



Republic of Seychelles - European Community

**Country Strategy Paper
and
National Indicative Programme
for the period 2008-2013**

The Government of the Republic of Seychelles and the European Commission hereby agree as follows:

- (1) The Government of the Republic of Seychelles, represented by Mr Patrick Pillay, Minister of Foreign Affairs, National Authorising Officer, and the European Commission, represented by Mrs Claudia Wiedey-Nippold, Head of Delegation in Mauritius accredited to the Republic of Seychelles, hereinafter referred to as "the parties", held discussions in Seychelles from July 2006 to October 2007 with a view to determining the general approach to cooperation for the period 2008–2013.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of the Republic of Seychelles were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000 as revised in Luxembourg on 25 June 2005. These discussions complete the programming process in Seychelles.
- The Country Strategy Paper and the Indicative Programme are annexed to this document.

(2) As regards the indicative programmable financial resources which the Community plans to make available to the Republic of Seychelles for the period 2008-2013, an amount of **€5.9 million** is scheduled for the allocation referred to in Article 3.2(a) of Annex IV to the ACP-EC Partnership Agreement (A-Allocation) and of **€400,000** for the allocation referred to in Article 3.2(b) (B-Allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV to the ACP-EC Partnership Agreement.
- (3) The A-Allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The National Indicative Programme under Part 2 concerns the resources of the A-Allocation. It also takes into consideration financing from which the Republic of Seychelles benefits or could benefit under other Community resources. It does not preempt financing decisions by the Commission.
- (4) The B-Allocation is destined to cover unforeseen needs, such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-Allocation shall be triggered according to specific mechanisms and procedures and therefore does not yet constitute part of the National Indicative Programme.
- (5) Resources can be committed within the framework of the present Country Strategy Paper and Indicative Programme upon the entry into force of the 10th EDF multi-annual financial framework for the period 2008-2013 of the revised ACP-EC Partnership, but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the Republic of Seychelles within the limits of the A- and B-Allocations referred to in this document. Financing decisions can also be taken on the basis of Article 72(6) of the ACP-EC Partnership Agreement for humanitarian and emergency assistance funded from the B-allocations. Financing decisions shall be taken and implemented according to the rules and procedures laid down in the EC

Council regulations on the implementation of the 10th EDF and on the financial regulation applicable to the 10th EDF, and in Annex IV to the ACP-EC Partnership Agreement.

- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with paragraphs 2(c) and 3 of Annex Ib to the ACP-EC Partnership Agreement regarding the 10th EDF multi-annual financial framework for the period 2008-2013.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertake a mid-term review and an end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of needs and performance at the time.
The mid-term review shall be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid-term and end-of-term reviews, the Community may revise the resource allocation in the light of prevailing needs and performance.
Without prejudice to Article 5(7) of Annex IV concerning reviews, the allocations may be increased according to Article 3(5) of Annex IV in order to take account of special needs or exceptional performance.
- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF Multi-annual Financial Framework for the period 2008-2013, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicates the contrary before the end of this period.

Done at Lisbon on 9 December 2007.

For the Government of
the Republic of Seychelles

For the European Commission



Barry FAURE
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EXECUTIVE SUMMARY

The Republic of Seychelles, situated in the Western Indian Ocean, is a Small Island Developing State of 84,600 inhabitants, with a very high population density exceeding 500 hab/km² on its main island, Mahé. Seychelles is ranked amongst the middle-income countries, with a GDP per capita estimated at €7 000, largely achieved through development of the country's tourism potential and exploitation of its fisheries resources. A high level of human development has also been attained (it is ranked 47th out of a total of 177 countries as per the Human Development Index for 2006) through continued public investment in social welfare services since its independence in 1976. The main pillars of the economy (tourism and fisheries) are intrinsically linked to the country's pristine natural and physical island/marine environment. This makes Seychelles extremely vulnerable to climate change and human-induced impacts, in particular urbanisation.

As from 1999, growing macroeconomic imbalances, linked to financing of large capital projects, coupled with less access to external funding and constraints in debt repayment, have led to a significant slowdown in economic activity. In 2002, public indebtedness reached a record level of 202% of GDP, with a significant decline in capital inflows and a negative growth rate. From 2003 onwards the Government therefore embarked on its home-grown Macroeconomic Reform Programme and, since then, overall growth prospects have improved slightly, with the economy growing by 4.5% in 2006 and recording fiscal surpluses and the payment of outstanding arrears with all multilateral institutions. Nonetheless, the economy remains particularly vulnerable to exogenous shocks, and very sensitive to further rises in oil prices as well as to interest rate increases linked to its high level of bilateral external indebtedness.

Seychelles has made some progress in promoting democratic values since 1993 (start of a multiparty system), but remains a young democracy, with a relatively good track record on human rights. However, certain improvements are still required in relation to media coverage, the judiciary and electoral process; governance commitments should in principle address certain of these issues.

This Strategy Paper is based on the 2006 evaluation of EC-Seychelles cooperation and also results from a close dialogue with Government, civil society, EU Member States and other partners. The overall objective of the EC-Seychelles cooperation, under the 10th EDF, is to contribute to the sustainable economic and equitable social development of the Seychelles. The programming of 10th EDF funds remains oriented towards one focal area of intervention, namely the environment sector and, more specifically, the water and sanitation sub-sector. EC support will contribute to the sustainable delivery of water to the country at large.

Moreover, the country has expressed its strong interest for support on governance-related issues. Such EC support would, in principle, be a continuation of the assistance currently being provided under the 9th EDF Capacity Building project. Consequently, support in the non-focal area will be focussed on interventions in governance capacity building. It will also provide for a Technical Cooperation Facility (TCF) to assist in financing studies for project preparation as well as training needs. Thus, approximately 85% of the National Indicative Programme (NIP) "A-Envelope" (€ 5.0 mio) will be allocated to the focal area for the reinforcement of environmental management (water and sanitation). The remaining 15% on the "A-Envelope" (€ 0.90 mio) will be reserved for governance capacity building and the TCF.

PART 1: STRATEGY PAPER

CHAPTER I: THE FRAMEWORK OF RELATIONS BETWEEN THE DONOR AND THE PARTNER COUNTRY

I.1.1 General Objectives of the EC's external policy

In accordance with Article 177 of the Treaty establishing the European Community, Community policy in the sphere of development co-operation shall foster:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- The smooth and gradual integration of the developing countries into the world economy;
- The campaign against poverty in the developing countries.

Europe should project a coherent role as a global partner, inspired by its core values in assuming regional responsibilities, promoting sustainable development, and contributing to civilian and strategic security.

The Union has developed a broad spectrum of external relations tools in the shape of the common trade policy, co-operation under bilateral and multilateral agreements, development co-operation, humanitarian aid and financial assistance as well as the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc).

EU external action including the Common Foreign and Security policy, common trade policy and co-operation with third countries provides a framework both for integrating all EU instruments and for developing gradually a set of common actions based on common positions in the broader sphere of political relations.

Enlargement has entrusted EU with even greater responsibilities, as regional leader and as global partner. It should therefore strengthen its capacity to promote human rights, democracy and the rule of law as well as its capacity to focus on the fight against poverty, both in its neighbourhood and through its multilateral and bilateral policies which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and its external agendas, contributing thereby to global security and prosperity.

I.1.2 Strategic objectives of cooperation with the partner country

The Treaty objectives are confirmed in Article 1 of the *ACP-EU Partnership Agreement*, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the *Cotonou Agreement* is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the Community and Seychelles shall pursue these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of "ownership" of the strategy by the country and populations concerned, and the essential elements and fundamental element as defined in Articles 9 and 11b of the Agreement.

While the Treaty and the Cotonou Agreement provide the legal basis for EC cooperation with ACP countries, the recently adopted *European Consensus on Development* sets the general policy framework at EU level. The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the international agenda, and with

particular attention for the Millennium Development Goals. Human rights and good governance are recognised as other important objectives.

Better aid effectiveness is essential to achieving poverty eradication. Therefore, the EU will advance coordination, harmonisation and alignment. It will promote better donor complementarity by working towards joint multi-annual programming based on partner countries' strategies and processes, common implementation mechanisms, joint donor-wide missions, and the use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and it will capitalise on new Member States' experience to strengthen their role as donors. Furthermore, Article 28 of the ACP-EC Agreement signed in Cotonou also stresses the importance of cooperation between the ACP, the OCTs and the EU's outermost regions.

Policy coherence for development will advance in a number of areas. The purpose is that all EU non-aid policies make a positive contribution to developing countries' efforts to attain the MDGs.

The principle of concentration will guide the Community country and regional programming. This means selecting a limited number of priority areas of action, through the dialogue with partner countries, rather than spreading efforts in too many sectors. In this context the Community will be primarily active in the following nine areas, keeping into account its comparative advantages in a number of these: trade and regional integration; the environment and the sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; social cohesion and employment.

The mainstreaming approach will be strengthened for four cross-cutting issues: democracy, good governance, human rights, the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/AIDS.

In December 2005, the European Council agreed an EU Strategy for Africa. The Strategy provides a long-term strategic framework for interaction between Europe and Africa at all levels: with pan-African institutions such as the African Union, regional organisations and national authorities. It defines how the EU can best support Africa's own efforts to promote sustainable development and reach the Millennium Development Goals (MDGs). The Strategy rests on three pillars: (i) promoting peace, security and good governance as central prerequisites for sustainable development, (ii) supporting regional integration, trade and interconnectivity to promote economic development and (iii) improve access to basic social services (health, education) and protection of the environment to reach the MDGs faster.

1.1.3 Main bilateral agreements

The EC and the Republic of Seychelles, hereafter referred to as Seychelles, have had almost 30 years of cooperation through the successive EDFs, totalling € 25 m of project aid, primarily for environmental protection, industrial support and capacity building. In addition, the EC has signed several fisheries protocols with Seychelles under the Seychelles-EC fisheries agreement. In 2004, Seychelles and EC negotiated a new Fisheries Partnership Agreement (FPA) which covers the period from January 2005 to January 2011. This is the largest tuna fisheries protocol signed by the EC with a third country, with a financial contribution of € 4,125,000. During the last Joint Committee in March 2007, due to the good level of catches, both parties agreed to increase the reference tonnage to 63,000 tonnes and consequently the financial contribution to € 5,355,000.

In the past the European Investment Bank has been a key partner of the Government of Seychelles in financing capital investment projects, for a total value of € 12.6m as at end 2005. In addition, between

2001 and 2005, the country signed Double Taxation Agreements (DTAs) with 10 countries¹. In 2006, DTAs were also signed with Bahrain, Qatar, the United Arab Emirates and two EU Member States (Belgium and Cyprus).

CHAPTER II: COUNTRY DIAGNOSIS

II.1 Analysis of the political, economic, social and environmental situation in the recipient country

II.1.1 Political and institutional situation

Principles of Constitutional Democracy

Seychelles has a constitution which is based on the Westminster model, with two fundamental tenets: the rule of law and the separation of powers. The President is both Head of State and head of government as well as the Minister of Defence, and is elected by popular vote for a 5-year term. The Council of Ministers serves as a cabinet. The new Constitution of 1993 introduced a multiparty system. The National Assembly has 34 seats: 25 elected by popular vote and 9 allocated on a first-past-the-post and proportional basis to parties winning at least 10% of the vote. Members of Parliament cannot be ministers and they have a five-year mandate. The presence of the Opposition in the parliament has remained constant since 2002; however, the country remains, in practice, governed by the ruling party and there is a need to enhance the separation of powers between this party and government. As a result, the Assembly does not have the most conducive environment and the means to effectively perform its role of independent control over the Executive. As regards the security system, the President has complete control over the security apparatus².

Electoral Process

Elections in the Seychelles have generally been recognized as being free and fair, although international observers have consistently made recommendations, in particular as regards the need for “*further improvements in the effective separation of state and party political functions*”³. In its report on the last Presidential elections held in July 2006, the Commonwealth Secretariat made a number of recommendations to further strengthen the electoral process, including proposals to limit electoral campaign financing, on the establishment of an Electoral Commission to replace the current Electoral Commissioner and equitable access to public media. The Electoral Commissioner and the Government are currently reviewing the recommendations for possible amendments to the laws so as to ensure that best practices are applied to the electoral process.

Human Rights

Seychelles has signed all major international conventions on human rights and has a generally good track record on human rights issues. The Statute of the International Criminal Court was signed in December 2006 and its ratification is under review by Government⁴. The ratification of the Statute of the African Court on Human and People's Rights is also being reviewed. The Office of the Ombudsman, appointed by the President, investigates infringements of human rights. Further, there are some human rights groups, which assess and publish their findings on human rights cases.

¹ Botswana, China, Indonesia, Malaysia, Mauritius, Oman, South Africa, Thailand, Vietnam, Zimbabwe.

² This includes: the National Guard, the army, the presidential protection unit, the coast guard, and police.

³ Commonwealth Observers' Report.

⁴ Seychelles has signed a bilateral immunity agreement with the US in June 2003.

The Seychelles Police Force enjoys a generally good reputation; however, past and recent cases of use of undue force point to the need for further training. Assistance to set up appropriate training courses in Human Rights and a Code of Conduct for its police officers has been initiated under the 9th EDF.

Fundamental Freedoms

The Constitution provides for all fundamental freedoms⁵ and Government generally respects these rights. As regards press freedom, apart from the Government daily there are several weekly or monthly newspapers, including those belonging to different political parties and religious groups,. However, there is only one national public service broadcaster, the Seychelles Broadcasting Corporation⁶. The lack of private broadcasters may be in part due to the licence fee, which is considered to be prohibitive. In October 2006, a new law was adopted which prohibits political parties and religious organisations from opening radio and/or television stations.

According to the 1993 constitution, every person has a right to freedom of peaceful assembly and association. The existing Public Order Act is currently being reviewed in order to address any incompatibility with the 1993 Constitution and to decide upon clear criteria for allowing public gatherings.

Political Governance and Rule of Law

The Constitution provides for an independent judiciary. The latter is experiencing certain problems, as demonstrated by long delays for trials and for some civil and criminal court cases. Moreover, prolonged pre-trial detention is deemed to be a problem.

The judicial system includes magistrates' courts, the Supreme Court, the Constitutional Court, and the Court of Appeal. The Constitutional Court is presided over by the same judges as the Supreme Court and convenes only to consider issues related to the Constitution. However, the system is characterized by a dependence on foreign judges, recruited from other Commonwealth countries, who are employed on renewable contracts. Moreover, there is a family tribunal with powers to hear and decide on all matters relating to the care, custody and access of children, as well as issue protection orders for victims of family violence.

Control of Corruption

Seychelles is rated 55th on the Transparency International's Corruption Perceptions Index, and is thus ranked as one of the least corrupt countries in Africa. The country has enacted several laws to fight corruption⁷ as well as setting up a National Tender Board in 2004. The Government's decision to set up a Financial Intelligence Unit⁸ at the Central Bank in June 2006 is a positive step in the global fight against money laundering and terrorism financing and will further promote transparency in financial dealings, notably cross-border flows. There is, nonetheless, a perception of the existence of corruption or influence-peddling linked to the award of commercial contracts and of employment in the public service, and to the allocation of government housing.

Moreover, the issue of compliance by the Seychelles with recognized international principles on transparency and effective exchange of information for tax purposes has also become vital owing to its related commitments of February 2001 towards the OECD to implement them. The need for transparent

⁵ Freedom of speech and press, freedom of assembly and association, freedom of religion and freedom of movement

⁶ The SBC is owned & funded by the State but has been given administrative and editorial autonomy. The SBC is governed by a Board which is appointed by the President. Members of the executive committees of political parties are barred from membership of the SBC Board.

⁷ Including the Corporate Service Providers Act 2003, Seychelles Penal Code, the Financial Institutions Act and Seychelles Investment Code 2005, a new Anti-Money Laundering Act 2006, Prevention of Terrorism Act 2004.

⁸ The Financial Intelligence Unit is responsible for the supervision of commercial banks' financial activities.

corporate information mechanisms as well as international cooperation in the field of effective exchange of information plays a vital role in countering terrorism, its financing, tax evasion, tax avoidance and corruption.

Institutional Capacities

Seychelles has a centralised administration in which institutional mandates of ministries and other public institutions are generally well defined. Government administration generally suffers from a lack of capacity due to understaffing, lack of expertise and insufficient training. Government recognizes that there is a need for more delegation of authority in the public service. There is also a lack of performance benchmarking as well as weak strategic planning in ministries, causing certain inefficiencies in the implementation of budgets. Furthermore, the Government set up a National Human Resources Development Council in 2006 to promote, oversee and coordinate human resources development activities in the private and public sectors. Its task is to formulate national policy for human resource development in the Seychelles with the assistance of international expertise to be funded under the 9th EDF "Capacity Building for State and Non-State Actors". Government also aims to strengthen the policy dialogue between key partners (including civil society and NGOs) in the country's development process and build a more mature partnership with civil society. Local administration is limited to the municipality of Victoria, and to 25 district administrations falling directly under the ministry in charge of community development. District committees have been set up to encourage greater participation by communities in local decision making.

Internal and External Security

There are no ethnic or regional conflicts, and any potential source of conflict is political. The internal security situation is generally good and crime rates have remained relatively low. International laws are respected and Seychelles has not been involved in any external conflict since its independence. Seychelles strongly supports the adoption of the UN Comprehensive Convention on Terrorism and has heightened its alert and search capacity to improve security at airports, other points of entry and essential infrastructure, but it is essential that facilities are substantially upgraded.

II.1.2 Economic and commercial situation

Economic Situation, Structure and Performance⁹

Seychelles enjoys one of the highest standards of living in Africa with a GDP per capita of nearly € 7,000¹⁰, which has been achieved largely through the successful development of the country's tourism potential and the exploitation of fisheries resources, as well as through continued public investment in education and social development over the past decades. However, in recent years the economy has been characterized by economic imbalances, and real GDP has contracted by 12% since 2000. In 2006, the economy grew by 4.5% according to national estimates, thus showing the beginning of an economic recovery and improved overall growth prospects. The main pillars of the economy remain tourism and fisheries, which are both intrinsically linked to the natural and physical environment, and account for 20% and 15% of GDP respectively for 2006. They also both represent significant sources of foreign currency: tourism revenue is equivalent to almost half of services' exports and canned tuna accounts for more than three quarters of domestic exports.

⁹ Unless stated, figures refer to national statistics (see Annex 1). Due to statistical differences, the figures may differ from estimates and figures by IMF or World Bank.

¹⁰ US\$ 8,610 according to the Human Development Report 2005.

After a sharp decline in tourist arrivals during 2002-04¹¹, the tourism sector enjoyed a good performance in 2005, rising by 7% - a trend which was confirmed in 2006 by a record arrival of 140,627 tourists. This increase is due to the rise in foreign investment in luxury hotels¹², the introduction of flights to Seychelles from the Gulf States, and a fiscal package of incentives to boost investment in the tourism sector. However, Seychelles is still the most expensive destination in the region and the sector's expansion remains constrained due to the lack of competitiveness in all market segments, except in the new high-end five-star category. Expansion of the tourism sector is also hampered by inadequate infrastructure, water shortages, an increasing backlog on maintenance of transport infrastructure, pending hotel renovation and the adverse impact of increasing quantities of waste on land- and sea - scapes; all issues which need to be urgently addressed to allow the country to meet its target of 200,000 visitors by 2010.

Seychelles¹³ is a world leader in transshipment of tuna fish and its products; industrial fishing by purse seine vessels totals over 340,000 metric tonnes annually. The total gross revenue generated by industrial tuna fishing activity amounted to almost € 80m in 2005. Canned tuna exports have increased by 9% in 2006 and this trend is expected to be maintained as the country's tuna cannery - one of the largest worldwide - has announced further investments in order to increase its capacity by 40% by 2011. With a view to making Port Victoria a modern regional transshipment hub, the Seychelles Fisheries Policy is providing for additional reclaimed land to be allocated for the expansion of the fishing port and industrial fishery activities.

Agriculture is still a significant source of income for the rural population, but contributed less than 4% of GDP in 2005 due to its low productivity and high labour costs¹⁴. It is estimated that only 10% of the country's potential agricultural land is cultivated, given the high demand on such land for infrastructure, hotel and housing development. Although the country has started to move towards self-sufficiency in the production of small livestock (producing 65% of its requirements), it still remains heavily dependent on food imports. Indeed, in the past few years, there has been a significant increase in imports of fruit and vegetables (6,000 tonnes in 2006 compared to 4,032 tonnes in 2005) in the light of the expansion of the tourism industry.

Within the Seychelles International Trade Zone (SITZ), there are around 50 licensed companies, including the tuna cannery. The SITZ employs nearly 3,000 persons, 56% being Seychellois and two thirds of them working at the cannery. The Government is seeking to diversify the economic base by further developing the offshore financial sector with an increasing interest in a larger array of offshore products, such as mutual funds and special licence companies. Out of 32,000 offshore companies registered in Seychelles, 21% were registered in 2005 alone.

Confidence in the off-shore business sector is likely to be strengthened with the ratification of the UN Convention Against Corruption. However, the Seychelles still lacks sufficient human resources to service the off-shore sector and there is also a lack of off-shore banking facilities and consultancy firms to further develop the sector. In order to ensure the sustainability of the offshore financial sector and so as to comply with international best practices, Seychelles will also need to address the issue of its compliance with recognised international principles on transparency and effective exchange of information for tax purposes, which has become vital due to its related commitments vis-à-vis the OECD in February 2001 to implement them.

Seychelles' energy sector is led by imports of petroleum products, which account for about 95% of the primary energy supply; this makes the country extremely vulnerable to world energy price fluctuations. Through the parastatal body, Seychelles Petroleum Company Ltd. (SEPEC), which has sole

¹¹ In 2004, tourists' arrival reached an all-time low of 120,000 persons.

¹² Some 43% of all hotels and guesthouses are found on Mahé, 31% on Praslin and 26% on other islands.

¹³ Seychelles' EEZ is situated at the geographical centre of Indian Ocean tuna stocks.

¹⁴ Fall in the production of traditional crops (coconut & cinnamon) & their share in domestic exports remains marginal.

responsibility for the importation, distribution and storage of petroleum products, Government has also invested in a fleet of modern oil tankers to exploit lucrative commercial opportunities in the regional energy freight business, whilst developing Seychelles as a bunkering and oil re-export hub for the region. In addition, SEPEC is actively engaged with foreign partners in promoting oil exploration within the country's waters.

The infrastructure sector has benefited from significant public investment in the past, resulting in a reliable electricity network and relatively modern communication and transport facilities. However, the country's infrastructure, and particularly its roads and bridges, were damaged following the 2004 tsunami and are now being rehabilitated with the assistance of the donor community (including the EC). Moreover, further efforts are being undertaken to improve other facilities: these include completing the rehabilitation of the international airport, and the elaboration in June 2006 of a master plan for the redevelopment of harbour infrastructure (in particular the fishing port). It should be noted that the country's infrastructure remains highly vulnerable to climate change and coastal erosion.

However, the lack of investment in water and sanitation infrastructure remains a major constraint on the development of economic activities, in particular tourism. Although 95% of the population is supplied with water, the current infrastructures are unable to meet the water demand during the dry season, thus resulting in frequent cuts in the water supply. This situation is worsening each year due to several factors, including: (i) insufficient levels of investment in the rehabilitation and maintenance of the supply & distribution networks, leading to water losses of over 50%; (ii) an annual rise of 8% in water demand and (iii) climate change making the dry periods worse both in terms of duration and rainfall intensity. A diagnosis and proposed measures were elaborated by a national working group in 2005, but have not yet resulted in a strategic plan for the development of the sector.

During the last decade, public sewerage schemes have been implemented for the most densely urbanized areas of Mahé. However, they operate below their capacity and cover only about 10% of the island's households due to insufficient financing for the extension of the networks. Extending the sewerage coverage is necessary in order to reduce the growing pollution of surface waters. The above-mentioned problems for both the water supply and the sewerage networks will become critical for the country's economic development unless corrective measures are taken. In order to better manage water resources there is a need for the rehabilitation and extension of the water supply/sewerage infrastructure, taking into account the financial sustainability of the sub-sectors. In particular it will be necessary to reduce the operating expenses of the PUC and increase its revenues; a revision of the water tariffs (unchanged since 1994) and of the sewerage tariffs is essential in this regard.

The Government has yet to define a specific water and sanitation policy¹⁵. The current Water Master Plan, prepared in 1995, is outdated and therefore funding is being sought to put in place a new master plan for the period 2007-25, the objectives of which are: to review the institutional and policy framework, improve management capacity, ensure financial sustainability of the sector, and identify the short- to long-term capital investment needs.

Structure and Management of Public Finance

Every year until 2002, Seychelles experienced annual fiscal deficits due to significant investment in capital projects, and the country had one of the highest total debt/GDP ratios in the world, which peaked at 202% in 2002. Since then, although public debt has been on a slow but steady declining trend, with debt/GDP ratio moving to 183% as at end 2006 (out of which external debt accounted for 77.5% of GDP), the total debt stock still stands at USD 514 million (cf. Annex 7).

¹⁵ Most policy matters are covered under the Environment Protection Act 1994 and the PUC Statutory Act.

Following the introduction of the home-grown Macroeconomic Reform Programme (MERP) in 2003, Government is continuing in its endeavours to curb public expenditure and to increase revenues. As a result, fiscal balance has improved and has been in surplus for the past three years. In 2005, this surplus stood at 9% of GDP¹⁶ as a result of strong revenue performance driven by a large one-off transfer from the Social Security Fund and good performance on indirect tax revenues (in particular the Goods and Services Tax - GST¹⁷). Since its introduction in 2003, GST has remained the main source of revenues, providing 31% of total revenues in 2005.

The shortage of foreign currency is one of the main factors that has constrained debt servicing. In this context, the IMF has recommended, in successive reports, a gradual devaluation of the Seychelles Rupee. In the past, Government has been cautious about implementing devaluation due to its unclear financial impact and potential risks for social cohesion, the latter being a critical requirement for a tourism-led economic recovery. However since the end of 2006 the Seychelles rupee (SCR) has been liberalised, although there are still a number of legal and administrative controls that have yet to be removed. As a result, the SCR remains over-valued and a black market for foreign exchange persists, despite attempts to eliminate it.

In order to improve the production and publication of reliable statistics, Government has created, since 2005, a National Statistics Bureau and is committed to the use of international standards. There are still certain deficiencies in the National Accounts systems and there is an ongoing programme between the authorities and IMF staff to harmonise these statistics and to assist with capacity building. A two-year programme to upgrade the National Accounts' systems was also launched in September 2006 and, in this connection, Government has recruited an independent international consultant to improve data collection of economic statistics. Since December 2006, Seychelles has been participating in the IMF's General Data Dissemination System (GDDS), marking a major step forward in the development of its statistical system.

Trade Policy and External Environment

With most goods being imported, the trade balance has traditionally been in deficit. Owing to a significant increase in imports due to the high price of oil, the trade balance deteriorated sharply in 2005, posting a record deficit equivalent to almost 37% of GDP¹⁸. The trade balance deficit was only partly offset by increased exports of services in the tourism sector. However, in 2004/05 the capital and financial accounts were in surplus for the first time in recent years due to an increased inflow of FDI following significant investment in the construction of new luxury hotels; as a consequence, the overall balance of payments deficit was reduced. However, in 2005 the level of international reserves remained at low levels, equal to 4.3 weeks of imports, although the situation did improve slightly during 2006.

Exports of goods consist mainly of exports of canned tuna and oil re-exports; exports of other fish/crustacean products have remained at low levels and exports of agricultural products are of minor importance. The bulk of imports consists of consumer goods and oil. Trade in services consists mainly of tourism. The EU is the main trade partner of Seychelles; in 2004, it accounted for 77% of Seychelles' total exports (EU remains the main market for Seychelles' canned tuna) and 43% of its total imports. Seychelles' other key trade partners for imports were Saudi Arabia (16%), South Africa and Singapore (7% each).¹⁹ Regional trade amounts to less than 1% for exports and less than 5% of imports. In the

¹⁶ 7.6% if grants are excluded (see Annex 1).

¹⁷ GST was introduced in July 2003 in the framework of the Macro Economic Reform Program. The GST is levied on imported goods and on some locally manufactured goods and ranges between 12-15%.

¹⁸ In 2005, imports increased by almost 40%: purchase of 2 additional oil tankers and to the soaring price of oil.

¹⁹ EC statistics (DG Trade).

context of the EPA negotiations, Seychelles is negotiating with the EC within the ESA group and supports the signing of the EPA before end 2007.

Assessment of the reform process

Since 2003, the Government has embarked on a set of economic reforms under the Macroeconomic Reform Programme (MERP) to address the economic imbalances through improved fiscal discipline, debt reduction and creation of a more investment-friendly environment, as well as trade liberalisation.

Fiscal efforts undertaken in the framework of the MERP have resulted in three consecutive years of fiscal surplus. Notwithstanding the positive trends in the fiscal balance, the pace of fiscal adjustments has been unable to fully compensate for the uncompetitive exchange rate, or reduce the high debt level to any significant extent. Nonetheless, the Government remains committed to its policy of reducing the public debt; it has mapped out a strategy to lower the debt level to 60% of GDP by 2016. In this context, as at end 2006, Seychelles no longer had arrears with any multilateral institution, since all outstanding arrears were cleared (see Annex 7). At present, Seychelles is on a regular 12-month Article IV consultation cycle with the IMF, but has no financial arrangements with the Fund. An agreement with the IMF for a Staff Monitored Program is deemed essential in order to help the country to put its debt level on a sustainable path and to facilitate negotiations with multilateral and bilateral creditors.

The Government is also committed to attracting FDI and therefore has set up a number of bodies to promote investment, including the Seychelles Tourism Board in 2005. The regulatory framework has also been improved to provide incentives to investors, in particular the "Agriculture and Fisheries (Incentives) Tax" introduced in April 2005. Moreover, the first Investment Code, creating the legal environment for investment activities in Seychelles, and in line with international standards, was enacted in December 2005. In July 2006, Seychelles initiated the process to obtain a sovereign rating; having obtained a "B-rating"²⁰ with a stable outlook, Government was able to contract a bond of US\$200 million on the international capital market; the proceeds of which were used to clear debt arrears see Annex 7).

However, these legal, financial and administrative improvements are partly offset by the stringency in the foreign exchange situation, which limits the repatriation of companies' foreign exchange earnings to their country of origin even though there are currently no foreign exchange controls. From October 2006, the Government started to gradually remove all remaining foreign exchange controls. At the end of 2006, the Government revised the SCR's method of indexation, giving more weight to the Euro and the Pound Sterling, and less weight to the USD, which has resulted in a significant depreciation of the SCR. In this context, the foreign exchange allocation mechanism, which was exclusively administered by the Central Bank, has been transferred to commercial banks (see Annex 7).

As from 2004, as part of its efforts to stimulate growth, the Government has implemented several measures to reduce the role of the state in economic activities, notably via the implementation of a privatisation programme and a regulatory framework that is more business-friendly. Since then, there has been a gradual dismantling of the Seychelles Marketing Board's²¹ (SMB) monopoly on the imports of a number of goods. Despite major delays, the privatisation process remains ongoing: privatisation of the insurance company, State Assurance Corporation of the Seychelles (SACOS), has been completed and the privatisation of several units of the SMB is ongoing. The next stage of privatisation will be that of the two banks – Nouvobanq and Seychelles Savings Bank – planned to start at the end of February 2007. In a move towards trade liberalisation, the Government has also reduced trade tax on a large number of items and abolished import permits except for sensitive goods since January 2005.

II.1.3 Social situation, including decent work and employment

²⁰ The International Rating Agency "Standard and Poor's" undertook the exercise and Seychelles obtained a B rating.

²¹ The SMB is a parastatal body mandated to manage imports of basic goods, with monopoly on certain goods' imports

Investment in human development and social welfare of the population has been an essential element of all policies and previous National Development Plans (NDP)²² of Seychelles since its independence in 1976. Access to education and health services, safe drinking water and sanitation for all have contributed to poverty alleviation, social integration and to the high standard of living generally (see Annex 10).

Population

With an annual growth rate of only 1%, the Seychelles' population of 84,600 (as at mid-2006) is concentrated on the main island of Mahé (90%). The remaining 10% are on the islands of Praslin and La Digue (these two islands have 9%) and the outer islands (1%). Migration from Praslin and La Digue to Mahé continues to be significant, the main driving forces being employment, education and housing. The population is multi-ethnic given the significant internal and external migration, accompanied by a culture of mixed marriages; most citizens consider themselves as Seychellois.

The population is relatively young: currently 50% are under 29 years of age and 20% are in the school-going age group of 4 to 16. In recent years, demographic trends indicate that the population is ageing rapidly as a result of changes in lifestyles combined with changes in fertility trends. There has been a regular flow of emigrant Seychellois (1% of the total population per year) since 2001, to Europe and Asia in particular. On the basis of these trends, it is expected that the percentage above the retirement age will increase from 8.9% in 2002 to 10.9% by 2015, which will have an impact on the social welfare system. The total population of Seychelles is estimated to reach 100,000 by 2015.

Gender

The life expectancy for women in Seychelles currently stands at 76 years, compared to 67 years for men. The 1993 Constitution of Seychelles promotes non-discrimination and guarantees equal rights and protection for both men and women. Female citizens are guaranteed equal rights and protection, have the same property rights and the same rights to inheritance as men. The country has also signed and ratified the principal conventions related to gender discrimination²³.

Seychelles is among the top countries in the SADC region to have met targets for female representation at all decision-making levels, with 35% of women in parliament and 45% at chief executive or middle management levels. The Government has reinstated the National Gender Steering Committee and a Gender Secretariat is in place within the Department of Social Services. The National Plan of Action for Social Development 2005-2015 calls for the elaboration of a National Gender Policy and a National Gender Action Plan in line with the Beijing Plan of Action. Nonetheless, a key concern as regards gender is the increased incidence of domestic violence; even though the Family Violence (Protection of the Victims) Act was enacted in 2000, law enforcement officers need to be more gender-sensitised and women themselves need to be made more aware of the laws that protect them.

Children

Seychelles continues to maintain an increasingly high level of commitment to children's well-being. Seychelles is signatory to the International Convention on the Rights of the Child, and children are guaranteed their full social and economic rights under the Constitution as well as special protection under the Children's Act. The latter was revised in 2005 to lay down stronger sentences for child abuse. It should be noted that there are three child protection institutions in Seychelles, of which one is a public

²² These National Development Plans focused on policies, programmes and projects aimed at social justice and equality in the society.

²³ Seychelles has signed the Convention on the Elimination of Discrimination against Women (1979), but is still to ratify the optional protocols on CEDAW and CAT.

institution. Use of these facilities has increased by 64% since their establishment in 2000. Nonetheless, there are issues related to youth and family protection which remain to be addressed, including the right to preserve the identity of children born out of wedlock, single parenting as well as various forms of violence. In order to ensure the protection of abused victims, the Government is looking to set up a video-link evidence system in law courts to protect children, particular those allegedly subjected to sexual abuse.

Education

Under the 1993 Constitution, education is free and compulsory from primary to secondary level (age 16). There is 100% net enrolment for both girls and boys and completion rates are high. In 2006, the number of students enrolled in crèche, primary and secondary schools totalled 20,615; of these 94.5% attended public schools, with the remaining 5.5% attending the country's three private schools. Whilst tuition and text-books are provided free of charge at public schools, students are required to pay for some facilities, such as school uniforms, bus fares and meals; however, all of these are subsidised by the government.

Tertiary education in Seychelles is mostly catered for by institutions such as the Seychelles Institute of Management (SIM), Seychelles Polytechnic and the Seychelles Institute of Technology (SIT). Government provides scholarships for the university education of its national cadres, with the support of the donor community.

Human Resources and Employment

Economic development in Seychelles, as in most Small Island Development States (SIDS), depends to a significant extent on its human resource base. Providing employment is high on the Government's agenda. In April 2006, the Employment Act was reviewed to allow more flexibility to facilitate part-time and temporary employment. The number of employed persons has risen significantly, increasing by 4.1% in 2005 over 2004 as more and more young job seekers have entered the labour market. The Public Service employed 16% of the total workforce in 2005; hotels and restaurants and manufacturing followed (with 14% and 13% respectively). One issue that remains to be addressed is the mismatch between labour demand and supply that exists within the Public Service, to allow optimum use of available skilled labour.

In 2005, the 'active job-seekers' population stood at 1,532 (of which 56% were women) compared to 1,270 in 2003; it should be noted that the majority of the active job seekers are unskilled.

There is still a limited pool of technical and professional labour in some of the key economic sectors (particularly health, education, hotel and tourism and construction). This is due to a gradual outflow, overseas, of skilled labour (including nurses and teachers). This in turn has resulted in the recruitment of highly-skilled expatriate labour: short-term migration from Europe and various countries such as Sri Lanka and Kenya (mainly expatriate employees in the construction and hotel industries and teachers) has been increasing sharply since 2003.

Health

Seychelles has a well developed, free, public primary healthcare system, and poverty-related communicable diseases have been successfully controlled over the past decades. However, considerable investment is required for capacity building in the health sector to sustain these achievements and to maintain the availability of imported medicines. Moreover, lifestyle-related diseases, such as cardiovascular problems and diabetes, are posing increasingly serious threats. In this context, the Ministry of Health has adopted an integrated disease-surveillance approach that will improve planning, resource allocation, early detection and response. Health promotion and education have also been strengthened in order to promote healthy behaviour and lifestyles.

While overall HIV/AIDS prevalence is, according to available estimates, still low (<1%), the trend is worrying as the incidence rate has increased in recent years and the structure of the infected population is predominantly heterosexual. In view of this situation, Government has developed a National HIV and AIDS Strategic Plan 2005-2009 together with civil society. NGOs are actively involved in its implementation and the United Nations has a programme in place to assist Government in its efforts to develop HIV/AIDS education.

II.1.4 Environmental Situation

Environmental Conditions

Seychelles is made up of 115 islands scattered over an EEZ of 1.37 million km². The archipelago is divided into two distinct groups of islands: a granite group of 43 islands and 72 low-lying, largely uninhabited, coralline islands. One of these coralline islands is the UNESCO world heritage site of Aldabra, the largest raised coral atoll in the world.

Environmental Challenges

As a Small Island Developing State (SIDS), Seychelles has the inherent vulnerabilities of SIDS, including small land area, limited natural resources and environmental vulnerability. The main engines of growth, tourism and fisheries, are inextricably linked to the quality of the natural and physical environment.

Urbanisation is one of the main factors exerting pressure on Seychelles' limited land resources and coastal environment. Indeed, the UNEP estimates that Seychelles is the most urbanised country in the Indian Ocean region both in terms of the percentage of urban population (currently about 60%) and in terms of urban area as a percentage of total land area (about 23%). As regards habitation, the saturation of the coastal areas has led to development on coastal sand dunes, on wetlands, and even on the coastline itself. The land scarcity has prompted the country to undertake, since 1973, four major land reclamation works off Victoria and the east coast of Mahé, which represent just over 4% of the total land area of Mahé. Furthermore, due to reclamation and large-scale construction projects, soil and coastal erosion is a growing concern.

The lack of updated land use plans at national and local level is making environmental planning increasingly difficult; for instance, insufficient planning in some areas has affected drainage and led to increased flooding as well as the risk of landslides. Therefore, there is a need to strengthen land use planning and enforcement.

Biodiversity in Seychelles is characterised by high rates of endemism and relatively low species diversity. A number of highly invasive animals and plants exotic species are causing major ecological imbalances on the island. Coral reef degradation and marine pollution are on the increase due to land-based activities, sewage discharge and over-exploitation. The 1997/98 El Nino caused widespread coral bleaching throughout the waters of Seychelles, with the rise in sea temperature destroying an estimated 50%-90% of coral as deep as 23 m below the surface; there are signs that this phenomenon could reappear in the near future.

Small-scale fishery, although marginal in terms of its contribution to GDP (3%), remains of importance in terms of food security, employment and cultural identity. Small-scale fisheries have developed to exploit the high diversity of species and habitats using a wide range of techniques and strategies, but sustainable exploitation is considered to have reached optimum levels. Industrial and semi-industrial longline fishing of tuna and swordfish are associated with the incidental catch of sharks. Management of highly migratory pelagic species such as tuna is now being addressed at the regional level.

As regards solid waste management, the three main islands have by an extensive solid waste collection system operated by a private firm under the aegis of the Ministry of Environment. The population has been successfully sensitized in the past years of the need to reduce waste and litter. However, this success is now at risk as a result of a sharp increase in waste quantities, particularly paper and plastic materials, and a change in consumers' habits. Furthermore, the treatment and disposal of waste is inadequate, and protection measures at landfills that are close to the airports on Mahé and Praslin are insufficient. There is a need to develop longer term and sustainable solid waste treatment and disposal measures, as well as a proactive policy to promote minimisation, recycling and re-use of waste.

Although with an average 2,200mm of rainfall annually there is an abundant supply of fresh water, the water resources are not harnessed effectively. Piped water supply covers 95% of the population, but is increasingly irregular during the dry period and close to maximum capacity in peak demand periods. Demand for water is growing rapidly, at a rate of 8% annually, and is likely to increase with tourism and changing behaviours. Any proposal for the tapping of streams and rivers on a larger scale may adversely impact on the environment and will need to be subject to proper environmental assessment and mitigation measures.

Environment Policies and Institutional Framework

Seychelles remains a relatively high per capita investor in environmental conservation and management policies. It is one of the countries in the world with the highest percentage of land area that is legally protected for conservation purposes. At present, over 46% of the archipelago and an additional 228 sq km of ocean are legally protected in the form of national parks and reserves²⁴. However, there is a need to reinforce capacity in the management of protected areas, in particular in areas close to urban development and coralline islands which are a fragile environment.

Seychelles has a diverse portfolio of environment-related laws and regulations. However, many of these environmental laws and regulations are in need of updating to reflect current priorities and to address shortcomings. Lack of enforcement of environmental legislation remains an issue at all levels, and represents one of the most challenging obstacles to implementing environment policies.

Through the Environment Management Plan (EMP) and inter-ministerial committees, all ministries are involved in an environmentally sustainable development of the country, including a number of specialised agencies and authorities such as: Marine Parks Authority (mandated to manage Marine Protected Areas); Seychelles Fishing Authority (mandated to manage fisheries resources); and the Public Utilities Corporation (mandated to provide access to water, sewerage and electricity services). Environmental education has been introduced at all levels in schools; groups of young people are now regularly involved in environmental actions under the umbrella of the NGOs.

The donor community also provides financial assistance to address environmental management issues. The Seychelles Environment Trust Fund, which manages the two World Heritage sites, has been established under the GEF-funded “Biodiversity Conservation and Marine Pollution Abatement Project”. The EU has also contributed significantly to the protection of the environment in Seychelles. Specific national and regional EDF projects have focused on various key environmental issues including: (i) solid waste management projects (under the 8th and 9th EDF NIP Seychelles); (ii) raising awareness of school children about the environment (ARPEGE project) - to date, the Seychelles component of this regional pilot project has been the most successful in the region; (iii) the preservation of high value fish stocks (with the regional Tuna Tagging and Fishing control & Surveillance Projects) and (iv) 9th EDF regional programme for the management of coastal resources. Seychelles is party to many international

²⁴ The Aldabra Atoll (which has the world's largest population of a species of giant land tortoise), and the Vallée de Mai Nature Reserve (with endemic Coco-de-Mer palms) are both UNESCO's World Heritage Sites.

conventions, including the Convention on Biological Biodiversity, CITES, UNFCCC, UN Law of the Sea, MARPOL Convention and the Montreal Protocol.

Vulnerability and Preparedness to Natural Disasters

Although Seychelles lies outside the tropical cyclone belt, it is indirectly affected by atmospheric disturbances and the El Nino phenomenon. The islands are also likely to be affected by global warming and associated climate changes (rising sea level and coral bleaching, extreme floods and droughts). Natural calamities such as the 2004 floods and the December 2004 tsunami had a major economic impact on the country's development. Since the extreme weather events of 1997 and 2002, an enhanced disaster management system has been put in place. The National Disaster Committee (NDC) now reports directly to the President's Office. A National Disaster Fund has also been set up and Seychelles has become more active in regional disaster management initiatives.

II.1.5 The Country in the International Context

As a SIDS, Seychelles has been actively involved in raising awareness of the vulnerability of small-island states, particularly on environment-related issues. In this context, in 2005, Seychelles initiated the Global Partnership during the SIDS conference, thus creating a forum to promote interest in the characteristics of small-island states. Seychelles maintains friendly relations with its neighbours in the region, and recognizes the importance of regional integration. It is a member of various regional organisations such as COMESA (in which Seychelles is engaged in economic regional integration) and IOC (as it is the closest regional organization responsible for key issues related to environment and fisheries). Seychelles, which has had traditionally close political ties with Southern African countries, has applied to renew its membership of SADC in 2006; this application is currently under consideration. An agreement was signed in 2007 with France for the protection and promotion of investments.

The country negotiates Economic Partnership Agreements (EPA) with the EU as part of the Eastern and Southern Africa group (ESA) and, in this connection has played a constructive role in the discussions on fisheries. For Seychelles, the conclusion of the EPA with ESA is the most pressing trade-related development, in that it is intended to ensure the contractual continuation of preferential access for Seychelles' exports to the EU market, particularly in view of the importance of processed tuna products for its economy. As part of the EPA process, sanitary and phyto-sanitary issues will be addressed under the regional funds. Seychelles also believes that trade related assistance could help the country in its efforts towards WTO accession.

Moreover, the Government is actively expanding its existing network of Double Taxation Agreements (DTA) with other countries: Seychelles has initiated requests for DTA negotiations with Argentina, India, Israel, Tanzania and Turkey, as well as the COMESA Member States, and with six EU Member States (Greece, Netherlands, Poland, Portugal, Slovenia and Sweden).

Seychelles has acceded to most international conventions on human rights, environment, gender equality, terrorism and anti-corruption (see Annex 6 for the complete list).

II.2 Poverty Reduction Analysis

With a Human Development Index of 0.821 and on the basis of a GDP per capita of around €7,000 (USD 8,610)²⁵, Seychelles is classified among the countries that have achieved a high human development, and ranks highest among the African countries. Key indicators such as life expectancy, adult literacy rate, population growth rate and gender equality compare favourably with achievements in developed

²⁵ Human Development Report 2005

countries. Life expectancy is 67 years for males and 76 years for females, and adult literacy for men and women stands at 96%. Moreover, 95% of the population has sustainable access to an improved water source. Data available for 2003 indicate that 99% of one-year-olds were fully immunized against tuberculosis and measles²⁶. Most MDGs, including education and maternal health, have already been met and it is expected that all these goals will be achieved by 2015 (refer to Appendix 1).

The most recent study on poverty, carried out in 2005 by the Ministry of Social Affairs, concluded that absolute poverty did not exist in Seychelles, but that there were "pockets of poverty". The latter were classified into 3 categories: (i) "hidden poor" (the younger and older generations who are still unaware of social welfare programmes and thus live in conditions far below the standard of the average Seychellois); (ii) "seasonally unemployed" (mainly fishers, stevedores and small farmers, who have irregular income) and "retired people living on limited pensions". This study nonetheless pointed out the need for further research in order to ascertain the poverty status of vulnerable children and persons with disabilities.

Hence it would appear that, while the extent of poverty is limited, the exact level and the characteristics of poverty have yet to be adequately determined. This emphasizes the importance of setting up a national system to compile, analyse and store data on the major economic and social indicators. This should allow improved monitoring of government policies on the socio-economic situation of specific population groups.

II.3 The Recipient Country's Development Strategy

National Development Plans (NDP) have been Government's main tool for fostering economic development and maintaining the social welfare system. The NDPs set priorities for all economic sectors and establish general investment needs over a 5-year period. In addition, , a three-year planning mechanism, the Public Sector Investment Programme (PSIP) has been in place since 1994 when it was introduced to complement the broad economic agenda. National Development Plans (NDP) have been Government's main tool for fostering economic development and maintaining the social welfare system. The NDPs establish priorities for all economic sectors as well as general investment needs over a 5-year period. In addition, since 1994, a three-year planning mechanism, the Public Sector Investment Programme (PSIP) has been in place, to complement the broad economic agenda. During the elaboration phase of the NDP 2007-2011²⁷, it was deemed more realistic to develop a 10-year plan in light of the forecast economic targets. It is in this context that, in March 2007, Government published the "*Strategy 2017: unlocking the potential of the Seychelles economy*". This document covers the NDP 2007-2011 and sets out, in summary form²⁸, the Government's longer-term vision: "*to double the GDP of Seychelles by 2017 through focused fisheries and tourism expansion programmes, the development of financial services²⁹ industry and the resultant growth of other economic sectors*". The core elements supporting this "private sector-led" growth strategy will be: enhancement of local participation, strengthening of national human resource capacity, securing the highest international environmental standards as well as promotion of strategic national and international partnerships. The "Strategy 2017" stresses that the long-term objective will be attained against a backdrop of "an independent monetary and exchange rate policy" coupled with "strict fiscal discipline", as well as "efficient and transparent governance".

Since 2003, the country's development strategy has been driven principally by: (i) tight fiscal discipline, (ii) debt reduction, (iii) opening up of the economy (including liberalization of the exchange rate and

²⁶ See Annex 1 for Government Statistics on MDGs. Human Development Report 2005.

²⁷ Objective is to provide a comprehensive and holistic approach to development planning of the country's socio economic needs.

²⁸ The comprehensive document is under preparation and will include all key elements of the NDP 2007-2011.

²⁹ The aim is to expand the financial sector to make it the third pillar of the economy. This will include: the setting up of a stock exchange.

increasing FDI flows), (iv) maintaining the welfare system, and (v) management of the natural and physical environment.

The Macroeconomic Reform Programme (MERP) has been, since 2003, the guiding policy for the Government's successive budgets in terms of fiscal consolidation. It has been relatively successful in mopping up excess liquidity, controlling capital outlays and reducing budget deficits. The MERP has also provided for several measures to improve the investment climate (see §2.1.2) and to stimulate growth. Although external arrears have decreased considerably as at end 2006, the total debt stock is still high by comparison with international norms. Debt reduction thus remains a high priority on the Government's agenda. Government is committed to opening up the economy by reviewing the legislative framework to facilitate business sector development (see §2.1.2). It has also focused on the development of SMEs. In recent years, Government has leased land to small businesses at concessionary rates and the Development Bank of Seychelles has increased the number of soft loans it grants to SMEs.

As part of its strategy to open up the economy, Government has also started to gradually remove all remaining foreign exchange controls that were constraining private sector development (refer to Annex 7). Since 2004, as a result of the gradual economic liberalization, the economy has recorded a continuous increase in FDI, especially in the tourism sector. It is expected that this upward trend in FDI will continue over the next three years, especially with the development of the Eden Island project³⁰ and the construction of additional luxury hotel resorts. Furthermore, with the expansion of the handling facilities, Port Victoria will increase its transshipment capacity by an estimated 20%.

Successive Government policies have focused on maintaining the extensive welfare system while seeking to improve quality of services delivered, especially in health and education. Furthermore, housing programmes continue to have a central role in government policies as a means of economic transfers to the poorer strata of the population. As at end 2006, Government has embarked on an ambitious housing project on Ile Perseverance, which will provide two thousand additional housing units by 2011.

The Environment Management Plan of Seychelles (EMPS) 2000-2010 remains the guiding policy document for Government's intervention in the environment sector. The Plan provides for total investments of up to €150 million over 10 years; about 55% of the financing needs are for the water, sewerage and solid waste sectors. Specific policy documents have not yet been developed for the first two sectors. A review of current solid waste policies³¹ is planned as part of the Integrated Solid Waste Management Programme under 9th EDF funding. A similar review for the water and sanitation sector is expected to be carried out in the near future.

As regards fisheries, a review of various policy instruments is ongoing, including the elaboration of a Five-Year National Fisheries Development Strategy for which a Fisheries Development Committee (FDC) has been set up. The latter was supported by EC-funded technical assistance to review the existing structure of the policy goals and strategies to facilitate long-term policy implementation, in order to increase national added value from fisheries and aquaculture as well as improving the international competitiveness of the sector.

II.4 Analysis of the Viability of Current Policies and the Medium-term Challenges

Current Government policies are addressing the macroeconomic challenges of debt reduction, fiscal discipline and exchange rate liberalization. However, their impact on growth and investor confidence will be largely determined by the speed and the extent of measures to liberalize exchange rate controls and to further improve the investment climate.

³⁰ Project for the construction of luxury villas on reclaimed land in Mahé.

³¹ Solid Waste Master Plan was funded under the 8th EDF, and was adopted as a national policy in 2004.

The medium term outlook suggests that growth will continue to recover in the coming years, led primarily by an increase in tourist arrivals and an expansion of the fisheries sector. However, in the short-term, the trade and current account deficits are likely to persist in view of the country's structural dependence on imports for both consumption and production.

As regards fiscal policy, the Government must continue with its tight fiscal discipline, as reflected in the 2006 budget, by increasing revenue through broadening of the tax base and limiting capital outlays. A smaller primary budget surplus may undermine efforts to reduce public debt and send the wrong signals to the international capital markets. However, the possibility remains that any significant correction of the exchange rate could entail high risks to fiscal stability as it is likely to generate strong upward pressure on government expenditure; tax buoyancy, particularly on imports, may or may not adequately compensate for any resultant budgetary slippages. For this reason, Government believes that a measured and cautious approach towards external policy reforms is the most pragmatic policy option in the short term. Whilst the country has embarked on ambitious economic reforms, the economy will remain particularly vulnerable to exogenous shocks, and very sensitive to further rises in oil prices as well as interest rate increases, in light of its high level of bilateral external indebtedness.

The difficult economic situation and tight fiscal policy will put increasing pressure on the implementation of environmental commitments. Investment requirements in the next Environment Management Plan 2010-2020 are expected to be higher than those of the previous Plan, given the needs that have been identified for the water sector alone and certain prevention measures against climate changes. Although there is a well developed legal system for the protection of the environment, capacity constraints have limited the enforcement of these laws by the relevant authorities and hampered legal action against offenders. Certain regulations need to be updated to bring them into line with international commitments and best practices.

Moreover, the development of the fisheries sector will depend both on the availability of financial resources and the sustainable management of marine resources. Hence, Seychelles is now focusing mainly on generating more added value within this sector³² in order to ensure that it remains financially sustainable, whilst continuing to preserve tuna stocks at national and regional level. However, a medium-term challenge for the country will be attracting private foreign investors within the fisheries sector in order to capitalize on the possibility of joint ventures with EU countries, as promoted in the Fisheries Partnership Agreement.

CHAPTER III: OVERVIEW OF PAST AND PRESENT EC COOPERATION, COMPLEMENTARITY AND CONSISTENCY

III.1 Overview of Past and Present EC Cooperation (lessons learned)

Since the start of EC cooperation with Seychelles in 1977, the latter has received some € 25m of EC support covering various sectors from the environment and rural development to health. A recent evaluation of the latest phase of this cooperation (1995-2005) concluded that the programmes designed under successive NIPs were relevant for the country's sustainable development.

Nonetheless, there have been delays at the formulation phase of programmes/projects and their actual implementation, which is partly due to a lack of human resources at local level, and mobility of staff within the public service, as well as complex EDF procedures. This has usually resulted in a need for external technical assistance, which has limited the availability of funds for project activities. While important steps have been taken by Government to recruit more qualified staff in the Public Service, further capacity building is necessary in particular in the environment-related bodies. Human resources

³² Including export of smoked fish, high-end tuna products, sashimi processing.

have been further constrained by the relative complexity of EDF procedures. In order to address this issue, Seychelles officials have recently received training in EDF procedures (under 9th EDF TCF). Moreover, there have been human resources problems in running several programmes/projects, which are time consuming in terms of monitoring. Given the lack of human resources and the regular training required on EDF procedures, it is deemed appropriate that EC support under the EDF be provided under the form of Budget Support. However, although Budget Support is more appropriate, conditions are not yet fully in place to implement this aid delivery mechanism. In addition, the lack of regularly collected statistics has also hampered efforts to monitor the impact of past EC projects.

III.1.1 Focal sectors (and macroeconomic support)

The environment sector was identified as focal sector under the 8th and the 9th EDF NIPs with respectively € 4.4 m and € 3.9 m.

The activities under the focal sector of the 8th EDF concentrated on environmental health, through the provision of an adequate solid waste disposal facility on Mahé. The 2006 evaluation highlighted technical and organisational difficulties encountered on the Anse Royale landfill project, which prevented the full use of the site. The evaluation also raised issues related to the overall management of the sector, including the limited supervision capacity and inappropriate contract arrangements. An important lesson learnt is the need to ensure detailed project planning and design, taking into account the overall sector policy/strategy. Furthermore, closer prior consultation with stakeholders is required, as well as regular on-site monitoring of project implementation.

Preparation of the 9th EDF focal sector intervention first required an update of the country's Solid Waste Master Plan, which was completed in 2004 and immediately adopted as the sector's policy. The study on the Master Plan and the subsequent detailed studies on landfills led to considerable delays in the preparation of the related 9th EDF programmes, which only started in 2007. This re-emphasises the need to anticipate what studies are needed in order to ensure more rigorous project planning and design.

Under previous EDFs, support has been made available for several private-public sector initiatives, in which the EC has been one of the few donors; these projects include the Consolidation of Handicraft Development, the Rehabilitation of the Victoria Market, support to the Seychelles Industrial Development Cooperation and a credit line through the Development Bank of Seychelles³³. While relevant to the prevailing economic context, these projects have generally proved difficult to sustain due to the shortage of foreign exchange and inadequate project management.

As indicated in the evaluation of past EC interventions, the above-mentioned programmes have generally taken good account of cross-cutting issues such as gender, capacity building and strengthening of the institutions.

III.1.2 Projects and programmes outside focal sectors

Actions outside the focal sectors have concentrated on capacity building projects such as the 8th EDF Support to the Seychelles Hotel School and the 9th EDF Capacity Building Programme for State and Non-State Actors, implemented through a Contribution Agreement with UNDP. The focus on non-state actors has only emerged under the 9th EDF in response to the specific needs of NGOs and in line with provisions in the Cotonou Agreement. The focus of ongoing activities under this 9th EDF project is on (i) improvement in the quality of delivery of social services by NSAs, in their networking capacity and in their participation in national development policy dialogue and (ii) support to State Actors in particular in the field of human rights, directly linked to certain governance commitments.

³³ This has also received support by the EIB and the AFD.

Another project under the 8th EDF non-focal area has been the Melon Fruit Fly Eradication Programme, which was completed at the end of 2006. It has enabled Seychelles to become more autonomous in eliminating the fruit fly, whilst strengthening institutional/technical capacities. It has also assisted the country in controlling the introduction of other invasive species.

III.1.3 Utilisation of Envelope B

All the funds on the 9th EDF B-envelope (€700,000) have been committed for emergency activities related to the December 2004 tsunami, under the aegis of the UN Appeal. The programme, implemented by UNDP, focuses on the rehabilitation of coastal roads and the reconstruction of two main bridges that are due to be completed in 2007.

III.1.4 Other EC Instruments

Seychelles has benefited from other instruments, including the Fisheries Partnership Agreement and successive EDF Regional Indicative Programmes. Some assistance has also been received under horizontal private sector support programmes. However, the country has been less successful in mobilising funds from other EC-funded thematic budget lines, such as the Water Facility. In the past, the EIB has also been a key partner for the country's economic development, but this support has been suspended due to the non-payment of debt arrears up to end 2006.

Fisheries Partnership Agreements (FPA)

Seychelles has had a long-standing cooperation with the EC in the fisheries sector since the signing of the first fisheries agreement in 1987. The reform of the external dimension of the Common Fisheries Policy has brought to an end the exclusively commercial nature of fisheries agreements and resulted in the introduction of Fisheries Partnership Agreements³⁴ (FPA).

A new FPA between the EC and Seychelles, initiated in 2004, was adopted by the Council in September 2006. This FPA covers the period from 2005 to 2011 and is the largest tuna fisheries protocol signed by the EC with any third country. The principal elements of the 2005-11 Fisheries Protocol are: (i) an increase of 20% in the reference tonnage over the previous protocol³⁵; (ii) an increase of 20% in the contribution paid by the EC compared to the previous protocol (€4.125 m p.a. compared to the previous € 3.45 m p.a.); a decrease of about 20% in the number of Community fishing vessels over the previous protocol. The total number of EU vessels having access to the EEZ of Seychelles decreased from 67 to 52, with a greater focus on seiners (numbers remained unchanged) and less on longliners (decreasing from 27 to 12); 36% of the global contribution (i.e. € 1.485 m p.a.) is to be put towards defining and implementing a sectoral fisheries policy for the Seychelles with a view to promoting responsible and sustainable fisheries in its waters, while the remainder will be paid to the Treasury. In 2005, Seychelles received an additional amount of € 2.275 m for fish catches exceeding the reference tonnage. Therefore, in 2005, the total contribution from the FPA to Seychelles was approximately € 6.4 m.

Since 1987, the fisheries protocols and agreements have contributed significantly to the country's financial resources, averaging some € 5 m- € 7 m of foreign exchange p.a.; this is equivalent to five times the NIP envelope. The fisheries protocols have also been essential to the reinforcement of sustainable and responsible fisheries through direct technical and financial support provided to the Seychelles Fishing Authority (SFA). The SFA has thus been able to undertake scientific studies that have enabled Seychelles to adopt sound fisheries management plans. SFA has also been able to set up a Vessel Monitoring

³⁴ Overarching aim of this new FPA: to ensure sustainable & responsible fisheries policy in Seychelles waters, as well as ensure that activities of the European fleet are compatible with the development objectives of the 3rd country and that they are progressively embedded into the local economy.

³⁵ 55,000 tonnes/year instead of 46,000 tonnes/yr.

System (VMS) for better monitoring of fisheries activities within the Seychelles' economically rich EEZ. Furthermore, the development of local small-scale fisheries has also been supported in this context. The Protocol amended during the last Joint Committee, held in March 2007, will be provisionally applicable as from January 2008 until its entry into force. Following amendments have been agreed: (a) reference tonnage increased from 55,000 tonnes to 63,000 tonnes; (b) fee to be paid by ship-owners will be increased from € 25 to € 35 per tonne; (c) a mechanism to settle disputes has been set up; (d) EC will further support the development of the fisheries sector by a specific allocation of € 1.260 mio/p.a. and (e) Seychelles will propose a new multiannual sectoral programme in line with new amount dedicated to defining/implementing a sectoral fisheries policy in Seychelles.

Water & Energy Facilities

Seychelles responded to past calls for proposals under the Water Facility, but its project proposals were not selected. It is to be noted that the Water Facility remains a potentially relevant instrument for Seychelles, since there is a lack of external funding both for the rehabilitation of existing water supply and distribution networks and for the extension of sewerage facilities.

Horizontal private sector support programmes

Support to the private sector has been available under a number of horizontal instruments such as the *Centre de Developpement de l'Entreprise*, PROINVEST and EU-SADC Investment Promotion Programme (ESIPP), provided Seychelles rejoins the SADC on time. In the past, Seychelles has made little use of these programmes due to the complexity of application procedures.

6th Research Framework Programme

Seychelles submitted 5 proposals within the 6th Research Framework Programme (2002-2006), but only one was selected for funding.

Regional Indicative Programmes

Since the 7th EDF, Seychelles has benefited from regional environmental initiatives, under the aegis of the Indian Ocean Commission (IOC). Amongst the other IOC Member States, Seychelles' experience was instrumental in the 8th EDF environmental education programme (ARPEGE), which ended in 2006. Furthermore, Seychelles is benefiting significantly from the 8th EDF plant protection programme (PRPV) for the development of its agriculture and the protection of its pristine environment. The evaluation of EC-Seychelles cooperation, undertaken in 2006, concluded that there was a strong complementarity between national and regional programmes.

Furthermore, as regards marine resources, Seychelles continues to play a key role within the three marine-related regional programmes under the 9th EDF: the Tuna Tagging Programme (the project management unit is located in Mahé), the Monitoring, Control and Surveillance Project (in which Seychelles is taking the lead in setting up regional databases and is strongly committed to combating illegal fishing), and the Sustainable Management of Marine and Coastal Resources project (RECOMAP) that will focus on integrated coastal zone management, which remains an essential issue for Seychelles. The Monitoring, Control and Surveillance project will be complemented by a Regional Plan for fisheries surveillance in the South West Indian Ocean; to this effect the IOC and the EC have signed a framework partnership convention (€ 7 mio) for implementation of the Regional Plan over a three-year period. The aim of the Plan is to reduce the number of IUU vessels in this region and to contribute to the sustainable conservation and management of the tuna resources. The 1st specific convention was signed in August 2007 and will thus allow the first set of actions under the Regional Plan to be implemented. Seychelles will also continue to benefit from trade related technical assistance and capacity development, including capacity building in sanitary and phyto-sanitary control, as foreseen in the context of the 10th EDF

Regional Indicative Programme. The country is also benefiting from other regional initiatives, financed through COMESA under the 9th EDF, including the ICT-Support Programme via the harmonisation of the country's ICT Master Plan and funding of local ICT projects.

Seychelles is currently facing considerable constraints in the ICT sector with respect to international telecommunications bandwidth, which could be resolved through setting up of a submarine optic connectivity. In this respect, Seychelles is exploring, via the IOC, various funding possibilities in the context of the Inter-Island Connectivity Initiative.

European Investment Bank

Total European Investment Bank (EIB) financing to date amounts to € 12.6 million. EIB interventions have been concentrated on global loans to the Development Bank of Seychelles (DBS) for the financing of small and medium-sized private sector enterprises, as well as the public utilities sector. It should be noted that, as at end 2006, Seychelles' long-standing arrears of € 2.9m with the EIB have been cleared entirely; it is therefore possible that the EIB might now be able to co-finance some of the country's future capital projects, particularly within the water sector.

III.2 Information on the programmes of Member States and other donors

The EU Member States present in the Seychelles are France and the United Kingdom. France has been providing technical assistance, including in the fisheries and environment sector, covering solid waste, nature conservation and land use management. This has resulted in closer donor collaboration with the EC in these sectors. France is also actively involved in the educational and cultural fields. The UK is financing some bio-diversity projects in Seychelles. Several EU Member States, namely France, UK, Germany, Spain and Netherlands, have also traditionally been involved in providing scholarships.

Given the country's small population and limited land area, but high levels of GDP per capita, the number of donors present in Seychelles is severely limited; this situation has been further constrained by the country's difficulties in repaying its multilateral and bilateral creditors. The Bretton Woods institutions currently have no ongoing financial agreements with Seychelles.

UNDP's country programme 2003-06 focused on the environment sector, in particular on institutional and human capacity building. Its activities have thus been complementary to the EC's interventions in this sector under the 9th EDF. UNDP's forthcoming programme, covering the period 2007-2010, will continue the activities in the areas of civil society empowerment, gender and human rights issues, some of which are being funded by the EC. UNDP is also involved in the environment and energy sectors, as well as disaster-preparedness management.

Additional resources could also be provided to Seychelles under the GEF "Special Climate Change Fund" to support: (i) provision of modelling tools for water supply/demand forecasting, (ii) studies to evaluate climate change-induced water shortages in the dry seasons and to make recommendations; (iii) awareness-raising about water conservation. These resources could be used to complement 10th EDF resources in the environment sector, and for the water sector in particular. Other multilateral institutions include BADEA (in the tourism sector) and AfDB (with which cooperation is resuming after repayment of arrears in 2006). Cooperation between Seychelles and China is ongoing and dynamic as bilateral financial support (in the form of grants and concessionary loans) is being provided, in particular, for public infrastructure and housing projects. Against this background, China signed a fisheries agreement with Seychelles in 2006 and could also be interested in offshore oil-exploration activities. Other bilateral agreements have been concluded with Australia, Cuba, India, Japan and Nigeria. More information can be found in the Donor Matrix in Annex 2.

III.3 Other EC policies

Transport

Liberalisation of air transport, and reducing the cost of carrying air freight and passengers, will be instrumental in supporting the development of the tourism industry in the medium term. The EU's sustainable transport policy, based on the principle of partner country ownership, will contribute to ensuring transport safety and efficiency, and to minimising adverse effects on the environment.

Information Society

Increased use of information and communication technologies as well as the development of related research will contribute to bridging the technological divide and addressing the critical issue of isolation - typical features of SIDS economies. Progress with technological platforms for e-health, e-commerce, e-training, etc could be used to support the further development of the country's tourism and financial sectors, in line with the EU's Lisbon Agenda and Sustainable Development Strategy.

III.4 Description of the political dialogue with the partner country

Under Article 8 of the Cotonou Agreement a structured political dialogue has been ongoing since late 2006 between the Government of Seychelles, EU Member States represented in the Seychelles (UK, FR) and the EC. The aim of this dialogue is to address issues of common interest, related in particular to the governance commitments. In early 2007, a general agreement was reached to focus the Article 8 political dialogue on peace and security, as well as democratic principles and human rights issues.

III.5 Description of the state of the partnership with the recipient country and progress towards harmonisation

The cooperation between the EC and Government of Seychelles has been good and constructive. The regular flow of information is constrained at times due to the absence of an EC office in Seychelles, coupled with the human resource constraints on the Seychelles side. However, with the strengthening of the EC Delegation based in Mauritius, in the context of devolution, the number of missions has been increased significantly and allowed the possibility of more regular contacts.

In view of the limited number of donors present in Seychelles, the harmonisation process has been implemented on an ad hoc basis up to now. Coordination meetings are held regularly between the Delegation and the EU Member States present in Seychelles, the EIB and Bretton Woods Institutions. Close coordination with the UNDP is also effective.

CHAPTER IV: RESPONSE STRATEGY

In line with the EC's development policies defined in its Strategic Partnership for Africa and the European Consensus for Development, the **general objective** of the EC response strategy under the 10th EDF CSP is to contribute to the sustainable economic and equitable social development of Seychelles. In view of the need to concentrate development efforts and given the relative size of the budget allocation, the Country Strategy for 2008-2013 will focus on one key strategic area (environment / water and sanitation), and one non-focal sector.

The EC response strategy takes into account the MERP and the Government's "Strategy 2017: Unlocking the potential of the Seychelles economy" which is currently being finalized, as well as the ongoing progress of the economic reform begun in 2003 and still being assessed by the IMF. High levels of private investment, in particular in the tourism sector, continuous development of construction sector and gradual liberalization of the economy are positive steps in the country's economic development. However, these need to be supported by (i) continued macroeconomic recovery to ensure sustainable

economic growth rates, (ii) provision of adequate infrastructure, (iii) stringent environmental management and (iv) sound economic and environmental governance. In parallel, Seychelles will also have to maintain the social and health conditions for its population.

There is a consensus amongst all stakeholders that the environment sector, in particular water and sanitation, is the chief concern on the Government's agenda and for the country at large. This sub-sector remains one of the main areas where Seychelles requires external assistance. The environment sector (solid waste sub-sector) has been a focal area of EC support under previous EDFs and currently receives assistance from one EU Member State (France). It is also expected that the environment sector will receive support from the UNDP/GEF. A focal intervention in the environment/water and sanitation sub-sector, under the 10th EDF, would enable a higher level of coordination amongst donors and contribute to further reinforcing the existing framework of policies for environmental and natural resources' management. Particular attention should be given to the Government's consolidation of actions undertaken in the solid waste sub-sector under the previous EDFs, and the Commission will remain involved with the policy dialogue in this sub-sector.

Moreover, Seychelles - as a "young democracy" which has embarked on an ambitious economic reform programme - has expressed strong interest in support from the donor community at large, and the EC in particular, on certain governance-related issues. Such EC support would, in principle, be a continuation of the assistance currently being provided under the 9th EDF Capacity Building project. The non-focal area will therefore support interventions in governance capacity building.

As a result, the **specific objective** of the response strategy under the 10th EDF is to support the Seychelles' transition towards sustainable growth by reinforcing the environment sector and improving capacities with regard to governance. In addition, a Technical Cooperation Facility (TCF) will be set up to provide financial support for studies on the preparation of projects in the focal sector, in any other key areas of common interest in the framework of EC-Seychelles cooperation, and also for training needs.

If other EC-funded instruments, such as thematic budget lines, the ACP Infrastructure Partnership, the Fisheries Partnership Agreement, private sector support initiatives at all-ACP level and the EDF Facilities set up under the 9th EDF, were continued under the 10th EDF (such as the Water and the Energy Facilities), they would complement these interventions. In the context of the regional funding allocation Seychelles would also benefit from EDF Regional Indicative Programmes, in particular in the areas of environment and natural resources' management, and regional economic integration. The EIB could also return to Seychelles to contribute to the financing of capital projects.

IV.1 Focal Area: Environment/Water and Sanitation

The EC has a long-standing relationship of cooperation with Seychelles in its support for the environment sector. The decision to keep the environment as a focal sector under the 10th EDF is based on (i) the response to the country's main medium and long-term development challenges, (ii) the common experience acquired in this sector, (iii) the risk for the country in the light of its vulnerability to climate change and (iv) the potential for complementarities among the few bilateral and multilateral donors.

Within the environment sector, it is the water and sanitation sub-sector that has been identified as requiring urgent external support in view of (i) worsening water shortages combined with Unaccounted For Water (UFW) (ii) rising demand for water, partly linked to higher living standards and growth of the tourism industry, and (iii) mounting concerns about pollution due to untreated waste water, in particular in densely populated areas. The action proposed for this sector would build upon the Review of the Water Supply Development Plan 2005-25, and its future implementation. The intervention could also ultimately complement the GEF/UNDP programme (currently in the identification phase) on climate change-induced effects such as water shortages.

The specific objective for an EC intervention in the water and sanitation sector would be to accompany certain key actions related to integrated water supply management; the latter being an integral part of Government's overall reform programme. The expected results are as follows: (a) institutional strengthening and capacity building of the sector and the Public Utilities Corporation (PUC), (b) improvement of water supply and distribution and (c) improvement of sanitation control and monitoring.

The above strategy will be based on important assumptions about the improvement of macroeconomic conditions, in particular the possibility for the Public Utilities Corporation (PUC) to have access to capital and foreign currency. The Government should commit itself to (i) the adoption of a second EMPS for the period 2010-2020; (ii) development of a medium- and long-term policy for the water and sanitation sector; (iii) implementation of revised tariffs to ensure financial sustainability of the PUC in the long term.

The EC's intervention will be implemented via a sector programme, using a project approach. The sector approach will allow appropriate coordination of resources provided by other donors, including any technical assistance made available by EU Members States, AfDB, and UNDP/GEF resources in the sector. Given that Seychelles has repaid its debt arrears to all multilateral institutions as at end 2006, other sources of external funding could be available for the sector. Depending on good progress in macroeconomic reforms, sector budget support could be envisaged at the project formulation stage. SBS would seem to be the most appropriate mechanism, given the high level of investment expected for the environment sector as a whole as well as the human resources constraints encountered at national level. In this context, the Government intends to conduct a diagnosis using PEFA in 2007.

IV.2 Non-focal sector: Governance Capacity Building

Seychelles, being a "young democracy" which has embarked on an ambitious economic reform programme, has expressed strong interest in support from the donor community at large and the EC in particular, on certain governance-related issues. Limited capacities have been identified in various areas and at different levels, including economic and environmental management, political governance, and participation of non-state actors.

The purpose of the EC's interventions will be to provide resources and technical assistance to improve various areas of governance among the government agencies, but also for the private sector and civil society. Such EC support would, in principle, be a continuation of the assistance currently being provided under the 9th EDF Capacity Building project and would be in line with the provision relating to Non-state actors in the revised Cotonou Agreement. The non-focal area will therefore support governance capacity building notably on social and economic governance issues; the latter in order to further improve on principles of transparency and exchange of information in the economic area including taxation.

IV.3 Technical Cooperation Facility (TCF)

As part of EC-Seychelles cooperation, a Technical Cooperation Facility will be set up to help finance studies for project preparation and also training needs. This TCF will provide for ad-hoc studies, workshops and training activities for NIP-linked actions, as well as technical assistance in order to assist Government in its endeavours to deliver its commitments.

PART 2: INDICATIVE PROGRAMME

1. Introduction

On the basis of the cooperation strategy presented in Part One, and in accordance with Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up as a set of tables showing the intervention framework for each sector, the financial programming timetable and a detailed chronogram of activities for all listed programmes over a rolling three-year period.

Amounts mentioned in this chapter denote the overall breakdown of funds between the focal sector and other programmes. The breakdown may be adjusted in the light of the operational, mid-term, final or ad hoc reviews. However, for any adjustment resulting in a substantial change to the structure of the response strategy, a formal decision in the form of an addendum to the strategy document will be required.

2. Financial instruments

The implementation of the EC's cooperation strategy with Seychelles will be financed from several financial instruments. The following is an indication of their mobilisation as currently envisaged.

2.1 10th EDF, A-envelope, € 5.90 million: this envelope will cover long-term programmable development operations under the strategy, and in particular:

- | | |
|---|--|
| • Environment/water & sanitation (focal area), | € 5.0 million,
being 85% of total A envelope |
| • Other programmes (non-focal area), covering
Governance Capacity Building & TCF | € 0.90 million
being 15 % of total A envelope |

2.2 10th EDF, B envelope, € 400,000

This envelope, amounting to € 400,000, will cover unforeseen needs such as emergency assistance where such assistance cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings.

In accordance with Article 3(5) of Annex IV to the Cotonou Agreement, this amount may, if necessary, be increased in the light of the operational or ad hoc reviews.

2.3 Investment Facility

In addition to the financial instruments mentioned above, of which the A-envelope is the main programmable basis for the NIP, the 10th EDF also includes an Investment Facility, which is an instrument managed by the European Investment Bank. The Investment Facility is not part of the NIP. Some specific activities may be supported by the Centre for the Development of Enterprise (CDE) and the Centre for the Development of Agriculture (CDA).

2.4 10th EDF regional indicative programme

This allocation will cover long term programmable development operations under the regional strategy for the Eastern and Southern Africa and Indian Ocean (ESA-IO) region. Two focal areas

have been identified: "*Regional economic integration and infrastructure*" and "*Management of natural resources, environment and food security*" and are of particular importance for Seychelles.

Seychelles has opted for a place within the ESA-IO configuration for regional economic integration and support thereof under the 10th EDF. The need for economic development through regional integration reflects the fact that markets in the region remain small and fragmented (in particular in the case of Seychelles), costs of cross-border business remain high and more needs to be done to create a truly enabling environment which will allow the private sector to operate more effectively, while at the same time maintaining an adequate regulatory framework.

Although the 10th EDF allocation for the ESA-IO region is not part of the NIP, the planned intervention at regional level could have a significant effect at national level for Seychelles. The programme is expected to address supply-side constraints, including the improvement of the economic infrastructure of the region (covering transport, but also communications, energy and water management) which is of importance to Seychelles as a SIDS.

Moreover, within the second regional focal area relating to the management of natural resources, Seychelles' long-term development and growth will depend to a significant extent on the successful and sustainable management of the region's natural resources (in particular of highly migratory commercial species such as tuna) and of its environment.

Coherence between the national strategy and the regional strategy of the ESA-IO regional organisations will be further supported through the IRCC mechanism. It has been agreed that the NAOs and the RAOs of the region will meet annually to monitor consistency in the implementation of the respective 19 CSP/NIPs and the RSP/RIPs of the ESA-IO region.

2.5 Other financial instruments

Specific activities may be supported by external actions funded from the general budget of the European Community carried out under the financial framework for 2007-2013, subject to a special procedure and availability of funds, and out of EIB own resources. Actions funded by the general budget include programmes funded under the Development Cooperation Instrument such as the thematic programmes "investing in people", "non-State actors in development", "migration and asylum", "environment and sustainable management of natural resources" and "food security", as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance.

Projects or specific activities that are agreed with the management authorities of the "Indian Ocean" territorial cooperation programme and identified as being consistent with this CSP, could also be financed as a complement to ERDF funds benefiting the outermost regions of the EU, under Article 28 of the Cotonou agreement and Regulation (EC) n° 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the ERDF.

Fisheries.

Following the revision of the Protocol by the Joint Committee in March 2007, the EC financial contribution under the Agreement has been modified and will be increased to €5,355,000 per year for a reference tonnage of 63.000 tonnes, starting from January 2008. If the total quantity of tuna catches per year by Community vessels in Seychelles waters exceeds the reference tonnage, the total annual financial contribution will be increased proportionally.

EU-Africa Partnership on Infrastructure

The aims of the EU-Africa Partnership on Infrastructure is to support programmes that facilitate interconnectivity at continental and regional levels. The Partnership operations will supplement the EC's sectoral approach to infrastructure at country level by addressing major supply-side constraints related to infrastructure deficiencies. The approach will ensure that investments at continental and regional levels are consistent with national poverty reduction and infrastructure strategies.

7th Research Framework Programme

In the previous Research Framework Programme, Seychelles submitted five proposals of which only 1 was selected. In this context, Government of Seychelles should deploy efforts in order to benefit from the 7th Research Framework Programme.

2.6. Monitoring and evaluation

Monitoring of results and evaluations of impact of individual activities (programmes, projects, sectors) under this CSP will be undertaken in line with the Technical and Administrative Provisions that are annexed to each individual Financial Agreement drawn up to implement this CSP.

The results and impact of the Community's cooperation with Seychelles, via the NIP and other external actions funded by the general budget of the European Community, will be assessed by means of an independent external evaluation. This country-level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

3. Programming of the 10th EDF A-Allocation - Focal Sector

3.1 Within the overall objective of promoting sustained economic growth and equitable social development, the following specific objective will be pursued through the focal sector interventions:

- reinforcing sustainable environmental management, in particular in the water & sanitation sub-sector

3.2 As an indicative amount, approximately € 5.0 m (85% of the NIP) will be set aside for this field.

3.3 The main results and actions proposed are:

- Water and Sanitation sector management:
 - Institutional strengthening and capacity building of the sector and to the Public Utilities Corporation (PUC),
 - Improvement of water supply and distribution,
 - Improvement of sanitation control and monitoring

3.4 EC's intervention will be implemented by way of a sector programme using project approach modalities. However, depending on the good progress on macroeconomic reforms, sector budget support could be envisaged, if the three eligibility conditions are met, when the project is being formulated.

3.5 The main sector policy measures to be taken by Government as a contribution to the implementation of the response strategy in this field are:

- Environment sector: adoption of the new EMPS for the period 2010-20; initiation of effective donor coordination in the sub-sectors of water and sanitation and solid waste;

- Water and sanitation sub-sector: adoption of a coherent short term action plan for the period 2008-13; revision of tariffs to improve the sector's financial sustainability; adoption of specific procedures for allocation of the budget to PUC to ensure improved maintenance and network rehabilitation.
- Solid waste sub-sector: continued implementation of sector policy, including improvement of financial sustainability; formulation of a long term strategy for sustainable waste minimisation, recycling and disposal.

3.6 The main commitments by the Government to ensure mainstreaming of the crosscutting issues are:

- To ensure that the gender dimension is adequately taken into consideration during programme formulation and implementation.
- To include within environmental assessment the Strategic Environmental Assessments (SEAs), which will focus on the sector policies of partner governments and aim to minimise negative effects and enhance positive effects. Along with participation by partner governments and stakeholders, the EC will coordinate with EU Member States and other international donors as regards SEAs. Adequate financial resources should be earmarked to this end.

4. General Budget Support

General budget support is not provided for in the indicative programme. However, in the light of changing needs, it may be decided to reallocate funds from other items in the NIP to this type of support. Such a decision can be taken in the form of a specific agreement between the Chief Authorising Officer and the National Authorising Officer within the context of an operational, mid-term, final or ad hoc review.

5. Other Programmes

An indicative amount of € 0.90 m is set aside for the following actions:

- Governance Capacity Building and TCF

The above may involve contributions to regional programmes and projects, wherever applicable. Each programme will include its own reserve for insurance against possible claims and to cover cost increases and contingencies. These programmes could also include projects or specific activities aimed at reinforcing cooperation with the outermost regions in areas of common interest.

Governance Capacity Building (€ 650,000)

Provision will be made for capacity building at all levels and in various governance-related issues, as well as specifically to social, economic and environmental governance, involving both public administration and non-state actors. Capacity building will be by way of human resources, training and technical assistance, geared notably towards promoting the application of sound governance at all levels of the economic sphere, including taxation.

Technical Cooperation Facility (TCF) (€ 250,000)

The TCF will enable the financing of studies, seminars, workshops, audits and evaluation, which can usually be implemented on the basis of special commitments and/or direct labour. The TCF may also

finance analytical and technical assistance work involving local research institutions and universities. This approach will allow closer alignment with government needs and better transfer of knowledge.

6. Intervention framework

The intervention framework relating to the focal sector is attached.

6. Intervention framework and Performance Indicators

Focal sector –Environment

	Intervention logic	Objective Verifiable Indicators	Sources of Verification	Assumptions
Overall Objectives	Sustained economic growth & equitable social development	<ul style="list-style-type: none"> - Increase in nominal GDP per capita - Sustained HDI index 	National Statistics Bureau	
Programme Purpose	Improve sustainable water and sanitation management	<ul style="list-style-type: none"> - Current EMPS reviewed and new EMPS 2010-20 formulated - Long term technical and financial sustainability of water supply, sewerage and solid waste services are improved - Formal sector Donor coordination in place 	Ministry of Environment & Other executing agencies (PUC...)	Sound sectoral policies pursued under the economic reform programme
Results	<p>1. Water & sanitation management</p> <p>1.1 Institutional strengthening and capacity building in the sector and PUC</p> <p>1.2 Improvement of water supply and distribution</p> <p>1.3 Improvement of sanitation control and monitoring</p>	<ul style="list-style-type: none"> - Adoption of a Master Plan for the Water sector - Policy documents, including tariff study are formulated and adopted. - Strategic plans and regulatory measures for water supply & sanitation are formulated and adopted (notably for reduction of water demand and losses, sewerage and autonomous sanitation...) - Revised organizational and capacity building plans (incl. training) for PUC are formulated and adopted - A performance monitoring system is defined and operational - PUC leakage detection unit is fully operational - Unaccounted for water is reduced - Average response time on water mains breakdowns is reduced - A monitoring system is in place for most urbanized catchments - The number of households with sanitation devices in good order or sewerage connection is increased 	<p>Environment ministry records, Official gazette, and PUC reports</p> <p>PUC records and annual report</p>	<p>Availability of appropriately skilled staff</p> <p>Sufficient access to foreign currency and investment resources by PUC</p>

7.2 *Indicative timetable of disbursements*

	Indicative allocation	2008		2009		2010		2011		2012		2013	
		1	2	1	2	1	2	1	2	1	2	1	2
FOCAL SECTOR	5.00 M €					1.00		1.50		1.00		1.00	0.50
NON FOCAL SECTORS													
▪ Governance Capacity Building	0.65 M €					0.20		0.20		0.20		0.05	
▪ Technical cooperation facility	0.25 M €			0.05		0.05		0.05		0.05		0.05	
Total Disbursements:	5.90 M €			0.05		1.25		1.75		1.25		1.10	0.50
Total Cumulative Disbursements :				0.05		1.30		3.05		4.30		5.40	5.90

7.3 Timeline of activities

	Indicative allocation	2007				2008				2009				2010				2011→2013					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Focal area	5.00	<i>Studies undertaken under 9th EDF TCF</i>								FP	FD [‡]	**	**	**	**	**	**	**	**	**	**	**	
Non-focal areas																							
Governance Capacity Building	0.65	<i>Studies undertaken under 9th EDF TCF</i>								FP	FD [‡]	**	**	**	**	**	**	**	**	**	**	**	*
Technical Cooperation Facility	0.25					FP	FD	**	**	**	**	**	**	**	**	**	**	**	**	**	**	**	

FP: Financing Proposal

FD: Financing Decision

****:** Project Implementation

‡: One Financing Decision for AAP 2009

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Annex 0

ACRONYMS

ACP	Africa Caribbean Pacific
AFD	Agence Française de Développement
AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
ARPEGE	Appui Régional à la Promotion d'une Education pour la Gestion de l'Environnement
CEDAW	Convention for the Elimination of Discrimination against Women
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
COMESA	Common Market for Southern and Eastern Africa
CSP	Country Strategy Paper
DBS	Development Bank of Seychelles
DTA	Double Taxation Agreement
EC	European Commission
EDF	European Development Fund
EEZ	Exclusive Economic Zone
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EMPS	Environment Management Plan of Seychelles
EPA	Economic Partnership Agreement
ERDF	European Research Development Fund
ESA	Eastern and Southern African Grouping (of EPA)
EU	European Union
FDC	Fisheries Development Committee
FDI	Foreign Direct Investment
FPA	Fisheries Partnership Agreement
FSF	Financial Sustainability Forum
GDSS	General Data Dissemination System
GDP	Gross Domestic Product
GEF	Global Environment Facility
GST	Goods and Services Tax
HDI	Human Development Index
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HDR	Human Development Report
ICT	Information Communication Technology
IMF	International Monetary Fund
IOC	Indian Ocean Commission
IOT	Indian Ocean Tuna Ltd. (cannery)
IOTC	Indian Ocean Tuna Commission
IRCC	Inter-Regional Coordination Committee
IUU	Illegal, Unregulated and Unreported fishing
MDG	Millennium Development Goal
MERP	Macroeconomic Reform Programme
NDC	National Disaster Committee
NDP	National Development Plan

Annex IA - Country at a glance table

Macroeconomic indicators

		2000	2001	2002	2003	2004	2005
BASIC DATA							
1	Population (Nos)	81131	81202	83723	82781	82475	82852
	- annual change in %	0.9	0.1%	3.1%	-1.1%	-0.4%	0.5%
	Nominal GDP (Rupees)	3513.3	3644.9	3822.4	3811.3	3848.9	3974.4
2a	Nominal GDP (in million €)	..	694	739	623	563	580
	Nominal GDP per capita (Rupees)	43304	44887	45655	46041	46667	47970
2b	Nominal GDP per capita (in €)	..	8547	8822	7528	6825	7005
2c	- annual change in %	4.4%	3.7%	1.7%	0.8%	1.4%	2.8%
	Real GDP (Rupees)	2615.4	2556.0	2587.1	2434.4	2365.3	2393.9
3	Real GDP (annual change in %)	4.20%	-2.3%	1.2%	-5.9%	-2.8%	1.2%
	Gross fixed capital formation (Rupees)	884.5	1482.0	978.5	395.4	490.2	1200.7
4	Gross fixed capital formation (in % of GDP)	25.2%	40.7%	25.6%	10.4%	12.7%	30.2%
INTERNATIONAL TRANSACTIONS							
	Exports of goods and services (Rupees)	2752.4	2990.9	3013.9	3331.3	3452.3	3980.4
5	Exports of goods and services (in % of GDP)	78.3%	82.1%	78.8%	87.4%	89.7%	100.2%
	- of which the most important: ... (in % of GDP)						
	Trade balance (Rupees)	-679.5	-1251.9	-785.6	-481.4	-853.5	-1457.1
6	Trade balance (in % of GDP)	-19.3%	-34.3%	-20.6%	-12.6%	-22.2%	-36.7%
	Current account balance (Rupees)	-245.3	-896.5	-555	-50.6	-331.8	-910.7
7	Current account balance (in % of GDP)	-7.0%	-24.6%	-14.5%	-1.3%	-8.6%	-22.9%
	Net inflows of foreign direct investment (Rupees)	139.0	379.2	261.5	315.5	209.1	453.1
8	Net inflows of foreign direct investment (in % of GDP)	4.0%	10.4%	6.8%	8.3%	5.4%	11.4%
	External debt (Rupees)	1567.0	1934.0	2774.5	2511.3	2461.3	2108.4
9	External debt (in % of GDP)	44.6%	53.1%	72.6%	65.9%	63.9%	53.0%
	Service of external debt (million rupees)	-	-	-	753	870	254
10	Service of external debt (in % of exports of goods and non-factor services)				22.6	25.2	6.4
	Foreign exchange reserves (Rupees)						
11	Foreign exchange reserves (in months of imports of goods and non-factor services)	7.2	3.9	8	8.6	3.5	4.3

Annex IA - Country At A Glance Table (Contd)

		2000	2001	2002	2003	2004	2005
GOVERNMENT							
	Revenue (Rupees)	1314.8	1290.3	1477.9	1867.6	1891.1	2167.6
12	Revenue (in % of GDP)	37.4%	35.4%	38.7%	49.0%	49.1%	54.5%
	in grants (Rupees)	31.8	14	4.7	10.7	5.1	49.8
	- of which grants (in % of GDP)	0.9%	0.4%	0.1%	0.3%	0.1%	1.3%
	Expenditure (Rupees)	1797.7	1638.2	2121.1	1597.2	1788.8	1815.6
13	Expenditure (in % of GDP)	51.2%	44.9%	55.5%	41.9%	46.5%	45.7%
	Capital expenditure	481.4	207.8	357.7	85.5	177.0	254.0
	- of which: capital expenditure (in % of GDP)	13.7%	5.7%	9.4%	2.2%	4.6%	6.4%
	Deficit including grants (Rupees)	-451.3	-333.9	-638.5	281.1	107.4	401.8
14a	Deficit (in % of GDP) including grants	-12.8%	-9.2%	-16.7%	7.4%	2.8%	10.1%
	Deficit excluding grants (Rupees)	-515	-361.9	-647.8	259.6	97.2	302.2
14b	Deficit (in % of GDP) excluding grants	-14.7%	-9.9%	-16.9%	6.8%	2.5%	7.6%
	Total Debt (Rupees)	5459.9	6064.1	6929.5	6885.9	6305.3	6994.7
15	Debt (in % of GDP)	155.4%	166.4%	181.3%	180.7%	163.8%	176.0%
	External Debt	1567.0	1934.0	2774.5	2511.3	2461.3	2108.4
	- of which: external (in % of total public debt)	28.7%	31.9%	40.0%	36.5%	39.0%	30.1%
OTHER							
16	Consumer price inflation (annual average change in %)	6.3%	6.0%	0.2%	3.3%	3.9%	0.9%
17	Interest rate (for money, annual rate in %)						
18	Exchange rate (annual average of national currency per 1 €)	..	5.2516	5.1751	6.1156	6.8378	6.8483
19	Unemployment (in % of labour force, ILO definition)						
	Total Employment (nos.)	32131	33105	34017	33111	32780	34542
	Employment in agriculture (nos.)	2129	2143	2122	697	611	695
20	Employment in agriculture (in % of total employment) (1)	6.6%	6.5%	6.2%	2.1%	1.9%	2.0%

Notes:

(1) 2000 - 2002 includes forestry and fishing

Source: National Statistics Bureau, Central Bank of Seychelles

Annex IB Country at a Glance Table

Millennium Development Goals

Indicator	Base year									Target	Remarks
	1990	1995	2000	2001	2002	2003	2004	2005	2015		
Proportion of population living on less than USD 1 per day (1)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	not relevant to SEY
Prevalence of underweight children (under five years of age) (1)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	not relevant to SEY
Under-five mortality rate (per 1000 live birth)	19	16	13.2	15.3	18.2	19.4	14.6	10.4	not applicable	Achieved	
Net enrolment ratio in primary education	n/a	n/a	93	91	92	94.8	96.4	100	not applicable	Achieved	
Primary Completion Rate (%)	n/a	n/a	112.9	117.6	118.3	115.7	106.5	n/a	not applicable	Achieved	
Ratio of girls to boys in (%)											
- Primary education	n/a	n/a	97	96	95	95	95	94	Achieve equal access		
- Secondary education	n/a	n/a	102	103	100	101	103	100	not applicable	Achieved	
- Tertiary education	n/a	n/a	117	113	126	119	143	133	not applicable	Achieved	
Proportion of birth attended by skilled medical personnel (%)	n/a	n/a	100	100	100	100	100	100	not applicable	Achieved	
Proportion of one-year-old children immunised against measles (%)	86	97	97	95	98	99	99	100	not applicable	Achieved	
HIV prevalence among 15 to 24 year old pregnant women	n/a	n/a	0.3	0.0	0.3	0.2	0.1	0.3	Halt & reverse the spread of HIV		
Proportion of population without sustainable access to an improved water source	12	n/a	n/a	n/a	n/a	n/a	12	n/a	6		

Notes

n/a: not available

(1) no country data available for this indicator

Annex 2: Donors' Matrix - Seychelles

TA = Technical Assistance and/or Technical Cooperation; PG = Projects & Grants; TS = Training & Scholarship; M = Miscellaneous

Year	2001				2002				2003			2004				2005				TOTAL
	TA	PG	TS	M	TA	P	TS	M	TA	PG	TS	TA	PG	TS	M	TA	PG	TS	M	
Multilateral																				
European Union	72,678	3,882,012			63,466	301,126			16,073	886,908		139,679	2,994				971,904			6,336,840
UNEP		11,681										8,136	33,773							53,590
UNDP				19,017		128,169				176,064			1,689				41,605			366,543
Agence Internationale de la Francophonie		50,776		13,179		1,900		34,394		15,956					10,746		14,673		24,061	165,685
World Bank (GEF)				427,008				36,072												463,080
UNFPA		51,917								31,898			33,773							117,588
Dutch Trust Fund		193,741																		193,741
WMO			33,661											61,406				14,821		109,888
FAO					147,265.63			15,202		249,716										412,183
UNESCO						118,763		23,753		165,704			84,433		26,097		20,379			439,129
BADEA													43,313							43,313
GEF													186,881							186,881
United Nation Division for the Advancement of Women														6,141						6,141
ADB																	407,584			407,584
IAEI																14,673				14,673
Red Cross																2,446				2,446
Organisation for the Prohibition of Chemical Weapons																	1,400			1,400
Nairobi Regional Centre on Small Arms & Light Weapons																	2,038			2,038

Year	2001				2002				2003			2004				2005				TOTAL
	TA	PG	TS	M	TA	P	TS	M	TA	PG	TS	TA	PG	TS	M	TA	PG	TS	M	
Bilateral (suite)																				
Canada														26,865			800,806			827,671
Belgium														89,038			430,409	14,821		534,268
Indonesia														4,605						4,605
Monaco														3,838						3,838
Pakistan														4,605						4,605
Russian Federation														30,703				14,821		45,524
Austria																4,076				4,076
Hong Kong																741				741
Luxembourg																		1,334		1,334
Oman																	392,763			392,763
Malta																	1,528			1,528
Poland																	22,232			22,232
Palau																	40,758			40,758
Philippines																	4,076			4,076
Qatar																	407,584			407,584
Saudi Arabia																	20,379			20,379
South Africa																	73,404			73,404
Switzerland																	134,503			134,503
Thailand																	24,455			24,455
Trinidad & Tobago																	264,930			264,930
Ukraine																	2,446			2,446
Réunion (France)					152,016	92,160	61,377	9,311							15,351			101,942		432,157
TOTAL	2,074,834	10,690,039	1,483,928	549,536	2,507,851	5,149,536	1,421,893	401,291	1,160,073	2,663,325	279,000	1,844,171	1,048,076	1,325,180	65,090	8,131,086	18,738,550	1,344,842	689,061	61,567,463

Source: Government of Seychelles

Over 2001-2005, Multilateral Aid to Seychelles represented **15.4%** of total amount of aid of which: **European Commission 10.3 %** and UN agencies 2.8%

Bilateral Aid represented **84.6%** of which: **EU Member States 12 %** (France 6.6%, UK 2.7%, Belgium 1%,...), **India 27.8%**, **China 22.2%**, **Japan 8.1%**, Cuba 5.2%, Canada 1.6%, USA 1%.

Annex 3: Executive summary of the Country Environmental Profile

State of the environment

Seychelles is made up of 115 islands scattered over an EEZ of 1.37 million km², and has a total land area of some 455 km². This archipelago is divided into two distinct groups of islands: a granite group of 43 islands with mountainous peaks and narrow coastal strips covering a land area of 245km², and 73 low-lying, largely uninhabited, coralline islands with a total land area of 210km². One of these coralline islands is the UNESCO world heritage site of Aldabra, the largest raised coral atoll in the world.

The granite islands are ancient remnants of Gondwanaland, isolated from continental landmasses some 70 million years ago. These islands are composed of a core of granite rock which forms the uplands. These upland soils are often shallow, but deeper and more fertile (with more organic matter) in the valley bottoms. The coralline islands are much younger in geological terms than the granite islands. The sandy soils of the coralline islands are alkaline in nature, coarse, porous, loose, with no soil structure and no clay content, and thus have high water infiltration rates. The soil contains very few nutrients, apart from calcium, and is very low in organic matter. The coralline islands do not have the same degree of species endemism. Biodiversity is thus characterized by high rates of endemism and relatively low species diversity.

The major assets of Seychelles are the exceptional beauty of the natural environment of its islands and their unique bio-diversity. The granite islands are a repository for over 80 endemic species of flowering plants, 10 endemic species of ferns and 62 endemic species of bryophytes; the coral islands are characterised by mixed scrub vegetation and have 15 known floral endemic species.

The climate is equatorial, with an average annual rainfall of 2,200 mm and uniformly high humidity. However, climatic conditions vary considerably between islands, mainly according to their altitudes and positions. Although Seychelles lies outside the tropical cyclone belt, it is indirectly affected by such atmospheric disturbances as well as extremes of climate.

Biodiversity in Seychelles is characterised by high rates of endemism and relatively low species diversity. However, Seychelles ranks third in the world in having the highest percentage (31%) of its native plants threatened. Over 80% of Seychelles land area is under some form of forest or vegetation cover. Another important feature of the Seychelles environment is its large numbers of breeding seabirds. Endemism in scorpions, spiders and insects is also very high, including the world's largest millipede. Some 7% of the invertebrate species can be considered threatened and around half of these are critically endangered. Various highly invasive animals and exotic species of plants, as well as certain species of bacteria and fungi, are causing major ecological imbalances on the island, such as the recent Takamaka wilt disease. Seychelles is highly dependent on coastal and marine resources and therefore vulnerable to any degradation of these resources.

Seychelles is also characterized by a wide range of marine habitats, including shallow water fringing reefs, granite reefs, bank and plateau shelves and drop-offs, atolls, lagoons, seamounts and pelagic habitats. Around 1,000 fish species are known to exist in the Seychelles waters and endemism amongst the fish fauna is low. Dugong sightings have been reported around Aldabra; the dugong is an endangered species worldwide which is also close to extinction in this area. Four species of sea turtle live in the Seychelles waters, two of which are listed by the IUCN as "Critically Endangered", and the two as "Endangered". An estimated 18% of sponges in the Seychelles are endemic to the region.

Challenges

As a Small Island Developing State (SIDS), Seychelles is characterised by the inherent vulnerabilities of such states, which include small land area, limited natural resources and environmental vulnerability. The main engines of economic growth are tourism and fisheries, which account for 20% and 9% of GDP respectively. They both also represent important sources of foreign currency: tourism revenue is equivalent to almost half of services' exports, while canned tuna accounts for more than three quarters of domestic exports. Given the limited success of the country's efforts at economic diversification, future growth will continue to depend on the expansion of these two sectors, which are inextricably linked to the quality of the natural and physical environment.

Urbanisation is one of the principal factors putting pressure on Seychelles' limited land resources and coastal environment. Almost 90% of the population and infrastructure in Seychelles is on the main island of Mahé, with 61% being concentrated in the north of the island around the capital. This saturation of the coastal areas has led to development on coastal sand dunes, on wetlands, and even on the buffer zone of 20 metres from the coastline. The scarcity of land has prompted the country to undertake four major land reclamation works off Victoria and the East Coast of Mahé which began in 1973 and are still continuing. Land reclamation projects represent just over 4% of the total land area of Mahé. In addition to these large-scale reclamation projects, there have been many small private reclamation works (usually for housing development) that have had an adverse impact on coastal ecosystems.

Furthermore, due to large-scale construction projects, soil erosion is a growing concern as large amounts of earth are being washed onto beaches and into the sea. Increased urbanisation of the Seychelles' granitic islands will continue to pose a major challenge to Government in the medium term in the light of further hotel and urban development.

There is also an increase in coral reef degradation and marine pollution due to land-based activities, sewage discharge and over-exploitation. The 1997/98 El Nino event caused widespread coral bleaching throughout much of the Indian Ocean and, in Seychelles' waters, the rise in sea temperature destroyed an estimated 50 to 90 percent of coral as deep as 23 m.

In 1992, the National Land Use Plan was introduced for the three main islands (Mahé, Praslin and La Digue) introducing zoning schemes and defining land use patterns up to 2000. However, this Land Use Plan has served only as a planning instrument and not as a regulatory instrument. In fact, the lack of land use plans at national and local level makes environmental planning increasingly difficult; for instance, insufficient planning in some areas has affected drainage and increased flood risks.

As regards solid waste management, there is a solid waste collection system for the three main islands operated by a private firm under the aegis of the Ministry of Environment. Solid refuse is collected practically on a daily basis and the population has been successfully made aware of the issue in the past years. However, this success is now at risk as a result of a gradual erosion of environmentally friendly behaviour, resulting in an increase in the quantities of waste, and paper and plastic materials. Around 50,000 tons of waste was generated in 2005, of which less than 10% was recycled (mainly construction waste, plus compost 3%), and is this figure expected to rise to 66,000 tons in 2015 and 87,000 tons by 2025. Due to the limited size of the islands and the high population density, there is a need to implement more sustainable and longer-term solid waste treatment and disposal. In addition, a /pro-active policy to promote recycling activities should be adopted.

With an average annual rainfall of 2,200mm, Seychelles can be considered as having an abundant water supply. The main water resources used are not evenly distributed: piped water

supply has a wide coverage (92.5%), but is increasingly irregular during the dry period and close to maximum capacity in periods of peak demand. However, at present there is no reported conflict over water usage. In the future, the tapping of streams and river courses on a larger scale may adversely impact on the environment, and focus will need to be directed at proper environment assessment and mitigation measures. The large-scale use of desalination plants would not increase the pressure on fresh water resources, but it may not be financially sustainable for the Seychelles.

Electrification is close to 100%, but the contribution of renewable sources of energy is still negligible (confined to some inner islands such as Curieuse, Arid and Cousin, which produce electricity using photovoltaic cell systems).

The small-scale fisheries activities are characterized by fishing techniques that are selective in their impacts on fish stocks, and which are not seen as posing any particular threat to the environment. Nonetheless, coastal demersal resources (within 10 km of the granite islands) are generally considered to be fully exploited or over-exploited. There are indeed concerns regarding the sustainable exploitation of specific stocks targeted by small-scale fisheries, in particularly in respect of holothurians (sea cucumber), shark and lobster fisheries. Industrial and semi-industrial long line fishing of tuna and swordfish are associated with the incidental catching of sharks. Most sharks have low fertility, and thus are highly vulnerable to over-fishing. By-catching of cetaceans (dolphins, whales and porpoises) and sea turtle is not considered to be an issue, although it should be subject to routine monitoring. In order to preserve shark stocks, the law prohibits the practice of shark fisheries solely for the purpose of harvesting the fins.

Policies

Environmental concerns are enshrined in the Seychelles constitution. Article 38 provides that: “The State recognizes the right of every person to live in and enjoy a clean, healthy and ecologically balanced environment and with a view to ensuring the effective realisation of this right the State undertakes – ... (b) to ensure a sustainable socio-economic development of Seychelles by a judicious use and management of the resources of Seychelles.”

Seychelles remains a relatively high per capita investor in environmental conservation management policies, and environment education has been introduced into the school curriculum. The Seychelles is one of the countries in the world with the highest percentage of land area legally protected for conservation purposes. At present, over 46% of the archipelago’s land and an additional 228 km² of ocean are legally protected in the form of national parks and reserves³⁶. A further 20% is classified as sensitive.

Environmental management in Seychelles is guided by the second Environment Management Plan of Seychelles 2000-2010 (EMPS), which has as its objective: “the promotion, coordination and integration of sustainable development programmes that cut across all sectors of society in Seychelles”. The EMPS covers 10 thematic areas embracing all major social and economic sectors, and includes land use, coastal zones and urbanization; biodiversity, forestry and agriculture; fisheries and marine resources and processes, tourism and aesthetics; and Regulatory, Policy and Institutional Mechanisms. The EMPS also covers cross-cutting themes such as education, awareness and advocacy; public consultation and civil

³⁶ Seychelles has a good record in designating and managing a system of protected areas as well as marine parks and reserves. The Aldabra Atoll (which has the world’s largest population of a species of giant land tortoise), and the Vallée de Mai Nature Reserve (with endemic Coco-de-Mer palms³⁶) were added to UNESCO’s World Heritage Sites list in 1982 and 1983 respectively

society participation; training and capacity building; management; monitoring and assessment; and vulnerability and global climate change.

The country has a diverse portfolio of environment-related laws and regulations on its statute books. However, many of these need to be updated to reflect current priorities and address certain shortcomings. The most recent legislation has been oriented towards environmental management, such as pollution control and environmental impact assessments, rather than focusing on conservation.

The capacity to enforce environmental legislation remains a serious issue at all levels and presents one of the most challenging obstacles in implementing environment policies. For instance, the surveillance of poachers - in particular on the remote islands of the Seychelles - remains a serious challenge. The lack of financial resources for further research or specific conservation work is also a serious concern.

All ministries are involved in the process of the environmentally sustainable development of the country. In addition, there are a number of more specialised agencies and authorities, which include: Marine Parks Authority (mandated to manage Marine Protected Areas); Seychelles Fishing Authority (mandated to manage fisheries resources); and the Public Utilities Corporation (responsible for providing access to water and sanitation services). Environmental education has also been introduced at all levels in schools; groups of young people are now regularly involved in environmental activities under the umbrella of the NGO, Wildlife Clubs of Seychelles.

Seychelles is party to many international conventions including the Convention on Biological Biodiversity, CITES, UNFCCC, UN Law of the Sea, MARPOL Convention and the Montreal Protocol. Seychelles hosts the Regional Coordinating Unit for the implementation of the Nairobi Convention and adopted, in 1994, the Barbados Declaration and Programme of Action at the UN Global Conference on Sustainable Development of Small Island Developing States.

Various international donor agencies provide financial assistance for the environmental management of the Seychelles. The Seychelles Environment Trust Fund, which manages the two World Heritage sites³⁷, was established under the “Biodiversity Conservation and Marine Pollution Abatement Project” funded by the Global Environment Facility (GEF). The European Union has also contributed significantly to the protection of the environment in the Seychelles. Specific national and regional EDF projects have focused on various key environmental issues including:

- Solid waste management projects (under the 8th and 9th EDF NIPs Seychelles);
- Raising awareness of the environment among children aged between 9 and 16 (ARPEGE project) - so far, the Seychelles component of this regional pilot project has been the most successful in the region;
- The preservation of high value fish stocks (with the Regional Tuna Tagging and Fishing control & surveillance projects financed under the 9th EDF RIP);
- The 9th EDF Regional programme for the management of coastal resources.

³⁷ Aldabra Atoll and the Vallée de Mai National Park.

Conclusions

The most valuable asset for Seychelles remains its environment, which will continue to contribute to the country's future economic development.

Most of Seychelles' major environmental challenges are already addressed within its policy framework and legislation, although some legislation has to be reviewed. The main problem lies in enforcing environment-related regulations and effective management of protected areas (land and marine areas). The enforcement of environmental regulations requires not only financial resources but also staff and equipment for the follow-up, for instance, of EIS and land use, construction inspections, etc.

The impacts of urbanisation on coastal and forest environment have increased in recent years. As a result there has been a loss of natural areas, pollution of fresh and coastal waters leading to reef degradation, increased erosion, etc.

Extension of urban areas and isolated developments in environmentally valuable areas are related more to changing life styles, a relatively generous social housing policy and lax enforcement of land-use regulations than to increasing demographic pressure (population growth is limited to 1.2% annually). The recent increase in new resort projects (more than 10, most of them on Mahé Island) further contributes to the adverse environmental impacts caused by urbanisation, particularly in the most valuable and fragile coastal areas. Newly developed *resorts* are bound by law not to release untreated effluents in the natural environment and to minimize their visual impact on coastal landscapes. Older establishments still have to comply with these relatively new regulations, but the environment authority has proved to have rather weak negotiating power and is prone to taking discretionary measures. For resorts under construction, environmental impacts assessment studies are reported to be weak and there is no proper supervision of the implementation of their environmental management plans. No consistent monitoring system for resorts effluents has yet been set up.

Current water supply shortages during the summer dry season are giving increasing cause for alarm. Although they are more related to under-developed storage capacity and high water losses (over 50% in Mahé due to the accumulated backlog of maintenance on the piping network), than to absolute rain deficit (annually around 2,200mm), the pattern of increased consumption by the population (growing by 8% per year) makes the situation worse, in combination with the longer and more severe dry periods due to climate changes. The failure to update social water rates in the past 12 years means that the PUC can neither properly maintain its water infrastructure assets nor commit to new investment.

Lack of financial resources for infrastructure investment in sewerage makes it impossible to sufficiently reduce releases of polluting effluents in the natural environment in densely populated areas, mainly because of the limited coverage of the sewerage networks. Moreover, the contribution of autonomous sanitation systems to pollution flows is increasing as a result of poorly maintained/defective equipment. Inadequate sewerage charges (dictated by social considerations) result in heavy financial losses to the Public Utilities Corporation department in charge of water supply and sewerage, and compound its diminishing ability to extend the coverage of most urbanized areas (Greater Victoria and Beau Vallon).

Even if solid waste collection is keeping up with the pace of changing life styles and urbanization, waste disposal is still inadequate, and its environmental impacts are not being properly monitored. In this context, actions are planned under the 9th EDF to improve waste reduction and recycling and construct new waste disposal facilities. However, limited financial resources may lead to a situation where only Mahé waste disposal is addressed. The sustainability, in terms of both economics and the environment, of the design and technology

chosen for waste disposal on la Digue and Praslin (where landfill conditions are very bad) must be called into question, and alternative sustainable solutions have yet to be devised.

Another consequence of climate change is the increasing exposure of the Seychelles to natural disasters. Even though appropriate coordination seems to have been put in place, the financial resources needed to ensure operational intervention capacity are lacking. A National Disaster Committee (NDC) has been in existence for a number of years, under the aegis of different ministries and departments. This Committee now reports directly to the President's Office. Nonetheless, the weather events of 1997 and 2002 have highlighted the urgent need for an enhanced disaster management system. A National Disaster Fund has also been set up and Seychelles has become more active in regional disaster management initiatives.

The main environmental problem caused by fisheries activities in the Seychelles is the overexploitation of coastal demersal resources. Incidental catching of sharks could also pose a problem for the sustainability of certain shark species.

Recommendations

The foremost priority for the environmental management of the Seychelles is *enforcement of the environmental and land use regulations* together with a *reinforced management of protected areas*. Updated regulations should facilitate conviction of offenders by an independent and environmentally-sensitive judiciary and act as a real disincentive. Besides, the vision of the sustainable development of the country has to be rejuvenated in the light of the new challenges (climate change, energy costs, economic liberalisation,..), and a new EMPS will soon be needed to set out a road map and action plan for the next decade 2010-20. Furthermore, focus should also be directed at the *training* of technical staff and other human resources in order to create a better understanding of international environmental conventions and to enable an improved implementation of environmental regulations. Dialogue between the donor community and the Government should be strengthened in order to reinforce the Government's commitment to allocate more financial resources to these issues.

In addition, donor community support may also be required in order to strengthen the management of protected areas, particularly for the enforcement of regulations, means of enforcement and human resources in the design and implementation of management plans. This is particularly necessary for the outer islands. Owing to their remoteness and fragile coralline environment, their ecosystems need to be closely monitored on a systematic basis. There is a need for technical assistance at all levels and, in particular, for a component to assist Government in matching tourism demand with a conservation requirement, thus providing a better and more sustainable foundation for tourism development.

Fisheries' management plans for coastal demersal resources should be developed and implemented. The provisions of the "shark finning law" should be enforced.

Another priority area that needs donors' support is *planning and programming*, principally via a sector-wide approach, in the four sub-sectors which are high on the Government's agenda and require substantial investments: water and sanitation, solid waste, land drainage, and coastal erosion.

For the environment policy as a whole, the water and sanitation sector has a high priority as it addresses both freshwater resources management and pollution control of rivers and coastal waters.

Annex 4: Country Migration Profile

Population Profile and Trends

Seychelles has unique demographic characteristics, originating from its history of slavery and migration involving people from mainland Africa, Asia and Europe. The Seychelles has been characterised as a country of net out-migration since the mid-nineties. The population is multi-ethnic owing to the significant internal and external migration.

Net out-migration was relatively high between the late 1970s and early 1990s, with Seychellois migrating mostly to the United Kingdom. This has contributed to the low rate of population growth. At present, the main reason for out-migration is employment, whereas in the early 1980s the principal reason was political.

Emigration remains a topic that needs to be documented, especially given the current situation of a "brain drain" of teachers, nurses and graduates. The impact of this loss in investment of human capital on the country is not yet known, but could be significant for certain sectors such as education and health. The net migration rate for 2006 stood at -5.4 migrant(s)/1,000 population.

With an annual growth rate of only 1%, the population of Seychelles (84,600 as at mid-2006), is concentrated on the main island of Mahé (90%). The remaining 10% are on the islands of Praslin and la Digue (the two islands have 9%) and the outer islands (1%). Migration from Praslin and La Digue to Mahé continues to be significant, the main driving forces being employment, education and housing.

Labour Market Situation

Labour force

The size of the labour force according to the last two population censuses (1994 and 2002) increased from 47% to 54% respectively (as a result of the exceptionally high fertility rate in the 1960s and 1970s). This situation, however, is expected to change in the future given the low fertility rates that have been recorded since the 1990s.

Based on the 2005 Labour Force Survey, the economically active population is estimated at 44,962 persons, of whom 51.7% are males and 48.3% are females.

Around 90% the labour force are reported to be economically active; of these, 47% were females and 53% were males. 76% of all persons in the labour force were employees. As in a number of SIDS, the public and parastatal sectors continue to employ a large percentage of the total labour force, posting figures of 33.6% and 14.3% respectively for 2002.

Unemployment rates

In 2005, the number of 'active job-seekers' stood at 1,532 (of whom 56% were women), compared to 1,270 in 2003; it should be noted that the majority of the active job seekers are unskilled.

As Government is undertaking reform of the public sector and parastatal sector under the new macroeconomic programme introduced in July 2003, the serious challenge ahead is to create the enabling environment for private sector growth so as to shift employment from the public to the private sector.

This problem is exacerbated by the composition of the Seychelles population. Currently, the total labour force makes up only 53.7 percent of the population, of whom 17% are aged 15–25 years. The challenge is not only to allow private sector growth in order to accommodate employees from a shrinking public sector, but also to ensure that the private sector expands fast enough to accommodate the young people coming onto the labour market.

Present or potential skill shortages

Seychelles has a significant level of human capital, primarily due to the Government's policy focus on education. However, the qualifications of job seekers do not match the jobs available on the market. Whilst many Seychellois job seekers are highly qualified as technicians, or university graduates, their qualifications do not match the job specifications and there are no appropriate training programmes available locally. As a result, vacancies often cannot be occupied by the local population. Non-Seychellois workers are performing jobs that require specific skills or higher levels of education; this often leads to an outflow of foreign exchange and creates domestic political resentment against expatriates holding key positions of employment.

A number of incentives have been introduced, such as reduction of tax on belongings brought back to the country, to encourage graduates to return to Seychelles. A bonding system, through which students who are sponsored to study abroad undertake to work for the government or alternatively refund their fees, has also been introduced. It has been recognized that more incentives need to be sought to overcome the brain drain problem, whilst in parallel offering incentives to foreigners who are interested in living and working in Seychelles.

The problem of capacity is compounded by the increasing number of trained individuals who do not take up employment in their chosen field. School leavers from vocational schools often seek work in a different industry from the one they have been trained for, mainly due to financial incentives. This significantly limits the opportunities for strategic manpower planning. However, this switching of career choice is also due to insufficient guidance by careers advisors in secondary and post-secondary schools and a weak public awareness of vocational training and employment opportunities.

There is also the problem of the stigma attached to certain types of available jobs. Such jobs are often menial or dirty and do not require a high level of education; however, even though there is unemployment, such jobs either remain vacant or are being done by non-Seychellois.

Government financial capacity to provide training both locally and externally is limited. As such, the challenge is for Government to ensure that resources are available to provide appropriate training to meet the demand of both the public and the private sectors.

Expatriate labour

In 2005, the number of foreign workers stood at 3,832. Entry for the purpose of employment is strictly controlled. The labour market for immigrants to Seychelles is clearly divided up by sector, with expatriates being selected accordingly. This targeted immigration can be described by sector as follows:

- Construction sector: Skilled (carpenter, masons) and unskilled construction workers, mainly from Central Asia (India, Sri Lanka);
- Health sector: doctors, mainly employed in health care community centres at local level; they are coming either through bilateral cooperation agreements (Cuba, Algeria, China) or direct recruitment (Kenya);

- Education sector: teachers, mainly at primary school level and coming from Kenya;
- Tourism sector: all types of jobs and all origins, with a particular bias towards nationals from Mauritius.

Human resource shortages in the education and the health sectors could therefore become less serious in the medium term. The construction industry's needs in terms of labour relate to a few Resorts projects and a 2000-unit housing scheme, and thus might be only temporary. The shortage of local employees and the inadequacy of vocational training are likely to worsen, thus swelling the inflow of expatriate workers.

Migration Flows

Immigration and Emigration

The Government views the emigration level as too high, but the immigration level is regarded as satisfactory. Since 1997, arrivals of long term migrants are estimated at about 2,500 annually. There has been a sharp increase in arrivals of short term migrants since 2003, reaching 3,141 persons in 2004 compared to an annual average of about 500 during 1998-2002. This increase is mainly due to an increase in construction projects within the tourism industry.

Over the last ten years, figures for long-term migrants' departures are between 2,600 and 3,000 and between 1,000 and 1,600 for short term migrants. There is thus a balance between migrants' arrivals and departures, but statistics are not detailed enough to allow a comprehensive analysis.

Migration Policies

Seychelles, as a member of the International Organisation for Migration (IOM), would derive the following benefits:

- Assistance in reaching migration agreements with some key partner countries
- Assistance in mobilizing resources from the Mauritian Diaspora by facilitating their return home, bringing new skills, knowledge and financial resources;

Furthermore, since 2000, Seychelles has been a member of the Migration Dialogue for Southern Africa (MIDSA). The aim of MIDSA is to facilitate regional dialogue and cooperation on migration policy issues amongst SADC countries. The overall objective is to facilitate regional co-operation in migration management by fostering greater understanding of migration and strengthening regional institutional and personnel capacities. Seychelles has also ratified the United Nations Convention on Migrants' Rights.

Annex 5: CSP Drafting Process

Non-state actors, including the NGOs, the private sector, associations and civil society, have been systematically consulted throughout the discussions relating to the programming of the 10th EDF.

During the drafting phase (July-September 2006), key stakeholders including NGOs were met directly by an external consultant. A first formal stakeholders' meeting was organised in this context in mid-August 2006 to explain the drafting process and the programming guidelines. The Ministry of Foreign Affairs and the Delegation of the European Commission held another stakeholder meeting in mid-September to outline the contents of the CSP response strategy. EU Member States (UK, FR) were involved throughout the process. A final stakeholders' meeting on the draft CSP was held in early November 2006.

Responses by stakeholders during the consultation process provided valuable inputs to the final document. The main points and concerns raised during the consultation meetings focused on the general need to strengthen the consultation process at country level, the importance of devoting greater attention (and more dialogue) to governance issues, and the need to encourage public-private partnership through EU cooperation.

Annex 6: The position of Seychelles in relation to key international conventions

Seychelles is party to almost all major international conventions related to human rights and environment. It has also acceded to the major international global/regional conventions related to human rights.

Global instruments: The Universal Declaration of Human Rights (1948), the International Covenant on Civil and Political Rights (1966), and the International Covenant on Economic, Social and Cultural Rights (1966), plus a number of specific conventions, such as the International Convention on the Elimination of Racial Discrimination (1965), the Convention on the Elimination of Discrimination Against Women (1979), the Convention Against Torture (1984), and the Convention on the Rights of the Child (1989).

Regional instruments: African countries: African Charter on Human and Peoples' Rights (1990), Grand Bay (Mauritius) Declaration and Plan of Action for the Promotion and Protection of Human Rights (1999), African Charter on the Rights and Welfare of the Child (1990), African Platform on the Right to Education (1999), OAU Refugee Convention (1969), Protocol on the Rights of Women in Africa (2003)

Seychelles still has to ratify the optional protocols on CEDAW and CAT. On the regional level, it has only acceded to the African Charter on Human and Peoples' Rights and to the African Convention on Refugees. It has also ratified the African Charter on the Rights and Welfare of the Child.

Seychelles is party to all major environment related international conventions: the Convention on International Trade in Endangered Species of Wild Fauna and Flora, CITES (acceded to 1977); the Convention on Biological Diversity, CBD (ratified 1992); the Nairobi Convention (signed 1985, ratified 1994); the UN Convention on Rights of the Child (acceded to 1990); the UN Conventions on both Economic, Social and Cultural Rights as well as Civil and Political Rights (acceded to 1992); the Basel Convention on the Transboundary Movements of Hazardous Wastes (acceded to 1993); the MARPOL Convention (signed 1977, ratified 1984); the Montreal Protocol and its amendments (ratified 1993); the United Nations Law of the Sea (signed 1982, ratified 1991); the United Nations Convention on Desertification (signed 1994, ratified 1997); the United Nations Framework Convention on Climate Change (ratified 1992); the Kyoto Protocol (signed 1998); the Rome Statute of the ICC (signed 2000); and the International Convention for the Regulation of Whaling (signed 1979). In June 2002 Seychelles ratified the Stockholm Convention on Persistent Organic Pollutants (POPS) and will soon deposit instruments to ratify the Kyoto Protocol under the UNFCCC; the Beijing Amendment under the Montreal Protocol, and the Cartagena Protocol on Bio-safety under the CBD. The Ministry of Environment has set up an International Conventions Unit to coordinate international convention issues.

For environment conventions, a coordination unit has been created in the Ministry of Environment and Natural Resources and there is a policy of close follow-up which acts as a form of sector policy planning (Barbados Action Plan +10 Review, Report of the implementation of the UN Convention to Combat Desertification, etc.).

Annex 7: Debt Sustainability Analysis

A. Debt Situation

Public debt has been on a slow but steady declining trend since 2002 with the debt/GDP ratio moving from almost 181% in 2002 to 176% in 2006.

Domestic debt, which currently represents the bulk of the debt stock, and stood at 138% in 2002, has been reduced to 107% of GDP in 2006 following fiscal surpluses generated over the last 3 years. External debt stock stood at 70% of GDP in 2006, almost a 10 percentage point increase compared to 2005, in light of the US\$ 200m bond taken at end September 2006.

Government has made efforts to regularise relations with external creditors and repay part of its outstanding arrears. In this context, in September 2006, Seychelles Government having obtained a "B-rating"³⁸ was allowed take a bond of US\$200 million³⁹ on the international capital market, proceeds of which were used principally to clear debt arrears. External arrears have decreased as at end of 2006 to 17% of GDP compared to 25% in 2005. As at the end of 2006, Seychelles no longer has arrears with any multilateral institution since they have all been cleared - repayments have been made to the ADB for USD 46.75 million, to the World Bank for USD 1.3 million, and to the European Development Bank for USD 3.2 million. Furthermore, the largest collateralised loan with the Mitsubishi Bank amounting to USD 65 mio was also repaid. In addition, the Government of Seychelles paid € 4 mio to the Paris Club creditors as a first step in finding an agreement on the payment of remaining arrears. Hence, at present, arrears are now all bilateral and remain mostly with Paris Club creditors.

However, debt servicing continues to exert considerable pressure on the foreign exchange reserves. In 2006 the level of external debt servicing represented 13% of export revenue of goods and services and 33% of government revenue.

At present, Seychelles is on a regular 12-month Article IV consultation cycle with the IMF, but has no financial arrangements with the Fund. However, an agreement with the IMF for a Staff Monitored Programme is deemed essential in order to assist the country in putting its debt level on a sustainable path and to facilitate negotiations with the multilateral and bilateral creditors.

B. Government Strategy

The Government has mapped out a strategy to reduce debt in a measured way in order to reduce the debt level to 60% of GDP by 2016. In order to achieve such a drop over the next decade, the Government of Seychelles plans to service the debt by utilising: (i) fiscal surpluses, (ii) increased non-debt flows, (iii) privatisation proceeds and (iv) debt restructuring.

(i) Tight fiscal discipline

Government has made considerable efforts to curb expenditure and to increase revenues; as a result, the fiscal balance has improved and reached a surplus for three consecutive years. In 2006, the fiscal balance surplus represented 5.8% of GDP as a result of strong revenue performance. Since its introduction in 2003, Goods and Services Tax (GST) has remained the main source of revenues, providing 33% of total revenues in 2006 excluding grants.

³⁸ The International Rating Agency "Standard and Poor's" undertook the exercise and Seychelles obtained a B rating with a stable outlook.

³⁹ At an interest rate of 9.125% and a maturity period of 5 years.

(ii) Stimulating export-led growth via a liberalisation of the exchange rate regime

The shortage of foreign currency is one of the principal factors which has, over the years, constrained the slow rate of the country's debt servicing. In order to address this problem the IMF has recommended in successive reports a devaluation of the Seychelles Rupee. The Government has in the past been cautious about implementing such a devaluation due to its adverse inflationary impact, unclear fiscal consequences and potential risks to social cohesion, the last a critical requirement for a tourism-led economic recovery.

However, government has taken a number of measures to allow for a gradual adjustment of the national currency and to ease access to foreign exchange. At the end of 2006, the Government revised the mode of indexation of the SCR, giving more weight to the Euro and the Pound Sterling, and lower weight to the USD, which has resulted in a depreciation of the rupee against the new basket.

Moreover, as from October 2006, the Government has started to gradually remove all remaining foreign exchange controls. In this context, the allocation mechanism which was exclusively administered by the Central Bank has been transferred to commercial banks. In addition there has been a reduction, from 45% to 15%, in the amount of foreign exchange which the commercial banks have to supply to the Central Bank, thus giving the former more funds to meet their daily business and trading allocations.

In order to address the shortage of foreign currency in the medium-term, the Government is committed to attracting Foreign Direct Investment (FDI). In this respect, the Government has set up a number of bodies to promote investment including the Seychelles Investment Bureau in 2004 and the Seychelles Tourism Board in 2005. The regulatory framework has also been improved to provide incentives to investors, notably the Tourism Incentive Act for tourism sector and Agriculture and Fisheries (Incentives) Act introduced in April 2005. Moreover, the first Seychelles Investment Code, providing the legal environment for investment activities in Seychelles, and in line with international standards, was enacted in December 2005.

(iii) Privatisation

The privatization process started in 2003 with the sale of all Government hotels and is ongoing: a Privatisation Committee, including representatives of the private and public sectors, was set up to map out the strategy. The privatisation process is implemented through Ministry of Finance by appointment of transactions advisors through a tender process. The privatisation of the insurance company, State Assurance Corporation of the Seychelles (SACOS) was completed in 2006 and the privatisation of several units of the Seychelles Marketing Board and the 2 Government owned banks, Nouvobanq and Seychelles Savings Bank, are ongoing.

In a move towards trade liberalisation, the Government has reduced Trades Tax on a large number of items and abolished import permits except for sensitive goods since January 2005.

(iv) Restructuring of the debt

The aim of this strategy is, on the domestic front, to increase the average maturity of the debt stock and smoothing the debt service profile and on the external front to further regularise relations with creditors, in particular the Paris Club, to clear remaining arrears.

The efforts that are being made by Government will have to be reinforced in order to put the public debt on a sustainable path; however, in the near future, the country should remain vulnerable to external shocks.

Annex 8: Prospective Governance Commitments

	Objectives	Government Commitments	Verifiable Indicator
<p><u>Political Democratic Governance</u></p> <p>Human Rights</p>	<p>To address any incompatibility with the Seychelles' Constitution and decide upon clear criteria for allowing public gatherings.</p> <p>To reinforce law and order and mitigate against human rights violations. To also advocate democracy and transparency.</p>	<ul style="list-style-type: none"> ▪ Consultative Committee on Law and Order is in operation to review the Public Order Act. The Committee's set up includes representatives of the two main parties, the two main churches, the Commissioner of Police, the private sector and Government. The committee is chaired by Mr. Francis Chang-Sam, a former Attorney General of Seychelles, member of the drafting team of the Constitution and currently practicing in the private sector. Recommendations will be made in a report which will be submitted to the President in March 2007. ▪ An external enquiry into the event of 3rd October 2006 has been ordered by the President. The head of the enquiry is Judge Michael Reilly appointed by the Irish Government following a request tabled by the President. Agreement reached on transparent –Terms of Reference between Government and Opposition in January 2007. ▪ Part and parcel of the on-going investigation is to look at several issues in relation to the incident such as: <ul style="list-style-type: none"> ✓ Media Access (see Media Coverage Issues) ✓ Police Enforcement of the Law 	<p>The report is expected by end March 2007. ⁴⁰Full Implementation of the recommendations will be made in consultation with the relevant stakeholders there after. The Government will issue a statement on the means of implementations of recommendation.</p> <p>Hearing to commence provisionally on 19th March 2007 in the report to be delivered towards the third quarter of the year. The president has given his commitment to publish the report.</p> <p>⁴¹Recommendations with regard to the structure of the Police Force and its training will be implemented with the relevant stakeholders upon</p>

⁴⁰ Deadline/Time Frame of implementations will depend on the recommendations.

⁴¹ Time frames given do not take into account possible delays (of up to 3 months) which may be encountered given that 2007 is an election year.

	To promote public awareness of human rights at a national level.	<ul style="list-style-type: none"> ▪ Dissemination of copies of the Constitution of Seychelles in educational institutions. The school curriculums will be adjusted to incorporate this programme. 	<p>submission of the report (with the objective of promoting professionalism in the police and armed forces).</p> <p>Training of teachers with proper guidelines (at the appropriate levels) will start before end of 2007.</p>
Media Coverage Issues	<p>To address the issue of participation, pluralism, partnership and subsidiarity.</p> <p>To review the role and function of the Seychelles</p>	<ul style="list-style-type: none"> ▪ Leader of Government Business in the National Assembly has been requested to establish a committee to look into the issue of access of political parties to the media. ▪ The external enquiry into the events of the 3rd October 2006 will also be looking at media issues and precisely the question of access to the media by political parties. ▪ Guidelines for SBC to direct programming without any bias and to reflect diversity of alternative views. These guidelines would be developed in 	<p>Work by the committee is now in its last stage. Concrete recommendations are being drafted in a report which will be submitted to the National Assembly by the first quarter of 2007. Implementation of the recommendations will be made in consultation with the relevant stakeholders there after.</p> <p>Report will be ready by end of March 2007. The first 'module' of the enquiry which concerns the media issues will be completed by end of March 2007.</p> <p>Guidelines to be compiled upon receipt of</p>

	Broadcasting Cooperation.	line with recommendations made in the external enquiry in the events of 3 rd October 2006.	recommendations in March 2007.
Electoral Process	To review ways to improve the methodologies of the Electoral process.	<ul style="list-style-type: none"> ▪ Amendments to the Electoral Laws. The amendments will be based on experiences from the previous elections and the need to tighten loopholes. Several areas of the Electoral Process will be revised, including registration, voter's roll and the election process. ▪ Conduct Population Census for Boundary delimitation and authenticate residents on voters roll. ▪ Review the possibility of the establishment of an electronic register in conformity with the Data Protection Act and other Constitutional framework in respect to the right of privacy of the individual. 	<p>Amendments to be enacted before the end of 2007.</p> <p>The Census is carried out every ten years and the next one is scheduled for 2010.</p> <p>The exercise will be completed by the first quarter of 2008.</p>
<u>Political Governance</u> Rule of Law	<p>To strengthen transparency in government legal dealings as well as the credibility of the CAA.</p> <p>To improve the integrity of the Judicial system.</p>	<ul style="list-style-type: none"> ▪ With the resignation of the current Chairman of the Constitutional Appointments Authority (CAA) in early 2007, the President has given a commitment that the new Chairman will have no current affiliation with a political party nor be a practicing lawyer in the Seychelles court. 	New Independent Chairman in post by April 2007.
	To ensure the protection of abuse victims giving testimonies.	<ul style="list-style-type: none"> ▪ The setting up of video link evidence system to protect children, particular those allegedly subject to sexual abuse, to depose to Court without necessity to face the accused (the alleged aggressor) in court. (The system will eventually extend to other cases where the witness feels threatened and it is felt that the fear is legitimate. This however, will depend on financial sponsorship) 	The system will be up and running at the beginning of the 2 nd Court Term in May 2007.

<p><u>Government Effectiveness</u></p>	<p>To ensure a neutral, responsive and transparent system of governance.</p>	<ul style="list-style-type: none"> ▪ The security clearance mechanism has been reviewed. 	<p>The new system allows only for police/ criminal record check.</p>
	<p>To strengthen the policy dialogue between key partners in the development process and play a positive role in the implementation of good Governance and to develop a more mature partnership between the civil society and the government.</p>	<ul style="list-style-type: none"> ▪ A Memorandum of Understanding (MoU) between the Government (through the Ministry of Employment and Social Services) and LUNGOS is being worked on. This collaborative framework with the government will spell out the mode for serious and effective engagement and collaborate in the timely delivery of required actions. 	<p>Consultation with stakeholders is about to begin and the conclusion of this collaborative partnership framework agreement with Government will be in June 2007.</p>
	<p>To delegate more authority to Chief Executives with the aim of decentralizing the decision making process for a more efficient and proactive Government.</p>	<ul style="list-style-type: none"> ▪ Following the President's call in 2005 for a more efficient public service, the Department of Public Administration (DPA) is re-looking at two pivotal aspects of Governance in Government, namely: <ul style="list-style-type: none"> ✓ Administrative Orders & ✓ Delegation of Authority 	<p>DPA made a presentation to the chief executives in the last Chief Executives' Forum held in January 2007 and are now awaiting their comments. Upon incorporation of comments, implementation of the revised Orders will begin in mid-2007.</p> <p>Training is being carried out for relevant public servants in order to equip them with the necessary skills to deal with the additional responsibilities which will arise in a more delegated environment. Training will carry on until respective officers are comfortable with the revised orders and can take on the responsibility of increased delegation.</p>

	To achieve independence and professionalism of the Public Service.	<ul style="list-style-type: none"> ▪ To ensure that Government and political party functions remain separate, in particular in relation to Local Government and District Administration, recruitment of staff in this department will be advertised accordingly and chosen on the basis of qualifications. 	Applicable in the next recruitment process.
	Declaration of Interests, Income, Assets and Liabilities, and adherence to the Public Service Code of Conduct and Ethics in order to foster the integrity of the public service. This exercise aims to reinforce transparency and accountability in the public service.	<ul style="list-style-type: none"> ▪ To legalise the Administrative Order to ensure the protection of the rights to privacy of every public servant who complies. 	The legal aspect of this exercise is being carried out in collaboration with the Attorney General's Office and is expected to be ready for implementation by early 2008.
<p><u>Economic Governance</u></p> <p>Rule of Law</p>	To thoroughly evaluate and review the investment code in order to ensure that the investment rules remain transparent and reliable.	<ul style="list-style-type: none"> ▪ Review the schedules in the investment code. ▪ Provide further guarantee to investments made by local and foreign investors. 	<p>The Investment Code is expected to be amended by July 2007.</p> <p>Increase in the amount of BIPPA's signed by Seychelles with countries that belong to the OECD.</p> <p>Increase in FDI and job creation (Total employment across all sectors 2003-33,111 and up to March 2006 2006-37, 753)</p>

	<p>Enhance and provide a more conducive environment to the business community in order to ensure greater participation in different economic activities.</p>	<ul style="list-style-type: none"> ▪ Amendments to the Tourism (Incentives) Act (TIA) of 2003 ▪ Revise the Agriculture and Fisheries (Incentives) Act. To re-look at the schedules to add new categories of activities to increase the scope of participation in the sector. ▪ Enhancement of the fisheries sector. ▪ Create a line of credit for Agricultural inputs, new abattoir, and poultry parent stock and crop insurance. 	<p>The TIA is expected to be amended by June 2007.</p> <p>More businesses created in the tourism sector/industry. Eg: Increase in self catering establishments, 44 in 2002 to 51 in 2005.</p> <p>Additional spin offs from different sectors of the economy.</p> <p>To be enacted as a stand alone act for the fisheries sector. To be enacted a stand alone act for the agricultural sector. Both are expected to be completed by August 2007.</p> <p>Increase in productivity Increased investment in the fisheries sector.</p> <p>Increased investment in the agricultural sector.</p>
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	<p>Create a more responsive and reliable rules that encourage accountability and sustainability.</p>	<p>Revise, update or abrogate business-related legislation in order to bring the law in conformity with the constitution.</p> <ol style="list-style-type: none"> (1) Modernizing the licensing Act. The process includes; reducing licensing fees, doing away with the bureaucratic procedures to acquire different licenses thus making licensing procedures more transparent and do a complete review of this legislation. (2) Review the employment legislation so as to increase the employees and employers protection, allow the labour market to be more flexible and competitive and encourage greater equality in the workplace. (3) Revision of the Companies Act. 	<p>The process is on going. Its success can be measured through the increase of businesses and investments/ amount of licenses.</p> <p>The process is ongoing and is expected to be completed in the next 10 months. Te revamped employment act aims to increase efficiency and productivity as well as reduce dependency on foreign labour.</p> <p>The Act will be brought in line with international laws governing the creation of companies. The review of the Act is expected to be completed in the next 6 months.</p>
<p><u>Quality of Partnership</u></p>	<p>To strengthen dialogue with its development partners.</p>	<ul style="list-style-type: none"> ▪ Establishing regular, periodic, Political dialogue meetings, to exchange information and strengthen relationships. 	<p>In the first Political Dialogue (between MFAIC, EU and the member states), it was agreed that the following issues will be discussed in future dialogues: (i) peace and security and (ii) democracy and human rights.</p>

Annex 9: Water and Sanitation sector analysis

Water situation

Although the three main islands (Mahé, Praslin and La Digue) receive sufficient annual rainfall, they have nevertheless had to contend with water rationing during the dry season for several years now. This shortage is bound to become more acute with the effects of climate change, leading to disruption of economic activity and public health problems during the 3 to 4 month-long dry season.

At present, around 92.5% of the population receive treated water. The number of customers in 2005 stood at 21,698, i.e. 18,943 domestic and 2,755 industrial/commercial. The Public Utilities Corporation (PUC) has the monopoly over the supply, quality control and distribution of water in the three main islands of Mahé, Praslin and La Digue (which together account for 99% of the country's population) and the small satellite islands around Mahé.

At present, the PUC operates 32 waterworks using surface water resources, and four desalinisation plants. Of the 32 waterworks, 27 are located on Mahé, while four are located in Praslin and one in La Digue. Two desalination plants are located on Mahé, while the other two are located on Praslin and La Digue. There is still a proportion of the population who live in areas not yet supplied with treated water and who obtain untreated water from direct stream abstraction, which is under the control of the Rivers Committee, a body under the chairmanship of PUC (W&S).

The Government invested heavily in desalinisation plants in 2003. The direct cost of producing water at the desalination plant is double the direct cost of producing water from surface water sources (which is currently around SR 5.0/kl).

Over 40% of the total water production is unaccounted for in the distribution system on Mahé, Praslin and La Digue. This amount contributes to the water loss from all underground distribution system piping facilities, illegal connections or theft, and inaccurate metering flushing of pipelines and fire-fighting. A programme to monitor and manage unaccounted for water is to be undertaken, with the aim of reducing the percentage of such unaccounted-for water to 15-20% or less.

At present, the total pipe network in the three islands stands at 425 km. The number of connections totalled 21,698 at the end of 2005 and the quantity of water produced amounted to 37,000 Kl/day.

Mahé has 300-km pipeline network of which 128 km are over 20 years old and 21 km over 30 years old. Of the distribution network, 29% is made of asbestos cement pipes and 9% of PVC. Thus, the system is prone to frequent pipe ruptures and leaks, resulting in high levels of Unaccounted for Water (UfW) and frequent breakdowns in water supply.

In addition, the capacity of these pipelines is inadequate to meet the current supply needs of the system. In Praslin pipes over 30 years old make up 42 % of the total distribution length of 80 km. Of these, 27 km are made of asbestos cement while 7 km are made of uPVC.

La Digue has a total distribution length of 49 km, of which 27 km (55.1%) is over 20 years old. Of these 27 km, 18 km are made of asbestos cement while 9 km are made of uPVC. With 40% of water supply being lost through leaks, repairs to the pipe network are one of the key areas requiring additional investment.

The present tariff structure is outdated due to social considerations; it was last revised in 1994. Extracts from the PUC's profit and loss statements show its critical financial situation, with both the water and sewerage sectors experiencing severe deficits. Calculating water

tariffs as a fixed rate is not the most appropriate way of encouraging water saving, and leads to a level of consumption (about 140 l/person/day) which is disproportionate to Seychelles' level of development.

PUC's inability to obtain adequate foreign exchange under the Government arbitration procedures has contributed, over the years, to creating a high maintenance backlog, which it is becoming necessary to tackle as a high priority in order to sustain operations.

Major projects carried by the PUC during the last five years are the following:

- Rehabilitation and upgrading of Le Niol Treatment works;
- Upgrading of North West Mahé Pipeline Network;
- Seychelles Desalination Project;
- South Mahé Water Supply Project;(ongoing)
- Greater Victoria Sewerage Project;
- Beau Vallon Sewerage Project;
- Baie Lazare Water Supply Project

Surface water resources

The principal source of potable water on the main islands of Mahé, Praslin and La Digue in Seychelles are the numerous small rivers and streams to be found on the islands. There are 38 catchments that are gauged periodically on Mahé, 11 on Praslin and 8 on La Digue representing respectively 56 sq km, 8.6 sq km and 1.2 sq km of catchments areas from which treated and untreated water is abstracted for domestic supplies and also for agriculture, commercial and industrial activities.

The granitic islands have steep, swift-flowing, choked rivers and streams strewn with boulders and, because of the high intensity rainfall pattern during the wet seasons and steep slopes, the rivers and streams cut deep valleys which form a prominent feature of the landscape. The rivers and streams are often ephemeral, and few are perennial. However, due to the steep topography and low retention capacity of the soil and rocks of which the islands are composed, the flows in the rivers and streams are erratic and fall to very low values during prolonged periods of drought. Despite the abundant rainfall during the North West monsoon, it is estimated that about 2% of rainfall actually enters the ground water for sustained infiltration into rivers and streams and about 5% of available water is actually abstracted for the three main purposes, namely domestic, agricultural and industrial uses.

The water resources of Mahé, Praslin and La Digue are naturally limited and their full assessment is necessary if the growing population and increasing activities are to be supported. As may be expected, most rivers and streams originate in the mountains and flow along steep slopes to the sea. Due to the presence of large boulders, only a few sections are exposed to the surface and are accessible. Because of the short length of the rivers and the underlying boulders, gauging can only be carried out in accessible locations.

Development of the rivers and streams to provide reliable yields of water requires the construction of substantial storage reservoirs. To date, two catchments on Mahé have been exploited in this way. Once again, their development potential is limited due to the islands' steep topography. There are only two major direct abstractions from rivers with impounding reservoirs, whereas there are twenty-seven minor direct abstraction schemes on the rivers in Mahé. There are four direct river abstractions on Praslin and four on la Digue. La Digue's supply is also supplemented by two groundwater sources.

Sanitation and sewerage situation

It is estimated that 80% of the population rely on septic tanks and 20% are equipped with latrines, of which only about 10% are connected to the two public sewerage systems: Providence (capacity 7000 kl/day and commissioned in 2000) covering Greater Victoria and Beau Vallon (capacity 3000 kl/day, opened in 2003) covering the second main urbanized site. The plants are presently operating below capacity due to the limitations in the collection system.

The Greater Victoria Sewerage Scheme is presently collecting sewage mainly from Central Victoria. Consequently, the main treatment works at Providence operates at only 30% of its full capacity, treating around 2,000 Kl/day of sewage per day. The Beau Vallon system runs at 25% of its capacity. Fixed costs for a smaller volume of effluent treatment than initially planned might have resulted in tariff increases, but were not considered by the Government. The sewage operations are a loss-making activity for the PUC.

The designs for the Praslin Island sewerage system have been completed and a feasibility study is underway for La Digue.

Individual sanitation regulations exist but are scarcely enforced during construction and are not checked thereafter. Growing pollution of rivers and coastal waters is being witnessed, but no comprehensive assessment is being undertaken.

Water and sanitation policy

The 1993 Constitution defines access to potable water as a basic right of all Seychellois. Government has formulated a policy on water, the aim of which is to achieve the delivery of potable water to 95% of the population, by 2010.

The Seychelles Government at the highest level (i.e. the cabinet of ministers chaired by the President) reviews and endorses all proposed water policies, water management plans and some categories of development projects; this is in order to ensure their compatibility with national sustainable development principles, with a view to optimising an economic return and conserving the environment. These principles are enshrined in the Seychelles Constitution and guided by the sustainable principles set out in the Environment Management Plan of Seychelles (EMPS 2000-2010). EMPS 2000-2010 is currently the most comprehensive national plan aimed at implementing Agenda 21. The overall goal of EMPS 2000-2010 is the promotion, coordination and integration of sustainable development programmes that cut across all sectors of society in Seychelles in order to attain the above mission.

Water policy objectives and programmes

The Environment Management Plan of Seychelles (EMPS) 2000-2010, drafted in 1999, defined a list of objectives and programmes for the water sector:

- Limit the increase in water demand by stabilizing consumption, reducing losses, and encouraging measures to use rain water (9.3 m US\$, funding needs 4.7 m US\$)
- Increase water supply by 8000m³/d mainly through the installation of four desalination plants, plus the extension of existing production and treatment works and the construction of new transfer lines (already funded and desalination plants commissioned); this has already been achieved.

- Capacity building in management and control (0.9 m US\$, of which funding needs amount to 0.7 m US\$);

More recently, in 2004 a working group carried out a problem analysis and a screening of solutions, which identified several possible ways to tackle present and future challenges (see hereunder).

An action plan was drawn up by a working group in 2003, following the recurrent water shortages that occurred between 2000 and 2003 (drought years). The main issues identified were as follows:

Short Term Actions

a. Improvement of Efficiency and Effectiveness

- An accelerated programme of pipe replacement to be carried out over the next three to four years to reduce the unaccounted-for water (UFW);
- An accelerated, pro-active and sustained meter replacement programme to increase PUC's revenues and to gain better control over UFW;
- Promote the installation of water storage in consumers' homes and premises.
- Strengthen PUC's leakage inspection teams and attend to repairs promptly. The development of subcontracting services should be looked at in the medium term;
- Undertake an external audit of PUC's operational efficiency;
- Establish a research unit within PUC to mathematically model the water and sewage consumption pattern and develop in-house capacity to undertake long-term marginal costing in order to advise Government on tariffs.
- Recruit a team of consultants to update the 1988 Gibbs report, determine the marginal cost of various water producing/saving options, and list these in order of increasing cost.

b. Demand Suppression Measures

- A general increase in tariff levels for the domestic sector while for the time being maintaining a socially acceptable rate for the first few cubic metres of water consumed, which is regarded as essential.
- A two-stage increase in the water tariff according to the water level in La Gogue Reservoir.

c. Supply Options

- Implement a pilot project to store water using either the lagoons or the islands on the East Coast.
- Invite water development schemes from the private sector.
- Promote the development of community storage schemes at district level.
- Actively promote the development of rainwater harvesting as follows: (i) Use rainwater for domestic toilets, (ii) study rainwater harvesting for La Digue, (iii) promote rainwater harvesting in public and commercial buildings and high-density housing projects, and (iv) promote use of rainwater in tourism establishments.
- Undertake specific technical studies.
- Take the necessary action to preserve water catchment areas.
- Ensure availability of adequate foreign exchange for maintenance activities.

Medium Term Actions

a. Improvement of Efficiency and Effectiveness

- Evaluate further action based on the updated Gibbs report (1988).
- Continued implementation of pipe and meter replacement programmes.
- Implementation of recommendations of the external audit report.
- Undertake a technical assessment of how the distribution network can be made more effective so as to minimize disruptions due to water rationing.

b. Demand Suppression Measures

- Develop a system for harmonizing physical and economic development with the country's capacity to satisfy its water and other utility needs, and determine certain key policy guidelines, especially in relation to developments at high altitudes.
- Develop a national water conservation plan.
- Establish a special unit in PUC/the ministry responsible for environment to promote water conservation (including keeping abreast of new technologies and ensuring constant public awareness, especially of the cost of water), develop necessary standards and ensure the installation of water saving devices by means of legislation.
- Actively implement an effective tariff to encourage people to save water.

c. Supply Options

- Evaluate the East Coast pilot storage project and consider increasing storage.
- Implement, if feasible, a major storage scheme on one of the newly-reclaimed islands off the East Coast as an interim measure.
- Study and implement, where feasible, cascading dam systems and other storage schemes using natural depressions and those created by human activities such as quarrying.
- Implement, if feasible, a project to tunnel water from Grand Anse to Rochon Dam/the East Coast.
- Implement, if feasible, the project to enlarge La Gogue Reservoir.
- Implement rain water harvesting schemes where feasible.

Long Term Actions

a. Supply Side

- Implement, according to the findings of the updated Gibbs report, a major new water production/supply project such as at Grand Anse or Baie Lazare on Mahé and Plaine Hollandaise on Praslin.
- Identify new sources of water, especially through improvements in technology.

b. Demand Side

- Sustain national water conservation programmes.
- Strengthen the country's ability to plan national development in relation to water needs.

c. Distribution Efficiency and Effectiveness

- Continuous pipe replacement programmes to maintain UFW at projected levels.
- Complete automation of the supply and distribution system to respond to breakdowns in supply and to quality concerns in real time.

Sanitation

The Environment Management Plan of Seychelles (EMPS) 2000-2010 objectives and programmes for sanitation are as follows:

- Provide 30% of Mahé (northern area) with access to public sewers, and extend public sewerage systems to central Mahé and Praslin (41 m US\$, for which funding needs amount to 20.2 m US\$)
- Improve/put to standards for the existing individual systems (septic tanks, ..) and limit the use of latrines to 10% of the population (1.2 m US\$, of which funding needs amount to 1 m US\$);
- Capacity building in management and control (0.9 m US\$, of which funding needs amount to 0.7 m US\$);

A key point to be noted is that Seychelles does not have specific water and sanitation policy since it remains embedded within the broader EMPS. PUC uses the 1973 Constitution and the Public Utilities Corporation Act (revised 1991) as guidelines. None of the above provide the necessary principles and orientations that a body such as PUC-W&S should have in place to guide its action.

Institutional framework

The National Policy for Water Resources Management is under the aegis of the Ministry of Environment and Natural Resources, whilst the Public Utilities Corporation (PUC) has a mandate to plan, build and manage water abstraction and distribution infrastructure. PUC is also involved in the monitoring of river flow and management of water supply, especially in periods of drought.

The agency implementing the project is the Water & Sewerage Division of the Public Utilities Corporation (PUC), a parastatal body formed under the PUC Act of 1985 (revised in 1991). The Act stipulates that the PUC must provide and ensure a continued supply of electricity and potable water and provide a sewerage system to the population of Seychelles.

The Water & Sewerage Division is responsible for the planning and design of water supply and sewerage facilities and the operation and maintenance of water supply including sewerage installations, quality control and also the maintenance of the entire fleet of vehicles and equipment belonging to the PUC.

Adoption and enforcement of regulations governing individual sanitation are the responsibility of the Ministry of Land Use and Habitat, as are building permits, particularly on hilly areas with high potential impacts on catchment areas and groundwater.

The Ministry of Environment is responsible for pollution monitoring and control. It operates under the Environment Protection Act. Sections that deal specifically with water pollution control are: “7. (1) *The Minister may, by regulation, provide for the preservation of fishing areas, aquatic areas, drinking water sources and reservoirs, recreational and other areas where water may need special protection and; carrying out works which appear to be necessary to prevent, control or abate water pollution from natural causes or from abandoned works or projects or activities; 7. (5) No person shall, without an authorisation from an authority discharge any effluent or throw, deposit or place any polluting or hazardous substance or waste or any obstructing matter into any water course or in the territorial waters*”. Under the Act any person found contravening any of the sections is liable to a fine or imprisonment.

PUC financial situation

The latest available figures are for the year 2003 and show a sharply widening financial gap in PUC revenue. In the meantime, PUC has limited its investments due to a shortage of foreign exchange. In a normal maintenance situation, PUC would have been near bankruptcy. In 2003 its losses already amounted to € 19 million.

PUBLIC UTILITIES CORPORATION FINANCIAL SUMMARY			
Balance sheets			
	Dec 2003	Dec 2002	Dec 2001
	SR'000	SR'000	SR'000
Fixed assets			
Tangible assets			
Operating assets	963 269	723 395	747 696
Capital work in progress	11 498	161 988	41 230
	974 767	885 383	788 926
Current assets			
Stocks	62 745	61 752	58 029
Debtors	25 666	28 432	34 933
Bank balances and cash	61 718	55 640	38 105
	150 129	145 824	131 067
Creditors due within one year			
Borrowings	(47 784)	(28 169)	(33 498)
Other creditors	(52 152)	(38 365)	(34 033)
	(99 936)	(66 534)	(67 531)
Net current assets	50 193	79 290	63 536
Total assets less current liabilities	1 024 960	964 673	852 462
Creditors due after more than one year			
Borrowings	(438 113)	(415 392)	(386 135)
Other creditors	(16 073)	(15 390)	(14 237)
	(454 186)	(430 782)	(400 372)
Provision for liabilities and charges	(22 455)	(21 641)	(20 759)
Net assets	548 319	512 250	431 331
Assigned capital			
	50 620	50 620	50 620
Reserves			
Revaluation reserve	158 537	158 537	158 537
Capital contribution reserve	272 379	189 389	189 141
Profit and loss account	(133 643)	(45 187)	(51 345)
	297 273	302 739	296 333
Government long term loan	200 426	158 891	84 378
Government funds	548 319	512 250	431 331

Water management programmes

It can be considered that the recent water management crisis is largely due to the longstanding inability to harmonise development needs with water production requirements, the lack of foreign exchange to carry out and sustain maintenance programmes, and the impact of the

social dimension on the real cost of producing services to consumers. PUC has designed several programmes to address some of these issues.

Increase in supply

The only major project which aims to increase the overall availability of raw water is the Grand Anse dam and treatment project. However, one additional upstream dam could also be built on Grand Anse river, which would then be the most upstream dam to be built in the longer term. The downstream dam (of a maximum capacity of 2,000 megalitres) would enable water to be supplied to East, West and South Mahé. The cost is estimated at € 30 million. Extension of the Praslin and La Digue desalination plants will also be considered (€ 5 million).

Other projects aim to increase the supply of water for Victoria, mainly the raw water transfer tunnel to increase raw water resources in the Rochon-La Gogue system (€ 4.5 million) and the Mount Simpson / La Gogue raw water transfer scheme to increase raw water resources in La Gogue reservoir (€ 2.0 million).

Monitoring and Managing Unaccounted-For-Water (UFW)

Monitoring and managing Unaccounted-For Water (UFW) involves (i) replacement of ageing pipelines, (ii) replacement of faulty bulk meters, (iii) replacement of under- registering and non-registering meters, (iv) introduction of a telemetry system for rapid response to breakdowns and leakage, and (v) strengthening of the Leak Detection Inspectorate. The total cost of a backlog recovery programme is estimated at € 6 million:

- In total, 187 km of pipelines are earmarked for replacement: of these, 127 km are in Mahé, 3 km in Praslin and 27 km in La Digue. However, under the priority replacement plan proposed to the EU Water Facility (2006), only 18.6 km in Mahé, 6.3 km in Praslin and 4.3 km in La Digue will be replaced, at a total cost of € 4 million.
- A number of bulk meters are currently installed in the various head works and the distribution system to record production and consumption at the key points in the system. A number of these meters are old and provide faulty information. Furthermore, the meters cannot be monitored remotely. Thirty one of the 48 bulk meters need replacing, at a total estimated cost of € 0.4 million.
- There are at present 3 500 meters out of a total complement of 22 000 meters which are not registering or are under-registering in the system. Replacing them would cost €0.1 million.
- Introduction of a telemetry system for rapid response to breakdowns and leakage would cost about € 1mio. Furthermore, it will be necessary to procure sophisticated equipment such as ground microphones and sounding equipment in order to identify leaks, and also to train personnel to operate the system – at an estimated cost of € 0.5 mio.

Accompanying measures to be considered are the following:

- Establishment of a Committee on Unaccounted-For Water Reduction;
- Identification of water loss;
- Development and implementation of improved monitoring and record keeping;
- Improvement of water supply management and reduction of physical losses through mapping, water distribution modelling software and training of leak detection staff.

It is anticipated that UfW will reduce water losses by 10% to an acceptable level of 18-20% (approximately 220,000 m³ per year). This will reduce operating costs, increase revenues through the registration and metering of all consumers, and delay the need for capital investments to implement new projects. The five-year UFW Reduction Plan would reduce operational costs and increase earnings in the order of SCR900,000/year and SCR600,000/year respectively, thus boosting the PUC's cash flow by SCR1.5 million annually.

Design of a Master Plan for the water sector

The study will have to make recommendations on the basis of the cost effectiveness of the various measures in meeting the Seychelles water requirements until the year 2025.

(a) Review Phase

1. Review the Terms of Reference to suggest any modifications or improvements deemed necessary for the successful completion of the study
2. To review the reports on previous studies in order to:
 - Ascertain the validity of assumptions made in the various studies.
 - Ascertain that the projections of demand are realistic.
 - Review the various options presented in the studies to enhance supply resources
 - Examine the validity of such proposals in the current context.
 - Revise the cost estimates to reflect current values.
3. Examine innovative ways of enhancing supplies
4. Examine available technology for reducing demand
5. Examine hydrological data on available water resources
6. Review the Causal Analysis of the problems prepared by the Water Committee and amend it to include all factors not previously considered and to exclude superfluous material
7. Review the existing water supply system based on the available PUC records and other relevant data:
 - Review and assess system operation, system losses, yield and reliability.
 - Identify critical capacity components of the system
 - Identify surplus capacity components within the system (particularly treatment works' capacities).
 - Prepare a system optimisation programme and assess the benefits thereof.

(b) Study Phase I

In this Phase the Consultants will prepare a comprehensive design model for demand, taking into account various development scenarios. This will include the following:

1. Assessing whether the criteria specified will result in adequate coverage of the population in the main islands and satellite islands located in close proximity to the main islands.
2. Appraising the projects planned in the areas covered and assessing their demand implications.
3. Collecting data relating to the proposed housing programmes from the relevant Government or non-Governmental organisations and incorporating these into the demand calculations.
4. Studying the demographic characteristics and arriving at suitable population projections for the period.
5. Assess the projected commercial demands from industry and tourism-related activities, including projections of tourists up to the design horizon
6. Collect data from relevant agencies as to land use planning for undeveloped areas
7. Make reasonable assumptions for other areas, such as the newly reclaimed areas for which land use plans are not yet final

8. Consider additional measures for reducing the water demand. Such measures shall include, but not be limited to, the following:
 - Tariff adjustment
 - Household storage and rainwater harvesting
 - Utilisation of water saving devices
 - Consumer awareness and participation in conservation measures
 - Re-use of wastewater, both treated effluent and industrial wastewater
9. Assumptions for UFW in the future, along with the basis for such assumptions
10. Examine the legislative, regulatory and social considerations underlying the assumptions made.
11. Projecting demand to the year 2025 under different demand scenarios
12. Collection of Hydrological and Hydrogeological Data to ascertain the adequacy of Freshwater Resources

(c) Study Phase II

The study Phase II will include the following:

1. Analysis of existing water costs and strategies to minimise costs
2. Immediate measures to optimise the yield of the existing system
3. Evaluation of various supply options to meet the favoured demand model developed under Phase I; these shall include but are not limited to:
 - Optimize river runoff exploitation
 - Provision of additional bulk raw water storage reservoirs (dams, etc.)
 - Additional treatment works/pumping stations/ treated water storage reservoirs/pipelines
 - Meeting agricultural demand with untreated or recycled water
4. Conceptual design of the different supply options to meet the demand
5. Transmission/distribution model to serve all communities/areas identified under the demand projections
6. Basic calculations
7. Estimates of both capital and recurrent costs
8. Preparation of a Priority Investment Programme (Year 2015 target)
9. Comprehensive programme of works and measures
10. Tariff Model for Cost Recovery based on the principle of marginal cost of producing water
11. Economic and Financial analysis, including rates of return on investment
12. Institutional Aspects
 - Appropriate management structure and professional staff requirements
 - Requirements in terms of technicians and other staff
 - Training
 - Operation and maintenance resource levels
 - Review of financial viability of the Division in relation to the organisation as a whole

Sewerage extension programmes

Government plans are relatively clear in terms of the construction of public sewerage systems. However, this requires a significant amount of funding, sufficient operating capacity, and sustainability of the PUC's revenues. This may be too ambitious for Praslin and La Digue and some areas in Mahé in view of the limited financial resources and lack of access to foreign currency. The financial sustainability of such schemes appears questionable. There is no sanitation plan covering central sewerage schemes and other sanitation devices.

PUC's solution to the under-utilization of the treatment plants is to extend the sewerage networks in Victoria as well as in Beau Vallon: 30 km of sewer extension have been identified for a total cost of € 3 million. There is no mention of the percentage of treatment plants capacity reached through this programme

Annex 10: Social Situation

Population

The population of Seychelles is very small; in June 2006 it stood at 84,600 with a ratio of approximately 1027 men for every 1000 women. The population is characterised by a slow growth rate together with low birth and mortality rates. External and internal migration, combined with a culture of mixed marriages, has produced a multi-ethnic population.

Changes in lifestyles and adjustments in fertility trends have impacted upon the population growth rate and age structure. Until the late eighties, the population was relatively young, with a high proportion of Seychellois citizens under 20 years of age. The 1987 population census revealed a change in the age profile, with an increased share of older people and decreasing proportions of younger ages.

The largest share of the population (90%) is based on the main (and largest) island of Mahé. "The Seychelles Population and Housing Census 2002 Atlas" indicates that the population is mainly concentrated along the country's three main island's coastal areas.

The table below presents some key characteristics of the Seychelles' population:

Indicators	2000	2001	2002	2003	2004	2005
Population per doctor ratio	795	781	743	720	825	n/a
Population with access to essential drugs (%)	100	100	100	100	100	100
Population per dentist	4,507	3,123	3,028	3,763	3,749	n/a
Adult literacy rate	87%	87%	91%	92%	95%	96%
Median Age Years	27	28	29	28	29	n/a
Dependency Ratio	504	504	501	502	494	n/a
Marriage Rate	6.0	5.1	5.1	4.4	4.9	n/a
Divorce Rate	1.1	1.3	1.4	1.5	2.1	n/a

Source: Ministry of Health, NSB

Education

Over the past two decades, education in Seychelles has been driven by the principle of "*education for all and education for life*". This has been implemented by:

- A comprehensive, co-educational system, made available free of charge to all Seychellois children for a period of 13 years (from 3+ to 16+)
- A system of further education available to all Seychellois students who meet the selection criteria for a particular course of study or training (there is a bursary system with means-tested allowances).

The education sector has, for many years, been high on the Government's agenda, and as a result by 2005 the country had a literacy rate of 96%. Net enrolment figures have reached 100% for both girls and boys, and completion rates are high. Whilst tuition and text-books are provided free of charge at public schools, students are required to pay for some facilities, such as school uniforms, bus fares and meals, although all of these are subsidised by the government.

In 2006 the number of students enrolled in crèches, primary and secondary schools totalled 20,615; 94.5% of these attended public schools, whilst 5.5% attended the country's three

private schools⁴². The pupil/teacher ratio for pre-primary, primary and secondary averages 14:1, whilst for the post-secondary non-tertiary sector it is only 8:1, which is quite a remarkable record. Seychelles has no locally based university. All students therefore have to go abroad for their tertiary education or undertake distance-learning programmes.

Personal and Social Education (PSE) is implemented within the schools' formal curricula. Outside the curriculum, trained school counsellors provide individual counselling on health-related issues to pupils who seek advice. Pupils requiring specialist help are directed to the Youth Health Centre counsellors or school nurses.

Free and compulsory education is granted to girls and boys alike. The only exception is in the case of early pregnancy. Girls are not allowed to attend school when they are pregnant, and many do not return to school after the birth of a child. The age of consent is 14, and women under 20 years of age accounted for 14% of all births.

Health

In the health sector, emphasis has been placed on the need to improve the operational efficiency, effectiveness and quality of services offered, whilst rationalizing expenditure. Prevention remains the main thrust of the health strategy of the Government. This being so, the reduction of risk factors associated with the priority non-communicable diseases (especially cardiovascular diseases) and of risk factors associated with the priority communicable diseases (including HIV/Aids) are high on the health agenda. Women and men have equal access to free health services.

The HIV/AIDS prevalence in the general population is currently estimated at less than 1%, with the majority of reported HIV-infected cases being Seychellois. There are numerous local factors increasing the vulnerability to HIV/AIDS, including the historical prevalence of multiple and casual sexual partners, physical and financial insecurity leading to informal prostitution, inadequate accessibility and availability of condoms, sexual abuse, and poor perceptions of vulnerability to HIV/AIDS, especially amongst young people. The major constraint in combating the epidemic is resource mobilisation. Resources to combat the epidemic have increased, but are still insufficient in terms of human and material capacity in several areas.

Social protection

The Government's policy to eliminate poverty dates back to 1977 and since that time the Government has successfully implemented a series of poverty alleviation programmes relating to income generation, skills' acquisition and welfare in general. Nonetheless, the country's economic progress has not resulted in the total elimination of poverty. The most recent study on poverty carried out in 2005 by the Ministry of Social Affairs concluded that, while absolute poverty did not exist in Seychelles, there were "pockets of poverty". The latter were classified into 3 categories: (i) "hidden poor" (the younger and older generations who are still unaware of social welfare programmes and thus live in conditions far below the standard of the average Seychellois); (ii) "seasonally unemployed" (mainly fishers, stevedores and small farmers who have an irregular income) and "retired people living on limited pensions". This study nonetheless pointed to the need for further research in order to establish the poverty status of vulnerable children and persons with disabilities.

⁴² The three private schools are: Ecole Française, International School and Independent School.

The Social Security System (SSF) in Seychelles is both extensive and universal. In welfare terms it places special emphasis on those who are considered less fortunate, to ensure that they do not live in poverty. The range of benefits and services provided directly or indirectly to benefit families include old age pensions, sickness benefits and special assistance programmes for disadvantaged groups, such as the chronically ill, and the physically and mentally disabled.

Whilst the social welfare programmes have contributed to human development by enabling the poorest households to provide adequate care for their family members, they have also created high expectations amongst the population. These expectations are a constraint and pose a challenge to Government in financially sustaining the social security and social welfare programmes. Various strategies are currently being implemented, especially in the context of the Macroeconomic Reform Programme (MERP), to improve the targeting of social transfer programmes.

Housing

The Government remains committed to its policy of helping each Seychellois family to own their own house. In Seychelles today, around 75% of families are owners of their house.

The Home Ownership Scheme launched in 2002 has achieved remarkable results. Some 1,900 persons have benefited directly. The revenue generated by the Scheme is helping Government to sustain its housing programme. A new Ownership Scheme was launched in December 2005 as an extension of the 2002 scheme. A total of 1,549 tenants have already registered on the new scheme to purchase their house and a total of 1,818 borrowers have likewise taken advantage of the discounts on their loan balance with the Housing Finance Company (HFC). Overall, a total of 3,367 households have benefited from the new scheme.

Housing programmes continue to occupy a central place in government policies as a means of economic transfers to the poorer strata of the population; as at end 2006, Government has embarked on an ambitious housing project on Ile Perseverance, which is due to provide two thousand additional housing units by 2011. In addition to major advances in the housing programme, the HFC has been issuing loans for house construction and for land purchase. Between January 2004 and December 2005 a total of 2,092 families (representing more than 10% of the country's population) benefited from the housing and loans programmes.

Annex 11: Seychelles Fisheries' Policy

Policy Background

There have been a large number of institutional and legislative changes affecting policy development and implementation over the past two years. Institutional changes included the restructuring of the Seychelles Fisheries Authority (SFA) and the creation of the Seychelles Port Authority and the Seychelles Investment Bureau. Legislative changes and new agreements include an Investment Code of Seychelles, an Agricultural and Fisheries (Incentives) Act, the lifting of the ban imposed by the EU on exports of swordfish from Seychelles to the EU, and the signing of a new fisheries partnership agreement with the EC for the period 2005 – 2011.

New Proposed Fisheries Policy

In 2005 the Ministry of Environment and Natural Resources (MENR) requested the technical support of the European Commission to strengthen and review the Seychelles Fisheries Policy.

The findings of the technical assistance report concluded that progress towards fisheries policy goals over the last 20 years has been remarkable. However, a number of current weaknesses in institutional structures, capacity and processes were identified, including: insufficient communication and consultation between government and private sector stakeholders; insufficient intra-government communication; lack of clarification of roles and responsibilities; and institutional weaknesses in terms of staffing numbers and capabilities. If these are corrected, it would make policy development and implementation more effective. In addition, there is no mid-term expenditure framework within the government's overall budgetary planning, and cash budgets are prepared annually.

A wide range of external factors were also identified that could have an impact on the fisheries sector. They include: global market trends in tuna products; trade regimes; the competitiveness of other countries relative to Seychelles and moves by many countries in the region to increase their share of tuna transshipment activities; various regional and global fisheries management initiatives and the location of fish stocks in the Indian Ocean, which - coupled with changes in fuel prices - may affect fishing and transshipment strategies.

The above-mentioned findings justified the revision of the existing structure of the policy goals and strategies specified in the fisheries policy document of 2005, providing a more logical hierarchy to facilitate policy implementation.

The new policy goals adopted are as follows:

1. Sustainable exploitation of marine resources
2. Maximum amount of employment and welfare in the sector and its related activities
3. Maximum value-added from fisheries and other related activities
4. Enhanced food supply and food security from the fisheries sector
5. An integrated economy

And the strategic axes to achieve the former policy goals are:

1. Improve management of small-scale and industrial fisheries
2. Maintain Port Victoria as the major tuna landing/transshipment port in the Western Indian Ocean
3. Applied research to support/inform policy and management decisions
4. Human resource development and institutional strengthening
5. Increase value-added from the sector
6. Promote the domestic tuna and swordfish long lining industry
7. Promote safety at sea and provide social support for domestic fishermen

Plan objectives and activities that will need to be completed if policy strategies, and therefore policy goals are to be realized have been also specified in detail.

In addition to the specific activities outlined in the hierarchy of institutional improvements, the following recommendations related to institutional changes and strengthening were made with a view to improving the specification of policy and its implementation. They can be summarized as follows:

1. Formalizing government/private sector consultation.
2. Strengthening of the SFA, and clarification of its policy roles.
3. Clarification of roles and responsibilities between other government departments, and better ongoing consultation.
4. Creation of a 'Policy Implementation and Monitoring Cell'.
5. Budgetary planning and allocation.

Annex 12: Map of Republic of Seychelles

