



Protocol on Finance and Investment Baseline Study: Seychelles Country Report

August 2011



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A report reflecting the state of progress of implementation of the Protocol on Finance and Investment in SADC

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Table of Contents

LIST OF ABBREVIATIONS	IV
1. CONTEXT	1
2. STATUS OF FIP IMPLEMENTATION	2
2.1. Status of FIP Ratification	2
2.2. FIP Structures	2
2.2.1. Annex 1: Cooperation on Investment	3
2.2.2. Annex 2: Macroeconomic Convergence	4
2.2.3. Annex 3: Cooperation in Taxation and Related Matters	5
2.2.4. Annex 4: Cooperation and Coordination of Exchange Control Policies	6
2.2.5. Annex 5: Harmonisation of Legal and Operational Frameworks	7
2.2.6. Annex 6: Cooperation on Payment, Clearing and Settlement Systems	8
2.2.7. Annex 8: Cooperation and Coordination in the Area of Banking Regulatory and Supervisory Matters	8
2.2.8. Annex 9: Cooperation in Respect of Development Finance Institutions	9
2.2.9. Annex 10: Cooperation on Non-Banking Financial Institutions and Services	9
2.2.10. Annex 11: Cooperation on SADC Stock Exchanges	9
3. CONCLUSIONS AND RECOMMENDATIONS	10
3.1. Conclusions	10
3.2. Recommendations	12
4. REFERENCES	13
5. APPENDICES	14
5.1. Appendix 1: Interview List of Central Bank of Seychelles Representatives	14
5.2. Appendix 2: Matrix of Commitments	15

LIST OF ABBREVIATIONS

AML	Anti-Money Laundering
ATAF	African Tax Administration Forum
BAS	Business Activity Statement
CATA	Commonwealth Association of Tax Administration
CBS	Central Bank of the Seychelles
CCBG	Committee of Central Bank Governors
CISNA	Committee of Insurance, Securities and Non-banking Financial Authorities
CMS	Client Management System
COMESA	Common Market for Eastern and Southern Africa
COSSE	Committee of SADC Stock Exchanges
DBS	Development Bank of Seychelles
DFI	Development Finance Institution
DTAA	Double Taxation Avoidance Agreements
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FIP	Protocol on Finance and Investment
GDP	Gross Domestic Product
GNP	Gross National Product
ICSID	International Centre for the Settlement of Investment Disputes
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
MIGA	Multilateral Investor Guarantee Agency
NBS	National Bureau of Statistics
NPS	National Payments Systems
OECD	Organisation of Economic Cooperation and Development
PPP	Public Private Partnership
RISDP	Regional Indicative Strategic Development Plan
RTGS	Real Time Gross Settlements
SADC	Southern African Development Community
SENPA	Small Enterprise Promotion Agency
SIB	Seychelles Investment Bureau
SIBA	Seychelles Investment Business Authority

SRC	Seychelles Revenue Commission
TIN	Tax Identification Number
USD	US Dollars
VAT	Value-added Tax

1. CONTEXT

The Seychelles is an archipelago of roughly 100 islands off the east coast of Africa. It is the Southern African Development Community's (SADC) smallest member with a population of only 90,000 people (0.03% of the SADC total), producing only 0.2% of SADC national output (valued at about USD 1 billion a year). Nevertheless, GNP (gross national product) per capita at USD 10,290 and life expectancy at 73 years are the highest in SADC.

Seychelles left SADC in 2004 and re-joined in 2008. The country's decision to rejoin SADC was primarily due to the increasing importance of ties to the international community with heightened globalisation. Seychelles had withdrawn from SADC, according to Ministry of Foreign Affairs officials, because there was "little justification for the money Seychelles was expected to contribute to the regional organisation annually"¹. The Seychelles is also a member of COMESA (Common Market for Eastern and Southern Africa) and the Indian Ocean Commission.

The Seychellois economy rests primarily on high-end tourism and fishing. The services sector including tourism, commerce and a growing off-shore business industry, is the largest accounting for value-add to GDP (gross domestic product) of 66.5%, with industry contributing 22.4% value-add to GDP and - perhaps unsurprisingly for a small island state - agriculture contributing only 3.3% of value-add to GDP. The islands rely on imports for much of their food, and for all fuel, machinery, transport equipment and chemicals.²

Although Seychelles built a successful services economy since independence in 1976, the International Monetary Fund (IMF) notes that overly expansionary fiscal and monetary policies, a pegged exchange regime, and a complex system of exchange controls, state subsidies and financial sector restrictions culminated in a severe balance of payments and public debt crisis in the second half of 2008.³ Seychelles subsequently defaulted on its external debt. This crisis led to the government asking for IMF assistance which started in late 2008. The complementary IMF reform programme has seen the implementation of changes that fundamentally restructure and modernise the economy. The government has removed all exchange restrictions, floated the currency, liberalised interest rates, introduced a modern monetary framework, and significantly tightened fiscal policy – all since 2008.⁴

It is fair to say that the period from 2008 to 2011 has been traumatic. Structural reforms have led on occasion to outbreaks of social strife. However, at the time of the consultants' visit in May 2011, the macro-economy appeared to have stabilised – the IMF predicts that growth will return to the economy in the yet to be released 2010 figures from a contraction of 1.3% in

¹ As quoted in <http://www.sardc.net/Editorial/sadctoday/view.asp?vol=307&pubno=v8n6>

² All statistics in the first two paragraphs for 2008 and taken from SADC, Investment Regimes, FDI Trends and Characteristics of SADC Member States.

³ IMF, <http://www.imf.org/external/pubs/ft/survey/so/2010/car111010a.htm>

⁴ Ibid

2008; public debt has been greatly reduced (from more than 160% of GDP to around 84% of GDP in 2009), prices are stabilising (inflation has retreated from 37.0% in 2008 to 31.8% in 2009)⁵; and the Seychellois seem to be adapting well to their new economic circumstances. As this report notes, many reforms are on-going and it is clear that the IMF programme has absorbed and continues to absorb much public sector attention and resources.

Fortuitously, the IMF programme has largely been aligned to the terms and spirit of the Protocol on Finance and Investment (FIP); so on paper the Seychelles has made good progress in implementing the FIP though, in fact, this is more because of co-incidence with the IMF programme than due to any direct decision to implement the FIP.

2. STATUS OF FIP IMPLEMENTATION

2.1. STATUS OF FIP RATIFICATION

Owing to the economic turmoil at home, the Seychelles left SADC in 2004 and only re-joined in 2008, after re-negotiating the membership contribution. Seychelles was thus not a signatory to the FIP; nor has Seychelles ratified the FIP. This leads to a general observation that key FIP stakeholders in Seychelles including the Ministry of Finance, the Seychelles Central Bank and Seychelles Revenue Commission (SRC) are still in the process of understanding and engaging the purpose and implications of the FIP. Levels of awareness are thus relatively low. Officials nevertheless assured the consultants that it is the intention of the Seychelles to re-engage with and ratify all SADC protocols in due course.

2.2. FIP STRUCTURES

The official co-ordinating agency in the Seychelles is the Ministry of Foreign Affairs (specifically the Regional Integration Unit). The Ministry arranged at least one meeting of all subcommittee members in 2010, though reportedly none to date in 2011. Owing to the relatively low importance placed on the FIP because of other demands on the government especially the seemingly all-consuming IMF reform programme, there is no local champion of FIP. The Ministry of Foreign Affairs is apparently well-resourced and has reach to all necessary agencies, but no direct involvement in or understanding of the areas of implementation. The implementing role might thus be better played by the Ministry of Finance who is directly involved in the FIP areas.

That said, co-ordination under these awkward structures is still relatively effective owing to the unique fact that Mahe island and the capital city, Victoria, is small enough that most civil servants know each other personally which makes for good (sometimes unofficial) information exchange and co-ordination.

The other structures involved are the Central Bank of Seychelles, where there is a good understanding and effective co-ordination with respect to the Annexes falling under the

⁵ National Bureau of Statistics, Seychelles in Figures, 2010

auspices of the Committee of Central Bank Governors (CCBG); while the Seychelles Investment Bureau is the co-ordinator of the investment annex.

The Seychelles is not chair of any FIP sub-committees. Moreover, the Seychelles is not represented on the Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA), the Development Finance Institution (DFI) Network, or the Committee of SADC Stock Exchanges (COSSE) subcommittees.

2.2.1. ANNEX 1: COOPERATION ON INVESTMENT

The core investment agency is the Seychelles Investment Bureau (SIB), the investment promotion agency in respect of domestically-based investment. The SIB is tasked with promoting and facilitating investment in the Seychelles from both locals and foreigners. The SIB is distinguished from the Seychelles Investment Business Authority (SIBA) and Small Enterprise Promotion Agency (SENPA). SIBA was established in 1995 under the Seychelles Investment Business Authority Act, and is essentially a one-stop shop for the licensing, regulation and promotion of Seychelles' offshore business activities like mutual funds, offshore banking and offshore insurance. SIBA also regulates the international free trade zone activities.⁶ SENPA was formed in 2004 to promote small enterprises, crafts and cottage industries in the Seychelles.⁷ Although the budgets for these IPAs were not made available all three are government para-statals and receive government funding for their operations.

Of the three, the SIB has been tasked with attending FIP subcommittee meetings, which it does regularly, having attended two meetings in 2010.

The Seychelles attracted USD248 million in FDI (foreign direct investment) in 2009, which amounts to 32.53% of GDP (GDP). FDI inflows have increased from 26.08% of GDP in 2008⁸.

According to the World Bank's Doing Business report, the Seychelles ranks 59 out of 183 countries in terms of Investor Protection, with an index of 5.7.⁹

Investment transactions within and into the Seychelles are regulated by laws included in two acts; namely, the Companies Act and the newly promulgated Seychelles Investment Act, 2010 drafted in consultation with the private sector.¹⁰ This new Act contains laws that protect investors, including guaranteeing the fair and equitable treatment of investors, the protection of property, laws governing transfer of properties, and transparency. The law also provides

⁶ <http://www.siba.net/index.php?s=home>

⁷ <http://www.senpa.sc/about.htm>

⁸ World Bank. 2011. World Bank Databank. (available online) <http://databank.worldbank.org/>

⁹ World Bank. 2011. Doing Business 2011. (available online) <http://www.doingbusiness.org/reports/global-reports/doing-business-2011>

¹⁰ Introduced in December 2010. A copy of this new legislation has been obtained. Also available online at <http://www.sib.gov.sc/Resources/ActsandRegulations/Seychelles%20Investment%20Act,%202010.pdf>

investors with the ability to appeal decisions where their applications to invest have been denied.

The Seychelles Investment Act also establishes the SIB, its objectives and functions, and responsibilities in terms of facilitating and supporting PPPs (public private partnerships). However, the Act does not give power to a dedicated PPP unit.

Member states are committed under Annex 1 of the FIP to harmonising their investment regimes. A Seychellois subcommittee member interviewed believes that the Seychelles' investment laws are aligned to principles of the forthcoming regional framework; however this has not been accomplished by design but rather coincidence. As per the commitment to publish investment policies and regimes, the SIB stated that all relevant information is published and updated on their website.¹¹ A check of the website suggests that this is indeed the case – see <http://www.sib.gov.sc/>.

The SIB representative interviewed stated that there has not been much activity in terms of promoting SADC as an investment area, or collaborating on a SADC investment portal. The same representative is of the opinion that, while the Seychelles is content to cooperate on investment and harmonise investment policies and laws, competing for investment, even with SADC co-members will continue to be an activity to which the IPAs and the Ministry of Finance is committed.

Investment policies and laws in the Seychelles adhere to some international conventions and practices: Seychelles has ratified the International Centre for the Settlement of Investment Disputes (ICSID) convention¹², the Multilateral Investor Guarantee Agency (MIGA) convention¹³ but has not ratified the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.¹⁴

2.2.2. ANNEX 2: MACROECONOMIC CONVERGENCE

Since Seychelles was re-admitted to SADC in 2008, it has been committed to initiatives of the CCBG Macroeconomic Convergence Subcommittee. The Central Bank of the Seychelles (CBS) attends the bi-annual meetings of the subcommittee and ensures that macroeconomic data is submitted to the CCBG regularly. Moreover, the CBS representative interviewed stated that bank personnel attend capacity building programmes, particularly those designed to impart data collection and compilation skills.

The National Bureau of Statistics (NBS) is another source of statistics regarding macroeconomic convergence. The NBS publishes a document called The Seychelles in Figures, containing all relevant macroeconomic statistics. This document states that the

¹¹ Documentation of investment information available online at <http://www.sib.gov.sc/pages/general/Download.aspx#tia>

¹² <http://icsid.worldbank.org/ICSID/FrontServlet>

¹³ http://www.miga.org/about/index_sv.cfm?stid=1695

¹⁴ http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYConvention_status.html

inflation rate has decreased from 37.0% in 2008 to 31.8% in 2009, which is basically the same as those published by the World Bank (36.97% in 2008 and 31.76% in 2009¹⁵). The overall fiscal balance fell from a deficit of 298.3 million rupees to 670.7 million rupees (from approximately USD24.72 million to USD55.57 million). While the figures reported by the IMF differ slightly in this instance, it is safe to conclude that the overall fiscal balance as a proportion of GDP increased from a deficit -3.4% of GDP to a surplus of 5.0%.¹⁶

The NBS reports that the external debt stock of public and publicly-guaranteed debt was 7,760 million rupees, which translates into roughly USD646 million. This amounts to approximately 84.09% of GDP. It is important to note that the CBS acknowledges that this figure, in particular, exceeds targets set under the Regional Indicative Strategic Development Plan (RISDP). However, since this debt to GDP ratio has been substantially reduced from levels of 160% of GDP, the Seychelles' achievements in the area of macroeconomic convergence are commendable.¹⁷

Finally, even though the Peer Review Mechanism established under this Annex has not been formed as yet, the subcommittee member interviewed stated that the Seychelles is supportive of this initiative and the Governor of the CBS will, in all likelihood, be the Seychellois representative on this panel.

2.2.3. ANNEX 3: COOPERATION IN TAXATION AND RELATED MATTERS

Since re-joining SADC, the Seychellois representatives on this subcommittee have concentrated on acquainting themselves with the FIP initiatives. To this end, they have attended training courses that provide an understanding of the FIP and the commitments and activities to enable cooperation on taxation related matters.¹⁸ The SRC is also a member of the African Tax Administration Forum (ATAF) and the Commonwealth Association of Tax Administration (CATA), both of which have their own capacity building and training initiatives. A list of recent capacity building events attended by SRC representatives (under the auspices of SADC, ATAF and CATA) has been supplied to the consultants, detailing the content of conferences and workshops attended.

Aligned with the IMF reform programme, the SRC have embarked on an impressive taxation reform programme to modernise the administration of taxes. To this end, the following tax reforms have been enacted: the elimination of social security contributions and the introduction of income and non-monetary benefits taxation, the elimination of business tax thresholds for companies, the introduction of self-assessments for taxpayers, the introduction of a new excise regime, the introduction of a Client Management System (CMS), the introduction of a Tax

¹⁵ World Bank. 2011. World Bank Databank. (available online) <http://databank.worldbank.org/>

¹⁶ Preliminary IMF statistics, yet to be confirmed by Seychelles; IMF. 2010. Article IV Report: Seychelles, available online at <http://www.imf.org/external/pubs/ft/scr/2011/cr1105.pdf>

¹⁷ These achievements, however, are perhaps more appropriately attributable to the initiatives of IMF restructuring initiatives being implemented in the country, as well as the IMF's debt forgiveness programme.

¹⁸ Information supplied by Seychellois subcommittee member for Taxation

Identification Number (TIN) and the development of a Business Activity Statement (BAS) form. This reform programme is on-going, and will culminate in the introduction of a new Value-Added Tax (VAT) law in 2012 which will replace the General Sales Tax system currently in use.

Under Annex 3, member states are committed to publishing relevant and up-to-date information to enable information exchange and to increase transparency. While the SADC tax database is currently not functional, a representative of the SRC stated that the institution has a tax database, which is populated with all tax laws and tax rates. The Office of the Deputy Revenue Commissioner is responsible for keeping this database updated.

The Seychelles' laws and policies concerning tax incentives have not been devised in compliance with the regional guidance for the appropriate treatment of tax incentives.¹⁹ The Seychelles does not have a formal framework governing the introduction and formation of tax incentives, however tax incentives are only introduced by an act of Parliament.

The Ministry of Finance, and not the SRC, is responsible for the analysis of the effects of taxation policy. A department within the Ministry is currently engaged with performing a cost-benefit analysis concerning the introduction of the new VAT law, in anticipation of its introduction. Therefore, while the SRC representatives interviewed were unsure if a cost-benefit analysis was completed to assist in the application and review of tax incentives, it is believed that the Ministry of Finance would have the acumen to complete the exercise.²⁰

Currently, the Seychelles has Double Tax Avoidance Agreements (DTAAs) with Zambia, South Africa, Botswana and Mauritius, and is negotiating agreements with Swaziland, Lesotho, Namibia, Tanzania and Malawi. The Seychelles uses the SADC DTAA model in negotiations with SADC countries, but uses the Organisation of Economic Cooperation and Development (OECD) model when negotiating with non-SADC countries. Information on all DTAAs (with both SADC and non-SADC countries) is available on the SIB website.²¹

The SRC representative claims that SRC personnel require considerable skills-upgrading, particularly in areas of risk management, auditing, case management, litigation, statistics, and customs risk management.

2.2.4. ANNEX 4: COOPERATION AND COORDINATION OF EXCHANGE CONTROL POLICIES

Under the IMF reform programme, *Seychelles* has liberalised all exchange controls for both current and capital account transactions, and the currency is fully convertible. The Exchange Control Subcommittee head undertook a familiarisation visit to the Seychelles in November 2010. The conclusion of this visit was that, even though the Seychelles would not participate in

¹⁹ The Seychellois subcommittee member for Taxation interviewed claimed they were unaware of these guidelines. However, this does not exclude the possibility that tax incentives policy is in compliance with that of the SADC region.

²⁰ This perspective was expressed by the SRC representative interviewed

²¹ <http://www.sib.gov.sc/pages/general/Download.aspx#dta>

the activities of the subcommittee insofar as it had already achieved the primary objective of exchange control liberalisation, the country has a role to play in sharing its experiences of liberalisation with other SADC member states.

The Seychelles has not implemented the fully automated Cross Border Reporting System, as suggested by the subcommittee. However, the CBS reports that it does collect data on foreign exchange transactions daily and these are published on the CBS website.

2.2.5. ANNEX 5: HARMONISATION OF LEGAL AND OPERATIONAL FRAMEWORKS

The CBS representatives interviewed believe that its legal frameworks are in compliance with most of the principles of Annex 5 and the SADC Model Central Bank law based on discussions at subcommittee level, even though an actual copy of the SADC Model Central Bank law has not yet been seen. The Central Bank of Seychelles Act was amended in 2008 and 2009 in order to incorporate changes made in the foreign exchange regime and to include the recommendations made by the IMF's Safeguards Assessment. Furthermore, in drafting this act, effort was made to ensure that international standards were considered. To this end, CBS members represented on the Legal and Operational Frameworks subcommittee welcomed more cooperation with other SADC central bank representatives in order to share experiences and lessons in this area.

The CBS is independent and sets monetary policy independently of government. Price stability is a prime objective. The act includes as a central tenet ensuring the operational independence of the CBS, namely, that the budget of the Central Bank be approved by its own boards, that due process procedures are followed in the elections of both the Governor and Deputy Governor, and that the membership of the Board of Directors be exclusive of members of the National Assembly, employees of public institutions and persons in the service or employment of a political party. Transparency and accountability of the CBS is assured through the act by stipulating that all annual reports and reports regarding CBS operations are published. Moreover, since the primary objective of the CBS is price stability, all information used to formulate monetary policy decisions must be published.

The only area where the act is divergent, according to officials, is where model law suggests central bank accounts should be audited by private auditors; in terms of Seychelles' Constitution this has to be the Auditor General (but in practice the Auditor General outsources this to private resources in any event).

While the CBS is awaiting delivery of a hard copy of the SADC Model Central Bank law from the CCBG Secretariat, it is believed by CBS representatives that participation in the activities of this Annex is essential in enabling cooperation between SADC states. The CBS attended the recent subcommittee meeting in South Africa, and representatives are of the opinion that matters discussed were of importance to further regional integration and to facilitate development within central banks in the region. Finally, it was expressed by CBS representatives that ratification of the FIP will only serve to strengthen this process.

2.2.6. ANNEX 6: COOPERATION ON PAYMENT, CLEARING AND SETTLEMENT SYSTEMS²²

The Seychelles National Payments Systems (NPS) Unit was established in 2008 and receives on-going technical support from the IMF Regional Payments Systems Advisor. The NPS project is currently engaged in developing a reform and modernisation strategy for payments systems within the country. Currently, there are no Real Time Gross Settlements (RTGS) systems in place in the Seychelles, for neither payments nor clearing process systems. The NPS Unit is engaged with designing payments and clearing process RTGSs, according to international standards. It is believed that these will be aligned with RTGSs introduced in the other SADC states, to enable future linkages between individual Member States systems.

Much was accomplished in 2009 and 2010 in terms of the NPS modernisation project, including the establishment of a complete requirements and standards document for electronic funds transfers which will be replacing the current manual settlements system, the adoption of new cheque standards and new clearing house rules, and the introduction of the National Clearing and Settlement Systems Act. The purpose of the act is to provide strong legal impetus to support NPS and also to provide the NPS Unit with legal entity. Furthermore, the act provides a clear mandate for the oversight, entry and participation criteria for payments systems, and the supervision and regulation of clearing and settlement systems.

The first step in the SADC Payments Systems roadmap is to ensure the sensitisation of key stakeholders and to gather information regarding the status quo. The SADC Payments System Project Team conducted a visit to complete these two tasks. The conclusion of this visit was that the Seychelles had developed an efficient payments systems environment, and that the NPS Unit is committed to ensure a smooth transition to an automated environment.

While a comprehensive risk mitigation strategy has not been developed as yet, a draft document concerning risk oversight is currently being circulated in the CBS. Therefore, risk mitigation audits have not yet been completed by the CBS.

Finally, representatives of the CBS have attended the SADC Payments Systems workshops convened in 2009 and 2010, and since this was both informative and beneficial, the CBS plans on sending personnel to the 2011 workshop.²³

2.2.7. ANNEX 8: COOPERATION AND COORDINATION IN THE AREA OF BANKING REGULATORY AND SUPERVISORY MATTERS

The CBS representative stated that the Bank has no objection to the implementation of regional banking regulatory and supervisory strategies.

The CBS's supervisory standards are compliant with all 25 of the Basel Core Principles for Banking Supervision, and some aspects of Basel II have also been implemented in the CBS

²² This section is based primarily on a document of progress provided by the CBS, supplemented by interviews with CBS's staff

²³ Information supplied by Seychellois subcommittee members for Payments, Clearing and Settlement Systems

(due to IMF recommendation and support). The CBS is audited in a manner compliant with the International Financial Reporting Standards (IFRS), and all accounting frameworks employed are also in compliance with IFRS.

Finally, the CBS is compliant to the principles of the Financial Action Task Force (FATF), in terms of combatting money laundering. However, a mutual evaluation has not been conducted for the country, as per the FATF's programme.²⁴ The Seychelles has an Anti-Money Laundering (AML) Act in force, which establishes a devoted Financial Intelligence Unit under the Presidency²⁵

2.2.8. ANNEX 9: COOPERATION IN RESPECT OF DEVELOPMENT FINANCE INSTITUTIONS

The Development Bank of Seychelles (DBS) is currently the only DFI in operation within the country. The DBS is mandated to facilitate enterprise development in fishing, agriculture and tourism, particularly for small- and medium-sized industry. The DBS is not currently a member of the DFI network and does not contribute to the Development Finance Resource Centre (DFRC), and the managing director of the DBS had no knowledge of the FIP or participation in regional activities (though some members of the executive board said they "had heard something about the FIP and DFRC").

All funds managed by the DBS are allocated for local projects. Its loan book amounts to 360 million rupees (approximately USD29.83 million). A credit rating has not been obtained for the DBS. The DBS has identified capacity building needs in the following areas; financial loans, recovery of loans, monitoring and follow-up of loan interventions, and the development of a procedures manual. In addition, the DBS has asked for assistance from the IMF in order to redefine their mandate following a long record of poor financial performance.

2.2.9. ANNEX 10: COOPERATION ON NON-BANKING FINANCIAL INSTITUTIONS AND SERVICES

The Seychelles is currently not a member of CISNA. The CBS regulates the very limited insurance market; there is no pension fund regulator except for the state pension fund, while SIBA is the regulator of all offshore financial services. CBS insurance representatives interviewed stated that they had never been invited to join CISNA, and would be interested in attending meetings and finding out more information regarding CISNA activities.²⁶

2.2.10. ANNEX 11: COOPERATION ON SADC STOCK EXCHANGES

The Seychelles does not have a stock exchange, and so is not currently a member of COSSE. According to the SIBA, who is tasked with introducing and then prospectively regulating a

²⁴ FATF. 2011. Information by country. (available online) http://www.fatf-gafi.org/infobycountry/0,3380,en_32250379_32236963_1_1_1_1_1,00.html

²⁵ Information supplied by CBS representative

²⁶ Information supplied by CBS representative

planned stock and securities exchange, the Seychelles is still deciding on an appropriate framework. The SIBA representative expressed interest at the possibility of dual- and cross-listings on other exchanges in SADC, given the size of the capital market in the Seychelles as opposed to accessing capital from the rest of SADC. Furthermore, the SIBA representative stated that since the stock exchange is yet to be established, there is a great need for capacity building activities within the Seychelles.²⁷

3. CONCLUSIONS AND RECOMMENDATIONS

3.1. CONCLUSIONS

Overall, and particularly in areas where the Seychelles has a direct and pressing national interest, the country has made remarkably quick progress in implementing the FIP. The status of implementation is thus split between high levels of compliance in these areas and almost no compliance in areas that have little meaning for the economy.

However, it is also the case that areas of movement owe more to the IMF reform programme, which has been and remains a priority for government, than to any direct obligation to comply with the FIP. Fortunately, the IMF reforms are largely aligned to the terms and spirit of the FIP.

Moreover, although the Ministry of Foreign Affairs, Ministry of Finance and CBS are exceedingly diplomatic about the importance of the FIP there are clear signs that, in fact, the IMF reform programme is dominating political and technocratic resources and energy and also that Seychelles is just as open to other regional groupings and initiatives like COMESA and the IOC. A number of interlocutors also noted that within SADC the Seychelles only has a strong economic relationship with South Africa, and that the long-term relationship eastwards with India and China is just as important to the Seychelles as with the southern African mainland.

Owing to the relatively low importance placed on the FIP because of other demands on the government, there is no local champion of FIP. Stakeholders in Seychelles, including the Ministry of Finance, Seychelles Central Bank and Seychelles Revenue Commission are still in the process of understanding and engaging with the purpose and implications of the FIP. Levels of awareness are thus relatively low. Officials nevertheless assured the consultants that it is the intention of the Seychelles to re-engage with all SADC protocols in due course.

That said, and whatever the motivation, FIP implementation is still taking place. The areas of most success have been:

- **Investment:** especially since the 2010 introduction of the new investment law which provides strong protection to investors, and the regular participation of Seychelles at investment subcommittee meetings;
- **Macroeconomic convergence:** (at least in effort if not cold achievement) the Central Bank of the Seychelles attends the bi-annual meetings of the subcommittee and ensures that macroeconomic data is submitted to the CCBG regularly. Moreover the

²⁷ Information supplied by SIBA representative

country has made significant efforts to return the macro-economy to price stability and macro-prudence (although on all three measures Seychelles is still significantly out of the SADC convergence criteria);

- **Taxation:** the SRC has embarked on an impressive taxation reform programme to modernise the administration of taxes, and has signed a number of DTAs;
- **Exchange Controls:** there has been a complete scrapping of exchange controls and a move to a floating currency that is fully convertible;
- **Legal and Operational Frameworks for central banks:** the central bank law is almost entirely aligned with the SADC model bank law, its primary objective is price stability and the autonomy of the central bank is enshrined in law;
- **Banking Supervision:** the CBS's supervisory standards are compliant with all 25 of the Basel Core Principles for Banking Supervision, and some aspects of Basel II; the CBS is audited in a manner compliant with the International Financial Reporting Standards (IFRS); and all accounting frameworks employed are also in compliance with IFRS; and
- **Anti-Money Laundering:** finally, the Seychelles has made good progress on the yet-to-be-ratified AML annex where they are a member of the Financial Action Task Force (FATF), a Money Laundering Act is in force, and a devoted Financial Intelligence Unit has been set up under the Presidency²⁸ (although a mutual evaluation has not been conducted for the country).

Areas where the Seychelles are behind the FIP curve are:

- **Payments systems:** the Seychelles is still to move to an automated domestic RTGS system and trails most member states in this respect;
- **DFIs:** the Seychelles has a DFI focusing only on small enterprise development who has no contact with, and only limited awareness of, the DFRC and the FIP;
- **Non-banking financial institutions:** as no Seychelles non-banking regulator is a member of CISNA and levels of awareness of FIP are low; and
- **COSSE (Stock Exchanges):** but only because there is no Seychelles stock exchange.

The lesson to be learnt from this pattern is that where a country has a strong national interest combined with political will to impose the reforms set out in the FIP (in the Seychelles case the unavoidable IMF reform programme) reforms can proceed exceptionally quickly. Seychelles has made considerable progress in a mere three years.

Where progress has not been made in the Seychelles it is primarily because the areas have little meaning in the Seychelles – a small insurance market to regulate means little interest in CISNA; no stock exchange means little interest in COSSE; a locally focussed DFI means little interest in DFRC. Another area of blockage is in harmonising investment regimes – the Seychelles is content to cooperate on investment and harmonise investment policies and laws, but competing for investment, even with SADC members, will remain part of its strategy notwithstanding the FIP.

²⁸ Information supplied by CBS representative

Although co-ordination through the Ministry of Foreign Affairs is not ideal (it would preferably be through the Ministry of Finance) this is not a problem worth unpacking owing to the small size of the local polity. In larger settings this might create co-ordination problems; in the Seychelles, it can work.

Finally, the consultants formed the strong impression from the standard of interviewees that, unlike many other member states, lack of progress in some areas is not as a result of a lack of capacity. The civil service in Seychelles, though young, struck the consultants as committed and competent. Moreover, the country has benefited from large IMF-sponsored technical assistance which is on-going. The CBS representatives suggested they were getting “all the help they needed” from the IMF, and though there is an interest in more SADC-related training, capacity is not the prime constraint in the case of the Seychelles. The implication is that this is not a country where large levels of additional donor intervention are needed.

3.2. RECOMMENDATIONS

Based on the last sentence, it is the consultants’ view that SADC and donors only have a limited role to play in driving further implementation of the FIP. Most of what the Seychelles regards as important has been done; the rest will rely on the IMF assistance. Recommendations for additional support are thus limited to:

- **Ratification:** that is help from SADC secretariat in ratifying the FIP and in helping domestic processes to this end;
- **General informational support:** Seychelles is only recently re-engaging with SADC and the FIP after a long time. Thus levels of knowledge about the FIP are generally low. Many interviewees said they appreciated recent visits from the SADC secretariat to teach them about the FIP and they would enjoy further visits especially to the CBS, the insurance regulator, SIBA, the Ministry of Finance and the Seychelles Revenue Commission;
- **Payment systems:** Seychelles is one of the only member states that does not have an automated domestic RTGS in place. The CBS requires more technical assistance in this area; and finally
- **CISNA:** Seychelles is currently not a member of CISNA, though there is at least an insurance regulator, who should be invited to join CISNA.

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5. APPENDICES

5.1. APPENDIX 1: INTERVIEW LIST OF CENTRAL BANK OF SEYCHELLES REPRESENTATIVES

Subcommittee	Name	Email
Macroeconomic Convergence	Mr Brian Commettant	brian.commettant@cbs.sc
Macroeconomic Convergence	Mrs Hilda Palconit	hilda.palconit@cbs.sc
Legal and Operational Frameworks	Ms Martine Faure	martine.faure@cbs.sc
Legal and Operational Frameworks	Mr Naddy Marie	naddy.marie@cbs.sc
Banking Supervision and Regulation	Mr Nadir Hassan	naadir.hassan@cbs.sc
Payments, Clearing and Settlements Systems	Mr Mike Tirant	mike.tirant@cbs.sc
Payments, Clearing and Settlements Systems	Ms Liz Julienne	liz.julienne@cbs.sc
Financial Markets	Mrs Gina Rosette	gina.rosette@cbs.sc
Financial Markets	Ms Ingrid Sinon	ingrid.sinon@cbs.sc

5.2. APPENDIX 2: MATRIX OF COMMITMENTS

Colour	Status
Achieved	Green
Partially achieved	Yellow
Not achieved	Red
Not assessed	White
Not applicable	Grey

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
None	None	FIP instrument ratified by all member states.	Red	SADC Secretariat	
None	None	National FIP coordinating structures in place to facilitate better FIP implementation.	Red	SADC Secretariat	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 1: Cooperation in Investment	5,6,8,9,27	Existence of domestic investment law that: Protects investors, allow repatriation of profits, allows access to courts		SIB	All three present = green
	21	Signatory to international conventions: New York Convention		http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYConvention_status.html	Member = green
	21	Signatory to international conventions: ICSID		http://icsid.worldbank.org/ICSID/Index.jsp	Member = green
	21	Acceded to international conventions: MIGA		http://www.miga.org/about/index_sv.cfm?stid=1695	Member = green
	8	Investment policies, information etc. easily accessible to investors		SIB	
	23	MS has an active IPA		SIB	
	2	Member ranked above (or equal) to OECD average rating of the Strength of Investor Protection Index	5.7	World Bank Doing Business, Investor Protection Index	Better than or equal to OECD average = green; worse = red

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 1: Cooperation in Investment	19	MS's national policies and regulations comply with the Regional Investment Policy Framework and/or the minimum principles for investment regimes in the region.	Not Assessed (not measured in 2011)	SIB	
	19	Regional Investment Policy Framework is drafted and agreed to by MS	No standard framework yet exists in the region.	Investment subcommittee	
	23	Evidence of events and activities run by IPA Forum and attended by MS IPAs	The SADC IPA forum has been established, however the most recent event was poorly attended by CEOs of IPAs operating in MS	Investment subcommittee	
Annex 2: Macroeconomic Convergence	2,3,4	Inflation rate low and stable (< 9%)	31.8% (2009)	National Bureau of Statistics	Within range = green; out of range = red
	2,3,4	Public and publicly guarantee debt to GDP < 60%	84% of GDP	National Bureau of Statistics	Within range = green; out of range = red
	2,3,4	Budget deficit to GDP ratio at widely accepted prudent levels (< 5%)	5% surplus (2009)	National Bureau of Statistics	Within range = green; out of range = red
	5,8	Cooperation/Information Sharing: submission of data to SMSD		CBS	
	7	Cooperation/Information Sharing: participation in peer review panel	N/A	CBS	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 2: Macroeconomic Convergence	7	The Peer Review Mechanism is approved for establishment and operational	Discussions towards establishment of the mechanism are on-going. Framework and guidelines have not yet been adopted. Generally, MS are supportive of the Peer Review Mechanism, but have specific concerns which need to be addressed at subcommittee level.	Macroeconomic Convergence subcommittee	
Annex 3: Cooperation in Taxation Matters	5.3	Number of DTAs signed with other SADC member states	4 - SA, Zambia, Botswana, Mauritius	SRC	< = 6 red, 7 - 10 orange, 11 - 14 green
	2	Up to date and publicly available tax database (national)		SRC	
	2	Up to date information submitted to SADC Tax Database (when fully operational)	N/A	SRC	
	6..6	Signatory to the Mutual Agreement for Information Exchange with member states (AATM)	Not Assessed (Information not obtained)	SRC	
	6	Harmonised to the regional guidelines for the administration of Indirect Taxes	Not Assessed (Information not obtained)	SRC	
	4	Harmonised to the regional tax incentives guidelines		SRC	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 3: Cooperation in Taxation Matters	3	Tax officials participate in capacity building activities		Ministry of Finance/Revenue Authority	
	5	Existence of Model Double Taxation Avoidance Agreement	Model DTAA and Commentary approved and adopted by all member states.	Tax subcommittee	
	4	Guidelines for the appropriate treatment of tax incentives drafted and approved for adoption by MS.	Drafting of guideline documents still in progress.	Tax subcommittee	
	4	A Fiscal Model for cost benefit analysis developed and approved by Ministers of Finance. Fiscal Model must comply with items articulated in Art. 4 section 5.	Cost Benefit Analysis model not yet developed.	Tax subcommittee	
	6	SADC Agreement for Assistance in Tax Matters (AATM) approved and signed by all member states (multi-lateral agreement).	Finalised in 2008, waiting for approval by Ministers of Justice/Attorneys General awaiting clearance and signature by Summit.	Tax subcommittee	
	6	Guideline for the administration of indirect tax in the region is approved for adoption by member states.	Still under review by the Indirect Taxation working group.	Tax subcommittee	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 3: Cooperation in Taxation Matters	7	Mechanism for the Settlement of Tax Disputes developed and approved by Ministers of Finance.	Has not been developed or approved for implementation	Tax subcommittee	
Annex 4: Cooperation on Exchange Control	2a	Liberalised Current Account		CBS	
	2a	Liberalised Capital (Financial) Account		CBS	
	2c,3.1.c	Full Currency Convertibility		CBS	
	2d, 3d	Collect and publicise data on foreign exchange transactions (e.g. automated cross border reporting system)	Yes, but not automated	CBS	
	2a	Roadmap for exchange control liberalisation in current and capital (and financial) account transactions is drafted and approved	The roadmap has been drafted by the subcommittee. All countries except the DRC have signed and approved the roadmap, and so it has not been implemented as yet.	Exchange Control subcommittee	
Annex 5: Harmonisation of Legal and Operational Frameworks	3b	Autonomy/independence of Central Bank		CBS	
	2	Compliant with SADC Central Bank Model Law (when/if made binding)		CBS	
	4.2	Adoption of price stability as mandate		CBS	
	3c	Ability of Central Bank to set own budget		CBS	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 5: Harmonisation of Legal and Operational Frameworks	2e	Extent to which central bank can lend to government	Yes - to be repaid within 6 months from end of FY	CBS	
	3	Existence of Model Central Bank Law	The Model Central Bank Law has been drafted and approved by all SADC member states	Legal and Operational Frameworks subcommittee	
	2	Roadmap for the establishment of a Common Central Bank developed and approved.	Legal & Operational Committee has recently been tasked with the development of a roadmap for the establishment of a single Central Bank. No progress yet on this matter.	Legal and Operational Frameworks subcommittee	
Annex 6: Cooperation on Payments Systems	3a	Payments systems in place domestically			
	3c, 3e, 4.1.c	Risk mitigation strategy implemented			
	4.1.d	Existence of national payments system law			
	2	National payment system law aligned to regional model law	N/A	CBS	
	2, 3d	MS linked to SADC regional payments systems (when operational)	N/A	CBS	
	2	Model Payment System Law developed and approved	Law is being drafted and is to be approved at regional level	Payments System subcommittee	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 6: Cooperation on Payments Systems	3	Model Payment System Strategy is developed.	This is not in place yet. However, the strategy is being developed for the CMA countries to be piloted in this sub-regional bloc. The intention that this will allow a 'tried and tested' strategy to be rolled out to the rest of the region	Payments System subcommittee	
Annex 7: Cooperation in the area of ICT	3, 4	Legal framework for data privacy in place	Not Assessed (not measured in 2011)	Each Central Bank & IT Forum	To enable cross border business based on ICT taking in account that all business are supported by ICT platform
	3	Standard regarding ICT systems interpretability in place	Not Assessed (not measured in 2011)	IT Forum	Promote cross border business specifically for Payment Systems
	3.5	IT Governance framework adopted for the region.	Not Assessed (not measured in 2011)	Each General Bank & IT Forum	
	3	ICT communication Infrastructure to connect member states in place	Not Assessed (not measured in 2011)	IT Forum	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 8: Cooperation in Banking and Regulatory Supervision	2	Compliant with the 25 BASEL core principles	All 25, plus some aspects of Basel II	CBS	Less than 20 = red; 21 to 25 orange; 25 green
	2	Self-assessment audit happening on annual basis		CBS	
	Annex 14	Membership of ESAAMLG & completion of a mutual evaluation	Yes, but no mutual evaluation carried out yet	CBS	
	Annex 13	Compliant with international standards for auditing and accounting - IFRS		CBS	
	2, 4	Regional agreement on framework for central bank supervision.	Harmonisation of banking supervision and regulatory principles in progress.		
Annex 9: Cooperation on Development Finance Institutions	3, 9	Participate in regional development projects through cooperation in pooling of funds, project identification, project management.	N/A - No appropriate DFI	DBS	
	3f, 7	Attending capacity building activities organised by DFRC (secondment, work placement, training)	N/A - No appropriate DFI	DBS	
	Annex 1	PPP: Establishment of PPP Policy Framework, Legal Framework, Institution Framework		CBS	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 9: Cooperation on Development Finance Institutions	2	The DFI network and DFRC are established and active.	Yes.	SADC Secretariat	
	11	Regional Insurance Guarantee system in place and approved.	The Regional Insurance Guarantee scheme has not been agreed upon or implemented.	DFI Network	
	3	Number of regional development projects in progress (where regional refers to projects with benefits to more than one country, or with more than one country collaborating on a project)	Only evidence of regional projects is DBSA projects, which are not necessarily attributable to the DFI network. No collaboration between DFIs on regional development projects.	DFI Network	
Annex 10: Cooperation on Non-Banking Financial Institutions and Services	7	Membership of IOSCO (harmonising to international standards)		http://www.iosco.org/lists/display_members.cfm?memID=1&orderBy=None	
	7	Membership of IOPS (harmonising to international standards)		http://www.iopsweb.org/document/14/0,3343,en_35030657_35030370_35152654_1_1_1_1,00.html	
	7	Membership of IAIS (harmonising to international standards)		http://www.iaisweb.org/IAIS-members-31	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 10: Cooperation on Non-Banking Financial Institutions and Services	3, 4, 5	Committed to information sharing (Multi-lateral agreement signed by all CISNA members)	Not a member of CISNA	CISNA	N.B. except Seychelles who has not yet participated in CISNA
	10	Participating in capacity building activities	Not a member of CISNA	CBS	
	9	Alignment to SADC regulatory framework for Non-Banking Financial Institutions (when drafted and approved)	N/A	CBS	
	9	SADC regulatory framework for non-banking financial institutions established and approved for the region	SADC Framework is not yet developed. But progress has been made in that member states' NBFIs authorities have been tasked with drafting the various components of the framework.	CISNA	
Annex 11: Cooperation in SADC Stock Exchanges	2	Cooperation: Member of COSSE	N/A (no stock exchange)	Seychelles does not have a stock exchange	
	2	Cooperation: Information Exchange	N/A (no stock exchange)	Seychelles does not have a stock exchange	
	2.3	Participate in capacity building activities (either attend or host)	N/A (no stock exchange)	Seychelles does not have a stock exchange	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 11: Cooperation in SADC Stock Exchanges		MS harmonised to SADC common principles.	Not Assessed (not measured in 2011)	Seychelles does not have a stock exchange	
	2.5	MS who are completing the minimum standards for surveillance and risk assessment.	Not Assessed (not measured in 2011)	Seychelles does not have a stock exchange	
	2.7	Extent of diversification of the registered market participants on MS stock exchange (% individuals, % trusts, % corporates)	Not Assessed (not measured in 2011)	Seychelles does not have a stock exchange	