

**FOR
AGENDA**

EBS/09/198
Supplement 1

December 8, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Seychelles—Third Review Under the Stand-By Arrangement, Financing Assurances Review, Cancellation of the Stand-By Arrangement, and Request for an Extended Arrangement—Informational Annex**

The attached informational annex is being issued as a supplement to the paper on the third review under the Stand-By Arrangement for the Seychelles, the financing assurances review, cancellation of the Stand-By Arrangement, and request for an extended arrangement (EBS/09/198, 12/7/09), which is tentatively scheduled for discussion on **Friday, December 18, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Seychelles indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Mathieu (ext. 38673), Mr. Gigineishvili (ext. 34046), Ms. Trasino (ext. 34424) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Wednesday, December 16, 2009; and to the African Development Bank and the European Commission, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

SEYCHELLES

**Third Review Under the Stand-By Arrangement, Financing Assurances Review,
Cancellation of the Stand-By-Arrangement, and Request for an Extended Arrangement
—Informational Annex**

Prepared by the African Department
(In consultation with other departments)

December 8, 2009

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I. SEYCHELLES: RELATIONS WITH THE FUND

(As of October 31, 2009)

I. Membership Status: Joined 6/30/77. Article VIII.

II. General Resources Account :	<u>SDR Million</u>	<u>% Quota</u>
Quota	8.80	100.0
Fund holdings of currency	16.72	189.97
Reserve Position in Fund	0.00	0.04

III. SDR Department:	<u>SDR Million</u>	<u>% Allocations</u>
Net cumulative allocation	8.28	100.0
Holdings	7.90	95.37

IV. Outstanding Purchases and Loans:	7.92	90.00
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V. Financial Arrangements:

			<u>SDR Million</u>	
<u>Type</u>	<u>Arrangement</u>	<u>Expiration</u>	<u>Amount Approved</u>	<u>Amount Drawn</u>
Stand-By	Nov.14, 2008	Nov. 13, 2010	17.60	7.92

VI. Projected Obligations to the Fund (SDR Million: based on existing use of resources and present holdings of SDRs):

<i>Forthcoming</i>					
	2010	2011	2012	2013	2014
Principal			3.41	4.40	0.99
Charges/interest	0.11	0.11	0.10	0.05	0.01
Total	0.11	0.11	3.51	4.45	0.10

VII. Implementation of HIPC Initiative: Not applicable**VIII. Safeguards Assessments:**

As part of the Stand-By Arrangement, a safeguards assessment mission was conducted in September 2008. It found high risks in all areas of the central bank (CBS) safeguards assessment framework, including significant weaknesses in financial reporting that were not identified by the external auditor and internal control vulnerabilities. The authorities are implementing remedial measures including steps monitored under the program. In late November the CBS appointed a new external auditor, PricewaterhouseCoopers, on a five-year contract. The authorities continue to make strong progress in addressing the areas of concern identified in the safeguards assessment, including a new central bank act that meets international best practice.

IX. Exchange Rate Arrangement:

The authorities launched a comprehensive reform effort in November 2008, with reforms including a fundamental liberalization of the exchange regime. The exchange market liberalization resulted in all the elimination of restrictions on the making of payments and transfers for current international transactions that are subject to Fund approval under Article VIII Sections 2, 3, and 4. The exchange rate policy is a float. On December 1, 2009, US\$ 1 = SR 11.08 (mid rate).

X. Article IV Consultations:

Seychelles is currently under a two year Stand-By Arrangement, with semi-annual reviews.

XI. Technical Assistance (2004–March 2009):

Department	Head of Mission	Subject	Date
STA	Mr. Freeman	National Accounts/CPI	May/June 2005
MFD/LEG	Mr. Lonnberg	Strengthening Capacity in Critical Central Banking Areas, including AML/CFT-Legal, Institutional, and Supervisory Frameworks	July 2006
LEG	Mr. Beekarry	Advise on AML/CFT measures and the establishment of the FIU	September/October 2006
STA	Mr. Alexander	National accounts/CPI/GDDS	October/ November 2006
MCM	Mr. Bartholomew	Multipurpose mission: Monetary operations, monetary research, banking supervision, payment systems, foreign exchange markets, and nonbank financial institution supervision.	November/ December 2007
STA	Mr. Dessart	Dissemination of GDDS National Summary Data Page	April 2008
STA	Mr. Armknecht	Consumer price index	April 2008
MCM	Mr. Faulk	Banking supervision, drafting of new financial sector related regulations	April 2008
MCM	Mr. Robotham	National payment systems project	May/June 2008
FAD	Mr. Khemani	Strengthening expenditure rationalization and budget management	July 2008

Department	Head of Mission	Subject	Date
LEG	Mr. Baban	Exchange Rate and Exchange Control Regimes	September 2008
FIN	Mr. Hauge	Safeguards assessment	October 2008
FAD	Mr. Krelove	Reform of Tax Policy	January/February 2009
MCM	Mr. Bartholomew	Central Bank Capacity Building after the 2008 Float	February 2009
LEG	Mr. Baban	Reform of Exchange Rate Law	May 2009
STA	Mr. Jones	Government Finance Statistics	May 2009
MCM	Mr. Faulk	Bank Supervision	June 2009
MCM	Mr. Vollar	Monetary Operations	June 2009
MCM	Mr. Robotham	Payments Systems	June 2009
FAD	Mr. Ljungman	Public Financial Management	July 2009
LEG	Mr. Burns	Fiscal Law	July 2009
FAD	David Kloeden	Tax Administration	September 2009
MCM	Mr. Sullivan	Accounting	October 2009
MCM	Mr. Faulk	Bank Supervision	October 2009
MCM	Mr. Robotham	Payments Systems	November 2009

XII. Resident Representative: None

II. SEYCHELLES: JOINT WORLD BANK-IMF WORK PROGRAM, 2009–10

(As of November 30, 2009)

Title	Products	Provisional timing of mission	Expected delivery date
A. Mutual Information on Relevant Work Programs			
Bank	A. Strategy and analytical work Public Expenditure Review (PER, Phase 2) Update to FIAS report (improving the business environment and private sector development) Joint Country Procurement Assessment Report (CPAR) and Country Financial Accountability Assessment (CFAA) Tuna industry management (TA – P118247) National Climate Change Strategy (TA – P118246) B. Ongoing and new projects GEF grant implementation (tsunami reconstruction, disaster management) Development Policy Loan (DPL 2) Statistical Capacity Building Project (STATCAP)	October 2009 October 2009 July 2010 n.a. March 2010 March 2010 March 2010	February 2010 February 2010 Ongoing September 2010 April 2011 October 2010 October 2012
Fund	Program and surveillance work 1. Third review under the SBA 2. Discussions on medium-term macroeconomic and structural reform program for 2010–12, supported by a successor arrangement under the EFF. 3. First Review under EFF 4. Second Review under EFF Technical assistance and capacity building 1. FAD technical assistance mission on tax administration. 2. FAD technical assistance on tax and customs reform 3. MCM technical assistance mission on payments systems. 4. MCM technical assistance on reforming the monetary policy framework (long-term monetary advisor, automation of interbank market, reserve money management) strengthening bank supervision, and CBS governance.	October 2009 October 2009 May 2010 October 2010 September 2009 Ongoing November 2009 Ongoing	December, 2009 December, 2009 June 2010 December 2010 December 2009 Ongoing January 2010 Ongoing

Title	Products	Provisional timing of mission	Expected delivery date
B. Requests for Work Program inputs			
Bank request to Fund	1. Medium-term macro-economic and fiscal framework to inform Public Expenditure Reviews	n.a.	Ongoing
	2. Debt Sustainability Analysis	n.a.	December 2009
Fund request to Bank	1. Assessment of the social safety net and enhancing targeting of social assistance	October 2009	December 2009
	2. Policy note on parastatal reform and privatization.	October 2009	December 2009
	3. Strategy on improving business environment and promoting private sector investment	October 2009	November 2009
	4. New wage grid proposal for public sector	October 2009	December 2009
	5. IFC assistance on privatization plans for Nouvobanq and Savings Bank	October 2009	2010
	6. Develop strategy and policy recommendations to improve transparency and management of the fisheries sector		2010
	7. FIRST Initiative support for strategic reform of government owned non-bank financial institutions		2010
C. Agreement on Joint Products and Missions			
Joint products	Joint mission to discuss a medium-term structural reform agenda focusing on: social safety net targeting; civil service reform, parastatal reform; and promoting private sector investment	October 2009	December 2009

III. SEYCHELLES: RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

(As of November 16, 2009)

The African Development Bank Group commenced operations with the Republic of Seychelles in 1978 and has since approved 19 operations comprising 15 projects, one study and three lines of credit for the country. Cumulative approvals as of October 2008 (there were no approvals between 2001 and 2006 when the country was under sanctions) amounted to UA 84.87 million,¹ of which 73 percent was from the African Development Bank (ADB), 14 percent from the Nigeria Trust Fund (NTF), and the remaining 13 percent from the African Development Fund (ADF) (Table 1). Reflecting government priorities, most of the operations were in the social sector (46 percent). This was followed by the financial sector (16 percent), agricultural sector (15 percent), transportation (13 percent), water supply and sanitation (10 percent) and industrial sector (1 percent). Before sanctions were imposed, about 76.8 percent of the total commitments on all approved loans had been disbursed and the balance of 23.2 percent was cancelled after sanctions were applied.

The country was under sanctions with the African Development Bank Group since February 16, 2000 due to the arrears situation. The country cleared all the arrears (amounting to US\$46.75 million) in November 2006 and the African Development Bank Group consequently lifted all sanctions and started discussions on possible reengagement with the country. The process was boosted by the launching of a comprehensive reform programme by the Government in November 2008. Following this, an Interim Strategy Note was approved by the Board on April 22, 2009. The ISN covers 2009 and 2010 and focuses on a single pillar namely supporting the Government's reform programme to achieve sustainable growth. The lending programme during this period consists of a policy-based operation in the form of a budget support loan amounting to US\$20 million. The operation is under preparation and it is expected to be disbursed in two equal tranches of US\$10 million in 2009 and 2010. In addition, there is an ongoing non-lending programme under which the Bank Group is providing grant resources to the country, from the African Water Facility and the Middle Income Countries' (MIC) Technical Assistance Fund. Under the African Water Facility, a grant amounting to € 955,000 was signed in May 2008 to finance the preparation of the Water Development Plan aimed at improved water management and governance, and identifying priority investment projects for funding, in order to meet Seychelles' water needs up to 2030. The study is expected to be completed by December 2009. Under the MIC Technical Assistance Fund two grants have been approved to finance: (i) a study (amounting to UA 600,000) approved in December 2008 aimed mainly to support human resource

¹ UA 1 = US\$ 1.54805 as at June 5, 2009.

development, training and capacity building as well as the establishment of the Seychelles University Foundation; and (ii) a study (amounting to US\$ 500,000) approved in February 2009 to undertake the feasibility on a Submarine Cable System to link Seychelles to East Africa.

A policy based partial guarantee operation for US\$10 million was approved on December 12, 2009 in support of an exchange bond offered to external commercial creditors in the context of the public debt restructuring effort.

Table 1. Operations Summary as at 5 June 2009*

Operations since: 1978

Total Number of operations 19: 15 Projects, 1 Study; 3 Lines of Credit

Source of Financing	Commitments (UA million)	Percentage Share	Disbursed	
			Amount (UA million)	Percentage Disbursed
ADB	62.19	73	44.12	70.9
ADF/TAF	10.68	13	10.68	100.0
NTF	12.00	14	10.39	86.6
Total	84.87	100	65.19	76.8

* Excludes the grants from the African Water Facility and the MIC Technical Assistance Facility due to their unique nature and small magnitude.