

# SEYCHELLES: REFORM & RECOVERY

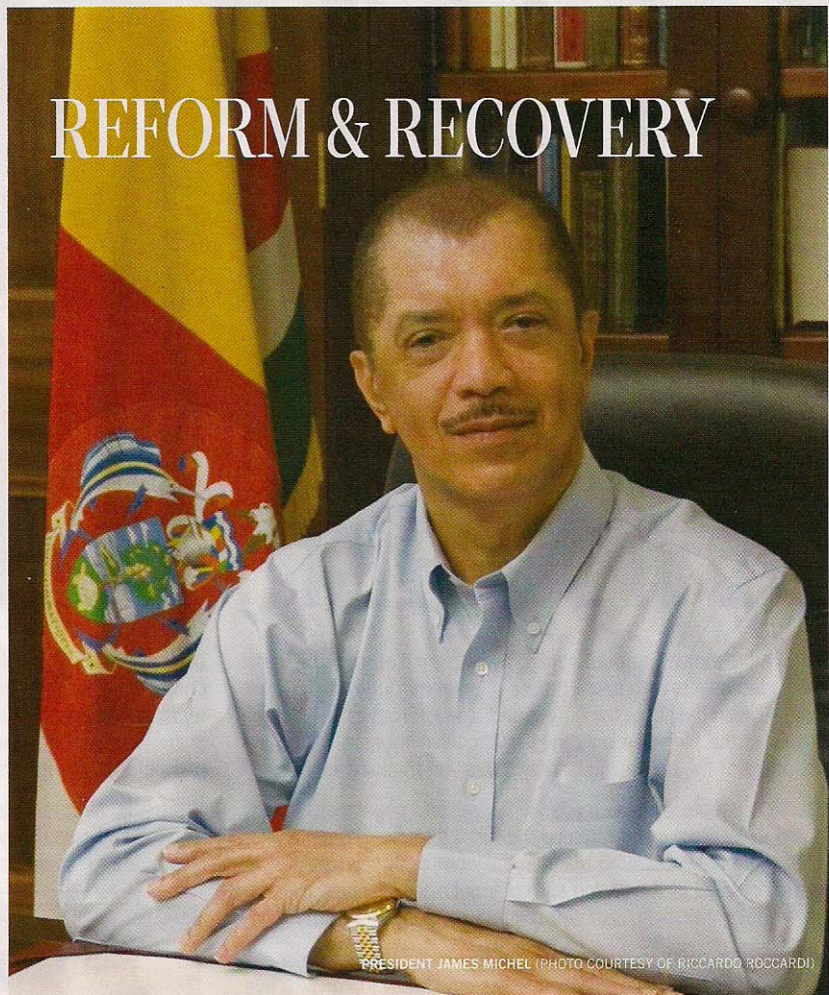
The global financial crisis came early to Seychelles, the archipelago nation a thousand miles off the coast of Kenya, but a decisive government reform programme has given rise to a swift recovery and a deep-seated shift in social and economic thinking.

**T**HE 115 ISLANDS comprising Seychelles are known as a luxury haven for the rich and famous, and a shared British and French colonial past is reflected in a distinctive Creole blend of cultures. Since full independence in 1976, the economy has been built on the three pillars of high-end tourism, 1.3 million sq km of the richest fishing grounds in the Indian Ocean and a reputable offshore financial services sector. The country boasts a high per capita income, long life expectancy and ranks high on the Ibrahim Index of African Governance.

A combination of internal and external shocks, however, hit the economy hard mid-2008. With foreign reserves dangerously low, a Eurobond repayment was missed and in June the government asked for IMF assistance in shaping a comprehensive reform programme.

"The country reached a point where there were very serious misalignments in the economy," explains Governor of the Central Bank Pierre Laporte. "After years of fiscal deficit, we were facing a debt crisis. Hampered by a pegged exchange rate and complex exchange rate restrictions, foreign exchange earnings were severely reduced and government finances were under real strain. Seychelles traditionally provided a generous welfare system and we had borrowed heavily to invest in infrastructure, health and education, but by mid 2008 the economy could no longer absorb the kind of assistance the government had provided."

In dealing with the IMF, President James Michel made it clear that, while putting the Seychellois economy back on a sound footing was a priority, he was not willing to sacrifice hard-fought social gains. "The Seychelles economy is small but we had a well defined social programme including free healthcare, free education up to university level and housing assistance," stresses President Michel. "These were crucial in allowing us to



PRESIDENT JAMES MICHEL (PHOTO COURTESY OF RICCARDO BOCCARDI)

develop a progressive society. All our reforms were influenced by our desire to protect these gains."

The government embarked on a period of fiscal tightening and front-loaded reforms. The exchange rate was liberalised and the rupee was floated. Subsidies were scaled back and targeted towards social programmes that combined assistance with private sector development. The government's economic role was dramatically cut back and the public sector workforce was reduced by 17%. Simultaneously a social welfare fund was created and concessionary credit facilities provided for training and enhanced loan facilities for start-ups and SMEs.

External debt obligations were renegotiated and restructured to sustainable levels. Today the debt to GDP ratio is close to 70%, down from over 150%. "Our fiscal strategy is now geared to debt repayment and we are confident we have the policies in place to achieve that," says Laporte. "The reforms amount to a switch of economic management from a planned economy to a free market economy."

According to Vice President Danny Faure, underpinning the reforms with fiscal discipline

and greater private sector involvement has been critical. "Excluding countries that rely on hydrocarbon wealth, our 15% primary surplus in 2009 was the highest in the world. In 2010 the IMF estimated a primary surplus of 7.4%, but we are finishing the year with a surplus of 9.4%. The private sector has also played a critical role. Tourism is now private sector led and that has been instrumental in realigning the sector's priorities. Through innovative marketing and discounting we will end this year on record numbers."

GDP growth returned swiftly and is expected to exceed 6% in 2010. The IMF's latest assessments are positive. "The economy weathered the global economic crisis of 2009 well and has rapidly recovered this year on the back of a rebound in tourism, sizeable foreign direct investment, and a widespread pick-up in the domestic economy," said IMF mission chief Jean Le Dem. The prospects for 2011 continue to be favourable bolstered by strong tourism numbers and encouraging tuna exports.

While tourism, fishing and financial services offer attractive investment opportunities, seismic studies indicate potentially significant offshore oil reserves on the Seychelles

**O**ffshore **financial services** have been a significant economic contributor for more than 15 years and are often described as the third pillar alongside tourism and fishing. In 2009 alone, more than twelve thousand International Business Companies were incorporated in the jurisdiction.

According to Steve Fanny, CEO of the Seychelles International Business Authority (SIBA), the industry is expanding. "The offshore industry has the potential to be the leading economic driver in the Seychelles. We are seeing annual growth of 12-15%. Not only do we contribute positively by providing high income jobs and government dividends but the ripple effects of the industry can be felt throughout the economy."

The global financial crisis ironically may have highlighted the importance of the industry to the development and diversification of the Seychellois economy. The sector took a hit in late 2008 to early 2009 but according to Fanny the downturn was short-lived and cushioned by the fact that the industry was an important foreign exchange earner at a time when the rupee was devalued.

An important boost came in April 2009 when the OECD added the Seychelles to

its "white list" of jurisdictions that comply with internationally agreed standards of tax cooperation.

"We are on the white list not because of political leverage, but because we are well regulated and transparent. We adhere to the principles of the OECD and the Financial Action Task Force," stresses Fanny. "Our regulatory framework is based on a combination of the French Napoleonic Code and the UK common law system. Our regulations are contemporary with strong anti-money laundering legislation. The amount of disclosure in terms of "know your customer" is comprehensive, more so in fact than in some European countries. As regulator we consider it our responsibility to guard the reputation and integrity of the jurisdiction. We ensure that investors not only get value for money, but also that their interests are protected," says Fanny.

A key factor in the Seychelles' rise as an international financial centre has been the ability to strike a balance between effective regulation and a pragmatic approach to investor needs, providing quality services without undue red tape.

The emphasis now is on growth through

innovation, product enhancement and capacity building. The aim is to become a financial services one-stop-shop offering investors flexibility and a broad range of products. The Seychelles, for example, is the only Indian Ocean jurisdiction that offers private foundations.

In terms of capacity building the Seychelles is keen to attract more offshore banks and the new Legal Practitioners Act allows foreign lawyers to practise in the Seychelles, in the hope that they bring with them their portfolio of clients and blue chip companies.

A number of hedge funds have already redomiciled to the Seychelles. "We take this as confirmation that we are on the right track and we expect to attract a lot more fund managers and administrators to the Seychelles," declares Fanny.



plateau. Extensive exploration efforts are underway and Dubai-based Black Marlin, for example, which is part owned by Seychelles Petroleum Company, says it expects to start drilling in 2011.

The government is also committed to upgrading the country's ICT infrastructure. A new submarine cable linking Seychelles with Tanzania will provide direct access to the world's fibre optic backbone. The connection will boost high speed internet access and offer improved telecommunications.

Cable and Wireless and Airtel, the country's leading telecommunication providers, say the impact will be widespread. "Mobile penetration here is 118% but broadband is only 16%," says Cable and Wireless' Charles Hamand. "Our business case is based on delivering broadband to the masses and the submarine cable will reduce latency, force down the price and improve quality. The goal is simple - to provide a 20 megabyte connection into each home."

Airtel CEO Tsirey Randriamampionona sees benefits for businesses and investors. "Today the link is via satellite, so the increase in bandwidth will be huge. It will help us provide dedicated, secure, real-time links - crucial to financial services and large hotels."

Economic risks remain, but it is testament to the success of the reform programme that they are largely external. "The international community is surprised that a small island nation like Seychelles could pull itself out of recession so quickly," says President Michel. "In the process we have had to transform the way the economy functions. We are far more resilient and have embraced entrepreneurship. The Seychellois now create opportunities for themselves rather than waiting for government assistance."



## SEYCHÈLLES

*Make our Success your Success*

*"The Seychelles economy continues to recover strongly. Its far-reaching economic program, supported by the IMF, under which the government removed all exchange restrictions, floated the currency, liberalized interest rates, introduced a modern monetary policy framework, and significantly tightened fiscal policy, has borne fruit."*

\*IMF Mission to the Seychelles 28.10.10



CENTRAL BANK OF SEYCHELLES

www.cbs.sc

# ACCESSIBLE SEYCHELLES

Seychelles has been welcoming the well-heeled to its shores to enjoy its pristine beaches and temperate climate since the international airport opened on Mahé in 1972.

**B**ut Seychelles is more than just an exclusive retreat for the rich and famous and a shift in strategy to unlock the archipelago nation's 115 islands to greater numbers, presents both an opportunity for travellers and a challenge for authorities. In the face of global warming and rising sea levels, environmental sustainability is crucial to Seychelles which means carefully balancing tourism development with conservation.

The islands of Seychelles are a byword for diversity. Visitors to the "land of perpetual summer" can indulge in activities such as dive safaris, yachting and golf while the many nature reserves, botanical gardens and wildlife sanctuaries offer ample opportunity to explore the islands' natural beauty. Nearly 50% of land has been set aside as protected reserves. Surprisingly the inner islands are not volcanic, but composed of ancient granite which forms the backdrop for verdant forests and towering mountains, while the outer islands are relatively young and coralline.

Seychelles boasts two UNESCO world heritage sites, Vallée de Mai and Aldabra Atoll, the world's second largest coral atoll. Virtually untouched by humans, it is home to the world's largest population of giant tortoises as well as a host of other species including the coconut crab, manta rays and the Aldabra rail, the last surviving flightless bird in the Indian Ocean. Vallée de Mai is located on Praslin Island, a mere 15 minute flight from Mahé with Air Seychelles. It is home to the famous 40 metre coconut palms and surrounded by the most striking beaches imaginable.



SEYCHELLES CIVIL AVIATION AUTHORITY [WWW.SCAA.SC](http://WWW.SCAA.SC)

"Because we have both granite and coral islands we are able to offer two destinations in one with a diversity that is virtually unique," says Seychelles Tourism CEO, Alain St. Ange. "On the main island you will find friendly people and a fascinating mixture of cultures; on the remote islands there are idyllic hideaways built on coral outcrops. We are blessed with dives so spectacular you think you are in an aquarium and mountain trails with unique flora and fauna, but above all we offer our way of life where the people are warm and welcoming."

"Seychelles is about island life," continues Air Seychelles Executive Chairman, David Savy. "Islands are isolated pieces of land in the middle of oceans with small communities. The Creole culture is an explosion of the senses, of light, colour, smell, taste. The Creole people are a mixture from different continents - Africa, Asia, Europe - this makes for a people that have a joie de vivre, who like to party, who like music, who like their food. There is no such thing as formality and excess

sophistication with island life. It is an informal friendliness and openness".

"Tourism here has always been centred on small establishments, so the perception was that Seychelles was only for the rich and famous. In fact we offer a whole range of accommodation. We are not looking for millions of tourists as we still want to offer a personalised service. There are few nations that can still do that. But we now have more properties, more yachts, more rooms and to fill them we are opening up our airspace to attract more airlines," says St. Ange.

"We would like to increase our numbers and diversify," explains Civil Aviation CEO Gilbert Faure. "The bulk of our traffic comes from Europe. We are currently served by Air Seychelles, Emirates and Qatar Airways, as well as Condor out of Frankfurt and Kenya Airways, but we have the infrastructure and capacity to welcome more from the Far East and Middle East".

The challenge for Seychelles now is to strike a balance between this expansion of the tourism sector and protecting the country's fragile natural assets.

Sustainable development is a dilemma that runs far deeper than the country's tourism brand. As Ronny Jumeau, ambassador to the US and delegation head to the Cancun climate conference poignantly put it, "If the poles melt, we drown."

"Tourism is a mainstay of the economy and we are developing the sector, but we have very strict environmental rules here,"

WITH THANKS TO SRDJANA JANOSVIC, PRESIDENT'S PRESS OFFICE AND OUR SPONSORS:



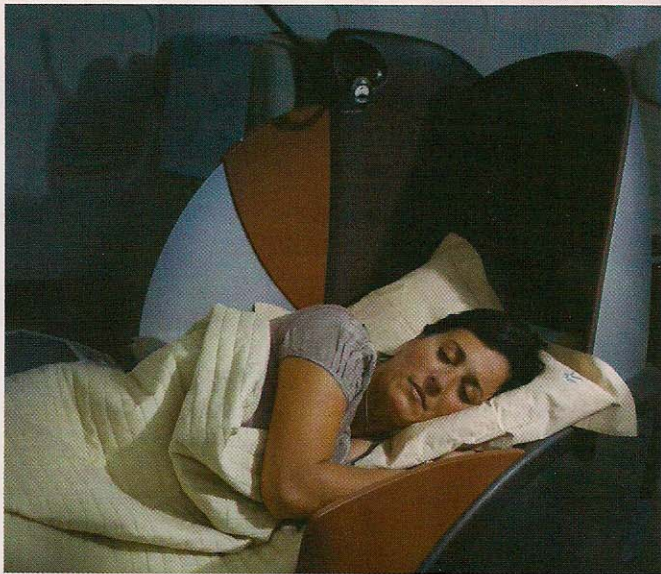
**CABLE & WIRELESS**

**Cable & Wireless (Seychelles) Ltd.**

Seychelles' leading communications provider offering mobile, broadband and fixed solutions for businesses and consumers.

[www.cwseychelles.com](http://www.cwseychelles.com)





AIR SEYCHELLES – NEW PEARL CLASS LIE-FLAT SEATS

stresses President Michel, a vocal supporter of the Alliance of Small Island States and founder of the Sea-Level Rise Foundation. “We want to maintain our mark as a quality tourism destination but we must be very mindful of the fact that we have a responsibility to manage our environment carefully. We are not responsible for the massive industrialisation in bigger countries but, as a small island country in the middle of the ocean, we are extremely vulnerable to climate change. We can already feel an impact here in terms of changing weather patterns, bleaching corals, affecting rainfall and threatening our food security. We consider this a human rights issue – our right to exist.”

## EDEN ISLAND

**EDEN ISLAND**, a 56 hectare residential marina development, puts Seychelles on the map as a bespoke yet affordable holiday home haven, promising investors pristine beaches and Creole charm.

The 550 purpose-built freehold homes showcase a distinctive Seychellois style with verandas and high pitched red roofs overlooking the clear waters of the Indian Ocean and Mahé’s mountains and forests.

CEO Craig Heeger is the man behind Seychelles’ newest island. “My first encounter with Seychelles occurred over 20 years ago when my family holidayed here. I simply fell in love with its beauty and the charm of its people,” says Heeger. “Integration with the environment is a key component of the project. We respect the broader environmental issues and strive to leave a sustainable legacy that we can be proud of.”

The waterfront lifestyle is a major attraction. All the properties are sea-facing and every unit comes with private mooring facilities. The deepwater marina is equipped to handle 100m super yachts.

Connected to Mahé by bridge, Eden Island’s residents have quick access to the attractions of the main island and the airport. Ownership brings with it the right to apply for residency of Seychelles. It is a package that has proved attractive to South African, European and Middle Eastern buyers already with over 300 units sold.

“The project plays an enormous role in supporting economic stability and growth,” stresses Heeger. “In 2009 we contributed 17% of total FDI and 3.8% of GDP.” Vice President Danny Faure recognises the benefits of the development. “The land was reclaimed by the government at a cost of \$7 million, but we have already recovered the cost by receiving \$39 million into government coffers,” he says.

The release of the second phase, an additional 200 homes on Eden Island is proof of the project’s appeal and resilience.

# SEYCHELLES

- World beating beaches and sites of natural beauty
- Diversity of islands, people, culture & cuisine
- Multi-ethnic society in which harmony is a way of life
- Land of perpetual summer
- Disease-free
- Twin UNESCO World Heritage sites: Vallée de Mai & Aldabra atoll
- Some of the rarest species of flora & fauna on earth
- Broad activity base of niche markets: Sailing, fishing, diving, spa, romance, walks & trails, eco-holidays

the seychelles islands  
www.seychelles.com

# OWN it

OWN THIS ISLAND LIFESTYLE FROM US\$395 000

For further information about our sales offices worldwide visit [www.edenisland.sc](http://www.edenisland.sc)

*Eden Island*  
SEYCHELLES