compulsory social security	87.1	112.2	117.1	116.2	116.8	108.0	104.5	111.0	164.5
Education	80.2	77.1	74.8	74.3	87.9	87.3	86.6	88.4	77.2
Human health and social work activities	95.7	87.8	90.3	91.2	95.5	101.3	102.4	104.2	76.1
Arts, entertainment and recreation	47.3	44.1	42.9	40.6	54.2	42.8	35.7	32.7	33.2
Other service activities	74.4	83.4	83.5	82.5	84.2	108.8	102.3	115.8	101.6
Total	100								

Source: Authors' calculations based on NBS.



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