

Budget Address

By the Minister for Finance

Danny Faure

Nov 30th 2009

Mr Speaker
Leader of Government Business
Leader of the Opposition
Honourable Members of the National Assembly
Distinguished Guests
Seychellois Brothers and Sisters

LEVE DEBROUYE POUR SESEL

1. Introduction and Pre-amble

Mr Speaker, it is an honour and privilege for me once again to present to this Assembly and the people of Seychelles our budget address for 2010.

Last year when I addressed you, the issues at the fore-front of our minds were our new exchange and monetary regime, rising inflation and interest rates, volatility of prices of goods, the collapse of international financial systems and its negative impact on our tourism industry.

We took a decision to redress the economy so that we could, once and for all, change the way that Seychelles undertakes its future development.

The majority of the Seychellois people placed their confidence and hope in the President's wisdom.

It is evident that the series of reforms introduced have put us on a sustainable growth path. Had it not been for this, growth would have been sharply negative, resulting in lower personal income, increased unemployment and dire prospects for our people.

Today, a year following the start of our historic economic reforms of November 1st 2008, I am satisfied with the results and I can tell you

unreservedly today, that our reforms are well on track and that we continue to make headway despite turbulent times, amid unpredictable domestic and international conditions.

Most importantly, we have succeeded in re-calibrating our economic strategy and have placed the country on a course towards a more modern economy and in 2010 we shall continue to build on what we have started and go further in refining it.

That includes continuing our work to further improve the efficiency of Government and to improve our service delivery, reduce and better manage Government spending, give the private sector a bigger role in, and better tools to contribute to, the country's economic growth and furthermore, make available to them a larger and better skilled labour force to help them achieve this.

We will go further in 2010 to improve the fiscal environment in which businesses operate, and in doing so, create a more level playing field so that everyone who wants to go into business can do, so with the same opportunities and incentives and those who need help to do so can get the necessary assistance.

The bottom-line Mr Speaker, is that we have taken on board more of the aspirations, needs and wishes of the Seychellois people and we have redefined the directions of Seychelles and the Seychellois in order to achieve sounder and stronger economic progress and give ourselves and the next generation greater opportunities for a better life.

Following the economic shocks of 2008, the economy has regained a level of stability during 2009 and we now firmly believe that we will start on a path of sustained recovery from 2010.

Real GDP growth is projected to grow by 4 per cent in 2010 and inflation is expected to remain in the low single digits. Tourism and related services, the main drivers of our economic growth, have already begun a gradual recovery in the second half of 2009.

There has been and will continue to be, positive domestic and external debt restructuring, which will reduce our country's credit risk and support foreign direct investment.

In the absence of any new major external shocks, our currency is expected to remain stable and foreign reserves which today represent almost two months of imports are projected to rise gradually to nearly three months of import coverage, by the end of 2012;

Having said this however, I must also say that we should never sit back and rest on our laurels. There is more to be done.

Only recently we have negotiated an Extended Fund Facility with the IMF as part of our medium term plan. This facility will usher in many of the remaining reforms that need to be carried out in Seychelles if we are to become more efficient and make further economic progress.

All in all, this budget address gives me the opportunity to share with the Seychellois people how far we've come since last year and where we're heading.

I will touch on the impact of the economic reform programme on our people, and will review various sectors of the budget as well as our monetary and fiscal position.

I will explain the nature of the second generation of reforms which comprise mainly Taxation, Public Administration and the Public Sector.

I will go into detail on the tax reform that we are introducing and the various types of taxes that will apply as from January 2010. I will also explain the structural changes that are planned in ministries and departments from next year.

I will also announce the objectives of our medium term programme, our various agreements with our multi-lateral partners and the assistance that we're benefiting from.

I will then detail the Budget's expenditure and revenue items and I will explain our negotiations aimed at restructuring our external debt. I will also inform you of new policies that will take effect from January 2010.

I will run through a list of our priorities in terms of spending for capital projects, what we need to contribute and how we will maintain our social gains.

And last but not least I will speak about what we will be doing to continue to improve the lives of our Seychellois people and the economic health of our country.

2. Budgetary Performance 2009

The government is expecting to complete the year with a total revenue collection of SR3.7 billion , exceeding the original revenue projection by almost SR 168 million or a 5% increase.

This has been achieved mainly as a result of additional revenue collected from business tax, other taxes, dividends from parastatals and other non-tax revenues. In addition, government has benefited from a total of SR 309 million in support and grants from bilateral partners.

The Seychelles Revenue Commission has re-inforced its efforts on tax collection and this year we are starting to see the results of it. In 2009 total revenue collected from business tax is projected to surpass budget by almost SR 109 million or 20%.

The Government is also generating higher returns on its investments. This year we are forecasting that the total dividends to be collected from public enterprises will be SR 163 million which represents an increase of almost SR 40 million more than budgeted. These increases in dividends have come mostly from SIBA and Nouvobanq.

With regards to total expenditures but excluding public debt interest, government is anticipating to complete the year with an expenditure level of almost SR 2.5 billion which is SR 400 million or 14% less than the original budget estimate.

Mr Speaker, this lower than expected expenditure is mainly because we anticipate using only SR 2.8 million of the SR 300 million Contingency Fund that was budgeted in the event that there was a need for government to step in and assist government financial institutions, as has been the case in many countries around the world.. The use of only SR2.8million of the Contingency Fund has demonstrated that the government financial

institutions have been able to withstand the impact of the global financial crisis and our economic reforms.

Furthermore, we anticipate using only SR 36 million of the SR 100million that Government budgeted as part of the social safety net.

The total government wages and salaries bill for 2009 is anticipated to be SR 768 million which is SR 21 million or 3% more than what was originally budgeted.

As for total interest payments for 2009 government is anticipating to pay almost SR 1.1 billion compared to our original forecast of SR 1.2 billion. This is 10% below our original estimate and has been possible due to the appreciation of the rupee, debt rescheduling with the Paris Club and lower than expected interest rates that have been experienced in the second half of 2009.

3. Monetary and Financial Sector Developments in 2009

The primary objective of monetary policy in Seychelles is price stability.

Today, a year on since the financial sector was liberalised, one of our biggest success stories has been our ability to bring down the inflation rate to a level that no one would have expected when we began our reform process in November 2008.

At the end of 2008, annual inflation had reached an historic high of 63 per cent but since then Mr. Speaker, we have come a long way. I am pleased to report that when inflation data is released within the next two weeks we expect it to be around only 2 per cent year on year.

Following the liberalisation of the financial sector last year some volatility in the key financial indicators was observed, as had been expected,. In particular, there was an overshooting in some key financial indicators.

From the time we floated the SR in November 2008 until the first half of 2009 the exchange rate was higher than the level that had been anticipated. During this period savings interest rates also rose to reflect real interest rate levels thus helping to stabilise the exchange rate.

However, due to disciplined fiscal and monetary policy being implemented throughout 2009 and the impact of the other wide ranging reforms reaching all areas of the economy, clear signs of improvement have been evident

Since the exchange rate reached a peak of SR 18 to the US\$ in December 2008 and short-term treasury bill interest rates hit a high of 30 per cent in January 2009, these rates have gradually fallen to much lower levels. The Seychelles Rupee is now trading at an average of SR10.9 against the US\$, while short-term treasury bill interest rates have fallen to below 2 per cent.

To complement these economic gains that we have experienced, our country has been able to accumulate foreign exchange reserves to more satisfactory levels. One year on, the net international reserves of the Central Bank stand at US\$ 156 million, equal to just under two months of imports. We expect that by end-2009 gross reserves would reach close to US\$ 170 million.

Our key objective is to maintain macroeconomic stabilization in order to secure more benefits for the average Seychellois, and grow a new wave of entrepreneurial spirit.

4. Outlook for 2010

With expectations that the world economy will begin to recover in 2010 the Seychelles economy is forecasted to grow by 4 per cent next year.

This, Mr. Speaker, is assuming that the global recovery would translate into increased tourism activities as well as an improvement in foreign direct investment levels.

Domestically, the conditions have gradually improved allowing for economic recovery to resume. The faster than planned macro-economic stabilization has made it such that there is room for further easing of monetary policy on the part of the Central Bank through a further relaxation of the reserve money target.

Moreover, excess commercial bank reserves built up as a result of government's domestic debt repayment will provide greater scope for further reductions in commercial bank interest rates. This reality, we hope Mr Speaker, should encourage all banks to lend to the private sector at much

lower lending rates which will help to grow the economy and create more jobs.

Our exchange rate policy for 2009 will continue to be based on a floating regime, which to date has served Seychelles well and we remain committed to a market-determined exchange rate regime. However, we will rely on the Central Bank to remain alert against the risk of excess volatility and an over-valued exchange rate for the Rupee.

I want to assure the Assembly, as well as the business community, that Government is well aware of the risks that an overvalued exchange rate for the Rupee would have on our economy, notably on the tourism industry. We have lived through this experience and its adverse impact.

Government has been encouraged by the effectiveness with which the Central Bank has been able to intervene to eliminate the excess volatility in the exchange rate and to calm the market when the exchange rate appreciated sharply in recent months.

We are also confident that the effectiveness of the Central Bank in containing inflation and in maintaining financial stability will continue. The Bank today possesses modern policy instruments to cater for the demands of the banking system and this has been key to successful monetary policy implementation.

I am certain that Central Bank will continue to explore options for developing better instruments to ensure further development of the financial sector.

5. Sectoral Overview

Our economic reform programme has had a strong impact on our education and health systems. But it is in these very sectors that we have seen how our firm principles of free access to education and health has cushioned our children from the toughest impacts that this economic reform could have had on them.

a. Health

In the Health sector there was a need to relook at how best to maximise resources and facilities in the light of budget constraints.

Last year I informed this Assembly how much it cost Government to provide the level of health care for our citizens. It is worth noting that the pattern of sicknesses and health problems that exists in Seychelles is comparable to that which exists in the industrialised European countries and treatments for such cases are generally very costly.

As a result of such high costs, a significant allocation has been made in the budget to meet the everyday costs of operating the health system. In the 2010 Budget we have provided 34.9 million rupees for medicine, 27.7m for medical supplies, 12.4m for laboratory supplies, and 7.5m rupees for specialised overseas treatment.

b. Education

The Ministry of Education used 2009 to consolidate its new programme and to prepare for new challenges ahead.

That is because we needed to re-orientate our educational system in line with new plans for development of our human resources.

It's important that our educational system and the new Seychelles University prepare our young people better for the world of work with more skills, better competencies, a better attitude and of course greater knowledge.

The structure and role of Government that we have known until now is changing. Our economy is transforming very fast and it's therefore necessary that our youth can master technology better and that in this new attitude that we are seeking in our youth as well as their parents, they are able to realise that every job has its value and every job is important. .

Government for its part will continue to make the necessary resources available to develop this quality level of education.

The 2010 Budget makes provision for SR10 million for this first phase of education reforms.

We will continue to provide financial support to state schools as was the case in 2009.

c. *Community Development*

President Michel's recent consultations in the districts gave an opportunity to residents to talk about the future of Seychelles as well as to make critiques and suggestions in areas where they believed things were not working well and to offer solutions for improvement.

The Government's policy is to continue with its district programme in order to reinforce community values and the spirit of volunteering.

We have therefore provided for SR20 million for the 25 districts to finance small projects in an effort to make a difference in the lives of our communities.

In doing so, Government will be helping districts to achieve self-sufficiency and at the same time go some way to decentralise government, through smoother cooperation between ministries and the agencies which serve these districts.

d. *Youth*

Many programmes have been implemented with and for the Youth through the Department of Youth.

In August this year Government took a major decision concerning the Youth, within its programme of ongoing reforms in the public and administrative sectors. From January 2010, the National Youth Council, will be strengthened legally. All staff of the current Youth Department will be transferred to the National Youth Council (NYC), and all youth programmes will come under the NYC.

This change in the management structure will create a new synergy and coordination between the Ministries, agencies and civil society in a new all-encompassing action plan on aspects of concern to youth such as Aids, Drugs, prostitution, life skills, employment, further education, empowerment and the entrepreneurial spirit.

e. *Housing*

Mr Speaker, Government is committed to maintain housing as one of its priorities despite the economic situation.

In 2009, the implementation schedule of the on-going projects in the various districts was hampered by the effects of the economic reform that resulted in a major increase in the cost of construction. As a result some projects that were planned to be completed in 2009 will now spill over into 2010.

For example, after a lull of two years, the Ile Perseverance project will kick off again early next year. In the reworked plan, we will aim to deliver 1,000 units by 2012. The first 200 units will be allocated towards the end of 2010.

Infrastructure for the new Ile Perseverance community is an important component of this project. We have already awarded contracts for the materials required to provide electricity, water, and sewage, and some of this material has already arrived in the country.

On Ile Perseverance, we have completed 128 units – the ones that accommodated the CJSOI athletes last year. We expect to complete infrastructure for these houses – electricity, water, sewage and roads, next year. As soon as these works are completed, we start allocation for these 128 units.

Before the end of 2010, a further 100 units and their infrastructure will be ready.

We plan to allocate 200 units in 2010, and a further 300 in 2011.

Government had planned to deliver 306 new houses in the beginning of 2009, but unfortunately some of these projects were delayed because of rising costs.

By the end of December this year we expect to have delivered 163 units including those of Dan Kan (Plaisance), Ex-Troian Phase 2 at Barbarons, and Lower Petit Paris, Cascade.

The remaining 143 units will be completed next year and these will include Ex-Albert (Pte. Larue), ex-Onezime (Anse-aux-Pins), Carana Housing Estate, North East Point, and Ex-Teachers, at l'Amitie Praslin.

f. **Sports**

The development and promotion of sports plays a vital role in the process of nation-building. It increases awareness on the importance and benefits of healthy living while fostering discipline, developing the competitive spirit and nurturing youthful talent and high calibre athletes to become national sports heroes and role models.

Over the last few months, Government has channelled resources towards the preparation of high quality athletes for the future. This strategy has begun to bear fruit as our young talent have won gold medals in the international arena in such fields as Weightlifting and Badminton.

Emphasis on youth sports will continue next year as we prepare for the Regional Youth Games (CJSOI) in Reunion in August 2010, the first Youth Olympic Games in Singapore in August 2010 and the Commonwealth Games in New Delhi in October 2010.

Participation in these games will also provide much needed competition in preparation for the 8th Indian Ocean Island Games, which Seychelles will host in 2011.

g. **Culture**

Government has always embraced the importance of our country's culture and its development and over the years several companies and individuals have also made their own contributions.

Government has created and sustained the Creole Festival and other countries have followed suit. Festivals of art and culture that are celebrated in Seychelles continue to feature on our annual events calendar.

Countries throughout the world have come to realise that culture, especially cultural industries, can play a greater role in the national economy. The Department of Culture has taken steps to ensure that this happens in Seychelles as well, since a growing number of tourists travel the world to discover and experience different cultures.

Culture is set to play a greater role in our tourism industry and as such, private sector and other interested parties are encouraged to foster this new trend in our economic development.

For instance, a small home business that makes and packages pickles or jams for sale is promoting our culture, just like a restaurateur who ventures into setting up a Creole restaurant and consequently both are helping to grow our culture and our economy.

It's therefore timely for us to take a closer look at our culture and at our national heritage, to better understand and appreciate how we can make them play a social and educational role as well as an economic one.

h. Agriculture

The creation of the Seychelles Agricultural Agency (SAA) in January 2009 marked another major milestone in the development of the agricultural sector.

The Seychelles Agricultural Agency has been vested with the primary responsibility of providing a wide range of goods and services to the farming community so that collectively we can achieve a better level of national food security.

The year 2009 saw marked divestment by government from all traditional sectors inclusive of agriculture. The Seychelles Farmers' Marketing Cooperative has taken on the responsibility for the livestock feed factory, the abattoir and the hatcheries.

Members of the farming community have benefited through import tax concessions amounting to over 20 million rupees for the year 2009 on the importation of machinery, equipment and raw materials into the agricultural sector.

Despite the fact that we are still importing much of what we consume, our agricultural sector generates some 200 million rupees in annual turnover.

Government will continue to sustain the agricultural sector through institutional support, with the aim of seeing quality of produce go up and prices come down for consumers.

i. Fisheries

Mr Speaker, we are seeing some worrying trends in one of the most important sectors of the Seychelles economy.

The total catch in the Western Indian Ocean by purse seiners holding licenses to fish inside the Seychelles EEZ for the first semester of 2009 was estimated at 62,142 MT compared to 101,507 MT and 122,416 MT for the same period of 2007 and 2008 respectively.

The 2009 total catch figure represents an approximate 50% reduction over 2008 figures and this is the lowest catch reported for the first semester of any year since the late eighties.

Total catch reported from inside of the Seychelles EEZ also dropped by about 50%, from 30,951 MT in 2008 to only 15,586 MT.

Port Victoria has been the principal port for tuna trans-shipment by purse seiners in the Western Indian Ocean region for many years. For the first semester of 2009, we recorded a 67% reduction (from 99,084 MT to 32,644 MT) in trans-shipment and landing of tuna, compared to the same period of 2008.

This reduction in trans-shipment volumes translates into reduced earnings from related activities, as spending by fishing vessels in Port Victoria is by far the biggest component of foreign exchange earnings from industrial tuna fishing .

The reduction of catches in the Western Indian Ocean can be attributed to a number of reasons. Firstly, it should be noted that the catch in the period 2003 - 2006 was considered as exceptional, due to large catches of yellow-fin tuna reported over this period. Over the past 3 years, tuna catches in the Western Indian Ocean appear to be returning to the pre 2003 level, hence lower catches.

Secondly, it must be said that fishing activity is facing serious threats. The activities of Somali pirates in our territorial waters have forced fishermen to abandon some of the more lucrative areas.

Through our negotiations we have succeeded to achieve a better level of security to encourage the purse seiners to carry on fishing in our waters.

Our challenge is to find further solutions with the help of our partners to protect both foreign fishing operators and our local fishermen, who today are wary of venturing too far out.

j. Defence Forces

A planned restructuring of the Defence Forces is under way. This will mainly entail measures to increase the capacity and efficiency of our Coast Guards in carrying out surveillance of our territorial waters and to be able to react suitably to threats especially those from pirates.

Already a special forces unit has been created.

The 2010 Budget makes provisions for our Defence Forces to implement this restructuring.

k. Tourism

The new partnership between Government and the private sector on the Seychelles Tourism Board is working well and the new dynamics have already contributed to a reversal of the downward trend in arrival figures.

Although we were experiencing a drop of 18% in arrivals in March 2009 compared to the same period in 2008, thanks to our collective efforts, this reduction is now at 2-3% today.

It appears that our visitor arrival numbers will finish this year at about the same level as last year, despite the serious economic crises in our principal European markets. On an even more positive note, STB is forecasting a 5-6% increase in visitor arrivals in 2010.

We are also beginning to see the fruits of our joint overseas marketing initiatives between STB and the Ministry of Foreign Affairs,

as well as cost savings being achieved through the sharing of some overseas offices for both STB and MFA representations.

The State-private sector partnership in STB is therefore bearing fruit and this should be further reinforced in the future.

l. Energy

Government's main concern is for the energy demand by all sectors of the economy to be met through reliable and affordably-priced energy.

An Energy Commission has been created under the Ministry of Environment and Natural Resources with responsibility for the oversight and planning of the country's approach on energy issues.

The Commission is responsible for the Energy Policy and the country's Energy Master Plan and for overseeing and co-ordinating their implementation.

A new legislative framework governing the energy sector will be developed to attract investment into the sector and to ensure the observance of the principle of fair competition.

Government will promote the use of renewable energy through the establishment of adequate institutional and legislative framework, the development of human resources, public awareness and a suitable financing system.

m. Electricity, Water and Sewage

This is a sector that touches the lives of every Seychellois as well as being key component in the country's development.

We all recognise that the recent development of the country has been very rapid.

In these past 5 years the Government has invested SR1.6 billion in capital expenditure projects in education, health, housing and roads.

Given the growing demand for electricity, water and sewage in the country, the time has come for the Government to ensure that more investment is undertaken in these key areas, by PUC.

Over the next 3 years this will entail a total of SR2.2 billion in investments.

Under our new economic programme, Government is not able to borrow more than SR500 million per year to finance projects. New policies also dictate that PUC can no longer receive Government subventions and it needs to operate on a commercial basis.

Therefore, in order for us to meet our country's demand in these three key areas of life and development and bearing in mind the Government's budget limitations, we have earmarked development grants worth SR675 million in PUC over the next three years.

PUC will then need to find the balance of the money – about SR500 million annually– through commercial loans and by reviewing its tariffs.

PUC is currently finalising the new rates which will be announced shortly.

n. International Business

Our Off-shore Industry faces unprecedented challenges but at the same time numerous opportunities. December 2009 will mark 15 years since the conception of the Industry in Seychelles.

Over the years, our off-shore Industry has played an increasingly important role in the development of Seychelles economy, firmly establishing itself as one of our main economic pillars.

The numbers of new IBCs incorporated this year decreased by 10 percent compared to last year, believed to be due to the current world financial crisis. However, we have seen some positive growth signs over the past two months.

The economic benefits to Seychelles of the international business industry is now valued at an estimated SR400 million per annum with SIBA on its own having a turnover of SR 60 million.

During 2009 SIBA has managed to increase its total revenue by 12% and paid an interim dividend of SR 50 million to the government in the third quarter of this year.

The future of the Industry will depend very much on promotion and innovation. The Ministry of Finance, CBS, SIBA, and SAOPRA and all other stake holders are committed in the quest to market Seychelles as a preferred financial services jurisdiction for International Investors.

o. Information Communications Technology

Unlike many other countries, as the economic slowdown intensified, consumer spending power in Seychelles remained buoyant. Statistics indicate that the international incoming minutes, Internet subscribers and the total number of SMS's increased by 4.4%, 5.7% and 1.8% respectively during the first half of the year.

On the other hand, other ICT performance parameters such as the number of mobile subscribers, outgoing international minutes and fixed line subscribers have all reduced. Outgoing international minutes were the hardest hit of all, experiencing a reduction of 6%.

It is our view that access to the Internet, especially broadband, is vital for the participation of a country in today's information economy. The recent launching of a Detailed Feasibility Study (DFS) for the building of a submarine fibre optic cable system to serve Seychelles's communications bears testimony to Government's recognition of the powerful effects that investing in ICT has upon our development and economic growth.

The study is being financed by a grant from the African Development Bank. Preliminary findings are very encouraging and it is expected that following the outcome of this study, interested parties will be in a position to make their investment decision in a project that should take the local ICT sector to greater heights and provide the public with a much needed boost in internet speed and ease of access.

p. National Assembly

As an independent legislative arm of our country for the last 17 years, the National Assembly will finally get its own building.

The Assembly is also implementing its own programme of reforms. The 2010 Budget provides for more resources to support the Assembly's work.

q. Judiciary

Also as an independent arm, the Judiciary is embarking on reforms that will change the way it functions.

The 2010 Budget provides support for these reforms, including the technology component of the project, and support for the development of court administrators.

6. Public administration and public sector reform policies

The implementation of the economic reform programme has obliged Government to further re-define its role.

Government will focus on its core functions. That is formulation of national policy, whilst executive agencies will operate and provide services on behalf of the State.

This second stage of our reform process is to determine what services and functions of Government may be outsourced or contracted out to the private sector or independent agencies. In doing so Government must ensure that it is achieving the most efficient use of resources within an affordable expenditure framework and eliminate duplication of functions across its policy cells by consolidating and streamlining its administrative and regulatory structures.

These strategies are set out in the Memorandum of Action on Public Administration and Public sector reform policies which was approved by Cabinet in August 2009.

i. Services Off Payroll

As from January 2010, the Government will begin the process of outsourcing its non-core services.

For example, cleaning of Government offices will be carried out by the 'Cleaners Co-operative Service'.

Clerical staff not exercising strategic functions in Government will all follow a training program from January 2010 that will provide them with the necessary skills to fill other vacancies in the labour market. The Ministry of Employment and Human Resource Development through the National Human Resource Development Council (NHRDC) will oversee the re-training of those people exiting under the reform. Government has allocated R 10 million in the 2010 budget for retraining.

ii. Ministry of Finance

To further strengthen and improve on public financial management systems, a Comptroller General has been appointed in the Financial Planning and Control Division.

To improve on budget execution, the role of accounting officers has been redefined and enhanced for improving the financial management function in line ministries.

As from January 2010 all Financial Controllers/ heads of finance and accounts in all Ministries and Departments, will report directly to the Comptroller General instead of reporting to their respective Principal Secretaries.

Also, as from January 2010, audit officers who work in other ministries will fall under the office of the Chief Internal Auditor in the Ministry of Finance, with the aim of strengthening the Government's auditing capacity.

Postal Services which currently falls under the Ministry of Finance will become an statutory body.

iii. Department of Information and Public Relations

Nation Publishing will become a statutory body. It is to be named National Information Services Agency with the mandate to operate on a commercial basis and to provide Government with a return on its investment as from 2011.

iv. Environment Department

The Botanical Gardens and Biodiversity Centre will fall under the auspices of the National Botanical Gardens Foundation.

v. Community Development Department

As from January 2010, the management of homes for the elderly and cemetery services, which currently come under the Community Development Department, will transfer to the Social Security Fund.

vi. Youth, Sports and Culture

The Creole Festival Secretariat will be transferred to the National Arts Council. The management of the International Conference Centre will be transferred to the Seychelles Tourism Board. All staff of the Youth Department will be transferred to the National Youth Council.

vii. Social Development Department

The management of the Half Way Home and the President's Village will be transferred to the Children's Home Foundation.

viii. Department of Police

The Seychelles Fire Brigade which currently falls under the Department of Police will become a statutory body.

ix. Ministry of National Development

The Film Unit in the Department of Information, Communications, and Technology will be transferred to the Department of Information and Public Relations.

x. Ministry of Education

The Creole Institute that currently falls under the Department of Culture will fall under the Ministry of Education from January 2010.

The Adult Learning and Distance Education Centre (ALDEC) will no longer fall under the Ministry of Education and instead become autonomous.

7. Privatisation

In the last Budget speech, I spoke of the need to continue with Government's privatization process.

I am pleased to report that the following units have been successfully privatized during the year 2009:

- Meat corner retail outlet
- Enterprise landing crafts
- Tomato sauce production

- Water bottling operation
- Hatchery
- Animal Feed
- Abbatoir
- Agro-Industries

Government has collected a total of SR103 million through this programme.

8. Public Procurement

Public procurement is a central pillar in Government's ongoing efforts for good governance.

The objective of Public Procurement Act is to change the way public procurement is practiced by all levels in government and by the business community, so as to improve the accountability and integrity of the procurement process.

Public procurement world-wide is an area that is seen as vulnerable to irregularities, scandals, corrupt practices, influence peddling and opaque transactions.

It is because of this fact, that the Government takes the functions of the Procurement Oversight Unit, the National Tender Board and other governance institutions very seriously.

The Government will, therefore, endeavor to ensure that such institutions like the National Tender Board, will continue to enjoy the autonomy they deserve in order to properly discharge their duties.

Let me assure you that with Government's stance of zero tolerance on corruption, the National Tender Board will be given the required environment to ensure its sustained autonomy.

9. Out-sourcing

Government continued with its programme of outsourcing to seek efficiency by identifying activities that can be best undertaken by the private sector.

We started the out-sourcing programme in 2005 and we have over the last 4 years approached out-sourcing in systematic way. We have already out-sourced most of the cleaning and landscaping works in the districts and

cleaning of schools, which this year alone has resulted in the creation of almost 900 jobs.

Outsourcing not only provides opportunities for Government to cut cost and increase productivity, but create a more competitive environment and also create productive capacity in the economy. Next year as more government Agencies become autonomous, more services will be out-sourced to the private sector.

10. Trade

A Working Group comprising representatives from government, Civil Society and the private sector has been established and mandated to prepare the negotiating position for Seychelles' accession to the WTO

The WTO has assisted Seychelles in the establishment of a WTO Reference Centre; this Centre will be available to the public and will provide access to WTO documents, books and internet resources. The centre is to be located at Trade Offices, Latanier Road and is expected to be fully operational in 2010.

a. Interim Economic Partnership Agreement

The interim agreement extending preferential trade terms to Seychelles from the European Commission (EC) was signed in August this year. We have received notification from the European Union (EU) that the agreement has been ratified on their side. We have submitted the agreement to the National Assembly. Negotiations with the EC will continue during 2010 to reach a full agreement that deals not only with goods but other aspects of trade.

b. Regional Integration

Seychelles is taking great strides in terms of aligning itself with international best practice. We are working intensively with our regional partners so as to strengthen regional integration. In 2009, Seychelles became a member of the COMESA FTA and 2010 will see us become a party to the SADC Trade Protocol.

As part of our efforts to widen our trading avenues in both our imports and exports, we are exploring a number of Free Trade Agreements. Only this month, Seychelles had a first round of negotiations towards a bilateral FTA with Turkey, which is a world

leader in manufacturing. It is hoped that this FTA will lead to cheaper imports such as intermediate goods and finished products.

c. Fair Trading Commission

The Fair Trading Commission has been established. As was announced recently, the Fair Trading Commission will regulate domestic competition and ensure a level playing field for all economic operators.

d. Seychelles Trading Company

STC has played a leading role in anchoring prices of essential commodities at affordable rates.

It is worth remembering that in the new economic environment, STC does not enjoy any Government subventions and does its business just like any other company.

STC's new role in this new economy will be primarily to ensure the supply of basic items at affordable prices and still balance its books.

11. Government – Private Sector – Civil Society Partnership

Government will continue its efforts to develop a more solid partnership with LUNGOS and the Seychelles Chamber of Commerce and Industry.

These two organisations represent civil society and the private sector, and Government will continue to support them financially. In the 2010 budget, we've provided for SR700,000 for LUNGOS and SR900,000 for SCCI.

During the course of 2009 many worthwhile projects that have a positive impact on society have been launched by NGOs which fall under LUNGOS, and we need to encourage these through the budget.

12. Multi-lateral Institutions

Mr Speaker, 2009 has seen a resurgence of activities with our multilateral partners.

After years of absence, both the World Bank and the African Development Bank re-engaged with Seychelles. Endorsement by their respective Executive Boards and the issuing of Interim Strategy Notes spell out their re-engagement strategy with Seychelles.

Seychelles also hosted the first Seychelles Forum in May 2009 which brought together the majority of its bilateral and multilateral partners. The theme chosen for the Forum was 'Paving the way towards a sustainable economy'. The Forum provided a platform for the exchange of views and the sharing of experiences amongst the participants on the recent economic reform programme of Seychelles.

During 2009, we also saw the visit of Seychelles' Executive Directors at the AfDB and the IMF. They came to Seychelles to witness first-hand the effect of the economic reform program and to show their continued support.

a. World Bank

During the course of 2009, the World Bank has assisted Seychelles in various sectors.

The Bank conducted and published the findings of the first Public Expenditure Review (PER) Exercise, concentrating on 3 main sectors; health, education and public administration. Through the PER exercise, areas of weaknesses were identified which the Government has taken steps to address as it moves forward to the second generation of reforms.

Since the introduction of the reforms, more than ever, statistics have had a crucial role to play and to address the weaknesses. To help address this situation, the World Bank has agreed to support the National Statistics Bureau with a grant of USD 376,200 for Statistical Capacity Building.

The Bank also gave its approval for a € 6.4 million Development Policy Loan, which will assist the country in the implementation of its economic reform programme.

b. African Development Bank

On the 25th August 2009, Government signed a € 15 million loan which will finance the country's Economic Governance Reforms program.

We have also had high level discussions with the ADB with regards to a partial guarantee of the bank to be attached to the new bonds that will result from Seychelles's forthcoming external debt exchange offer.

As part of the forthcoming exchange offer, holders of our Eurobonds due in 2011 will be invited to tender their instruments for new bonds. This partial guarantee will provide additional value to creditors affected by the exchange offer and thus make it more attractive.

It is now expected that the AfDB will review the partial guarantee proposal in the next few weeks. The Government of Seychelles wishes to launch the exchange offer shortly.

c. *European Union*

The European Commission is assisting Seychelles through a General Budget Support programme including €9 million from the Vulnerability Flex Fund and €7.5 million from the 10th EDF.

Mr Speaker, it should be noted that the above mentioned loans are meant to support our economic reform programme as well as help us to sustain our Reserves.

d. *International Monetary Fund*

In addition to monitoring the Stand By Arrangement, the IMF continued to support Seychelles by providing technical assistance in numerous areas such as taxation and public finance management, as well as technical assistance to the Central Bank.

This year we have received USD 13.2 million from the IMF.

We hope that by the end of this year, Seychelles will be in a position to sign off on a new Extended Fund Facility with the IMF.

13. Objectives of the Medium Term Strategy

The major objectives of our medium term strategy are to:

- preserve macroeconomic stability;
- achieve external sustainability; and
- improve economic efficiency and durably raise growth through the implementation of a second phase of structural reforms.

The main goals of our fiscal policy are to put public finances on a sustainable path, while creating the fiscal space to raise public investment and support our targeted social safety net.

We hope to achieve primary fiscal surplus levels that are consistent with our medium-term sustainability objective, assuming full external debt restructuring. This profile will allow us to reduce domestic public debt significantly, releasing resources to support private sector development.

One key objective is to have a tax reform that delivers a simple, fair, and equitable tax system, which will promote growth, improve self-compliance, and level the playing field for investors.

Our new macroeconomic framework will guide fiscal and financial policies over the next three years. After the shocks of 2008-09, we expect the economy to start a sustained recovery from 2010.

There are positive signs that tourism and related services—the main drivers of growth in our economy—commenced a gradual recovery in the second half of 2009, and FDI is expected to rebound in 2010.

FDI would be further supported by a successful public external debt restructuring in late-2009/early-2010 that would improve our country's sovereign rating. Real GDP growth is projected to recover to 4 percent in 2010 and to 5 percent in 2011-12, while inflation is expected to remain in the low single digits.

The GDP projection in 2009 is estimated at SR10.3b, will grow to SR11b in 2010, SR11.8b in 2011 and SR12.9b in 2012.

We have assumed an exchange rate equivalent to current levels over the medium term.

The external current account deficit is expected to widen again in 2010, due to higher growth and FDI, but will narrow over the medium-term as tourism earnings recover. Foreign exchange reserves are projected to rise gradually to nearly three months of import coverage by end-2012.

Primary fiscal surpluses will be targeted at 7% in 2010, 6% in 2011 and 5% of GDP in 2012. These levels are consistent with our medium-term sustainability objective, assuming full external debt restructuring.

This profile will allow us to reduce domestic public debt significantly, releasing resources to support private sector development.

14. New Policy

a. Current Macro-Economic Environment

Mr Speaker, our strategy under the programme is very focussed.

The initial phase of our programme has been to restore convertibility in the currency, stabilise inflation and bring about real interest rates within the monetary system.

With the clearing of the exchange system, the wiping out of the black market, month on month inflation being currently slightly negative and Treasury bill rates down to less than 2% we believe we have achieved our initial set of objectives.

The economy has slowed down nevertheless mainly driven by external factors especially those affecting the tourism sector.

Our future strategies will be underpinned by strong fiscal performance guided by reforms in the taxation system, further streamlining of Government, improved governance and adherence to a debt strategy that is consistent with our long term objective of debt reduction and sustainability.

We must focus on the creation of more jobs for our people. Our workforce must become more competitive and together we must continue to diversify our economic base.

Government's role must remain that of a facilitator, regulator and enabler and we must provide the private sector with a conducive environment which allows all businesses to flourish with minimum bureaucracy and administrative barriers.

In the coming year Mr Speaker, we must do everything we can to improve our ranking on the World Bank's "Ease of Doing Business" index.

b. Wage Grid

Government has often stated in the past that work is being undertaken with the assistance of the Commonwealth Secretariat to do a comprehensive salary review of the public sector.

A large part of this work is now completed and we are ready to implement the new wage grid from 2010.

From January 2010, a more flexible and transparent wage grid will be adopted. It will provide for an average salary increase of 4.3% within the public sector.

Some 77% of workers will get a pay rise depending on their base salary and policies to be established on how the increases are to be administered. These increases will also vary based on a grading system on the grid today.

Positions at the level of Director General and above will not receive any increases under the new wage grid.

It is important that we appreciate that this project was complex and was done in two phases:

(i) The first phase comprised:

- research on the evolution of salary structures in the past 30 years
- analysis of private sector salary schemes with a comparison of those in the civil service
- developing a comprehensive system to evaluate jobs
- develop a wage grid that takes into account other human resource issues
- to develop a detailed report with recommendations on the first phase of the project

(ii) The second phase comprised:-

- the training of 110 directors and human resource officers on ways to use this new system in evaluating jobs and sensitising them on ways to manage the changes to accompany this implementation of the new salary system
- collect job analysis questionnaires (more than 700 have been analysed to get a reasonable base)
- evaluation of jobs in different grading levels or profession
- re-classification and re-grading of jobs

- re-drafting new policies to adapt to the new grid
- re-drafting new schemes of service to take into account the framework set by the Seychelles Qualification Authority (there are over 170 schemes of service today)

The adoption of the new wage grid will change the way salary increases are administered in the public sector. Instead of giving fixed increases across the board like before, Government will instead rely on a percentage change of actual salaries based on salaries as at Dec 2009. All workers will, as from January 2010, be paid according to the new wage grid based on their qualifications and experience.

This wage grid will apply to all Government ministries and departments as well as other Government agencies. Commercial public enterprises are not obliged to adopt this new system.

It is also my pleasure to announce that the new “scheme of service” in the Health Sector will be implemented from January of next year. In this sector there are currently 23 schemes that will be restructured into four categories: medical, dental, technical operations of health, graduates and nursing staff.

As regards education, a new scheme of service for teachers will be introduced from January 2010.

As announced earlier in September, Government will implement a strategy to retain its professionals who work in ministries and departments.

c. Social Security Benefits

It's thanks to the courage and determination of the Seychellois people that we have succeeded in creating a Social Security system.

The Social Security Fund will be financed by revenue collected by Government and the payment of benefits is in line with Social Security legislation.

The 2010 Budget provides for SR252 million to pay such benefits, such as benefits for:

- Pensioners

- Invalids
- Accidents at work
- People incapacitated through illness
- Orphans and abandoned children
- Maternity leave

In line with our policy of social protection, we will maintain our programme of home care. The 2010 budget has earmarked SR35 million for this. We will also continue our programme of Family support.

Our programme to assist children, students and pensioners who use SPTC buses will cost a sum of SR 28 million, and this will be financed by the Social Security Fund.

Post secondary students' allowances and allowances for students from Praslin and La Digue residing in the Youth Hostel will increase as from January 2010.

d. Social Safety Net

Government introduced the Social Welfare Agency in October 2008 to mitigate the impact of the economic reform by establishing a safety net for the most vulnerable in the society.

By the 30th of October 2009 the Agency had assisted those in need with financial support for up to R30m.

The reasons for financial assistance vary from case to case and will include situations where there is a need to help due to:

- a. Low household income
- b. Inability to work such as due to sickness
- c. Emergency Temporary unemployment
- d. One off cases, e.g. in cases of emergency financial assistance
- e. other social cases

The agency will re-inforce its mechanism, increase efficiency and curtail abuse.

15. New Measures

a. Tax Review

Mr. Speaker, since the overall economic reform process started in 2008 work has progressed towards the implementation of major reform of the taxation system that currently operates in Seychelles.

With the assistance of a number of international taxation experts, a comprehensive review of our existing taxation regime has been undertaken and recommendations flowing from this review have been taken on board.

Several principles were considered in our decision to undertake this taxation reform and these included:

- Ensuring a level playing field is achieved in the next three years for all businesses in Seychelles
- Ensure all businesses in Seychelles enjoy the same benefits and are bound to the same obligations under the law
- Broadening the taxation base to ensure that the imposition of taxes is more fairly and equitably distributed.
- Establishing systems and structuring the rates of taxation in Seychelles to be more in line with regional and international norms.

I am pleased to announce that in January 2010 the reform of our taxation system in Seychelles will commence.

We have weighed this carefully and we are convinced that in the next 3 years we will achieve our objective to establish a new tax system which is fair, modern and equitable.

i. Business Tax

In January 2010 we will see the introduction of a new taxation Act for all businesses operating in Seychelles.

New tax thresholds will be set and rates of Business tax will be reduced, with the top marginal rate of 40% being lowered to a rate of 33%.

For companies and trusts there will be no tax free threshold (as compared to the situation today where the first R250,000 of taxable income is at a taxation rate of nil) however, for companies and trusts, the first R1m of taxable income will be taxed at a rate of 25% and taxable income over R1m will be taxed at a rate of 33%.

For sole traders and partnerships the tax free threshold will be reduced from the current level of R250,000 to R100,000 and taxable incomes over this amount, up to R1m will be taxed at a rate of 18.75%. Taxable incomes for sole traders and partnerships above R1m will be taxed at a rate of 33% the same as is the case for companies and trusts.

It is clear that many of our businesses will benefit directly from this move to lower rates of business tax and Government would hope to see this result in positives for the economy through improved employment opportunities for Seychellois, increases in wages in the private sector and a lowering of costs and charges to consumers.

From January 2010 a 15% rate of Withholding Tax will be applied on interest and dividend income. The 10% GST on interest will at the same time be abolished.

ii. GST

As has been announced previously, Seychelles plans to move towards a full VAT system by 2012 and we are currently reviewing various scenarios so that we are able to implement a system that is suited to the Seychelles economy.

To alleviate the problem of the cascading of taxes where GST is concerned, from January 2010 those businesses that are currently liable to pay GST on the goods and services that they produce will be exempted from GST on all goods that they import that are used in their business.

By removing the cascading effect of GST on businesses that are liable to pay GST on their services or goods it will result in cost savings for these businesses and should provide scope for

them to reduce the price of their services or goods to the consumer.

Businesses that will directly benefit from this change will include telecoms, insurance companies, professional services, restaurants, hotels and other operators in the tourism sector and I call upon all of these business owners to analyze their GST savings under this change and to pass on the benefit to the consumer.

The GST calculation for imported goods will be simplified, with a flat rate of 15% being applied to the value of the imported goods (inclusive of the Trades Tax) without any recourse to the current practice of having to nominally increase the value of the imported goods by 15 to 30%, for GST calculation purposes, to take into account a deemed profit margin.

This change in the way the GST is calculated will result in a lower amount of GST being incurred on most imported goods than under the current system, again with the aim of this reduction of GST to be passed on by the importer to benefit consumers.

iii. Tourism GST:

After consultations with the Tourism sector in 2008, Government announced that there would be an increase in GST payable by tourism operators, from 10% to 12% as from November 2009.

Given our economic situation this year it was decided to delay this increase until November 2010. So I would just like to remind the industry that this change in the rate of GST on their services will kick in from November 2010.

iv. Trades Tax and Excise

Mr. Speaker, in January 2010, as part of this major taxation reform process, Seychelles will move to align itself with international taxation norms and to prepare itself to meet its international Customs Tax commitments through a revision of

its rates of taxation on imports and the introduction of an Excise Tax regime.

In its initial form the Excise Tax will cover the four main revenue items, namely:

- Petroleum;
- Motor Vehicles;
- Alcohol; and
- Cigarettes.

The introduction of an Excise Tax regime will see a common rate of tax applied to these four items and the tax will equally apply to the imported and locally produced item.

One significant outcome of this change will be a reduction in the rates of taxation for motor vehicles to a level that is broadly consistent with those business sectors that currently have access to concessional rates of tax for the import of a motor vehicle, substantially levelling the playing field and removing the need to consider future concessions for such imports.

The total combined excise and trades tax on vehicles will be as follows:

- On passenger vehicles with an engine capacity of up to 1600 cc the combined trades tax and excise tax will total just 50% of CIF
- On passenger vehicles with an engine capacity of more than 1600 cc litres but not more than 2000 cc the combined trades tax and excise tax will total just 75% of CIF
- On passenger vehicles with an engine capacity of more than 2000 cc the combined trades tax and excise tax will total just 100% of CIF

Mr Speaker, in line with our tax reforms the levy that was introduced on motor vehicles in July 2008 will remain.

v. *GOP*

In an effort to bring parity to the cost of a work permit for Non Seychellois, all GOP fees will be set at R700 per person per month.

The Government will tighten up on the application, approval and monitoring process of GOPs.

vi. *Personal Income Tax & Social Security Fund*

Mr. Speaker, one of the major changes in our taxation reform process will take place on the 1st of July 2010 with the introduction of a Personal Income Tax system that will replace the Social Security Fund contributions that are currently paid by employers and employees.

Currently employers contribute 20% and employees contribute 2.5% of an employee's salary. From July 2010 this employer and employee contribution will be replaced by one tax with a flat rate tax of 18.75% that will be levied under a Personal Income Tax system.

Under this Personal Income Tax system, employers will be required by law to raise the salaries of all employees, to offset the employer's contribution that will no longer be required to be paid by them, and the employer will then deduct from this new "higher" salary, a flat 18.75% which will be paid over as a personal income tax by the employer on behalf of the employee, to the Seychelles Revenue Commission.

As a result of this move to a Personal Income Tax system, no employee will take home less than under the current system.

On the 1st January 2011, the personal income tax rate will be reduced from 18.75% to 15%.

In the case of foreign workers, the fact that they do not qualify for benefits from the social security system and they pay for education and health, their PIT contribution rate will initially be 10% as from 1st July 2010.

This rate will be harmonised with that applied to Seychellois from January 2012.

Mr. Speaker, the current concessions in the rate of SSF that is applied to domestic workers and to employees of day care centres will continue under the PIT system so that employer's and employee's in these sectors are not adversely affected by this change.

Similarly, the concession on SSF that is available to an employer when paying annual bonuses will also continue to be enjoyed by the employee and therefore bone fide annual bonuses of 1 month's salary (up to a R10,000 maximum per employee) will be exempted from liability to the 18.75% PIT.

From January 2010, the liability for social security contributions on employee benefits on staff accommodation, meals and transport will be exempted for the construction and tourism accommodation sectors.

vii. *Personal Income Tax Rebate*

Under the new Personal Income Tax regime there will be a rebate system for those workers who earn the least in the country. A threshold will be set, below which those workers will be reimbursed all or a percentage of the PIT that has been deducted during the year

viii. Social Security Statutory Benefits

From January 2010 there will be an increase in Social Security Benefits, excluding benefits for Funerals.

Mr. Speaker, from January 2010 some of the monthly benefits that are paid under the Social Security Fund will be increased as follows:

	From	To
Retirement Pension	2,200	2,300
Invalidity Benefit	2,100	2,200
Orphan Benefit	1,050	1,100
Injury Benefit	1,800	1,900
Survivor (widows) Benefit	1,800	1,900
Sickness Benefit	1,800	1,900
Maternity Benefit	1,800	1,900

b. Minimum wages

Minimum hourly wages for full time workers, except casual workers, will go up from R15.50 to R16.50 per hour. For casual workers, the minimum hourly rate will increase from SR18 to SR19 per hour.

c. Exemptions under Employment Law

As from July 2010, we are doing away with exemptions in minimum wages for overseas workers (non-Seychellois).

d. Pension Fund Contributions

To help businesses plan well ahead I would like to announce today that as from January 2011 the system of contributions to the Seychelles Pension Fund will change.

From Jan 2011 every employee and every employer will contribute the equivalent of 1.5% of the employee's salary to the employee's pension account.

This new system will bring us more in line with international practice as well as ensure higher pension benefits for retirees.

e. Other Government Pensions

Government pension and the public sector special pension will increase as from January 2010.

f. Contributions for Transport

From January 2010, all secondary and post-secondary students who use SPTC bus passes that are covered by the Social Security Fund, will have to contribute SR125 per year.

This charge represents a mere 1% of the cost for the service. Parents who cannot afford to meet this cost will be means-tested prior to being assisted.

g. Home Savings Scheme

From January 2010 Government will be introducing a “Home Savings Scheme” to allow people waiting for state housing assistance to save money with the Housing Finance Company before they can receive a loan or be allocated a house.

New housing clients will be expected to contribute 10% of the cost of their housing before they become eligible to receive assistance. Those who cannot meet this requirement will be means-tested prior to being assisted.

h. License Fees

Licence Fees for telecommunication companies will drop from 12.5% to 10% as from January 2010. We trust the consumers will see the benefits of this reduction.

In consideration of the role that Taxis play in the transportation sector, Government has decided to reduce taxi licence fees from SR3,000 per year to SR500.

There will be an increase in licence fees for banks: as from January 2010, small banks will pay R0.25 million, medium-sized banks will pay SR0.5m and large banks will pay SR1m per year.

i. Public Enterprise Monitoring

The government has adopted a public enterprise reform strategy aimed at making our Public Enterprises more efficient, transparent and accountable. This strategy includes a detailed work plan for the new Public Enterprise Monitoring Division (PEMD) directed at reinforcing the monitoring and control of public enterprises, strengthening governance, reducing dependence on public funding and minimizing financial risks to the state.

Performance targets will also be established, where possible, against which all public enterprises will be assessed.

Government is also undertaking a strategic assessment on all public enterprises to determine their role and performance in the context of economic programme.

j. Improving the Business Climate

Government is committed to undertake far reaching and coherent reforms in order to modernize the Seychelles' business regulatory framework.

We recognize that without focusing on these much needed reforms, our efforts to build a modern and prosperous economy may not be realized.

The primary objective of the reforms to is to ensure the provision of effective services and achieve greater efficiencies. We have to minimize procedural steps and transactions that require the direct involvement of businesses. Rather than requiring business to travel from office to office to fill in different forms to obtain related services, we intend to provide citizens and businesses with the ability to conduct single transactions from a single entry point, accessed over the Internet, the telephone or the counter.

We will achieve this effective "one stop shop" by strengthening Seychelles Investment Bureau to provide advisory services to businesses.

Seychelles Investment Bureau should serve as single access point which will allow businesses to meet public obligations more easily and quickly rather than deal separately with many diverse agencies.

Small businesses in particular, will benefit from the easing of red tape to complete such basic activities such as obtaining permits, approvals for projects, providing statistical reports, access information on laws and regulations.

To achieve this, Governments will fast-track implementation of the necessary regulatory laws. The following legislations would be submitted to the National Assembly during the first half of 2010:

- i. a modern Licensing Act which will redefine the role of Seychelles Licensing Authority and introduce modern principles governing the coverage and issuance of licenses.
- ii. amendment to the Investment Code to streamline the investment approvals procedure, clearly set out decision criteria and specific recourse/appeals mechanisms
- iii. a law to establish Seychelles Investment Bureau into a statutory body, with the authority to provide direct investment approvals.
- iv. a new Employment Act and
- v. amendments to the Companies Act

k. Support for small businesses

Government recognizes that the entrepreneurial creativity and ambition amongst our youth could be frustrated by the lack of dedicated financing vehicles to enable such enterprises to establish and flourish. As a result, Government established the Concessionary Credit Agency to support the growth and development of young entrepreneurs in Seychelles.

Over the last 3 years, the Concessionary Credit Agency has been the primary source of start-up capital for our young entrepreneurs. The Agency has assisted over 1,000 small businesses which has empowered our youth through self-employment.

The entrepreneurial spirit is no doubt alive but needs to be further nourished. Whilst maintaining the access to credit for our young

entrepreneurs, we will streamline government bureaucracy affecting small businesses; we will provide training and support to these small businesses in such areas as the preparation of tender documents, bookkeeping and accounting and marketing of products and services.

The successful introduction of proactive and creative programmes would result in a thriving small business community, which in turn creates more prosperity and opportunities for Seychellois to become owners and create more job opportunities in the country.

I. Employment

Earlier this month, Government launched the “Leve Debrouye” campaign - a new wake up call to our people to take on their responsibilities and to be more productive.

We should intensify the national effort for our population to become more resourceful, more industrious and more productive. This will be achieved through education, training, re-skilling and localization of posts held by non-Seychellois.

We have managed to bring down the unemployment level to low levels. But we believe that there are still able-bodies who can be involved in productive work. Government will thus intensify the efforts to move those, who are on welfare due to lack of employment, into the workforce.

As was announced earlier, Government carried out a reform in the public sector with the aim of encouraging Seychellois to move to the private sector. By the end of April 2009, 2,500 Government employees had made this move. Statistics show that the majority of them are now integrated in the private sector, leaving only 109 still registered as job seekers.

As you will see in this budget, there is a lot of effort both Government and the private sector to re-train these people and increase their employment opportunities.

This is symbolic of the collaboration that exists between Government and private sector and it bodes well for the country.

16. Budget 2010

a. *Main Objectives*

The aim of the 2010 Budget is to achieve a primary surplus balance of 7% of GDP in order to improve the fiscal position of Government and to further sustain the debt reduction program.

b. *Highlights*

i. Revenue

In year 2010, total revenue is forecasted at SR 3.72 billion which represents almost 34% of GDP. This is a decrease of almost SR 299 million on the 2009 revised figures.

The decrease is mainly due to the fishing license fees (which in 2009 comprised abnormal receipts on account of excess catch payments and compensation by the EU as well as higher transfers from Central Bank due to larger revenues being generated from exchange rate movements following the floating of the Seychelles Rupee.

ii. Expenditure

The total expenditures and net lending but excluding debt interest, is forecasted at SR 2.95 billion which represents 27% of GDP. The total wages and salaries for 2010 represents 6% of GDP in comparison to 7% of GDP in the 2009 revised budget.

This is mainly due to Government decisions to outsource its noncore services. As a result the goods and services expenditure has increased from 6.7% of GDP in the revised 2009 figure to 7% of GDP in 2010.

Another significant change in the 2010 budget is the total envelope for capital expenditures which has increased from 5.7% of GDP in the 2009 revised budget to 6.8% of GDP in the 2010 budget. Government has seen the need to invest in infrastructure to further boost growth in the economy.

In the 2010 budget there will be several reforms taking place at Ministry and Department levels. Therefore, funds have been

provided to enable those Ministries and Departments to properly administer their reform process.

The 2010 budget will once again see the Ministry of Education and the Ministry of Health and Social Development receive the bigger share of the total Ministries' and Departments' budget. This represents 5% of GDP in total. This once again demonstrates the Government's commitment to provide education and health for its population which is a key requirement for the development of our country.

c. Social Programmes of Government, Funded via Centralized Payments and Subventions to Regulatory Bodies

Mr. Speaker, a great part of the budget address focuses on our overall revenue generation avenues and our expenditures that are allocated to Government Ministries and Departments so that they are able to function effectively.

Mr. Speaker it is to be highlighted that the funding budgeted by Governments in any developing society does not limit itself to simply the funding of its Ministries and Departments but extends also to countless other areas of social and economic importance. In this regard, Mr. Speaker, Seychelles is no different and in fact due to our small size and isolation, the cost borne by Seychelles per head of population is far greater than most other countries.

It is to be noted Mr. Speaker that our budget in 2010 to cover the Centralised Payments for our Social Program of Central Government is R339m.

Of this amount, Mr. Speaker it is noted that nearly half will be required in Government's commitment to just two important cost items, namely Overseas Training for 2010 which is budgeted at just over R99m and the cost of the Social Safety Net for our people which has been budgeted at R65m.

With the creation of the Seychelles University, Government will provide funding for 100 Seychellois. The source of funding will be from the Overseas Training Fund budget.

Mr. Speaker it is also noted that in other major expenditures being budgeted under Centralised Payments, we have provided:

- Local training programs with a budget of over R30m will cover the following areas: SR3 for the Revenue Commission, SR2m for the Fire Brigade Services, Postal Services and SBC who are preparing to go digital.
- The Concessionary Credit unit which will assist with Micro financing to our small entrepreneurs, with a budget of R20m; and
- The Tourism Marketing Fund with an allocation of just over R28m in the budget to enhance our tourism marketing efforts.

Mr. Speaker, from our Centralised payments budget Government also maintains its very important commitment to such programs as:

- the National Aids Trust Fund of R1m;
- the Childrens Home Foundation - R4.4m;
- the Childrens Special Fund - R5m;
- National Council for the Disabled - R1.1m and
- CARE - SR2m
- Contribution of SR2m to the renovation of St Michel's Church at Anse Aux Pins.

The budget also makes provision to assist in various development areas such as:

- the Praslin and La Digue Development Funds which will receive a combined total of SR10.6m between them, and
- the fuel rebate scheme to assist registered fishermen with a budget of SR14m

We have also established a number of Statutory Regulatory bodies in Seychelles that fulfil necessary and important roles and that assist to complement the overall efforts of Government's administration processes.

In 2010 the budget to operate at all of our regulatory bodies has been set at R150m.

I'm referring to the major funding areas such as:

- National Sports Council which has been allocated just over R29m, recognizing the additional expenditure needed in preparation for the International sporting events

- Seychelles Tourism Board and the Seychelles Tourism Academy which have between them been allocated a budget of just over R32m to further progress our efforts at maximizing the potential in the Tourism sector;
- Fire Brigade Services which has been allocated R13m;
- Botanical Gardens Foundation which will receive just over R9m;

In our continued fight against drug and substance abuse and financial offences such as money laundering and other proceeds of crime, the National Drug Enforcement Agency will receive R23m and the Financial Intelligence Unit will be allocated R10m;

d. Capital Projects

The capital project related expenditure proposed for the fiscal year ending 31st December 2010 is SR591.0m, which is 5.34% of our GDP.

The total capital outlay for the fiscal year 2010 is SR747.5m including Development Grants to parastatal organizations representing 6.76% of GDP, or 20.36% of gross expenditure.

I will highlight here some of the major projects:

I. EDUCATION

- a. Reconstruction of Mont Fleuri Primary School & Creche
Project work started in the 1st quarter of 2008. This project is entirely funded by the Seychelles Government with a budget of SR21.0 million.
- b. Maritime Training Centre
Project work started in the 3rd quarter of 2008. This project is being co-financed by BADEA and Government of Seychelles, whereby BADEA finances 75% and GOS 25% of the cost of civil works.

The project will cost SR15.7 million and will be completed next year.

- c. Ile Perseverance Primary School
Work will start next year on this primary school which will serve the new housing estate, and it is being financed by OFID, BADEA and Seychelles Government.

II. HEALTH

- a. Beau Vallon Health Centre
There were delays in the completion date due to various reasons and the project is now expected to be completed next year.

- b. Les Cannelles – Mental Health Centre
Project work is expected to start early next year. The tendered price for this project is SR 24.2 million.

- c. Anse Royale Hospital
This is one of projects under the Chinese Government's grant program fully funded and implemented by them. It was estimated to cost around SR43million.

Project work is progressing well and is expected to be completed by 2nd quarter of 2010.

- d. Ile Perseverance Health Centre
There will be a health centre on Ile Perseverance that will be financed by OFID, BADEA and Government of Seychelles. Work is expected to commence in mid 2010.

- e. Equipment for Health
Government has also contracted a loan from OFID in the sum of SR66million for the procurement of equipment for the Victoria Hospital and the National Institute of Health Studies. All the equipments should be in the country next year.

III. ENVIRONMENT & NATURAL RESOURCES & TRANSPORT

- a. Providence Landfill Project
Tenders have been floated for the construction of this facility. The cost of SR36 million will be borne by the European Union and the Seychelles Government.

b. Construction of Artisanal Fishing Port

This project involves the construction at Providence Industrial Estate of facilities for artisanal fishing on Mahe. It will include facilities for all stages of unloading and processing of fish, as well as ice storage and administration. An ice plant is also being constructed at Bel Ombre under this project.

The project is expected to be completed in the second quarter of 2010 at a cost of SR110 million.

c. District Street Lighting

Priority is being given to lighting up the district roads, at a cost of SR1.5 million.

d. Improvement of Belle Vue Road, La Digue

We are providing SR1million for the completion of this project.

e. Jean Larue Road, Takamaka – 2nd Phase

This project will continue during 2010 at a cost of SR1.1 million.

f. Cap Bonm Zan, Anse Royale

Likewise, this project will continue in 2010 at a cost of SR1.5 million.

IV. NATIONAL ASSEMBLY BUILDING, ILE DU PORT

This project was started in 2008 under the Chinese Government's Grant programme, at a cost of SR46m. It is expected to be ready shortly.

The Seychelles Government will be responsible for the road, electricity, water and landscaping, at a cost of SR6 million.

V. JUDICIARY BUILDING

This project also falls under the Chinese Government's Grant programme at a cost of about SR45m and work is expected to start early next year.

VI. COMMUNITY DEVELOPMENT, YOUTH, SPORT AND CULTURE
We have put in an allocation of SR20 million rupees for projects in the Districts.

VII. DEVELOPMENT GRANTS
The budget provides for SR129.5m as development grant.

The sum of SR3m has been budgeted for SPTC and SR126.6m for PUC.

VIII. CONTINGENCY
The 2010 budget provides for SR100m as contingency. We have decided to use all of this contingency to finance capital investments that PUC needs to implement in line with its investment plan.

e. External Debt

Government continues in good faith with its efforts to achieve a comprehensive public external debt restructuring, consistent with our medium-term payments' capacity.

As was recognized by Paris Club creditors, an immediate and sizable cash flow relief in the short- to medium-term and a sustained reduction of our debt service burden is necessary. This needs to be supplemented by significant balance of payments support from our international partners.

The principal objective of our medium-term debt management strategy is to place public debt on a sustainable path. The strategy approved by Cabinet in November commits us to achieving this through the pursuit of prudent fiscal and monetary policies and securing a restructuring of public external debt that is consistent with Seychelles' limited payment capacity.

Mr Speaker, I am pleased to present to the National Assembly our medium term debt strategy as well as our annual borrowing plan.

17. Concluding Remarks

Mr Speaker, the last 12 months have seen Seychelles through one of its most significant economic and financial transformations. This process is one which has been undertaken with much planning with consideration given foremost to the long term stability and sustainability of our small country.

All of our Seychellois citizens have felt its impact and many of us have been affected by the profound changes that have swept across our lives, businesses and normal way of doing things.

This has helped us reflect on a new way forward, being more efficient, more conscious of how we affect others and realising that finally we belong to a global village where competitiveness is key and success is a common objective and hard work is essential, and we need to develop the passion and love for work.

This transformation is a long and irreversible process. Together we are determined to make the march towards further economic prosperity and well being of our citizens.

We must continue to hold our moral values high as well as those principles of ensuring that we always protect all our citizens and resources. We must continue to pursue the fight against piracy and acts of banditry with vigour and determination.

We thank all of the hard working people of Seychelles for your patience and indulgence in adapting to the new Seychelles as well as your resilience in these challenging times. We thank our friends and partners who have shown their faith in our reforms, those who have agreed to write off part of our debts and to assist us in our effort to achieve economic sustainability and progress.

We have also undertaken a number of other commitments to our multi-lateral partners who have stood by Seychelles during this difficult period of our reform. Here I wish to pay tribute to the IMF, the World Bank, the AfDB and the European Union in particular for both their financial and technical support and otherwise which has assisted us in improving our budgetary position, build up our reserves and regain international credibility.

I must mention a special word of thanks to members of the Paris Club who accorded Seychelles a 45% reduction in our stock of debt to member countries. This gesture was a symbolic show of support for the on-going reforms and proof of the good will and trust by these countries in our commitment going forward.

I also wish to thank all our bilateral partners who have shown support to Seychelles during these testing times. In particular I would like to mention the Government of the United Arab Emirates and mainly the Abu Dhabi Government acting through the Abu Dhabi Fund for Development whose financial assistance to Seychelles is deeply appreciated and acknowledged.

We also thank the Governments of China and India for continuing to stand by us in our socio-economic development.

The Government of Malaysia also signed up a debt relief agreement with Seychelles and we thank them too for their support and understanding. We continue to negotiate with other creditors, both bi-lateral and commercial in order to place Seychelles' debts on a sustainable footing.

I would like to thank the President and Vice-President of the Republic for their guidance and support, as well as my colleague ministers and their respective teams.

I thank my staff in the Ministry of Finance for their professionalism, motivation and devotion in their work and the numerous tasks we have undertaken together.

Last but not least, I would like to congratulate members of the private sector and civil society who gave us their collaboration and embraced this new spirit in our economy and the wave of change with a positive attitude.

I would also like to thank the National Assembly for the support they have given in establishing the necessary legal framework to facilitate our reform programme.

People of Seychelles, after the shocks we have experienced in 2008 and 2009 we are gradually stabilising our economy.

I salute President Michel for his courageous decisions. Our vision for Seychelles hasn't changed. We will not compromise our principle for equality in opportunity and social justice. And we would like all our citizens to put these opportunities to good advantage.

We have created an economic and financial policy that is able to sustain our development plans for the benefit of Seychelles.

In the new economy that we're creating, it is absolutely necessary that we find the right balance in our social programme, and the new tax regulations are based on this principle – and that means that we are creating a system that is more just.

In the new direction we have chosen, it's important that we don't depend on what the economy will bring us, but rather we need to find ways to contribute to help it grow.

We need to ensure our economy's sustainability whilst at the same time secure our social gains for which we have worked so hard.

The key to this is that we all need to work and contribute. For those who cannot contribute, we have a system in place to help you.

If you work but your means do not allow you to contribute to some of the paying services, a system of means testing will determine how you can be assisted.

But what is clear is that if you work, you just cannot automatically depend on social security or welfare assistance.

The 2010 Budget is based on our medium term programme over 3 years. We also have a plan to restructure our debt during this same three-year period.

The measures that I have announced are the solid bases for the Seychelles economy to start showing real growth from next year.

The world economy is still in recession. We're still living in uncertain times. We don't have control over external factors.

In order for us to see results faster, Government has to stay steadfast on its fiscal policy. We need to ensure that our reform programme is in line with our priorities. We need to manage our expectations and bring about a change in our mindset.

That calls for a collective effort, so that if we can do it together we will see faster results.

My dear Seychellois brothers and sisters, let us “leve debrouye” for Seychelles.

Mr Speaker, I would like to thank you and everyone in this Assembly, as well as the people of Seychelles, for your kind attention.

I now commend the Bill for the approval of the National Assembly.