



SMALL STATES IN TRANSITION – FROM VULNERABILITY TO COMPETITIVENESS

SEYCHELLES

DEVELOPING COMPETITIVE ADVANTAGE THROUGH SERVICES EXPORT

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1. Introduction

The Seychelles has a small but significant export service sector, earning valuable foreign capital for the country. The main service export is tourism and the existing non-tourism service exports are related to activities extended to international fishing vessels and international companies operating in Seychelles. The development of service exports is fraught with many challenges. The government of Seychelles is intensifying its efforts to improve the environment to facilitate an expansion of services to increase exports and generate more revenues.

This paper starts by giving a brief background about the Seychelles islands and is followed in the next section by an outline of the main existing services industry of the country. There are many challenges faced by Seychelles in developing its services export and consequently section four, firstly provides an analysis of the main issues and, secondly, briefly discusses some of the strategic actions taken by the country to lessen any negative impact of the development of service exports

2. Country background

The Seychelles is an archipelago of 115 granite and coral islands that occupy a land area of 445 sq. km. This is contained within an Exclusive Economic Zone (EEZ) of 1.3 million sq. km in the South Western Indian Ocean between 4 and 9 degrees south of the equator and 50 to 56 degrees East of the Greenwich Meridian. The Seychelles is a multicultural society with a population of 81,000 consisting of European, African and Asian descendents.

Mahe is the main population center, hive of economic activity, seat of government and site of the nation's capital, Victoria. It is a granite island with an area of 148 sq. km. In terms of economic activity and population density Praslin and La Digue are the second and third most important islands. They are situated, respectively, 33km and 48km from Mahe. The islands are linked by regular air and sea transport.

The main sectors of the economy are tourism and Fisheries. Since the early 1970s agriculture has declined in importance from around 9 percent of total GDP (cinnamon and copra were the major exports), to 3 percent in the late 1990s. The islands have an excellent telecommunications service provided by two private companies Cable and Wireless and Airtel. The two main islands have an extensive tarmacked road network allowing extensive vehicle transportation around the islands.

The Seychelles recognizes the importance of sustainable environmental policies and the country has an Environmental Management Plan for Seychelles (EMPS) 1990-2000 and a second-generation plan covering the years 2000-2010. Fifty percent of the total landmass is designated to national parks, nature reserves and protected areas and Seychelles is a home to many endemic species of birds and flora. The islands are extremely rich in biodiversity, and each island has something unique to offer the visitors. The other main characteristics of the Seychelles are found in Annex 1.

3. The Existing Service Exports in Seychelles

The existing service export in Seychelles is small but significant, contributing about 16% of the total export earnings. For the year 2002 the total earnings of non-tourism service export was about SRM 400 (USDM 73) and Tourism receipts including air-tickets totaled SRM 1200 (USDM 230). The main sectors that provide service exports include:

Tourism

Tourism still remains an important contributor to the development of the economy and currently contributes 20% of GDP and about 50% share of the country's total foreign exchange earnings. Tourism arrival for the year 2002 stood at 132,246, which represented an increase of 1.9% over the previous year.

Some of the strategic projects being considered by the Ministry of Tourism include the development of a Tourism Satellite Account (TSA), to analyse the economic importance of tourism and its linkages the other sectors. The TSA will assess the real impact of Tourism, facilitate decision-making and improve the design of strategies. The Ministry also has plans to introduce Tourism as a subject in the curriculum at School.

Fisheries

The main export activity in the Fishing Industry is the export of canned Tuna which stood at 843.7 million rupees (USD153) in 2002, representing about 34% of total export earnings (goods and services). The existing export services in the Fisheries sector are mostly linked to the servicing of international fishing vessels, transshipment facilities, ship chandelling, fuel re-exports and minimal boat maintenance and repair services. Other services include Maritime Insurance and ship Registration ("Flag of Convenience"). Services are also extended to the crew of the fishing vessels to facilitate their transits and transfers.

The development and promotion of the services in this sector is faced with many challenges and would need time and investment. There are potential initiatives under consideration to expand the services such as the improvement and increase of Port Facilities, Oil re-exports (fuel for fishing vessels), regulation of activities such as the insurance and registration of international vessels, veterinarian services and development of potential projects such as cold storage facilities and ship repairs and maintenance.

Offshore

In line with the country's economic diversification program, the Seychelles International Business Authority (SIBA), a one-stop shop, was established to license and regulate primary offshore activities. The existing services in the offshore sector include the registration of corporate services and the licensing of offshore banks and insurance. SIBA also regulates the International (free) Trade Zone activities and the examples of service companies in SITZ include an Internet Gaming company, a fish management company, a satellite management service company and consultancy firms. SIBA is able to provide swift name approvals, incorporation and licensing with minimal bureaucracy. The result is that certificates of incorporation may be issued within an hour, ensuring that SIBA remains one of the fastest Registrars in the world. The total earnings generated from the offshore activities and SITZ amounts to USD2 million annually.

The future plans of SIBA include the establishment of an On-Line company registration facility, which will provide a competitive advantage as regards to speed and efficiency for registration of companies. In addition, it is expected to place Seychelles in the forefront of efficient and highly regulated and organized jurisdictions in accordance with OECD and FATF standards. A first offshore bank operating from the Trade Zone is also under consideration by the Authorities. SIBA is constrained however, with relatively slow telecommunication linkage speeds by local Internet Service Providers. The possibility of investing into a fiber-optic linkage with a worldwide system is currently being considered, as it would bring in the benefits of higher speeds and lower costs.

Information Communication and Technology (ICT)

The existing service export in this sector is currently minimal. There are certain local IT companies that have started to develop software packages that have been sold to neighbouring countries. An example is Registration Software dealing with passenger handling and management by Victoria Computer Services (VCS) and sold to the Emirates. In addition, the government has established a Flight Information Region (FIR) to provide air traffic control information to all aircraft flying within the zone. The revenue depends on the amount of air traffic which enters the zone and this has been increasing at a rate of 10% -15% per annum.

The government of Seychelles is intensifying its efforts to improve the environment to facilitate an expansion of services that may be exported and generate revenues. One approach under consideration is the development of an e-commerce solution for Internet merchants in Seychelles, in particular those in the Tourism and export-related sector. This system will also have the capability to provide e-commerce solutions to foreigners undertaking offshore businesses. The main constraint for such development is the cost of telecommunications. The two Internet Service Providers (ISP) limit their communication speeds to 500 kps. This is because even if wireless broadband is available locally the cost of linking via satellite is prohibitive. Broadband communication via fibre optics is partly available domestically however linkage via international fibre optics cable requires a high level of investment from both government and the private investors.

Education

The only existing educational service export is the University of Seychelles American Institute of Medicine (USAIM), established in 2000. This institute provides training to local and international students in the medical field. Currently there are thirty undergraduates, of which three are local students, and thirty-two international postgraduate students. The International students are mainly from UAE, Kuwait, India, Kenya, Tanzania, South Africa, UK and the US.

The Seychelles workforce is strongly literate (95%) and the government have invested heavily in the educational system, which provides a platform for the development of service exports. The Ministry of Education has established a Manchester Twinning Program, with Manchester University in UK, to provide high-level courses. Currently, this program has contributed to foreign exchange savings as students can now undertake for certain subjects, part of their university degree in Seychelles. The future plan for the Ministry is to market the program in the region and internationally and target international students.

Professional Services

There is little export from the professional service sector in Seychelles. Most of the professional services providers are small firms that have developed the capability to complement international companies in export-oriented sectors such as the offshore and tourism. In addition, there has been a lot of effort in the development of national capacities in certain key areas of the economy such as Tourism, Fisheries, land reclamation and environment. The country is leveraging on this strength to deliver services that targets such bodies as universities and research institutions. Some examples include:

- A "Carrying Capacity Study" in the Tourism Industry is being undertaken on La Digue Island by the Geobotanical Institute from Zurich.
- World Wildlife Fund in collaboration with University of Oxford and the Seychelles Islands Foundation are undertaking studies on endemic species found on various islands of the Seychelles.
- Seychelles is one of eight African and European countries in a 3-million-euro project that will carry out advanced research and propose new policies on the management of coastal ecosystems in the participating African states.

The main issues in Service Export

The main issues for the development export of services in Seychelles are (1) the competitiveness of the country and the maintaining of the competitive advantage, (2) human resources, (3) the institutional capacity to develop the export sector and (4) Networking on the national and international level. These issues are briefly reviewed below and the country's approach in addressing these issues including the different actions taken is discussed using examples from the different sectors.

4.1 Competitiveness

The Seychelles has several important economic constraints, which cumulatively hinder its cost competitiveness. Firstly like most island states, it has a small population that contributes to labour shortages and its consequent high cost. The fixed cost per capita of providing public infrastructure and services is relatively high (the cost of an airstrip for a population of 80,000 is the same for one of 8 million) and the country's remoteness from major markets contributes to high freight hence export cost. The small domestic market combined with high export cost reduces the scope for mass production, economies of scale and cost reduction. In addition, the standard of goods and services produced are often below internationally acceptable levels and further reduce the possibility for export.

Besides to high costs, the most disadvantageous aspect of Seychelles competitiveness in terms of services is that the country is perceived as not providing value for money. This means that even if services may be considered expensive, the client will still buy if it is felt that there is value for money. The development of correct perceptions becomes pertinent for the development of this sector.

➤ Some strategic actions taken towards improving competitiveness

Several actions are needed in order to try and address the competitiveness of the Seychelles in the service industry, and more importantly, to sustain the competitiveness of the country. Below are some main actions undertaken to offset the disadvantages and high costs of the Seychelles within different sectors.

4.11 The establishment of the Seychelles Tourism Marketing Authority (STMA) has as its main aim that of marketing the Seychelles as a high-quality, safe and attractive destination. STMA has also been a step towards the establishment of a fast decision-making process in the tourism sector and has intensified the participation and involvement of the private sector to enhance the contributions to the Tourism sector. For instance, regular consultative meetings between STMA and the Seychelles Hotels and Seychelles Tourism Associations are helping to address critical issues in the Tourism industry.

4.12 The establishment of an Airline Network to complement the services offered to the crew of international fishing vessels by facilitating and speeding up the transfers of the crew through minimal bureaucracy and easy access to visas.

4.13 The issue of competitiveness has also been tackled by the introduction of new legislations to develop and promote specific sectors and industries. For example, in order to deliver services with better value for money, the Tourism sector recently expanded the *Investment Promotion Act (IPA)*, 1994, which was a key legislation to actively encourage investment and introduced the *Tourism Incentive Act, (TIA)* 2003. The TIA has the dual aim of firstly, dropping the capital cost for investment in order to improve the existing establishments and provide the necessary incentives for further investments, and secondly, reducing the operation costs for the establishments in order to make it less expensive for the tourists.

On the one hand, the introduction of the IPA led to the emergence of five-star hotels, which targeted upper-end market tourists, thus ensuring a high level of spending per visitor. On the other hand, the IPA targeted only the luxury hotels and the implementation of the Act was on an ad-hoc basis. Consequently, the TIA will be implemented in a more systematic approach and it will guarantee concessions under certain conditions across the whole sector.

Another example is the offshore industry, which enacted several pieces of legislation to establish the correct regulatory framework that maintains high standards whilst taking a more comprehensive, modern and attractive approach. The Seychelles has entered in the offshore industry rather late, which has provided the country with the opportunity to assess what the other jurisdictions have put in place and learnt from their undertakings and mistakes. This has allowed for the creation of a 'hybrid' legal framework specific to the country. For example, recent legislations cover thoroughly the licensing of offshore banks, offshore Insurance, mutual funds activities and the regulating of a securities industry in accordance with the requirements of international regulatory bodies such as the Organization for Economic Co-operation and Development (OECD) and Financial Action Task Force (FATF). In addition, in line with the OECD to combat what is regarded as harmful tax competition worldwide, the Seychelles has entered into several double taxation treaties with countries showing large potential for economic growth on the one hand and with countries with which the Seychelles would obtain tangible benefits both directly and indirectly.

4.2 Human Resources

Human resources is a key to providing services and national efforts are being intensified on training to upgrade the technical and productivity levels of the labor force. Furthermore, there is a lack of institutions to train and develop capacity within various sectors particularly in higher education and specializations. Consequently, most sectors face a shortage of expertise to develop and expand their services. This is more evident in the offshore sector which is a fast developing industry. Despite the advantageous low human resource cost in Seychelles in comparison with other jurisdictions, the available human resource cannot meet the industry's expectation and constrains its expansion.

➤ Some strategic actions towards improving the issue of human resources

4.21 The Seychelles Hospitality and Tourism Training School (SHTTC) has been established since 1975 to provide training across the tourism sector in areas such as front office, housekeeping and international tourism. The aim is to create a skilled workforce to better deliver the services in Tourism. The main constraint of the institution is the lack of staff and proper infrastructure to cope with the demand. Currently only 200 students are enrolled per year, which is only 40% of the training requirement. One lesson learnt so far is that the retention of graduates by the industry is very low averaging 20-30 per annum. Consequently, SHTTC has to review the entire structure and upgrade the standard and level of courses. It currently has an approved project awaiting funding.

4.22 The government also established the Seychelles Institute of Management (SIM), the main role of which is to provide, management and administration courses for senior and middle managers of both public and private organizations. The SIM has reduced the cost of training and has met some of the requirements for middle management. However, the country still needs to employ expatriates to occupy middle and top management posts.

4.23 SIBA has enacted new legislation and introduced new incentive packages to professional operators to invest in training for their staff. In addition, there are also legislations to ease the entry of foreign individuals with expertise from jurisdictions that are conforming with OECD/FATF regulations.

4.3 Export Development and Promotion

The Institutional framework on the national level to develop international trade is currently fragmented. Coupled with a shortage of expertise and lack of regulatory framework, export development in Seychelles faces many challenges.

➤ Some strategic actions taken to improve Export Development

An Export Development and Promotion Facility (EDPF) have been established to assist exporters and potential exporters in their endeavor to export. The EDPF is under the portfolio responsibility of the Ministry of Industries and International Business (MIIB) and currently it is structured as a unit under the Investment Promotion Division. The unit is met with many challenges including building the information base for the sector and establishing the policies and strategies to develop the sector. The major constraint is the capability of the staff of the unit which makes training and expertise development an essential requisite for its success. Trade-related technical assistance is pertinent to improve the ability of the EDPF.

4.4 Networking

Networking can be described as the manner by which the government of a country interacts with its key economic players domestically and how the country interacts externally with its neighboring countries and with the world at large. In the Seychelles, domestic interaction has been adhoc and badly managed leading to a lack of dialogue between the public and the private sector. Internationally, the Seychelles have made much progress to get involved with regional and international bodies.

Overall the networking approach by the country is not systematic which is attributed mainly to the small size of the private sector and the centralized economic planning system in the public sector. Another impediment is the inadequate institutional framework and system in place to facilitate networking with the relevant stakeholders, in particular in the public institutions. This results in the overlapping of tasks and activities.

➤ Some strategic actions in addressing the issue of Networking at the national level

4.31 Given the importance of Ecotourism and its opportunity as a “niche market”, the Tourism sector has introduced in September 2003, an Ecotourism Strategy to genuinely develop sustainable ecotourism in Seychelles. The implementation of the strategy involves the widest possible stakeholder participation in Tourism activities at all levels - from the ‘grass root’ level to that of large luxury hotels. It establishes a framework to guide, and where necessary regulate, such developments, so as to ensure the real benefits accrue to local communities, and that environment impacts are mitigated and minimized and revenues are generated for environmental conservation and protection.

The strategy also involves the undertaking of pilot projects whereby suitable sites and/or activities for ecotourism development, in particular traditional and cultural activities, are identified and explored further.

4.32 The Ministry of Information Technology and Communication (MITC) has set up a national IT committee with public and private stakeholders to overlook and harmonize all IT projects and spearhead the development of a sustainable framework to develop human capacity and infrastructure in the filed of ICT.

➤ Some strategic actions in addressing the issue of Networking at the International level

4.33 The Department of Environment project whereby Seychelles and several regional countries are involved in developing policies for the development of coastal eco-systems is an example whereby the Seychelles can benefit by networking with countries in the region.

4.34 Seychelles joined the Indian Ocean Commission (COI), which represents the majority of the small islands of the Indian Ocean, namely Mauritius, Reunion, Madagascar, Comoros,

Maldives and the Mayotte. Although set up as an economic grouping, most of the interactions have been through social, cultural and sport exchange programs.

5 The main challenges of Seychelles as a small island state to develop service export.

Despite the above strategic actions, Seychelles are faced with many challenges which include:

- Cultural shift particularly in Government institutions and people attitudes towards work ethics.
- Development of the Telecommunication sector and the introduction of broad band technology via fibre optic connections to a global network.
- Foreign exchange shortages preventing investment in facilities for developing services for export
- Given that the country cannot be fully self sufficient in its human resources needs, human resources policy that identifies the potential of the local workforce and their areas of employment has to be measured and defined and steps taken to implement such policy.
- Putting in place more policies to ensure Environment and Sustainable Development of the country
- Development of national capacities including that in negotiation with its international counterpart in order to influence the best possible outcomes for the country in preventing the marginalization of the country by globalization.
- Promote and market the existing services.

Annexes

(a) Other characteristics of the Seychelles

Local Time	Seychelles is four hours ahead of GMT, 3 hours ahead of British summer time and 2 hours ahead of European summer time.
Language	English, French and Creole are the national languages in the Seychelles.
Currency	Rupees and cents
Electricity	24 volts.
Life expectancy	67.6 years for males and 75.7 years for females
Infant mortality rate	10.3 deaths per 1000 births
School enrolment	100 percent in primary schools,
Pupil-to-teacher	Ratio of 1 to 13.8.
International	London(Gatwick and Heathrow), Paris, Frankfurt, Zurich, Dubai, Singapore, Moscow, Johannesburg, Reunion, Antananarivo(Madagascar), Dzaoudzi, Mumbai(India) and Male.
National carrier	Air Seychelles
International airlines	Kenya Airways, Air Australe, Condor, British Airways, Air France, Air Mauritius and Air Europe
Courier companies:	DHL, TNT and FEDEX
Business Hours:	Government offices are open five days a week from 8 am to 4pm (Monday to Friday). Lunch time is between 12 pm to 1 pm (Mon to Fri). Most private companies work from 830 am to 5 pm, and occasionally on Saturday.
Temperature	Shade temperature is around 24 to 29 degrees Celsius all year round.
Humidity	78%
Seasons	North West monsoon from December to May and the South East monsoon from June to November. Seychelles lies outside the cyclone belt.

(b) Some main ICT Indicators

Indicators	2000	2001	2002	2003
Telephone Lines (include Fixed Cellular)	18,600	20,874	21,247	21,249
Teledensity (total per population)	22.93	25.71	26.29	26.29
Residential lines	13,700	13,700	13,846	13,852
Waiting List for main lines	1,398	1,492	1,700	1,894
Pay phones / 1000 inhabitants	2.69	2.57	3.55	-
GSM Mobile	25,961	36,683	44,731	44,731
Mobile subscribers /10,000 inhabitants	-	-	254	
Internet Hosts	-	-	60	-
Internet Service Providers (ISP)	2	2	2	2
Internet subscribers/10k population		2,050	2,924	-
Internet Cafés			23	