

2013 Investment Climate Statement - Seychelles

Openness To, and Restrictions Upon, Foreign Investment

Economic Background: Seychelles is an upper middle-income country with an estimated population of 89,318. Years of socialist oriented economic policy characterized by price, trade and foreign exchange controls, a prominent role for parastatal companies, and robust debt-funded development spending led to rapid economic development, but also created serious economic imbalances. These problems included large fiscal and external deficits and mounting debt arrears, which contributed to the persistent foreign exchange shortages and slow growth. In October 2008, facing the near depletion of official foreign exchange reserves, Seychelles defaulted on interest payments due on its USD \$230 million Eurobond, issued two years previously, 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 loan, started to implement a program of radical reforms. These include a fundamental liberalization of the exchange rate regime, involving the devaluation and floatation of the rupee and the elimination of all foreign exchange controls.

Openness to Foreign Investment: 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.

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 a way which is in line with the administrative, policy and legal framework. In order for a business to be operational, all prospective investors need to apply for a license from the Seychelles Licensing Authority (SLA).

Restrictions Upon Foreign Investment: There are no limitations on the participation of foreign capital in the services sectors except for the participation in the sectors referred to as "Reserved" and "Strategic" areas of investment. "Reserved" areas, according to Seychelles' current investment legislation, refer to activities which are 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 which are reserved for domestic investors only:

1. Accommodation of up to 10 rooms (excluding luxury villas)
2. Live aboard up to 2 boats
3. Travel Agent
4. Tourist Guide
5. Car Hire Operator
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 other than Class 1 contractor
17. Artisanal Fishing
18. Small Enterprises (except where the project introduces or ventures into an area never before invested in or it introduces new technology that has never before been applied in Seychelles then it will fall under the restricted area).

Investment Opportunities: The Government of Seychelles is seeking to attract foreign investment in the following areas:

1. High value added, capital intensive and knowledge based activities;
2. High value added export oriented or high quality import substitution manufacturing activities including fish processing;
3. Large scale basic agro and food processing industries;
4. Large tourism based activities of four to five star standards including eco-tourism and health tourism projects.

Seychelles vast Exclusive Economic Zone (EEZ), which encompasses 1.3 million km² of the western Indian Ocean, is being increasingly viewed as a potential source of as yet unexploited oil reserves. Initial exploration in some areas has already begun, and there is potential for further exploration in other, still unexplored 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 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.

Measure	Year	Index/Ranking
TI Corruption Index	2012	51
Heritage Economic Freedom	2013	124
World Bank Doing Business	2013	74
MCC Gov't Effectiveness		NA*
MCC Rule of Law		NA*
MCC Control of Corruption		NA*
MCC Fiscal Policy		NA*
MCC Trade Policy		NA*
MCC Regulatory Quality		NA*

MCC Business Start Up		NA*
MCC Land Rights Access		NA*
MCC Natural Resource Mgmt		NA*

* Seychelles is not eligible for the MCC

Conversion and Transfer Policies

Prior to November 2008, the Seychelles Rupee was pegged to the US dollar at a rate of USD1 - SR5.5. The peg was removed as part of a package of economic reforms which included a loan from the International Monetary Fund to help pay the country's debt. A freely floating exchange rate system is now in place. All foreign exchange controls were also removed in 2008 and foreign investors are free to repatriate their profits and other incomes.

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.

Dispute Settlement

Parties involved in investment disputes are encouraged to resolve their disputes through negotiation. According to the Investment Code of Seychelles, “disputes which cannot be resolved by the parties themselves may be settled by (a) an arbitration procedure whether local or international that is based on a previous agreement between the parties; or (b) by legal proceedings according to the laws of Seychelles.” Civil law is based on the French Napoleonic Code, known as the Civil Code, while criminal law is based on the British system.

Performance Requirements/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.

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

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.

Before purchasing or leasing land from the Government, a foreign investor must submit a project proposal to the SIB 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. During the application process, a notice is published in the national daily newspaper, *The Nation*, offering the property to Seychellois citizens. If no interest is expressed by Seychellois citizens, the application process moves forward for approval. Following approval, the Lands Division will arrange the transfer with the Attorney General's Office, which is responsible for the transfer of all state properties. Costs associated with this transaction are borne to the buyer. If the seller is a private individual or company, the investor will need to use a notary or attorney to manage the transfer of ownership, 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, rather than selling land outright.

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 the local businesses and artists as well as facilitating the integration of Seychelles' economy into the regional and global economies. Seychelles joined 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)

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

All foreign nationals and nationals are treated equivocally when it comes to IP laws. Seychelles legislation will not discriminate between nationals and foreigners, following WTO principles.

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. Seychelles was ranked 51 out of 178 countries surveyed in Transparency International's 2012 Corruption Perceptions Index.

In an attempt to promote greater transparency in the public procurement system, Seychelles' National Tender Board publishes all its tenders on its web site. It also publicizes the contracts which 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.

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 seven commercial banks (Bank of Baroda, Barclays Bank, Habib Bank, Mauritius Commercial Bank, Nouvobanq, Seychelles Savings Bank and BMI Offshore Bank). Seychelles also have 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 current accounts, savings accounts, loans, transactions in foreign currencies, foreign currency account, are available in the banking system.

Seychelles has a two-tier banking system separating the central and commercial banks' functions and roles. The commercial banks, be it domestic banking or non-domestic banking business, 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.

Competition from State-Owned Enterprises (SOEs)

The government remains a major player in the economy although the private sector is expanding, especially in the tourism and services sectors. One key aspect of the government's IMF-led reform program relates to increasing the economy's market orientation and supporting private sector development. In this context, the Government has taken steps to accelerate its privatization program and improve the business climate by a review of the legal and regulatory framework. 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.

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

Corporate Social Responsibility (CSR)

In the 2013 Budget, the government has proposed the introduction of a CSR contribution, which will be applied on all businesses which make a turnover of Seychelles Rupee one million (approximately USD 75,000) and above at a rate of 0.5 percent equivalent of turnover.

The areas where CSR funds would be expected to go include: environmental; beach and coastal management projects; health and wellness, including sports; and renewable energy.

Political Violence

The constitution and law provide citizens the right to change their government peacefully, and citizens exercised this right in practice through periodic, free, and fair elections based on universal suffrage. Seychelles has not experienced large scale political violence over the past several years.

Corruption

Although the law provides criminal penalties for official corruption, it is widely believed that the government does not apply the law effectively. In its 2012 report, the Transparency International has ranked Seychelles 51st out of 178 countries and territories for its perceived level of government corruption with a score of 4.8 on a scale of from 10 (highly clean) to 0 (highly corrupt).

Bilateral Investment Agreements

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.

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 have assistance when investing in the Seychelles economy.

Labor

Seychelles' labor force is estimated at 50,000, out of which 70 percent are employed by the private sector. The unemployment rate fell from 2.6 percent in 2010 to 1.7 percent in 2011.

Under Seychellois law it is legal for members of the labor force 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 the Seychelles unless all other arbitration procedures have been exhausted.

Forced labor, including child labor, is illegal in the Seychelles, making it a criminal offense to employ a child under the age of 15 full-time.

Foreign Trade Zones/Free Ports

The Seychelles International Trade Zone (SITZ) Act of 1995 provides for the establishment of international trade zones. Under this Act, the Minister of Finance can by notice in the Official Gazette declare any area of land within the territory of the country as an International Trade Zone. The notice will also define the boundaries of the area, as well as which entity will manage the area. So far a number of areas have been declared as International Trade Zones which aim to combine the benefits of a free port and export processing zone.

The concessions available to license holders in SITZ include:

- 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 in respect of 'gainful occupation permits' (work permits);
- Entitlement to employ 100 percent foreign labor;

Foreign Direct Investment Statistics

FDI Inflows

The following table shows the inflows of FDI in Seychelles from 2008-2011 (USD million)

2008	2009	2010	2011
119	115	156	139

(Source: World Investment Report)

FDI outflows

The following table shows the outflows of FDI from Seychelles from 2008-2011 (USD million)

2008	2009	2010	2011
13	5	6	8

(Source: World Investment Report)