

Escaping the globalisation trap

INTERVIEW WITH H.E. PIERRE LAPORTE

MINISTER OF FINANCE, TRADE AND INVESTMENT, REPUBLIC OF SEYCHELLES



PIERRE LAPORTE became Minister of Finance in March 2012 after previously serving as Governor of the Central Bank of the Seychelles since 2008. Prior to that he worked as an economist with the IMF, rising to the position of IMF resident representative in Nigeria in 2005. He holds a Master's degree in Economics (with distinction) from Sheffield University and a Bachelor's Degree in Business Economics and computing with honours from Surrey University. As the IMF resident representative he also served as a diplomat.

Seychellois now enjoy a better quality of life than was experienced before the economic reforms

What is the background of the financial reforms – to what extent have they been a success and what elements contributed to this success?

The story of economic reform in Seychelles has been one of many successes, but also one of important lessons learned, which is vital to the economic development of any nation. Above all, it is a story of how a nation came together to successfully transform its future in a very short space of time.

In 2008, the Seychelles was plunged into economic crisis after years of budget deficits and high debt accumulation, which was exacerbated by the global financial crisis and mounting oil prices. This led to a sharp drop in tourism, the mainstay of the Seychelles economy, further worsening the severity of the situation.

Faced with the double crisis internationally and domestically, on the 31st October 2008 President Michel announced that Seychelles would embark on an IMF-led economic adjustment programme to restore macroeconomic stability, eliminate structural imbalances, and rejuvenate the country's economy. The exchange rate was liberalised, fiscal policy was tightened and the government introduced a monetary policy framework that tightened reserves. Within twelve months Seychelles was already seeing the results: sounder economic fundamentals, generous debt relief from the Paris Club and other creditors, as

well as rapid and increasingly sustainable growth.

In addition to the strength of this programme the success of the reforms has been largely due to the determination, patience and unity of the Seychellois people. The government, led by President Michel personally, held consultations to make sure that the public understood what was happening and how it would affect them. Seychellois people are today moving away from a cycle of dependency on social services to a new mindset of innovation and self-sufficiency. I believe that one of the things that distinguishes our nation from many others is our ability to pull together in times of crisis and do what is needed for the common good. I am confident that with the same spirit of togetherness and cooperation the challenges that remain will be surmounted.

What are the remaining challenges, given Seychelles' perceived vulnerabilities as a small island developing state?

The challenge now is to sustain the gains made under the reforms. We have implemented a second wave of reforms that focus on structural issues such as the tax reforms and public finance management, performance based delivery of essential services like health and education, reform of state enterprises, and actions geared to promote innovation and entrepreneurship



in the private sector. These policy changes may take some time to implement and will require the public to once again lend us their support and participation while we undertake this journey. Our medium term national development strategy, expected to be finalized in 2014 will help bring Seychelles to the next level of development.

It is also vital that we continue to attract foreign direct investment, public-private partnerships and foster growth in the private sector in order to diversify and boost the vitality of the economy, grow the country's infrastructure and encourage healthy competition in the private sector.

How do you balance the push towards a free market economy and the need to find sustainable solutions to economic growth in a country with a small population and limited resources?

Seychelles' limited human and land resources have always posed a challenge for the development of the country. However, whilst we have limited natural resources, our natural beauty and pristine environment, eco-based tourism, and the largely untapped marine resources provides great potential for further development.

Pursuing free-market economic principles designed to promote traditional commercial development and job creation, although having proved successful in the short-term, has led to questions of long-term sustainability. Finding solutions to ensure that we do not exhaust or endanger our limited resources will remain a difficult task for many years to come.

The answer lies in finding local solutions for global problems, for example through the development of SMEs, innovative agriculture and farming, renewable energy and other technologies that will enable us to conserve what we have today and create new opportunities for future generations.

What makes Seychelles' experience different and distinctive compared to other small island states with similar challenges, such as import-dependent economies and having high debt-to-GDP levels?

A combination of factors and policy measures made the Seychelles transition from crippling debt to economic stability a success. We maintained clear objectives and priorities, backed by strong leadership and political will to follow the reform process, together with support from both stakeholders and the people of Seychelles. Whilst the policies and measures in the context of the reforms were at times austere we had to carry out those reforms and we stuck to them even when things got very tough. This enabled us to maintain the support of our development partners such as the IMF and the World Bank through the process. For us, it meant that fiscal policy had to be completely reinvented to

generate a continuous primary fiscal surplus to support a float of the currency and stabilization of the economy.

The reforms worked well because the new programme was designed in a way that addressed the fundamental economic imbalances that we faced, which permitted a careful, realistic evaluation of the economic problems and their solutions.

Has the promotion of entrepreneurship stimulated the economy? What other measures are helping to develop inclusive growth?

The vision of President Michel for the long term economic stability and shared prosperity of the country has been a constant galvanizing force that has enabled us to work towards a prosperous Seychelles that is not just a paradise for tourists, but also for its citizens, investors and the business community. A large part of that vision was to make it easier to start and grow a business in Seychelles, as the lifeblood of any economy lies in a healthy private sector. Innovation in the business community guarantees a flow of fresh thinking and new ideas to develop home-grown solutions and opportunities.

Now more than ever, the government aims to strengthen the foundations it has built and deliver sustained and inclusive growth. To ensure that this translates to a better life for all, it means playing a careful balancing act between the need for fiscal consolidation and providing effective incentives for businesses to guarantee sustained economic growth.

How would you describe the vision for the Seychelles economy in the years to come? What kind of country is the government focused on building in the future?

The government envisages a future where the economy, having been built up a solid foundation, has been grown and diversified into various economic sectors, and that we continue to add value to our existing economic mainstays in the years to come. We need to focus on areas where Seychelles has a competitive advantage such as tourism and fisheries whilst at the same time pushing for development of other sectors such as the financial services sector which is one that we would like to see grow further in the future. To do this, however, we will need to promote responsible and well-regulated international financial services that will enhance the reputation of the industry.

Looking at the Seychelles economy that will exist beyond the reforms, I envisage one that I hope will see continued growth for all sections of society, falling debt-to-GDP levels, increased foreign exchange reserves, low levels of inflation, increases in exports, a lower cost of living and increased amount of local and imported goods available on the market. E

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