

WORKING PAPER **DRAFT**

Comparative analysis of the **Blue Economy**
in Seychelles, Saint Lucia and The Bahamas
using **Satellite Accounts**

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United Nations
Economic Commission for Africa

Planned Outline

PART A: BACKGROUND AND METHODOLOGY

Chapter 1: Introduction

Summarize theoretical aspects and conclusions of previous work, including a brief UNECA definition of the Blue Economy (BE) and an explanation of the Satellite Account methodology. Lay out the research objectives and the value to policymakers in Seychelles and The Bahamas. Also discuss how UNECA and CDB can leverage the findings to support mainstreaming the Blue Economy in their respective regions and to advance our shared goal of promoting sustainable development.

Chapter 2: General Economic Context

Provide stylized facts about the Seychellois and Bahamian economies, including preliminary analyses of COVID-19 impacts. Describe the System of National Accounts and how it can be used to assess BE impacts.

PART B: MEASURING THE BLUE ECONOMY AND ITS IMPACTS

Chapter 3: The Blue Economy in Seychelles and The Bahamas

Highlight trends in key BE industries (fishing, coastal tourism, etc.). Begin identifying BE strategies proposed or implemented by the governments in each country, and any challenges to their formulation and/or implementation progress.

Chapter 4: Compiling the Blue Economy Satellite Accounts

Outline steps taken to create the BESAs. The Seychelles National Bureau of Statistics and The Bahamas Department of Statistics are providing detailed supply and use tables (SUTs), which will be starting point for compiling the BESAs. Before introducing the technical steps, describe the SUTs received, as well as the classifications underpinning the framework. Following this:

1. Define and compile data for the BE reclassification, i.e., identify the desired breakdown of economic activities (or industries), breakdown of products (or goods and services), and breakdown of value-added components;
2. Develop input-output table that estimates the value added of BE activities to GDP and the linkages between each economic activity;
3. Apply the Leontief matrix to estimate the GDP-impact of increased demand in each BE industry and sector; and
4. Assess employment contribution and apply the Leontief matrix to estimate the employment-impact of increased demand in each BE industry. This section is only possible if there is sufficiently disaggregated employment data available.

Chapter 5: Comparative Analysis

Discuss the results of the previous chapter, comparing the contributions of the overall Blue Economy on the economies of Seychelles and the Bahamas. Compare the industries and sectors with the greatest positive impacts on each economy. This will be linked to Chapter 3, to discuss the efficiency of government policies and interventions.

Chapter 6: Conclusions and Policy Recommendations

Provide data-driven recommendations for policymakers, possibly highlighting which BE industries and sectors may be prioritized for intervention and investment. Link to UNECA work on the Blue Economy valuation toolkit.

2020 ICSOE Discussion: Background Statement

The following document is a preliminary view into an upcoming research paper, targeted for publication early 2021. The research is a collaboration between the United Nations Economic Commission for Africa (UNECA) Sub-Regional Office for Eastern Africa and Caribbean Development Bank (CDB). The authors, Raquel Frederick (UNECA) and Dindial Ramrattan (CDB) are working with statistical offices in the Seychelles, Saint Lucia, and The Bahamas to develop Blue Economy Satellite Accounts (BESA) for each island-state. The working paper intends to analyse and compare the results of the BESAs and provide data-driven recommendations for policy intervention and investment.

During the 24th Intergovernmental Committee of Senior Officials and Experts (ICSOE) in Eastern Africa being held in November 2020, the authors will present stylized facts about Blue Economy industries in each country and an overview of the BESA methodology. Due to data challenges and delays, drafts of the BESAs are not yet completed for comparison and discussion during the ICSOE. The more substantial analytical results will be shared in mid-2021. Additionally, the much of discussion is currently focused on Seychelles and The Bahamas, the commentary on Saint Lucia will be expanded in the next iteration.

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Chapter 1: Introduction

Just over a decade since the last global economic crisis, the recent outbreak and spread of COVID-19 and its containment efforts have caused devastating shocks in the public health, economic, social, and even environmental dimensions. The global economy has again been pushed into uncertainty, where governments and societies are being forced to reassess the sustainability of their economic models and social structures. Current IMF forecasts predict that the global economy would have shrunk by 4.9 percent by the end of 2020, with a gradual recovery and growth of 5.4 percent in 2021 (IMF, 2020). Any predictions made at this time are deeply uncertain, predicated on the world's ability to contain the pandemic and quickly revitalise the economy – which are easier said than done.

The term “Build Back Better” was incepted in the aftermath of the 2004 Indian Ocean earthquake and tsunami and popularized in more recent years in the Disaster Risk Reduction community. It has now become a global rallying cry in support of economic and social transformation as part of the global recovery from the COVID-19 crisis. Building Back Better involves promoting greater resilience to future global threats to economic, social, and environmental security. Just as physical infrastructure and assets need to be built to withstand the impacts of natural disasters and climate change, so to do our economic and social infrastructure need to be rebuilt with a view to increasing resilience to system shocks. This includes promoting greater economic diversification and food security; creating new decent jobs; shoring up social safety nets, and particularly for Africa and the Caribbean, accelerating the pace of regional integration. For countries depending heavily on aquatic resources for food, trade, jobs, and other economic activity, a Blue Economy approach can provide a foundation for this recovery.

This chapter provides a brief background and context to the research, including overviews of the Blue Economy and the methodology used in the analysis presented in the chapters hereafter.

1.1 The Blue Economy in Brief

The Blue Economy term summarily refers to economic activity occurring in and around aquatic spaces, including oceans, seas, coasts, rivers, lakes, and underground water. It includes promoting the development of a wide range of traditional and emerging industries (e.g., aquaculture, fishing, maritime transport, tourism) balanced with social inclusion and environmental protection. On one hand, it is associated with the production, distribution and consumption of goods and services exploited from aquatic resources, and on the other hand it contributes to the health of aquatic ecosystems through protective and restorative measures. Use of the term grew around United Nations Conference on Sustainable Development in 2012 as coastal and island states sought to apply the principles of the Green Economy to their unique context (UNDSG, 2012). The concept has since expanded globally, beyond non-

coastal or island states. Multi-disciplinary and inclusive aquatic-based strategies have been featured in the 2030 Agenda for Sustainable Development and in subsequent global conversations and plans¹.

While it is generally accepted that activity in and around aquatic spaces contribute substantially to the world economy, the precise size of this contribution is not known. In one of the closest measures, the Organisation for Economic Cooperation and Development (OECD) estimated that the *ocean economy* was USD1.5 trillion in 2010, around 3% of global GDP (OECD, 2019). This is an imperfect estimate for the Blue Economy because, for example, it excludes contributions from inland water bodies and includes some activities that may undermine aspirations of social inclusion and environmental protection.

Within Africa and the Caribbean, traditional Blue Economy industries have been major contributors to regional economies for all modern history. In 2012, the Caribbean ocean economy generated USD407 billion (around 18% of total GDP), of which the energy, shipping, and tourism industries accounted for over 95% (Patil et al., 2016). There has been less research estimating the size of the full African Blue Economy. One estimate places the maritime industry along the African coastline as high as USD1 trillion (UNSG, 2020). A more modest estimate of the annual output of the Western Indian Ocean (i.e., Africa's eastern border from Somalia to South Africa, including the islands) is USD 21 billion (WWF, 2017).

1.2 Regional Progress on the Blue Economy

Over the last few years, Blue Economy approaches have gained support among many African and Caribbean governments and organisations. After the Global Sustainable Blue Economy Conference was convened in Nairobi in 2018, the African Union (AU) identified the Blue Economy as an opportunity to re-invest in the human development, to facilitate more equitable sharing of marine resources, and to promote financial innovation (AU, 2019). The AU has since developed a Blue Economy strategy that aligns with several continental policy frameworks and strategies, such as the African Continental Free Trade Area, the Policy Framework and Reform Strategy for Fisheries and Aquaculture in Africa, and the 2050 Africa Integrated Maritime Strategy.

Moving forward, effectively mainstreaming the continental Blue Economy strategy requires individual countries to develop and implement national strategies. Mauritius, the Seychelles, and South Africa have been leading the region, and indeed the world, in launching innovative Blue Economy strategies and global best practices. For example, the Seychelles established a comprehensive Blue Economy road map through 2030, and pioneered new financing instruments for conservation, climate resilience and Blue Economy initiatives. The United Nations Economic Commission for Africa (UNECA) has also begun supporting a few members countries, regional economic commissions, and ² developing national Blue Economy strategies.

¹ For additional background on the Blue Economy, refer to UNECA's 2016 policy handbook or CDB's 2018 thematic paper.

² UNECA's sub-regional office for Eastern Africa has begun providing Blue Economy support to Comoros, Madagascar and Seychelles, as well as to the Indian Ocean Commission.

This work builds on UNECA's [2016 handbook](#) which provided a 7-step guide for member states seeking to develop Blue Economy policies (Figure 1).

Figure 1: Sequencing and steps of the Blue Economy policy development process



Source: UNECA, 2016

On the other side of the Atlantic, while the Caribbean Community (CARICOM)³ is yet to align on a single definition and approach to the Blue Economy (Hassanali, 2020), many countries have taken meaningful steps to develop and mainstream the Blue Economy in national strategies. For example, the government of The Bahamas considers the Blue Economy as “a part of our vision for growth, diversification and economic expansion and opportunity for current and future generations”⁴. The National Development Plan, “Vision 2040” identifies Maritime as a new growth sector and lays out several strategies for natural resource use and management and economic diversification.

³ Established in 1973, the Caribbean Community is an organization of 15 nations and territories in the Caribbean working towards shared economic, social and cultural prosperity, regional security and coordinated foreign policy.

⁴ [The Government of The Bahamas: Press Release](#), Jan 2019

Moreover, several regional organisations have been promoting Blue Economy approaches for the Caribbean. For example, the Caribbean Regional Fisheries Mechanism, a Caribbean Community (CARICOM) institution, in 2020 began executing a USD40 million Global Environmental Facility-funded project to “promote national blue economy priorities through marine spatial planning” in the Caribbean ecosystem (Nurse, 2020). The Caribbean Development Bank (CDB) has hosted a series of annual events on the Blue Economy, with a particular focus on identifying and financing bankable projects. In 2018 and 2019, CDB prepared two widely cited research publications aimed at promoting the Blue Economy in the region (Figure 2).

Figure 2: Major Blue Economy Activities for CDB and UNECA



Source: Authors

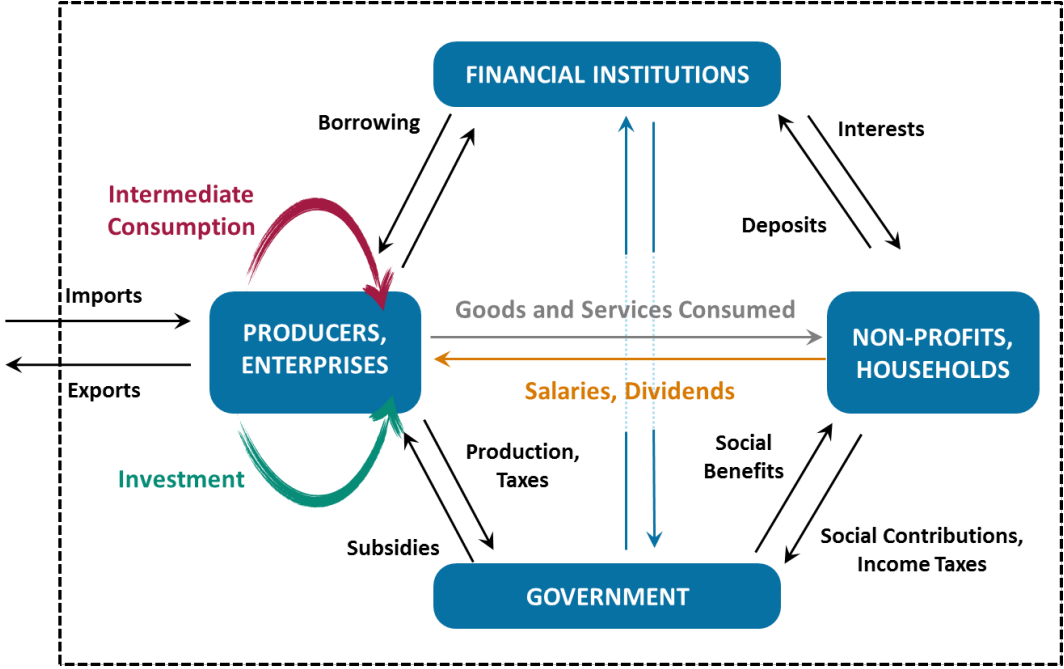
1.3 Satellite Accounts Applied to the Blue Economy

In both regions, *sustainable* use of aquatic, coastal and marine resources is critical to consumption and livelihoods, economic development, environmental protection, and social inclusion. Both regions face similar challenges to exploiting these resources, such as financial constraints and rising threats to the natural capital in aquatic spaces. Limited knowledge and measurement of blue resources have also been major gaps hindering effective policy development and implementation of Blue Economy approaches.

One approach to addressing this knowledge gap is through the use of Blue Economy Satellite Accounts (BESAs). Satellite accounts are linked and complementary to the traditional System of National Accounts (SNA). First produced in 1953, the SNA is the internationally accepted conceptual and accounting framework for measuring economic activity and compiling macroeconomic statistics such as GDP, GVA, trade balance, etc. (UN Stats, 2020). Some countries use the 1993 iteration SNA (e.g., Seychelles), while others have either transitioned or are in the process of transitioning to the latest version from 2008 (e.g., Saint Lucia, The Bahamas). Regardless, compiling any iteration of the SNA requires a wide range of basic data. In a series of accounts, tables and balance sheets, the SNA captures the activity and relationships

between economic agents⁵, i.e., households, government, businesses, and financial institutions. in an economy (Figure 3). Each agent’s outputs are either consumed by other agents or are used as intermediary goods in the production of other goods that are consumed.

Figure 3: Economic Agents and Activity Captured in the SNA



Source: CDB, 2019

Through the SNA, statistical offices track the aggregate supply (domestic production and imports) and use (consumption, export, and intermediate inputs) of goods and services by these economic agents. Supply and Use tables captures this activity at a sub-industrial level. At the aggregate, this is the common GDP statistic. However, the disaggregate of sub-industry inputs and outputs enables a powerful reshaping of the data across specific economic functions or themes, often in a cross-sectoral nature (Figure 4). This is the purpose of satellite accounts. They provide additional information on a specific concern, including its interaction with and impact on the wider economy. Satellite accounts could also provide the basis for measuring both the indirect and induced effects through the demand for goods and services from other sectors (OECD, 2019). Therefore, satellite accounts can facilitate impact assessments of theme-specific policies on growth, employment, debt, trade, and other measures (van de Ven, 2019).

⁵ An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economics activities and transactions with other entities (CDB, 2019).

Figure 4: System of National Accounts Process



Source: CDB, 2019

While the use of satellite accounts is popular in the education, tourism, and non-profit sectors, it is still relatively underutilized when measuring the Blue Economy. This is due, in part, to the level of complexity of the analysis – many sectors and dimensions need to be parsed and evaluated. However, this would provide a better valuation of the Blue Economy, which arguably has previously been grossly underestimated. The Blue Economy’s impact is difficult to measure given its cross-sectoral nature – across the primary, secondary and tertiary sectors. CDB’s 2019 [working paper](#) introduced the BESA methodology and investigated some of the economic impacts of increasing investments in the Blue Economy in a Caribbean country. The case study of Jamaica showed a BESA with a measurable and direct impact of 6.9% on the island’s 2017 GDP. The authors estimated the impact of higher investment and consequent tourism consumption, proxied by the demand of the hotel and restaurant industry. A 10% increase in demand of hotel and restaurants is expected to induce a 1.1% growth in GDP, with a wide variety of sectors benefiting (CDB, 2019).

1.4 Research Objectives

This working paper compares the impacts of the Blue Economy in Seychelles and The Bahamas, as well as and investigates policy strategies and challenges across countries. It builds on earlier research by CDB and UNECA and intends to help reduce the dearth of quantitative information on the Blue Economy in Africa and the Caribbean. This paper applies the BESA methodology steps laid out in great detail in CDB’s [initial paper](#), expanding the case study to these two additional countries. In this instance, the authors have worked with local statistical offices to create BESAs for each country and compiled the results.

The remainder of the paper is structured as follows:

- *Chapter 2:* Provides stylized facts about the Bahamian and Seychellois economies, highlighting trends and policies in key Blue Economy industries;
- *Chapter 3:* Uses BESAs to measure and compare the direct impact of the Blue Economy in Seychelles and The Bahamas, and identify the industries benefiting most from the Blue Economy;
- *Chapter 4:* Investigates Blue Economy policy strategies across countries, and where possible, measure the possible impact of such strategies on growth, employment, government finances, trade, etc.; and compare challenges across both countries – and their respective regions, such as climate change and Blue Economy financing.

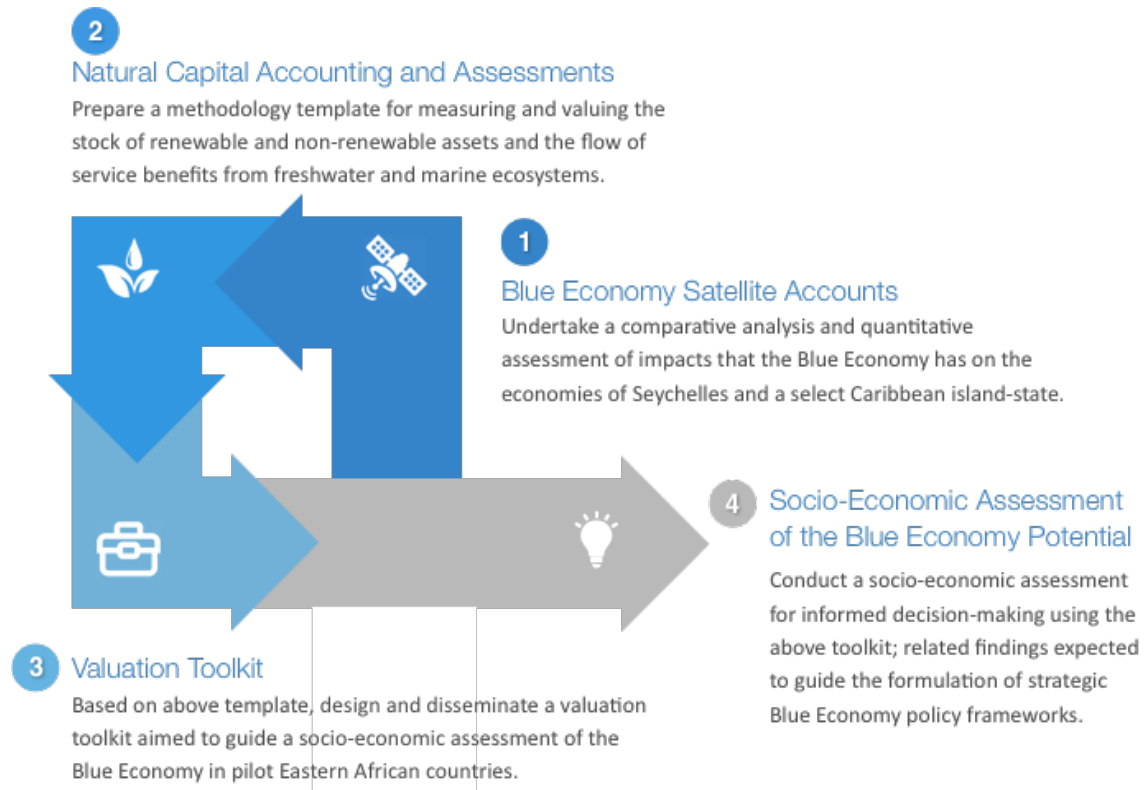
This paper also complements UNECA’s Blue Economy Policy Handbook by providing data-driven analysis on the impact of certain policies and contribute to strengthening the capacity of Member States through developing and implementing development frameworks. For UNECA, this is the first step in a broader assessment of the potential of the Blue Economy to drive sustainable and inclusive economic growth and development in Eastern Africa. Future research will build on the BESAs and better address sustainability-related issues using Natural Capital Accounting and Assessment processes. Ultimately this will contribute to a comprehensive toolkit for the socio-economic valuation of the Blue Economy’s potential (Figure 5).

A comparison of African and Caribbean economies is an unusual one. African countries are primarily continental and Caribbean countries are primarily islands. In 2019, Africa was one of the fastest growing regions with economic expansion at almost 3 percent (UNECA, 2020), while the Caribbean economy grew by 1 percent (CDB, 2020). Using traditional measures of wealth, Africa has some of the poorest countries in the world, while per-capita incomes in many Caribbean countries are among the highest. However, while there are many differences between two regions, there are more similarities, which makes such comparative analyses and lesson-sharing experiences valuable. Furthermore, this collaboration between UNECA and CDB is also influenced by the expressed desire of the AU Commission and the CARICOM Secretariat to work more closely on several initiatives, including aviation and climate change⁶.

⁶ CARICOM Secretariat opened a liaison diplomatic office in December 2019, in Kenya. At the 2019 Heads of State Summit of CARICOM, a resolution towards organizing a joint high-level meeting with the AUC in 2020 had been adopted. However, due to the COVID-19 pandemic, the meeting was delayed, and has not yet been rescheduled.

Figure 5: UNECA Sub-Regional Office for Eastern Africa – Research Plan for the Blue Economy

Building Blocks Towards Informed Decision-Making in the Blue Economy



Source: Authors

Chapter 2: General Economic Context

This chapter briefly explores the pre-COVID-19 economic context for two island economies – Seychelles, located in the Western Indian Ocean (eastern coast of the African continent) and The Bahamas in the Northern Caribbean (south of the North American continent).

Seychelles and The Bahamas were selected for this study based on the following factors and criteria:

- Economic and Geographic Similarities: As multi-island developing states, they are very susceptible to environmental disasters and have limited land-based natural resources and trade opportunities. However, they both have the highest GDP per capita in their respective regions;
- Importance of Blue Economy Industries: Both countries depend heavily on Blue Economy industries for economic activity, employment, and foreign exchange earnings; and
- Data Availability: Statistical Departments in both countries were able to provide or are in the process of producing the data necessary to complete the analysis.

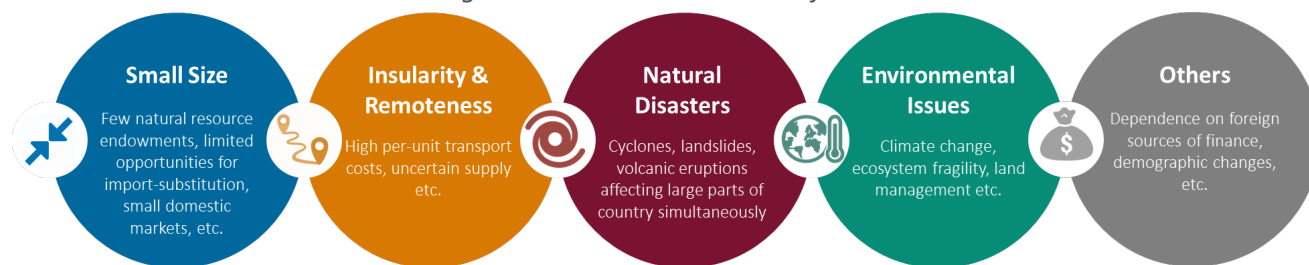
More importantly, both countries have taken meaningful steps to integrating the Blue Economy into national growth and development strategies. Seychelles has launched a Blue Economy Strategic Policy Framework and Roadmap (2018-2030).

In this chapter, comparative statistics are also shared for another Caribbean country, Saint Lucia, as it may be included in the final analysis. However, **the discussion is primarily on Seychelles and The Bahamas.**

2.1 Overall Economy

While small island states (or “Great Ocean States”) vary widely in terms of size, geography and development status, many face similar vulnerabilities often concealed by popular measures of economic strength. There is a rich body of research emphasizing their high vulnerability to external economic and environmental shocks (Figure 6). After the global financial crisis and repeated natural disasters, it was already clear that returning to “business as usual” was incongruous with progressive and sustainable development. There has been a rise in resilience-focused strategies for island states – in infrastructure, social systems, finance, etc. – so that they are better able to bounce back from these inevitable shocks

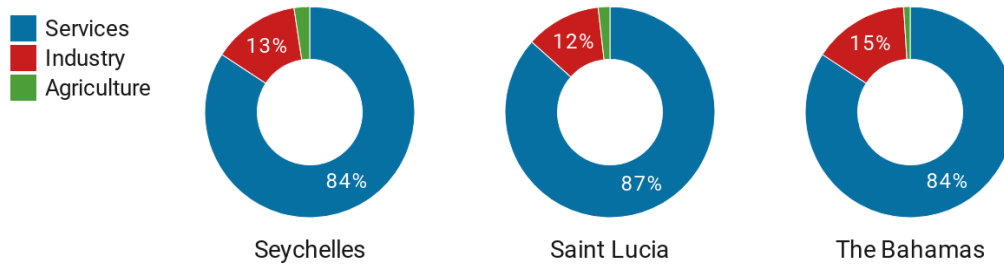
Figure 6: Main Vulnerabilities of SIDS



Source: Adapted from Briguglio, 1995

Seychelles, Saint Lucia and The Bahamas share many challenges associated with highly concentrated and open economies. Although the Bahamian economy is 8x that of the Seychelles and 6x that of Saint Lucia, they are all heavily concentrated in the third sector (Figure 7). The Services sector, and particularly the tourism industry, has helped to drive economic and social development in the islands. Seychelles and The Bahamas countries are classified as high-income economies, with among the highest GDP-per-capita ratios in their respective regions.

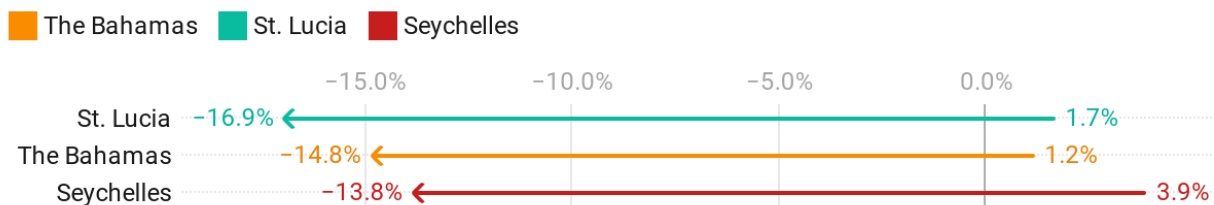
Figure 7: Gross Value Added by Sector, 2018



Source: UNCTAD, 2020

From 2017 to 2019, the Seychellois economy expanded by an average 4% per year, the Lucian economy by 2.6%, and the Bahamian economy at 1%. Prior to the COVID-19 crisis, growth was expected to accelerate in the short-medium term, driven by tourism and fisheries in Seychelles and by post-Hurricane Dorian⁷ recovery and reconstruction efforts in The Bahamas. The COVID-19 pandemic and related control measures have had a devastating impact on the tourism and may have delayed rebuilding/investment plans in the construction sector. Third quarter forecasts from the IMF put 2020 economic contraction at 13.8% for Seychelles, 14.8% for The Bahamas, and 16.9% for Saint Lucia (Figure 8), far sharper than the declines experienced during the 2007/08 global financial crisis.

Figure 8: Change in Real GDP Growth Rates, 2019 to 2020(F)



Source: IMF WEO, October 2020

⁷ In September 2019, Hurricane Dorian caused USD3.4 billion (25% GDP) damages, losses and other costs in The Bahamas (IADB, 2020).

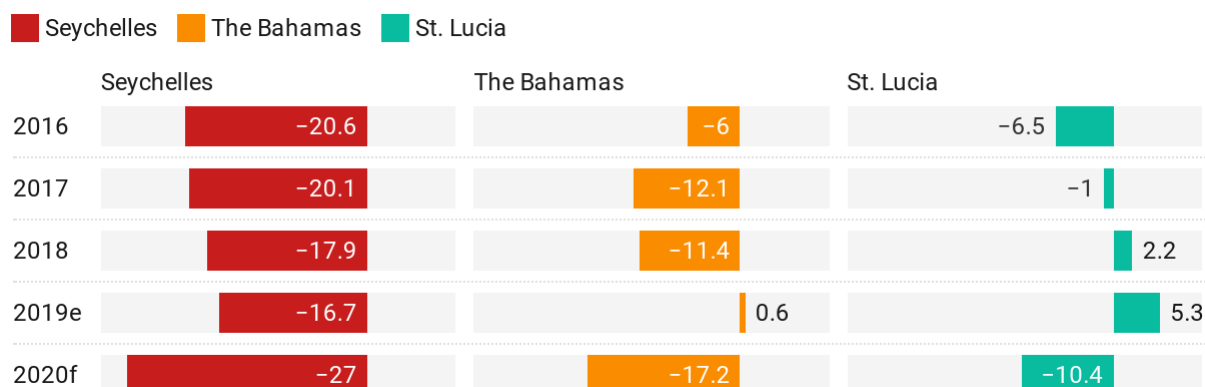
Prior to the crisis, Seychelles and The Bahamas were both pursuing ambitious fiscal reform and debt reduction targets. Since 2008, Seychelles had been successfully implementing plans to build fiscal stability and sustainability under successive IMF-supported programmes⁸. By 2019, the government had achieved a small fiscal surplus and the public debt-to GDP ratio had fallen from 130% in 2008 to 57% in 2019⁹. In Bahamas however, public debt increased slightly over the year to 63% by the end of 2019. Furthermore, the budget shortfall was wider than expected, in part due to the higher spending and lower revenues associated with the disaster during the peak tourism season. The implementation of recently passed fiscal responsibility and management legislation would have helped to correct these trends. However, the COVID-19 crisis has increased fiscal pressures in both countries, particularly though lower tax revenues from the tourism industry and unplanned expansionary support for the overall economy. This may also negatively affect public debt dynamics and slow the planned pace of public debt reduction. The most recent statistics from the Central Bank of Seychelles indicates that total public debt had already increased to 80% by August 2020 – a level it had not been at since 2012.

The crisis has also heightened the possibility of a balance of payments crisis in both countries. Like many islands states, both Seychelles' and The Bahamas' current accounts are often in deficit, due in part to their high import bills for food, energy and infrastructure projects. Notably, The Bahamas was estimated to have achieved a small surplus in 2019. While lower food imports and global energy prices may have helped the trade balance, the effect is expected to be offset by the decline in tourism revenues – as demonstrated by the significant deterioration in the current account balance forecast for 2020 (Figure 9).

⁸ After 2008, the first IMF-supported programme included floating the exchange rate, eliminating exchange restrictions, turning fiscal deficits into surpluses, and halving the debt burden with the assistance of external debt relief. On June 4, 2014, the IMF Executive Board approved a 3-year SDR 11.445 million arrangement for Seychelles under the Extended Fund Facility to support authorities' efforts to reduce high debt levels, improve external buffers and sustainability in the face of balance of payments pressures, and to strengthen the economy through sustained and inclusive growth. After this was successfully completed, on December 13, 2017, the Executive Board approved a new three-year PCI for Seychelles. Seychelles is the first IMF member country to request a PCI, which is a non-financing instrument that aids members in developing and monitoring reform agendas.

⁹ Seychelles also helped to pioneer financing instruments, blue bonds and the “debt-for-nature” swap. These innovations have helped the country to raise capital to finance ocean-based economic or conservation projects, such as expanding their marine protected areas, while maintaining balance with debt reduction and fiscal sustainability goals (Damanaki and Kemper, 2018).

Figure 9: Current Account Balance (% of GDP), 2016 to 2020^f









Source: 2016-2019 from IMF WEO October 2020; 2020 forecasts from Staff Reports in mid-2020

In Seychelles and The Bahamas, the trade imbalance is mainly financed by foreign direct investment and other private capital. In 2019, FDI inflows to Seychelles and The Bahamas were estimated at 7.5 percent and 5 percent of GDP respectively (Table 1). This represented a slight decline in recent years. In Seychelles' case, a government-issued moratorium on any new, large hotel projects from 2015-2020 contributed to the recent downward trend of FDI¹⁰. However, even if the moratorium is lifted, investors may be wary of funding large hotel projects until the tourism industry has recovered from the pandemic. If challenges to the industry linger post-crisis, future FDI into Seychelles and The Bahamas may be negatively affected.

Another factor that may negatively impact foreign financial flows into the islands is the heightened global scrutiny of the offshore financial sector. Both Seychelles and The Bahamas have a well-established financial sector that offers a wide range of offshore services, including business registration, trusts, insurance, investment fund management, and banking. The Bahamas hosts the fourth largest offshore financial centre in the world (after Hong Kong, Singapore, and the Cayman Islands). Since the introduction of the International Business Companies (IBC) Act in 2004, over 200,000 IBCs have been registered in Seychelles. In recent years, the broader financial industry has faced the challenge of declining correspondent banking relationships through the de-risking efforts of US and European banks. The offshore financial sector has faced additional challenges with pressures to comply with global transparency standards and anti-money laundering regulations. While governments in Seychelles and The Bahamas have sought to comply with these measures, in early 2020, the European Union took the decision to add both countries to a "blacklist" of jurisdictions it perceives to have harmful preferential tax regimes.

¹⁰ In 2015, the Government issued a moratorium on building large scale tourist accommodation facilities with more than 25 rooms. Under the national strategic plan, and in line with the high-value low-volume approach, the Government is seeking to cap tourist arrivals at 400,000 visitors by 2040 to ensure that the industry growth is sustainable.

Table 1: FDI Inflows and Import Cover, 2019

Country	USD millions, 2016 to 2019	2019 % of GDP	Import Cover
Seychelles	155  126	7.5% 	6.1
The Bahamas	1.3k  637	5% 	6.3
St. Lucia	129  31	1.6% 	3.2





Source: UNCTAD, 2020; IMF Staff Reports, mid-2020

As foreign inflows from investment, remittances and export earnings are expected to slow in the short-to-medium term, central banks are keeping close guard on the level of foreign exchange reserves. As at the end of 2019, Seychelles and The Bahamas both held a more moderate level of foreign exchange reserves (Table 1). The Central Bank of Seychelles has already flagged that the significant reduction in foreign exchange inflows, while the demand for forex has continued to rise. These pressures are likely to lead to further devaluations in the rupee in the near term. In its most recent Staff Report on Seychelles, the IMF indicated that the country’s external debt was sensitive to currency, growth, and current account shocks. Therefore, a widened deficit may also negatively impact the government’s debt reduction efforts. This challenge is not shared by Bahamas, whose dollar is pegged to the US dollar on a one-to-one basis.

2.2 Vulnerabilities to COVID-19 Shock

Figure 10: Vulnerabilities of Countries to COVID-19 Shock

	Global Financial Links	Trade Linkages with USA and Europe	Expected Change in Trade Balance	Tourism Dependence	Debt Rating*	Pre-pandemic Unemployment
Seychelles	Low Vulnerability	High Vulnerability	High Vulnerability	High Vulnerability	Low Vulnerability	Low Vulnerability
Saint Lucia	No data	Medium Vulnerability	High Vulnerability	High Vulnerability	Low Vulnerability	High Vulnerability
The Bahamas	No data	High Vulnerability	High Vulnerability	High Vulnerability	Low Vulnerability	Medium Vulnerability

 High Vulnerability
  Medium Vulnerability
  Low Vulnerability
  No data

Source: Adapted from IMF; data from local sources, IMF WEO 2020, UNCTADstat 2020, WTTC

Note: These ratings are based on global comparisons. See endnote [i] for explanations of the categorizations.

*All countries have been rated at a low risk of debt distress. However, continued reforms are necessary to return governments to their path of debt reduction. This may be threatened by further exogenous shocks.

Year after year, exogenous shocks have exposed island states vulnerabilities to global economic and local environmental crises. The COVID-19 pandemic is no different. For Seychelles and The Bahamas, there

three areas where their COVID-19 vulnerabilities are particularly high (Figure 10). Although the situation and our analysis are evolving, our current assessments suggest that Seychelles' and The Bahamas' vulnerability to the COVID-19 crisis is most acute through its:

(1) Dominant Trade and Tourism Linkages with USA and Europe

In the Caribbean, a common saying goes “*when the U.S. sneezes, the Caribbean catches a cold*”, and this is also relevant to the Indian Ocean island states. Seychelles' exposure to Europe, an epicentre of the COVID-19 pandemic, cannot be understated. In 2019, almost a third of its global trade was with European partners, who account for 67% of its fish and seafood exports. Similarly, the USA accounted for a quarter of Bahamian global trade, and over half of its fisheries exports. A quarter of Bahamian fish exports are also to Europe. The Euro Area and USA economies are expected to contract by unprecedented levels in 2020: 7% and 4.3% respectively. As the health aspects of the crisis prolongs in these regions, this may depress overall demand for global imports, perhaps including from the Seychelles and The Bahamas.

(2) High Dependence on Tourism

As discussed, tourism is a critical GDP engine for both countries. Their popularity as global tourism destinations (along with their financial sector) have enabled the country to consistently earn surpluses in their service trade – a sharp contrast to the large deficits in merchandise trade. Even when travel restrictions are lifted, the tourism industry may not rebound until the economies in the main source markets recover.

(3) Frequent Large Current Account Deficits

Significant declines in tourism receipts will lead to a deterioration of Seychelles and Bahamas' balance of trade in 2020, contribute to widened current account deficits (Figure 9). Moreover, COVID-19 has increased the uncertainty in global capital flows. Any questions about a recovery of the Seychelles and Bahamas tourism industry will dissuade foreign investors, resulting in large BOP financing gaps. While the world is assessing ways to provide concessional financial support to developing countries during this time, both Seychelles and The Bahamas may be disqualified from such programmes due to their relatively high-income status. The recent IMF disbursements of USD31.2 million for Seychelles and USD250 million for The Bahamas, while welcome, may not be sufficient if the crisis prolongs.

Of course, the relatively low levels of unemployment in 2019 is not an accurate reflection of the current state of the workforce in each country. Many workers were employed in the tourism and related industries, thus have been laid off during the slowdown in the second and third quarters of the year. This is discussed further in the following industry-level analyses.

Table 2: Selected Economic and Social Indicators

	Seychelles	Saint Lucia	The Bahamas
Macroeconomic Indicators			
GDP (current, US\$ bn)	1.6	2.1	12.8
GDP per capita (US\$)	16,434	11,611	32,933
GDP growth in 2019 (%)	3.9	1.7	1.2
GDP growth forecast for 2020 (%)	-13.8	-16.9	-14.8
Total public debt ¹¹	56.9	62.8	63.1
Fiscal balance	0.2	-6.9	-2.3
Annual average inflation rate (%)	1.8	0.5	1.8
Agriculture, value added in 2018	2.4	1.8	1.0
Industry, value added in 2018	13.4	11.6	14.8
Services, value added in 2018	84.2	86.6	84.2
Select Blue Economy Indicators			
Total tourists, stayover + cruise (people)	384,204	1,276,751	7,200,000+
Capture fisheries product in 2017 (tonnes)	136,200	2,097	11,400
Aquaculture fisheries product in 2017 (tonnes)	n/a	27	<10
Fisheries sector employment (people)	1,810	3,342	9,004
Container port throughput in 2018 (TEUs, 000s)	n/a	30	939
All port calls in 2018 (ships)	384	1,191	5,787
External Sector Indicators			
FDI inflow	7.5	1.6	5.0
Exports of goods in 2018	36	7	5
Imports of goods in 2018	72	36	28
Merchandise trade balance	(36)	(29)	(23)
Intra-Regional trade (% of goods trade) in 2018	11	18	2
Services trade balance	26	35	17
Demographic and Social Indicators			
Population (people)	98,347	177,301	389,482
Unemployment rate in 2019, total (%)	2.3	16.8	9.5
Unemployed + recently stopped working in mid-2020 ¹² (%)	6.3	n/a	25-40
Expected years of schooling in 2018 (years)	15.5	13.9	12.8
Population in multidimensional poverty ¹³ (%)	32	2	n/a
Human Development Index in 2018	0.801	0.745	0.805

Source: AfDB, CDB, IMF, UNCTAD, UNDP, UNHDR, World Bank, official national sources

Note: Measure is % of GDP and year of observation is 2019, unless otherwise indicated

¹¹ Public debt figures are from the Central Bank of Seychelles, and projections from the latest IMF Staff reports published for Saint Lucia (mid-2020), and The Bahamas (mid-2020).

¹² 2020 unemployment forecasts from official sources: [NBS 2020-Q2 Statistical Bulletin](#) (Seychelles), [IMF WEO October 2020](#) and [Caribbean Disaster Management Agency](#) (Bahamas).

¹³ Latest available estimates/year of MPI survey for Seychelles (2018), Saint Lucia (2012).

WORKING PAPER **DRAFT**



PART B: **Measuring the Blue Economy
and its Impacts**

Chapter 3: The Blue Economy in Seychelles and The Bahamas

Relative to their land area, the waters surrounding small island states is a critical source for food, trade and transport routes, employment, entertainment, etc. This chapter provides an overview of the pre-COVID-19 performance of economic sectors related to maritime spaces in Seychelles and The Bahamas. While the oceans indirectly affect almost all economic activity in these countries, the stylized facts are presented for three sectors that are among the most directly affected: (1) fishing and aquaculture, (2) coastal and maritime tourism, and (3) maritime.










3.1 Fishing and Aquaculture

While Seychelles, Saint Lucia, and Bahamas rely mainly on tourism, fostering agriculture and fisheries is important for preserving culture and facilitating economic diversification. The Fisheries sector – primarily marine-based capture fisheries – is an import source of foreign currency earnings, food supply and employment.

Recent Trends

From 2014 to 2018, the primary sector accounted for less than 3% of economic activity in Seychelles and The Bahamas (UNCTADstat, 2020). In both countries, around 4% of workers were directly employed in fish production (FAO, 2020). However, this should not understate the importance of the wider sector which also includes fish preservation, processing, ship building and repairs, and other related activities.

Table 3: Fisheries Industry Production, 2000 to 2018

Country	Capture Fisheries (tonnes) ▼	Capture Fisheries Growth	Aquaculture (tonnes)
 Seychelles	32.8k  145.6k	344%	425  0
 Bahamas	15.5k  10.9k	-30%	2  7
 Saint Lucia	2k  2k	0%	1  19

Source: FAO, 2020

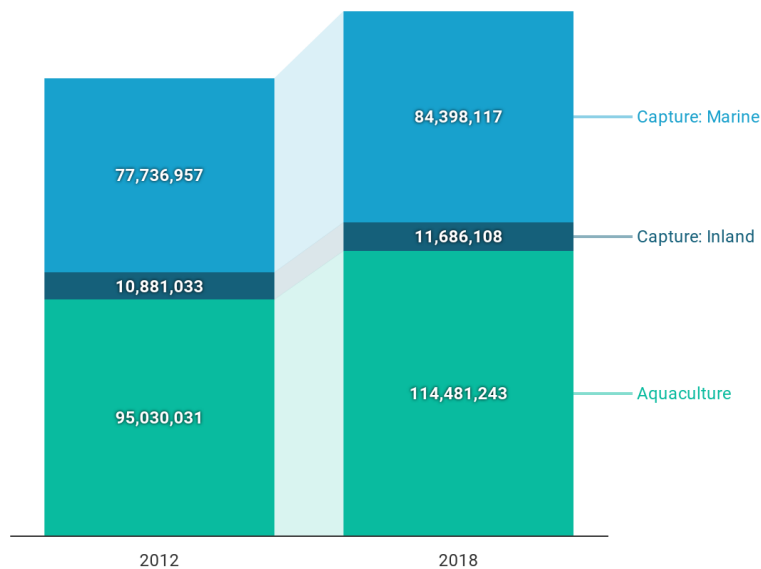
In Seychelles, the sector is divided between the artisanal (domestic), semi-industrial (domestic), and industrial (domestic and foreign) fisheries. The largest component, industrial fisheries, is dominated by foreign-owned and licenced vessels targeting the tuna species. Including fish-related processing increases the gross contribution of the sector to between 8% - 20% of GDP and 17% of employment (WB, 2017). More significantly, fisheries products accounted for at least half of Seychelles' goods export earnings between 2017 and 2019. The main species targeted for export are tuna varieties. Tuna's global popularity

has driven considerable growth in the capture fisheries sub-sector since 2000 (Table 3). This growth has also been encouraged by the government’s efforts to improve the local seafood value chain. Port Victoria is the primary tuna landing and transshipment port in the Western Indian Ocean, with seafood being processed for the local market as well as for export markets in Europe, Asia, and Africa.

While the fishing sector is an important foreign currency earner in The Bahamas, there is less dependence as it contributed only 6% of goods export earnings in recent years (UNCTADstat, 2020). The two main targeted species, the Caribbean spiny lobster and queen conch, account for over 95% of fisheries landings. Over 90% of lobster catches are slated for export. Unlike the Seychelles, there is no industrial scale fisheries in The Bahamas, and only Bahamian-owned vessels are legally able to fish commercially within the EEZ (GOB, 2020). In recent years, the volume of marine capture has declined (Table 3). This likely worsened in 2019, when the passage of Hurricane Dorian caused the large-scale destruction of fisheries production and processing infrastructure – including 70-100% of the fleet on several islands (Kemp, 2019).

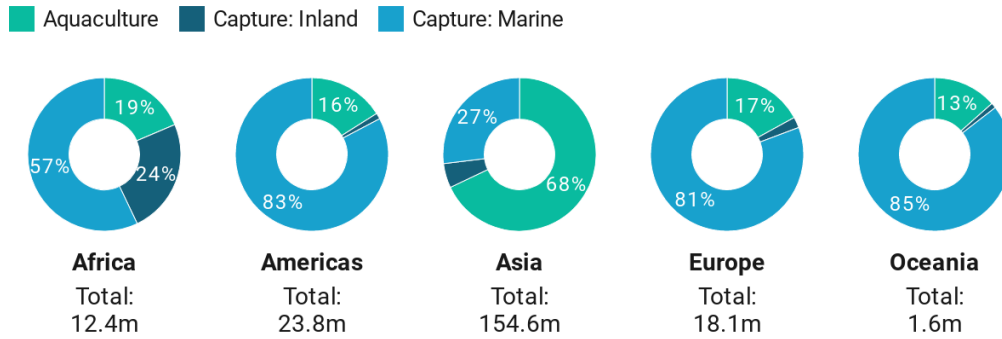
Aquaculture production accounts for most of the aquatic food production globally, but this is due to its dominance in the Asia region (Figure 11 and Figure 12). In Africa and Americas, aquaculture still accounts for a modest share of aquatic food production – 19% and 16% respectively in 2018 (FAO, 2020). It has taken off even less in Seychelles and The Bahamas, where the share has been negligible. Marine-based aquaculture in The Bahamas reached peak production in 2005, with 85 tonnes of a variety of fish and seafood. Initiatives are on-going but have not yet resulted in commercial-level quantities. In Seychelles, plans are underway to restart aquaculture, and particularly commercial prawn farming (Ernesta, 2020).

Figure 11: Global Aquatic Food Production, 2012 vs. 2018



Source: FAO, 2020

Figure 12: Aquatic Food Production by Region and Method, 2018



Source: FAO, 2020

Industry Challenges

Fisheries in the Caribbean and Eastern African islands face many of the same challenges. Some of the most prominent *include*:

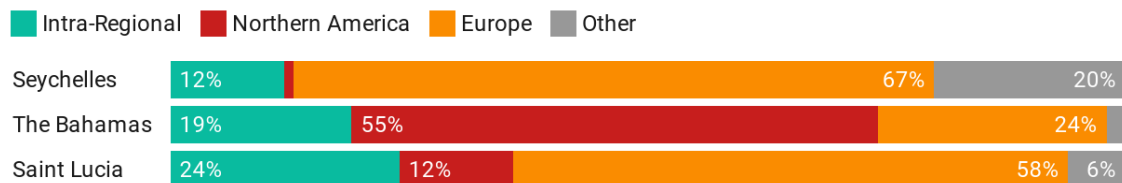
1. **Stock declines for specific species due to overfishing, heavy exploitation and/or climate change.**

According to FAO, in the Bahamas, spiny lobster stocks are fully exploited, and conch, snappers and groupers are “under heavy fishing pressure”. As a result, both conch and grouper production have declined over the last decade. In the Seychelles’ EEZ and surrounding waters, the Indian Ocean Tuna Commission indicates that several species of tuna are being overfished. For example, the 2019 skipjack catch exceeded the harvest control rule by 16%, threatening efforts to rebuild the stock (Global Tuna Alliance, 2020).

2. **Trade concentration around a few trading partners.**

From 2017 to 2019, most of Seychelles’ and Saint Lucia’s fish exports went to Europe, particularly France. Almost 80% of Bahamian seafood exports during that period went to either the USA or Europe. While exporting high value products to high-income markets is often a good position to be in, the islands are vulnerable to the ongoing public health and economic challenges of their main trading partners. Furthermore, travel restrictions and other logistical challenges with trading routes may impact the cost and efficiency of exports.

Figure 13: Fisheries Exports by Destination, aggregate from 2017 to 2019



Source: UNCTADstat, 2020

3. **Complex coastal and marine management or enforcement.**

Both the tourism and fisheries sectors exploit coastal and marine resources. Effective integrated coastal zone planning and management is necessary to avoid the sectors encroaching on each other. For example, heavy coastal hotel development can negatively impact coral reefs and biodiversity. Even when there are laws and policies in place, it is difficult to always monitor and catch vessels that may be engaging in illegal or underreported catches. This is particularly complex in multi-island countries with a broad spatial area that needs to be covered.

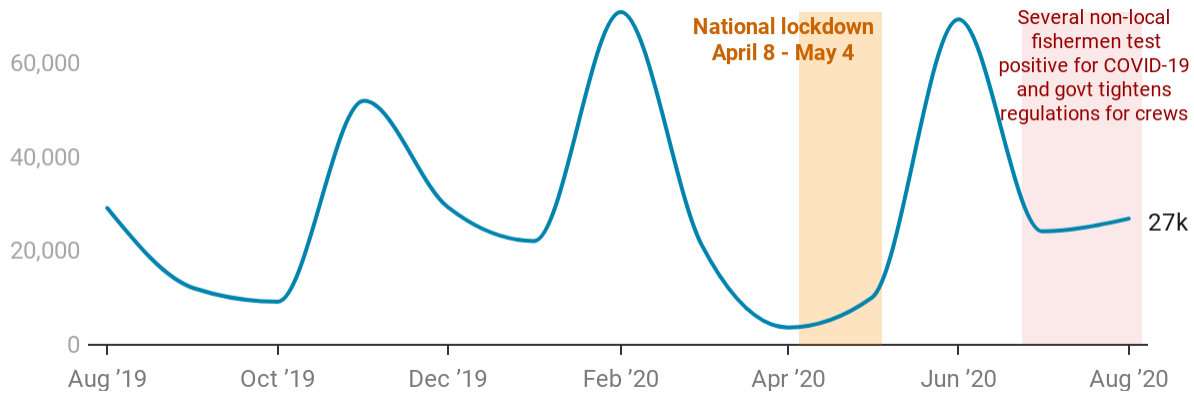
COVID-19 Impacts

Globally, COVID-19 has had mixed impacts on food markets. For countries heavily dependent on imported food, trade disruptions were expected to cause significant food supply and price distortions in the local market. Furthermore, COVID-19-induced movement restrictions also influenced local farmers' and fisherfolks' ability to produce and distribute food. Thus, the pandemic may have increased social pressures on already vulnerable small-scale fishers and coastal fishing communities and may have increased the instances of unregulated and underreported fishing (Bennett et al., 2020).

The situation is not so clear for tourism-heavy islands like The Bahamas and Seychelles, where negligible tourist numbers would have greatly reduced domestic demand. In Seychelles, for example, artisanal fishers and food wholesalers have reported significant business losses as tourism establishments are non-operational. Many have turned to offering perishable goods at discounted prices to the local market (Laurence, 2020). The government and other purchasers have agreed with artisanal fishers to purchase their excess supply for the duration of the season (Rassool et al., 2020). While it is too soon to fully assess the net impact that the pandemic is having on fisheries would not be possible at this time, but some statistics and anecdotal evidence suggests that a recovery may be underway in both countries.

In Seychelles, the National Bureau of Statistics (NBS) stated that the fisheries sector had contracted by 39% in the second quarter of 2020. Data from the Central Bank of Seychelles (CBS) showed a drastic decline in fish export earnings in April, when the country was in lockdown for most of the month. However, these exports improved to pre-pandemic levels in June (Figure 14). The main merchandise export is canned tuna fish, so although exports may suffer temporary disruptions due to transport-related delays, demand for such products is likely to remain fairly stable. By June, the country's largest employer, the Indian Ocean Tuna factory, had added hundreds of workers to its factory operations to help increase production and meet the rising demand from the European market. Additionally, the Seychelles government moved quickly to provide support for artisanal fishers and fish processors through grants, loans, tariff waivers, etc.

Figure 14: Seychelles Fisheries Exports, August 2019 – August 2020 (SCR thousands)



Source: UNECA extrapolation; data from CBS, 2020

Official statistics reflecting the state of the Bahamian fisheries sector during the pandemic were not as readily available (but will be included in future update). The sector was hopeful for a strong year to recoup from the losses post-Dorian. While the crisis did not significantly impact the spiny lobster season (August 1 – May 31), the catch for other species were curtailed by the national lockdown (Kemp, 2020). Furthermore, to promote social distancing, fishers had to sell to processors/wholesalers and not directly to customers. After a second national lockdown in August, the most stringent requirements on fishers have been lifted.

Government Policies

In Seychelles, the fisheries sector is governed primarily through the Fisheries Act, implemented through the Fisheries Regulations by the Seychelles Fishing Authority (SFA). Development plans for Seychelles marine ecosystem are articulated in the SFA Strategic Plan 2018-2020, the Vision 2032 for the Fisheries Sector, Seychelles National Aquaculture Policy (2018), and other national agriculture and economic development plans. To promote industry sustainability, the Department of Blue Economy conducts knowledge building and sensitization programmes on waste management and other issues. At a regional level, Seychelles is a contracting party to the Nairobi Convention for the Protection, Management and Development of the Marine and Coastal Environment of the Western Indian Ocean. In late 2019, Seychelles and the European Union signed a new 6-year sustainable fisheries partnership agreement and associated implementing protocol setting out the fishing opportunities for EU vessels, the financial compensation to be paid by the Union and the modalities of sectoral support to the local fishing sector (EC, 2020).

In the Bahamas, the fisheries sector is governed by the Fisheries Act. In the draft National Development Policy (Vision 2040), the fisheries sector has been highlighted as a growth sector with potential to facilitate economic diversification of the overall economy. There is also a Strategic Plan for Fisheries and Aquaculture Development and Management 2017-2022 (FAO, 2020). Fisheries policy, managed primarily by the Department of Marine Resources, makes use of permits, license, closed seasons, and prohibitions

on certain fishing gear and methods in order to protect fisheries from overexploitation. However, the government also seeks to protect and incentivize the local industry through import duty waivers on some inputs and a 35% import tariff on competing products (IDB, 2018). Through the Bahamas Agriculture and Marine Science Institute (BAMSI) and other efforts, the government has invested indirectly in commercial activities, research, training, and certifications. At the regional level, The Bahamas is an active member of the Western Central Atlantic Fishery Commission and in the Caribbean Regional Fisheries Mechanism.

Aquaculture has been identified as a priority in both countries, but this subsector is still in its infancy phase and growing slowly. Unlike commercial capture fisheries, the aquaculture industry in The Bahamas is open to participation by non-Bahamians (FAO/GOB, 2016). The Seychelles' Blue Economy Strategic Policy and Roadmap prioritizes the development of new and emerging maritime sectors, including marine-based aquaculture. The government has been actively encouraging investment diversification to the aquaculture industry. In line with the national Blue Economy and Fisheries strategies, the government recently approved new aquaculture regulations and announced plans to start issuing licenses to farm five species of fish. In late 2019, they opened a brood stock, acclimation and quarantine facility, and in 2020, the Island Development Company announced plans to re-introduce prawn farming to the outer islands. The industry will also receive a boost from a recent USD800,000 grant from the African Development Bank (AfDB) to support MSMEs in the Seychelles Blue Economy (AfDB, 2020).

3.2 Coastal and Marine Tourism




From the pink sands of Harbour Island to the turquoise waters of Île du Nord, the 700 islands of The Bahamas and the 115 islands of the Seychelles offer a wide range of popular and exclusive beach vacations. Like many other SIDS with small populations and limited land-based resources, Seychelles, Saint Lucia, and The Bahamas leveraged their natural assets and the idyllic promise of an island getaway to boost economic development. The importance of the tourism sector to each country cannot be overstated; it is an organizing principle of their economies. From the opening of their respective international airports (Saint Lucia in the 1940s, The Bahamas in the 1950s, and Seychelles in the 1970s), tourism has been a mainstay of their economies, and deeply critical for incomes and export revenue earned either directly in or on the periphery of tourism activities. Along with offshore finance, high quality tourism is a defining feature of the more “developed” and affluent island economies globally (McElroy and Hamma, 2010).

Recent Trends

In the last few years, the tertiary sector has accounted for over four-fifths of economic activity in Seychelles and The Bahamas (UNCTADstat, 2020) – and tourism has been the primary driver of economic growth. NBS estimates that the tourism sector directly contributes around a quarter of GDP in Seychelles. In The Bahamas, Tourism and Financial Services are the main industries – with tourism alone providing around half of the GDP and employing a proportionate share of the workforce.

Despite being mature tourism markets, both countries have enjoyed steady growth in the industry. 2019 was another year of strong growth when the increase in tourist arrivals in both Seychelles (6%) and The Bahamas (9%) outpaced the global rate (4%) as well as their respective regional rates. In Saint Lucia, tourist arrivals increased by 3% (UNWTO, 2020). Growth in the wider Bahamian Travel and Tourism (T&T) industry also outpaced the global T&T growth (Figure 15). Estimates from the World Travel and Tourism Council (WTTTC, 2020) estimate that in 2019, the industry earned most of the export revenue in The Bahamas, and more than two-fifths in Seychelles.

Figure 15: Key Tourism Statistics, 2012 to 2019

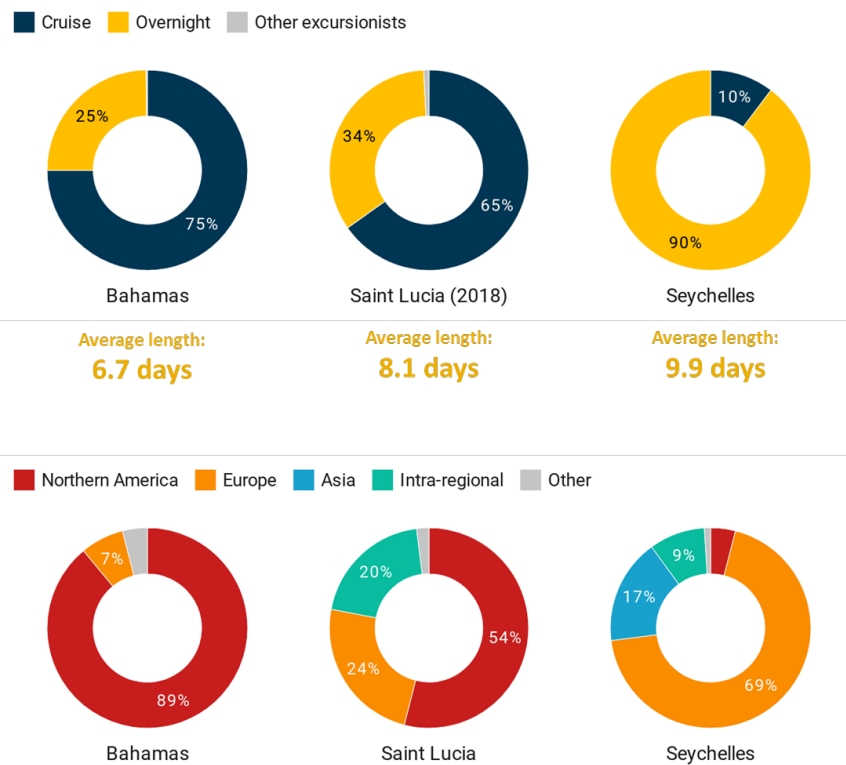
Country	Visitors 2012-2019	2019 T&T* Growth	% Jobs	% Exports
 The Bahamas	5.9m → 7.2m	5.1%	52%	82%
 Saint Lucia	931.2k → 1.3m	4.2%	78%	56%
 Seychelles	208k → 384.2k	3.5%	44...	41%
World	1.5b → 2b	3.5%	10%	

Source: National sources, WTTTC (2020), UNWTO (2020)

*Note: T&T – overall Travel and Tourism Industry. Growth rate and shares of jobs and exports from WTTTC.

In terms of travel mode, the islands have quite different typical visitor profiles (Figure 16). The Caribbean accounts for a third of global cruise deployments, and over 2,000 of these cruise calls (5 million+ passengers) are in The Bahamas. Cruise passengers to The Bahamas in 2019 outnumber stayover visitors 3:1. In fact, they have outnumbered the stayover visitors from as early as 1986 (Mamoozadeh and McKee, 1992). In addition to cruise ship port fees and taxes, the government and local businesses benefit from millions of passenger and crew onshore visitors spending on day-excursions and luxury goods. The tourism ministry conservatively estimates that each cruise passenger spends between USD70-80 (Hartnell, 2018). However, the government has provided millions in incentives to cruise lines to dock in The Bahamas – but this has reduced in recent years. In Saint Lucia, the cruise market is the fastest growing segment, and account for a third of annual visitors. In the Western Indian Ocean, the cruise market is markedly smaller, but growing. In the 2017/2018 season, The Seychelles had 36 cruise calls, primarily at Port Victoria on Mahé. For now, 9-in-10 visitors to Seychelles arrive by air and stay an average of 10 nights.

Figure 16: Distribution of International Visitors by Mode and by Country of Origin, 2019



Source: National sources, UNTWO (2020a)

Unsurprisingly, islands also differ in the dominant source markets for visitors. Almost 70% of visitors to Seychelles come from the European market. The top three source markets in 2019 were: Germany (19%), France (11%), and the UK and North Ireland (8%). In The Bahamas, the US and Canada accounted for almost 90% of visitors. In Saint Lucia, a fifth of visitors originated within the Caribbean. The share of intra-

regional visitors is quite low in both Seychelles and The Bahamas¹⁴, but that is typical for the Caribbean and African regions. For example, of the 215 million tourists travelled to African countries between 2016 and 2018, only 38% were from the region. While this is almost quadruple the intensity of intra-regional tourism in the Seychelles, it is quite low compared to similar measures for other regions such as Asia-Pacific (80%) and Europe (78%) (UNWTO, 2018). Globally, 4 out of 5 tourists travel within their region.

It must be emphasized, however, that the low rates of intra-regional travel are not due to an active discouragement on the local authorities. For example, Seychelles and Benin top the African Visa Openness Index as they are the only two African countries with visa-free entry for all countries in the region. Factors with a stronger impact include the islands' inaccessibility (limited direct routes), cost vs. low-to-middle incomes, and possibly greater competition from other regional destinations.

Industry Challenges

Here are some of the most prominent challenges facing the tourism industries in Seychelles and The Bahamas:

- 1. High dependence on a few source markets and low intra-regional tourism.**

As discussed, the performance of tourism in Seychelles and The Bahamas is tightly linked to the economic situation and demand of visitors from Europe and the US respectively. If these source markets face an economic crisis, luxury goods such as island vacations are easy victims in constrained budgets. There are also challenges to depending on markets outside the region. During the COVID-19 crisis, tourists may be more hesitant to engage in optional, inter-regional travel if they believe that the risks are proportional to distance.

The positive side to this Europe/US focus is that the islands are able to focus more on higher-end tourist market, potentially receiving greater knock-on economic benefits from each visitor.

- 2. Economic leakages and linkages.**

In both countries, little is produced locally so the tourism market has a high propensity to import labour, food and energy. This leads to significant economic leakages. There are insufficient linkages between tourism and the rest of the economy. The domestic markets are small, so local companies are often unable to take advantage of economies of scale to become more competitive. Small populations imply limited opportunity to grow the domestic tourism market. Both countries rely heavily on foreign investment for large-scale tourism development. The proportion of foreign ownership has meant substantial lost tourism revenue.

¹⁴ In this case, intra-regional tourism is defined narrowly as travel within Eastern Africa and the Caribbean. However, it must be noted that the Bahamas is closer to the US than most other Caribbean countries – with the closest Bahamian island being only 50 miles off the Florida coast. Such proximity can be considered by some definitions “regional tourism”.

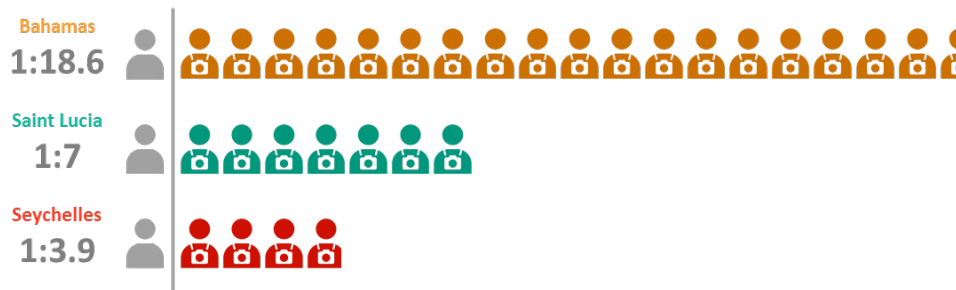
In recent years, both Seychelles and The Bahamas has seen an increase in the number of efforts to improve the industry’s energy efficiency, and linkages with communities and locally owned businesses. The latter is often motivated by domestic efforts to improve the local energy mix – an opportunity for an emerging Blue Economy industry, marine-based renewable energy.

3. Social, cultural and ecological impacts of tourism.

Even with all the benefits that tourism has brought to SIDS, it has come with significant costs that need to be managed. For example, islands have limited disposal facilities, and therefore struggle to safely discard the waste generated by an inflated population. Poor waste disposal practices can threaten biodiversity in the surrounding seas.

Through high volumes of cruise tourism, one can argue that The Bahamas has pursued a form of mass tourism. On one hand this has some benefits, as cruises don’t tend to deplete SIDS’ scarce water and energy resources, through some degree of self-sufficiency. On the other hand, the islands are overwhelmed with very large numbers of visitors during a narrow peak season. While it is true that tourists tend to outnumber the local population in most SIDS, the dominance of cruise tourism in Bahamas leads to a greater than average ratio. In 2019, there were 18+ tourists per resident in The Bahamas, compared to 3.9 in Seychelles (Figure 17). Steadily rising visitor numbers will eventually reach levels that are socially and ecologically unsustainable. By contrast, the government of Seychelles has been quite proactive in trying to avoid this. In 2019, the Ministry commissioned a study to assess how the country can effectively “maintain a balance between sustainable tourism and economic growth” – in advance of the planned moratorium on large hotel projects this year.

Figure 17: Population to Visitor Ratio, 2019



Source: UNECA calculations using national international visitor statistics

4. Influence of transnational tourism companies.

Transnational tourism companies – namely, cruise ships and hotel chains – exert undue influence on tax and tariff rates. In the Caribbean, these companies often play countries against each other in the search for more accommodating charges and taxes. Exemptions from certain taxes and customs duties also often feature in the negotiations between major hoteliers/investors and host governments in SIDS. Larger cruise companies are able to negotiate lower port fees, taxes, or rebates if bringing a minimum number of visitors to a particular island. For example, although

CARICOM countries initially agreed in 1993 to a minimum USD10 head tax for cruises, today's taxes range from as high as USD18 in The Bahamas and BVI to USD5 or lower in some Windward islands. Notably, due to its popularity, The Bahamas negotiates from a place of greater relative strength. Even so, for years the government has provided generous rebates to cruise lines for choosing to dock in their ports, despite passengers spending considerably lower amounts than stayover visitors. According to the Tourism Minister, these incentives cost the government as high as USD12 per passenger, and in aggregate USD12 million annually (Stieghorst, 2019). In 2019, the government announced plans to discontinue the rebates.

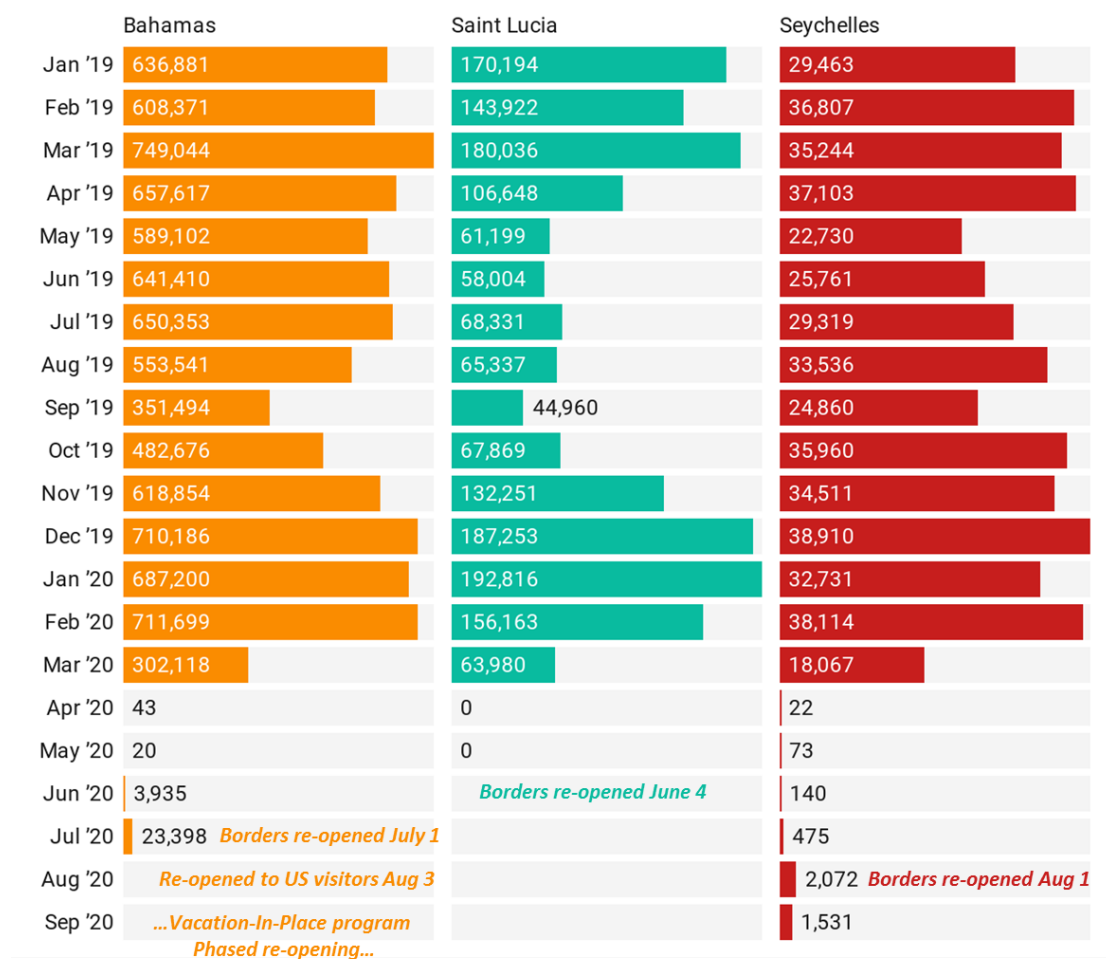
COVID-19 Impacts

Globally, tourism has been one of the worst-affected of all major economic sectors, as it is predicated on movement within and between countries and in-person interactions – all things that have been restricted to prevent the spread of COVID-19. UNWTO (2020b) estimates that in the first eight months of the year, overnight visitors declined by 70% relative to 2019. This started to improve slightly in July and August, when some countries started cautiously reopening their borders to international visitors.

High population densities and close proximities made cruise lines an early target of cross-border COVID-19 transmission fears. In the first few months, much media coverage showed rising cases on board ships that were turned away from port after port. Even if passengers and crew were open to the risk and host countries had been willing to welcome passengers to their shores, operations would have been curtailed due to lockdowns in departing countries. For example, the Centre for Disease Control and Prevention had a “No Sail Order” in place for cruise ships in the US from March 14 to the end of October. The Cruise Lines International Association (CLIA) estimates that global losses from cruise suspensions includes USD50 billion economic activity and 334,000 jobs. Interestingly, in a recent 8-country survey, the CLIA found that 46% of cruise passengers would be willing to take a cruise by June 2021. Furthermore, the majority would be willing to follow safety protocols such as mask wearing or frequent COVID-19 checks (CLIA, 2020). This indicates that a gradual recovery may be underway in 2021, if both departure and destination countries are able to reduce infection rates significantly by that time.

Prior to the crisis, visitor numbers were on track to exceed those in 2019. In the first two months of 2020, visitors were 7% and 12% higher in Seychelles and The Bahamas respectively. As borders closed to international travel in mid-March, the generally reliable flow of visitors from Europe to Seychelles and from the US to The Bahamas halted for at least 3 months (Figure 18). In the summer months, they gradually began the process of reopening borders to certain low-risk countries. However, the reality of second (or third) wave of COVID-19 cases in the United States and Europe continues to make it difficult to welcome such travellers for typically carefree vacations. For example, The Bahamas was one of the few countries to welcome US tourists in July but had to temporarily reintroduce the ban as COVID-19 cases spiked domestically. In October, Seychelles gave 7 key source market countries a Special Status that permits visitor travel (with heightened protocols) even if their cases go beyond a threshold that would disqualify other high-risk countries.

Figure 18: Monthly Visitor Arrivals, 2019 - 2020 (Available Months)



Source: Bahamas Research & Statistics Department, Ministry of Tourism; Saint Lucia Tourist Board, Port Authority, and Ministry of Finance; and Seychelles National Bureau of Statistics

Tourism Boards in both countries have their work cut out for them, to restart the industry in a way that is safe to residents, including tourism workers, and to visitors. As with most other countries round the world, Seychelles and The Bahamas require an accredited and recent negative COVID-19 PCR certificate from all arrivals. From mid-October, the government of The Bahamas announced a “Vacation-in-Place” (or VIP) programme to allow visitors unlimited access to amenities within the confines of their hotel or resort. Similarly, Seychelles mandates a minimum 5-day quarantine and second test of visitors high-risk but “Special Status” countries (France, UAE, UK) before they can leave restricted areas. So far, 400 (out of 700) accommodations have trained workers and/or adapted facilities to accommodate these special status visitors according to local health guidelines (Rassool et al., 2020). At the same time, STB has been running a taxi campaign in Paris to market Seychelles as “Our home, your sanctuary” to potential future visitors.

Notably, some tourism players in the Seychelles adapted to their new reality and pivoted to targeting the (small) domestic market. For example, many hotels and restaurants have launched special promotions for Mahé residents, and some high-end spas have maintained pre-COVID-19 levels of business. Other businesses used the opportunity to repair and renovate their infrastructure (Rassool et al., 2020).

Government Policies

Seychelles and The Bahamas have implemented important legislation and policies to boost tourism development. More recent policies also capture motivations imbedded in SDG 12.b – *sustainable tourism that creates jobs and promotes local culture and product*. In Seychelles, the industry is guided by the [Tourism Master Plan 2012-2020](#), first launched in 2012 but updated twice since. Seychelles has gained a global reputation for environmental protection and conservation, which has extended into the tourism industry. For example, in 2011, the government introduced a sustainable tourism management and certification programme to act as an educational and an evaluation tool¹⁵ (Economic Planning Department, 2020). Since 2015, the Seychelles government has had a moratorium on new large hotel construction (25+ rooms). Nature Seychelles, managers of the Cousin Island reserve, increased tourism user fee to slow the rise in visitor numbers. The *Seychelles Sustainable Development Strategy 2012-2020* also promotes a sustainable tourism industry, and to enhance the economic benefits of the tourism industry for local communities.

In pre-Independence Bahamas, the Promotion of Tourism Act (1963) and the Hotel Encouragement Act (1964) were passed to encourage tourism and investment in hotels “*by providing for the refund of customs duties and emergency taxes and certain other concessions, and for the exemption of such hotels from certain taxation, and to relieve existing hotels from certain taxation*”. The Hotels Act (1970) and Cruise Ships Act (1995) are also important legislation covering the taxes and levies industry (CTO, 2013). Several policy documents include the goal for the tourism sector to remain a sustainable engine for economic growth, job creation, and entrepreneurial opportunity. For example, Vision 2040 includes strategies to revitalise the sector, increase the islands’ global market share, and improve linkages with the rest of the economy (GOB, 2016).

¹⁵ Success of the programme is mixed since to date, only 21 of 600 hotels have been certified.

3.3 Maritime

Increased trade and integration into global and regional value chains are widely appreciated as critical strategies to economic growth. Maritime is the key mode of transport facilitating international trade. UNCTAD estimates that 80% of the volume of global merchandise trade is carried by the sea – a share that is undoubtably higher for “sea locked” countries like Seychelles and The Bahamas. Maritime ports are the critical to facilitating fish trade, food and fuel imports, and to differing degrees, tourist access. Additionally, for multi-island nations, inter-island ferry services are important to local transport networks.

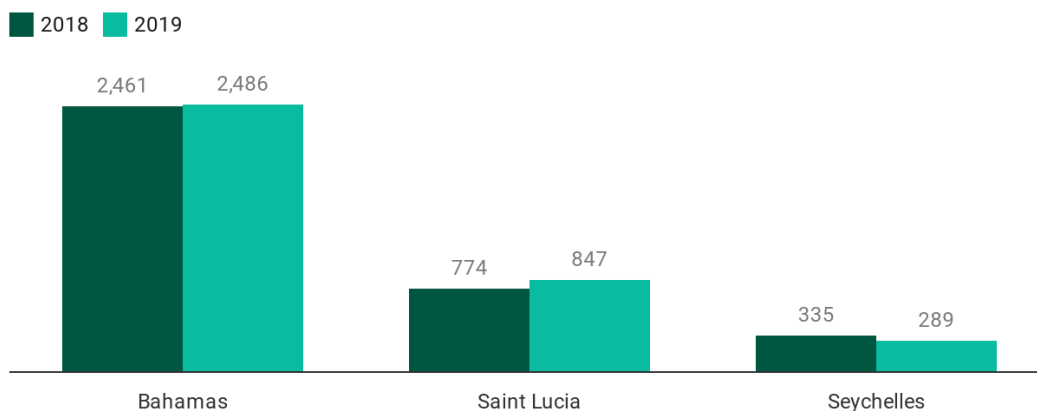
Note that despite its importance as a facilitator, the sector is less heavily researched as tourism and fisheries. This section is briefer as research is ongoing, and the COVID-19 impacts are still being measured.

Recent Trends

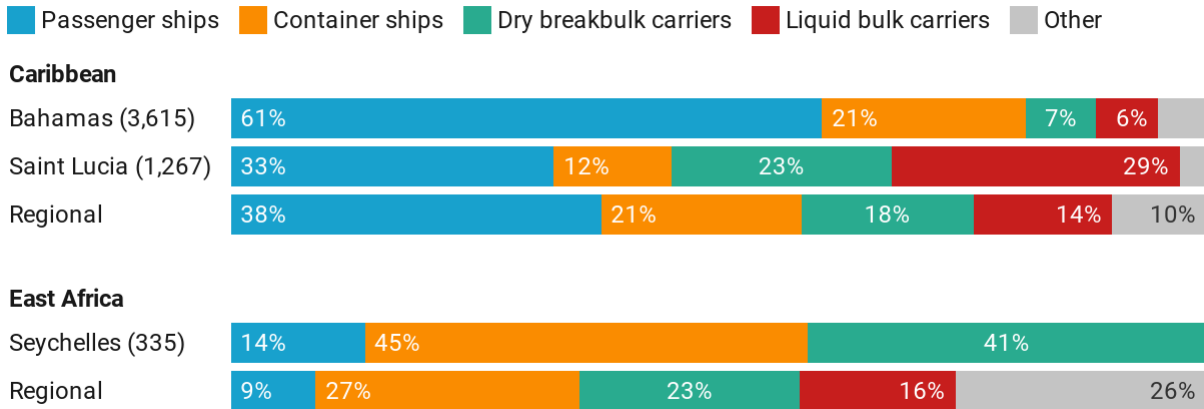
UNCTAD data indicates that between 2018 and 2019, non-passenger port calls to Seychelles declined by 14%. During the period, the value of total exports decreased by 9%, which may have contributed to the drop in maritime traffic. Seychelles is located on or near to some North-South trading routes, but mainly South and East Asia to East Africa. Despite this, Seychelles is not a major global trade transshipment point and has a relatively low globally shipping connectivity (Figure 21). However, for the past 25 years, Port Victoria has been the major transshipment port for tuna in the Western Indian Ocean.

The Bahamas’ proximity to the US and its positioning in the global East-West belt provides great geographical advantages to positioning as a major trans-shipment port (UNCTAD, 2014a). Freeport, Bahamas is competitive, developed, and thus well integrated into the global linear service network, as evidenced by the high number of port calls. From 2018 to 2019, the number of non-passenger port calls to Bahamas’ seaports increased modestly by 1% to 2,486 (Figure 19). However, passenger (cruise) ships dominate the country’s port calls (Figure 20). Including these, overall port calls increased by 9% in 2019. However, while The Bahamas is very well connected to countries outside the region, it has low connectivity within the Caribbean (UNCTAD, 2014b).

Figure 19: Non-Passenger Port Calls, 2018 vs 2019

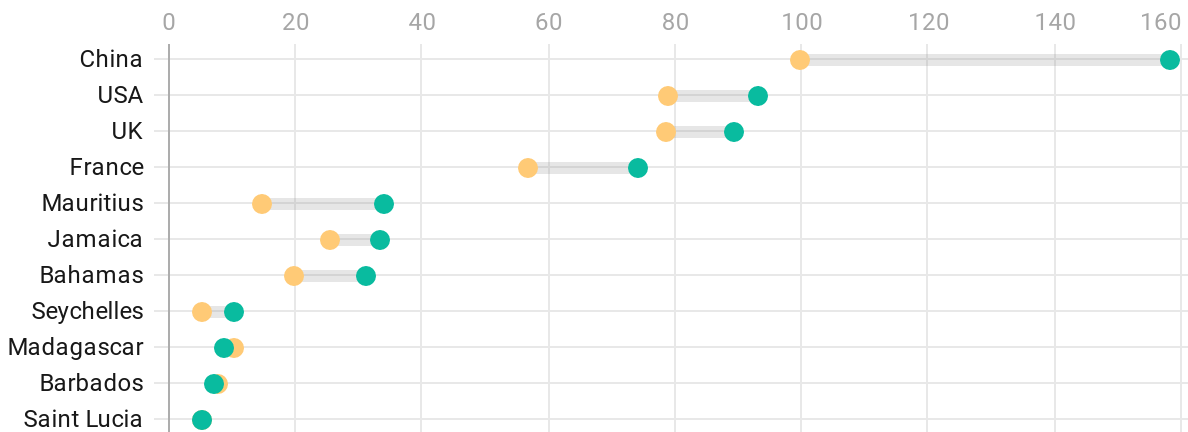


Source: UNCTADstat, 2020
 Figure 20: Port Calls by Vessel Type, 2019



Source: UNCTADstat, 2020

Figure 21: Linear Shipping Connectivity Index, Q1 2006 v. Q1 2020



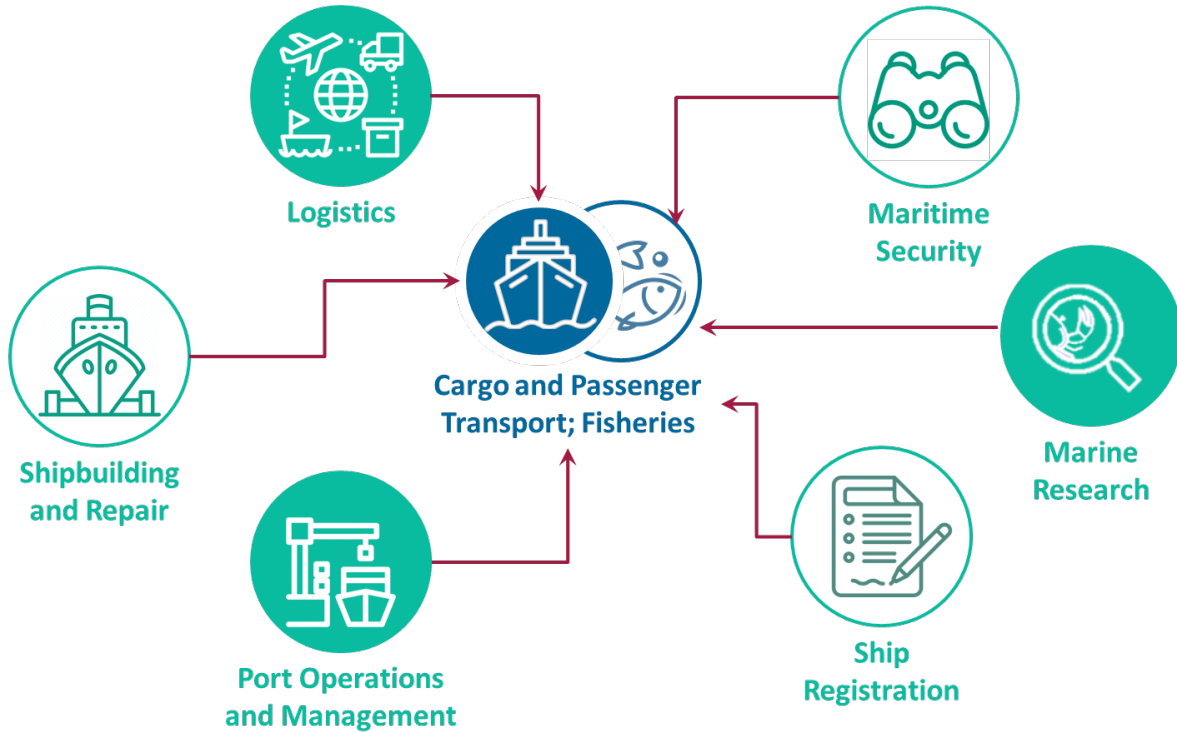
Source: UNCTADstat, 2020

Note: The LSCI indicates a country's integration level into global liner shipping networks. The index is set at 100 for the maximum value of country connectivity in the first quarter (Q1) of 2006, which was China.

Of course, the maritime sector is far broader than just transport and fishing activities. Maritime jobs and business opportunities cover a wide range of supporting, yet critical activities in the sector (Figure 22). Geographical distance from main shipping routes and between trading partners only partially determine the level of freight costs. Costs are also impacted by a country's linear connectivity, transit time, port infrastructure, security, and the quality of logistics and port management (Wilmsmeier & Hoffman, 2008). For example logistics activities ensure the efficient flow of goods, which may reduce costs. Well-developed operations (including infrastructure, labour, and management) improve the capacity of ports to handle

large cargo volumes in a safe and timely manner. This has a direct impact on the costs to shippers, thus impacting the overall cost of imports/exports.

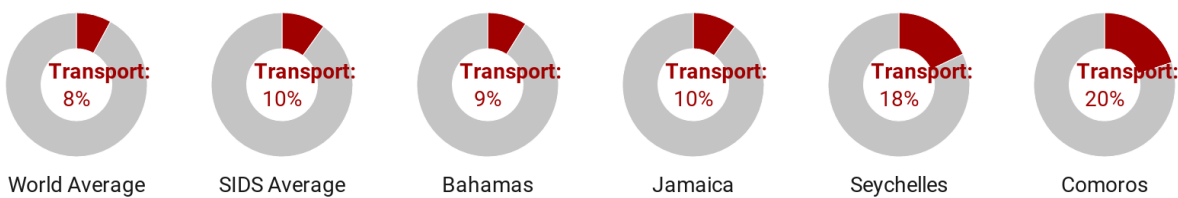
Figure 22: Activities in the Maritime Sector



Source: Authors

Short port times and low per-unit freight rates are commonly cited indicators of port efficiency and trade competitiveness. In 2019, the median time in port across all merchandise ships was 0.85 days in The Bahamas and 1.84 days in Seychelles. Break bulk vessels, which accounted for 41% of Seychelles’ port calls, spent a median of 5.22 days in port – the second slowest turnaround globally (UNCTAD, 2019). While SIDS tend to pay a higher than average share of import costs on freight, Seychelles has historically been among the highest (Figure 23).

Figure 23: Transport Expenditure as % of the Value of Imports, 2004-2013 Average

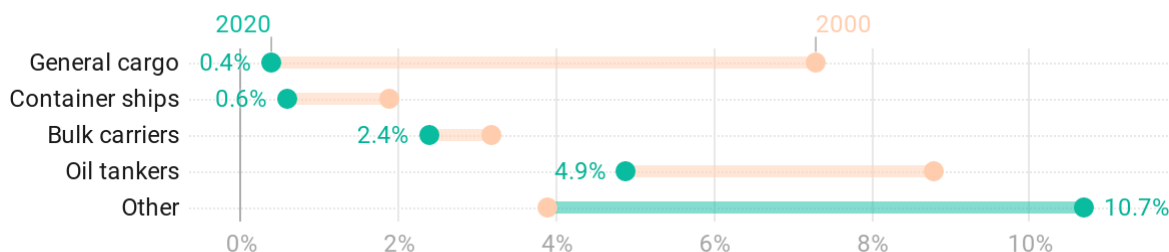


Source: UNCTAD, 2014a

Seychelles’ port efficiency is likely to improve tremendously in the next few years. The Seychelles Port Authority (SPA) was established in 2004 to manage Port Victoria, other ports, and the Seychelles EEZ. The SPA is proceeding with plans to expand and upgrade Port Victoria with USD41 million financing from Agence Française de Développement, the European Investment Bank (EIB), and the European Union. The planned upgrades will double the number of ships and cargo that the port can handle.

With its advantageous location, competitive fees and accommodating tax laws, The Bahamas is a popular location for registering foreign ships. The Bahamas Maritime Authority (BMA) is responsible for registering and regulating ships under the Bahamian flag, and it has over 1,500 ships on its Registrar – one of the largest in the world. According to UNCTAD, in 2020, 3.7% of the world’s merchant fleet (8.9% of the world fleet value) was registered in The Bahamas. In particular, The Bahamas is popular for cruise lines and oil tankers (Figure 24). Over 10% of the world’s passenger ships are registered in The Bahamas, including ships from Royal Caribbean, Norwegian and Carnival cruises. The Bahamian share of global passenger ships has more than doubled since the turn of the century. The island-state has also registered almost 5% of oil tankers, including ships for Chevron and Exxon. While impressive, this has declined somewhat in recent years. Regardless, ship registrations has been a reliable source of revenue. From its formation in 1995 to 2019, the BMA has raised just under USD5 million each year (Hartnell, 2020).

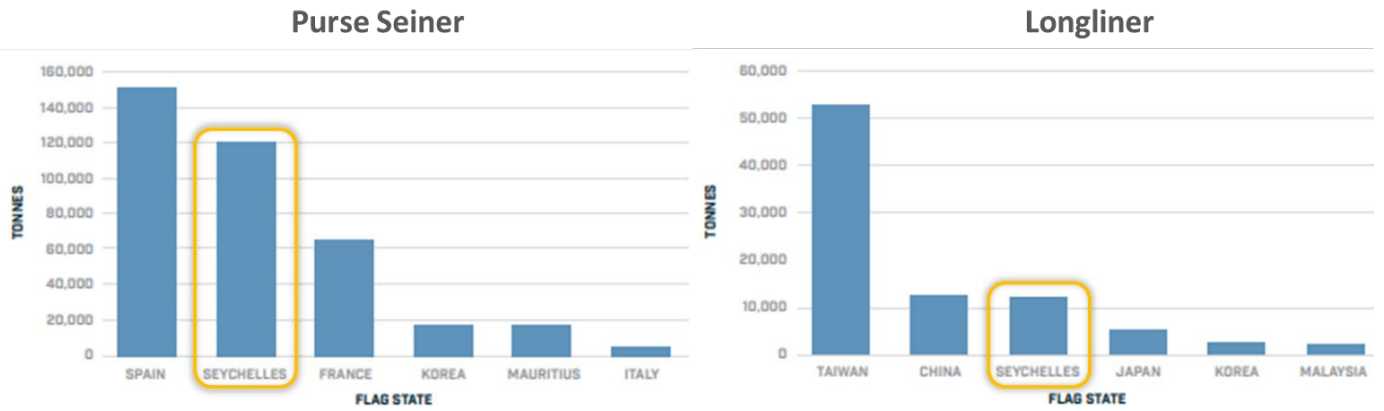
Figure 24: Bahamas Share of Global Merchant Fleet Registrations by Vessel Type, 2000 vs 2020



Source: UNCTADstat, 2020

In the Indian Ocean, Seychelles is also an important flag state, for primarily Spanish and Taiwanese-owned and operated fishing vessels. For example, in 2017, Seychelles-flagged industrial vessels caught the second largest volume of tuna (Figure 25), but most of these were Spanish operated. Similar to The Bahamas, registering a ship in the Seychelles incurs many benefits, including certain tax and business exemptions and it is open to Seychellois and foreigners who hold IBC licenses.

Figure 25: Industrial Catch in the Western Indian Ocean by Flag State, 2017



Source: Stop Illegal Fishing, 2020

Next Steps

As stated in the Background Statement (page 3), this document is a work-in-progress. The next iteration will present the BESAs for the selected countries and delve further into the comparative analysis. Over the next few months, the authors plan to:

- Develop/finalize draft BESAs for Seychelles, Saint Lucia, and The Bahamas.
- Continue working with local statistics bureaus or offices and reach out to the relevant authorities for Fisheries and Aquaculture, Tourism, and Marine Transport.
- Increase collaboration with regional entities, such as Caribbean Community (CARICOM) Secretariat and the Indian Ocean Commission.
- Update the background analysis with available data or insights on COVID-19 impacts and planned local and regional strategies.

When complete, a follow-up expert session will be scheduled to discuss the research findings.

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ⁱ These ratings are based on global comparisons. This is a guide for how the three countries were categorized as high, low, or medium risk in the different categories.

- *Global financial conditions*: all frontier and emerging markets with Eurobond and US bond issuances classified as highly vulnerable, others are classified as having low vulnerability
- *Trade linkages with USA and Europe*: highly vulnerable if exports and imports from USA and Europe exceeds 20 percent of GDP in 2019, medium vulnerability if measure lies between 10 and 20 percent, and low vulnerability if below 10 percent.
- *Change in terms of trade*: highly vulnerable if expected decline in terms of trade in 2020 is greater than 10 percent, low vulnerability if terms of trade expected to improve, medium vulnerability otherwise.
- *Tourist dependent*: highly vulnerable if tourism contributes more than 5 percent of GDP and 30 percent of exports, low vulnerability if contribution to GDP is less than 2 percent and contribution to exports is less than 5 percent, medium vulnerability otherwise.
- *Debt rating*: based on latest IMF Debt Sustainability Analysis with high vulnerability if country is in debt distress or at high risk of debt distress, medium vulnerability if country is at medium risk of debt distress, and low vulnerability if country is at low risk of debt distress.
- *Pre-pandemic employment*: highly vulnerable if 2019 unemployment rate exceeded 10%, low vulnerability if it was below 5%, medium vulnerability otherwise.