



## Executive Summary

Seychelles is an upper middle-income country with an estimated population of 90,825. Years of centrally-planned economic policies led to rapid economic development immediately after the socialist coup of 1977, but also created serious economic imbalances. These problems included large fiscal and external deficits and mounting debt arrears, which contributed to persistent foreign exchange shortages and slow growth that plagued Seychelles in the first decade of the 21<sup>st</sup> century. In October 2008, facing the near depletion of official foreign exchange reserves, Seychelles defaulted on interest payments due on its Eurobond valued at \$230 million, issued two years prior, severely damaging its credibility as a borrower. The government subsequently turned to the IMF for support and in an attempt to meet the conditions for a stand-by arrangement, implemented a program of radical reforms. These included a fundamental liberalization of the exchange rate regime, involving the devaluation and floatation of the Seychellois Rupee (SCR) and the elimination of all foreign exchange controls.

Seychelles' implementation and completion of its five-year reform program in late 2013 received praise from the IMF, and was helped by broad-based public support for the process and other ongoing market-based reforms. Seychelles welcomes foreign investment. However, while the country's investment policies encourage the exploitation of Seychelles' natural resources, the improvement of national infrastructure, and an increase in productivity levels, the Government of Seychelles also stresses the paramount importance of achieving this in an environmentally sound and sustainable manner.

While the Government of Seychelles has attempted to diversify the economy, it remains primarily focused on fishing and tourism. Seychelles' vast Exclusive Economic Zone (EEZ), which encompasses 1.3 million square kilometers of the western Indian Ocean, is viewed as a potential source of unexploited oil reserves and represents potential business opportunities for U.S. entities. Seychelles also has a small, but growing, offshore financial sector. There is also scope for U.S. investment in renewable energy as Seychelles seeks to reduce its heavy dependence on imported fossil fuels while preserving its naturally beautiful environment.

### 1. Openness To, and Restrictions Upon, Foreign Investment

#### *Attitude Toward FDI*

Seychelles welcomes foreign investment. The government's objective is to promote economic and commercial relationships to sustain its tourism and fishing industries, which are the main drivers of economic growth, as well as to diversify the economy.

#### **Law/Regulations of FDI**

There are no limitations on the participation of foreign capital in the economy except for the participation in the sectors referred to as "Reserved" and "Strategic" areas of investment. "Reserved" areas, according to Seychelles' current investment legislation, are activities reserved for domestic investors only, while "Strategic" areas relate to sectors in which domestic and

foreign investors may be allowed to operate subject to conditions designed to protect the public interest.

The following is a list of areas that are reserved for domestic investors only:

1. Accommodation of up to 10 rooms (excluding luxury villas)
2. “Liveaboard” (overnight scuba services up to 2 boats)
3. Travel Agent
4. Tourist Guide
5. Car Hire Operator (foreign franchises must be maintained by Seychellois)
6. Tour Operators
7. Boat Charter
8. Taxi Operator
9. Diving Centers (excluding dive operators)
10. Water Sports
11. Cottage Industry Projects
12. Video Shops
13. Internet Reseller
14. Public Exhibition of Films
15. Employment Agency
16. Building Contractor (with limited exceptions)
17. Artisanal Fishing
18. Small Enterprises (except where the project introduces or ventures into an area never before invested in, or introduces new technology that has never before been applied in Seychelles).

### ***Industrial Strategy***

Seychelles’ economy is heavily dependent on fisheries and tourism. In an effort to diversify its economic base, the government of Seychelles seeks investment in the following areas:

1. Agribusiness
2. Food processing and packaging
3. Eco-tourism and health/medical tourism
4. Renewable energy
5. Marine technology, including oil exploration
6. Ocean industry support services
7. Environmental technologies, including, solid waste management and recycling

Seychelles’ Exclusive Economic Zone (EEZ) is increasingly viewed as a potential source of unexploited oil reserves. Initial exploration has already begun to the immediate north of the main “inner” island group (Mahé, Praslin, and La Digue), and there is potential for further exploration in other areas. Petro Seychelles, which was established in 2012, is responsible for the upstream sector of the oil industry, including the promotion and supervision of oil exploration activities in Seychelles’ waters.

There is also scope for investment in the renewable energy sector as Seychelles seeks to reduce its heavy dependence on imported fossil fuels while preserving its near-pristine environment.

The government is working closely with several donors, including the International Finance Corporation (IFC), the Abu Dhabi Fund for Development, and the United Nations Development Program (UNDP) to encourage cleaner energy production and energy efficiency investments.

### ***Privatization Program***

The State remains a major player in the economy although the private sector is expanding, especially in the tourism and services sectors. A key aspect of the government's reform program relates to increasing the economy's market orientation and supporting private sector development. In this context, the government is working closely with the IMF and the World Bank to accelerate its privatization program and improve the business climate through a comprehensive review of the legal and regulatory framework.

### ***Screening of FDI***

The Seychelles Investment Board (SIB) is a "one-stop shop" for all matters relating to business and investment in Seychelles. SIB's main function is to promote investment and facilitate the investment process in line with the administrative, policy and legal framework. SIB also assists in screening potential investment projects in cooperation with other government agencies. The government of Seychelles is particularly keen to ensure that no business activity is undertaken at the expense of Seychelles' natural environment. In order for a business to be operational, all prospective investors need to apply for a license from the Seychelles Licensing Authority (SLA).

**TABLE 1**

<b>Measure</b>	<b>Year</b>	<b>Rank or value</b>	<b>Website Address</b>
TI Corruption Perceptions index	2013	(47 of 177)	<a href="http://cpi.transparency.org/cpi2013/results/">http://cpi.transparency.org/cpi2013/results/</a>
Heritage Foundation's Economic Freedom index	2014	(117 of 178)	<a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a>
World Bank's Doing Business Report "Ease of Doing Business"	2014	(80 of 189)	<a href="http://doingbusiness.org/rankings">http://doingbusiness.org/rankings</a>
Global Innovation Index	2013	N/A	<a href="http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener">http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener</a>
World Bank GNI per capita	2012	USD 12,180	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">http://data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

## **2. Conversion and Transfer Policies**

### ***Foreign Exchange***

Prior to November 2008, the Seychelles Rupee was pegged to the US dollar at a rate of USD 1 to SCR 5.5. The peg was removed as part of the IMF reform package begun in 2008. A freely floating exchange rate system is now in place and in 2013 the exchange rate remained between SCR 11 to SCR 12 to USD 1.

### ***Remittance Policies***

All foreign exchange controls were also removed in 2008 and foreign investors are free to repatriate their profits and other incomes.

### **3. Expropriation and Compensation**

The law states that in the event of compulsory acquisition or taking of possession of any property by the government, the latter should pay “prompt and full compensation” for the property.

### **4. Dispute Settlement**

#### ***Legal System***

The Seychelles legal system is based on English Common Law, the Napoleonic Code and the amended 1993 Constitution. Civil Law is based on the French Napoleonic Code adapted to Seychelles and is known as the Civil Code of the Seychelles. Company Law is based on English Common Law. The highest court is the Court of Appeal.

#### ***Investment Disputes***

Parties involved in investment disputes are encouraged to resolve their disputes through negotiations. The Seychelles Investment Act of 2010 provides for an Investment Appeal Panel to which aggrieved investors may appeal for a review of a decision made by a public sector agency with regard to their investments or proposed investments in Seychelles. In addition, investors may appeal to the Supreme Court (and potentially the Court of Appeal) in the event they are not satisfied with the decision of the Investment Appeal Panel.

#### ***ICSID Convention and New York Convention***

In 1978 Seychelles signed the International Convention on the Settlement of Investment Disputes (ICSID). Seychelles is not a party to the New York Convention.

### **5. Performance Requirements/Incentives**

#### ***Investment Incentives***

Seychelles provides incentives for investment in several sectors, including: the fisheries sector under the Fisheries Incentives Act; the tourism sector under the Tourism Incentives Act; investments in the International Trade Zone under the Seychelles International Trade Zone Act; and fiscal incentives under the Investment Code.

#### ***Performance Requirements***

Investors operating in Seychelles are expected to abide by the following obligations:

- To comply with the provisions of the governing laws on investment procedures and to carry out investment activities correctly in accordance with the relevant approvals granted. This includes the responsibility of the investor for the accuracy and truthfulness of the contents of investment proposals and registration; and of the lawfulness of document on certification;
- To discharge fully their financial obligations, including taxation, in accordance with the law;
- To carry out the provisions of the laws on accounting and auditing;
- To carry out the provisions of the laws on registration of companies and other legal entity;
- To carry out the provisions of the employment laws and regulations.

## **6. Right to Private Ownership and Establishment**

Foreign and domestic investors are able to own and hold lands subject to the provisions of the Immovable Property (Transfer Restriction) Act of 1963.

In March 2014, the sale of freehold state land to non-Seychellois stopped. A policy on Alienation of Land and the Management and sale of state land as well as a Villa Policy was introduced. Non-citizens can still buy land freehold from private owners. Foreigners can obtain long term leases of state land. Before leasing land from the government, a foreign investor must submit a project proposal to the Seychelles Investment Board for approval. Foreign nationals or companies engaging in foreign participation must obtain permission from the Ministry of Land Use and Housing before completing a purchase. The investor will need to use a notary or attorney to manage the transfer of ownership when buying land from a private individual or company, which will then need to be registered at the Registration Office.

In practice, the government engages in leases ranging from 60-99 years for commercial or industrial activities and has stopped selling state land.

## **7. Protection of Property Rights**

The Republic of Seychelles respects intellectual property rights, and regards laws and other measures to protect them as crucial for long-term economic development. Efficient and effective protection of Intellectual Property Rights is considered vital by the government for promoting foreign investment, the transfer and dissemination of technology, and protecting local businesses and artists as well as facilitating the integration of Seychelles' economy into the regional and global economies. Seychelles joined the World Intellectual Property Organization (WIPO) in March 2000. In addition, the country became a contracting party to the Paris Convention for the Protection of Industrial Property and the Patent Cooperation Treaty (PCT) in November 2002. Seychelles is also a member of the African Regional Intellectual Property Organization (ARIPO). In 2013, an Intellectual Property Office was established to enable the registration of patents, trademarks and copyrights.

The Copyright Act, the Trade Marks Decree and the Patents Act contain provisions that lay down the procedures and measures dealing with infringement of intellectual property rights.

All foreign nationals and Seychelles citizens are treated equally in regard to IP laws. Seychelles legislation will not discriminate between nationals and foreigners, following WTO principles.

## **8. Transparency of the Regulatory System**

Although the government has made considerable efforts to liberalize the economy, Seychelles continues to suffer from overregulation. Concerns over government corruption have focused on the lack of transparency in the privatization and allocation of government-owned land.

In an attempt to promote greater transparency in the public procurement system, Seychelles' National Tender Board publishes all its tenders on its web site and local newspapers. It also publicizes the contracts that have been awarded, including the name of the successful bidder as well as the bid amount in all local newspapers. The government has also set up a Procurement Oversight Unit, which serves as a public procurement policy and monitoring body.

## **9. Efficient Capital Markets and Portfolio Investment**

Seychelles' financial services sector is regulated by the following laws: Financial Institutions Act 2004, Anti-Money Laundering Act 2006, Data Protection Act, Mutual and Hedge Fund Act 2007 and Central Bank Act 2004. In addition to the Central Bank of Seychelles, there are eight commercial banks: Bank of Baroda, Barclays Bank, Habib Bank, Mauritius Commercial Bank, Nouvobanq, Seychelles Savings Bank (now known as Seychelles Commercial Bank), BMI Offshore Bank, and Bank of Ceylon. Seychelles also has two non-banking financial institutions, the Seychelles Credit Union and the Development Bank of Seychelles, which provide flexible financing for businesses and projects to promote economic growth and employment.

A wide range of financial services such as checking (current) accounts, savings accounts, loans, transactions in foreign currencies, and foreign currency accounts are available in the banking system.

Seychelles has a two-tier banking system separating the central and commercial bank functions and roles. The commercial banks, both domestic and foreign, are regulated and supervised by the Central Bank of Seychelles. According to the Central Bank of Seychelles Act 2004, the CBS is responsible for the formulation and implementation of the Seychelles' Monetary and Exchange Rate policies. The Central Bank of Seychelles is the only administrative body responsible for receiving applications for banking licenses, whether domestic or offshore, and issuing the corresponding licenses.

The government established a securities exchange at the end of November 2012 as part of its efforts to diversify the financial services sector.

## **10. Competition from State-Owned Enterprises (SOEs)**

*OECD Guidelines on Corporate Governance of SOEs*

Seychelles is one of 14 countries participating in the State Owned Enterprises (SOE) Network for Southern Africa, which was launched in 2007 to support, in collaboration with the OECD, the southern African countries in their efforts to improve the performance of SOEs.

The government has shares in a number of enterprises, including Air Seychelles, the Indian Ocean Tuna Company, Seychelles Commercial Bank and Seychelles Broadcasting Corporation.

In March 2007, the government presented its National Development Plan - Seychelles Strategy 2017 - with the overarching objective of reducing the commercial activities of the State and stimulating private sector development

## **11. Corporate Social Responsibility (CSR)**

### ***OECD Guidelines for Multinational Enterprises***

Seychelles is not an adherent to the OECD Guidelines for Multinational Enterprises. However, in the 2013 Budget, the Government of Seychelles proposed the introduction of a CSR contribution, which is applicable to all businesses that earn annual “turnover” of SCR 1 million (approximately USD 75,000) and payable at a rate of 0.5 percent of monthly turnover. The areas targeted under CSR include: the environment; waste and coastal management projects; health and wellness, including sports and leisure; training and capacity building; small enterprise development; community development; child and youth development; and arts and crafts.

## **12. Political Violence**

The People’s Party, commonly referred to as “Lepep,” has governed Seychelles since the coup of 1977 and has won every election since the introduction of multi-party democracy in 1993. The constitution provides citizens the right to change their government peacefully, and citizens exercise this right in practice through periodic, free, and fair elections based on universal suffrage. Seychelles has not experienced large-scale political violence since the late 1970s.

## **13. Corruption**

### ***UN Anticorruption Convention***

Seychelles signed the UN Convention against Corruption in February 2004. In the 2013 Transparency International Corruption Perceptions Index, Seychelles ranked 47 out of 177 countries and territories, among the least corrupt in Africa. However, according to public polls, there is the increasing perception that those close to government, especially wealthy foreigners, receive special treatment and can circumvent certain laws if necessary.

## **14. Bilateral Investment Agreements**

### ***Bilateral Taxation Treaties***

Seychelles has signed Double Taxation Avoidance Agreements with China, South Africa, Oman, Botswana, Mauritius, Thailand, Malaysia, Vietnam, Cyprus, Belgium, Indonesia, the United Arab Emirates, Barbados, Kuwait, Qatar, and Zimbabwe, Bahrain, Kenya, Sri Lanka, and Guernsey.

## **15. OPIC and Other Investment Insurance Programs**

In February 2012 Seychelles and the United States signed an OPIC agreement that will allow for U.S. firms to apply for assistance when investing in the Seychelles economy.

## **16. Labor**

Seychelles' labor force is estimated at 52,000, out of which about 70 percent are employed by the private sector. Foreign migrant workers, who comprise about 24 percent of the labor force, are mainly employed in the construction and commercial fishing sectors. The unemployment rate is estimated at 3 percent, nearly full employment following the five-year IMF reform program.

Under Seychellois law it is legal for members of the labor force, with the exception of police, military, prison, and firefighting personnel, to form and organize unions, and these unions are legally allowed to participate in collective bargaining. Although collective bargaining is legal it rarely happens because the law gives the right to the government to review and approve all collective bargaining agreements in both the private and public sector. Strikes are illegal in Seychelles unless all other arbitration procedures have been exhausted.

Seychelles has a government-mandated minimum wage in the public sector, which currently amounts to SCR 4,050 (USD 340) per month based on a 35-hour work week. There is no official minimum wage in the private sector.

Seychelles has been a member of the International Labor Organization (ILO) since 1977. In November 2011, Seychelles and the ILO signed the 2011-2015 Decent Work Country Program, which seeks to address such issues as employment creation, consolidation and protection of workers' rights, enhancing social protection, and strengthening social dialogue.

## **17. Foreign Trade Zones/Free Ports**

The Seychelles International Trade Zone (SITZ) Act of 1995 provides for the establishment of international trade zones, which aim to combine the benefits of a free port and an export processing zone. So far a number of locations have been declared International Trade Zones. A wide range of business activities is permissible provided they are export-oriented.

The concessions available to license holders in SITZ include the following:

- Exemption from customs duties on capital equipment to be used in SITZ;
- Exemption from Business Tax, Trades Tax and Withholding Tax;
- Exemption from social security contributions;
- Exemption from fees with respect to work permits;
- Entitlement to full foreign ownership.

## **18. Foreign Direct Investment and Foreign Portfolio Investment Statistics**

**FDI Inflows**

TABLE 2: The following table lists Foreign Direct Investment into Seychelles 2009-2012 (USD million)

	2009	2010	2011	2012
FDI Inflows	118	160	144	114

(Source: UNCTAD World Investment Report 2013)

**FDI Outflows**

TABLE 3: The following table outward Foreign Direct Investment from Seychelles 2009-2012 (USD million)

	2009	2010	2011	2012
FDI Outflows	5	6	8	4

(Source: UNCTAD World Investment Report 2013)

**Key Macroeconomic data, U.S. FDI in Seychelles****Economic Data from World Bank** (<http://www.worldbank.org/en/country/seychelles>)

Year: 2012

GDP (Millions U.S. Dollars): 1,129

**Sources and Destination of FDI from IMF** (<http://cds.imf.org>)**Seychelles, 2012**

<b>Direct Investment from/in Counterpart Economy Data</b>					
<b>From Top Five Sources/To Top Five Destinations (US Dollars, Millions)</b>					
<b>Inward Direct Investment</b>			<b>Outward Direct Investment</b>		
Total Inward	1,260	100%	N/A		
Mauritius	677	54%	N/A		
Cyprus	239	19%	N/A		
Russian Federation	91	7%	N/A		
United Kingdom	51	4%	N/A		
United States	39	3%	N/A		

"0" reflects amounts rounded to +/- USD 500,000.

*Sources of Portfolio Investment from IMF:* N/A

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