

How fisheries can support a small island economy in pandemic times. The Seychelles case.

Supplementary materials.

A1. The SAM theoretical framework

Suppose a matrix with only two sets of sectors (e.g. 1='Blue economy' and 2='Others') and one homogeneous type of households, receiving capital and labor incomes from both sets of industries. We provide in the following sub-sections the matrix formulas used for estimating SAM multipliers for both constrained and unconstrained models.

1.1. Multiplier model with exogenous final demand and unconstrained supply

In this sub-section we introduce the simplest model where final uses are exogenous (except households' consumption) and stimulate the whole producing economy (Table 1). The model relies on a few simple assumptions. Firstly, prices are assumed to be fixed, i.e. the adjustment after a demand variation must be made on output quantities rather than prices. Secondly, the adjustments in production volume are unlimited in the unconstrained model, meaning that there is no limited capacity of production. Thirdly, there is no variation neither in consumer's nor in producer's behavior following the demand variation. The production and consumption linkages are therefore stable whatever the change in demand.

Table 1: Social Accounting Matrix in monetary flows.

								Final uses			Total	
		Activities		Commodities		Factors		House-holds	Gov.	Saving/ Invest.		RoW
		A ₁	A ₂	C ₁	C ₂	K	L	H	G	I		E
Activities	A ₁			X ₁								X ₁
	A ₂				X ₂							X ₂
Commodities	C ₁	Z ₁₁	Z ₁₂					C ₁	G ₁	I ₁	E ₁	Z ₁
	C ₂	Z ₂₁	Z ₂₂					C ₂	G ₂	I ₂	E ₂	Z ₂
Factors	K	V _{K1}	V _{K2}									V _K
	L	V _{L1}	V _{L2}									V _L
Final Users	H					V _K	V _L		R		W _H	Y
	G			T ₁	T ₂			Θ			W _G	G
	I							S _H	I _G		W _I	I
	E			M ₁	M ₂							E
Total		X ₁	X ₂	Z ₁	Z ₂	V _K	V _L	Y	G	I	E	

In Table 1, X_j represents the total gross output of activities included in sectors 1 (= 'Blue economy') and 2 (= 'Others'); Z_j is the total supply (or demand in rows) of commodities 1 and 2, summing up the domestic outputs at basic prices, the indirect taxes on products (T_j) and imports (M_j). V_K and V_L are the Capital and Labour primary incomes, respectively (also called Gross Value Added GVA). Y denotes the households' income. The primary income of capital and labour is paid to households and is accrued to the social transfers received from the government (R) and to the net remittances received from (or

paid to) the rest of the world (W_H). This income is spent by consuming commodities i (C_i), paying direct income taxes to the government (Θ), and saving for a certain part of it (S_H). The government budget is formed by the indirect (including import tariffs) and direct taxes ($T_i + \Theta$), and consumed in commodities i (G_i), paying social transfers to the poorest families (R), investing in facilities, public companies, education or defence (I_G), and finally lending (borrowing) monetary funds (grants or loans) to (from) the RoW. I represents private investments in commodities i and E_i the export demand from the RoW which also transfer money from and to the domestic economy through the net remittances from expatriate workers, foreign direct and portfolio investment, foreign aids, loans and grants, etc.

The red-shaded columns and rows in Table 1 represent the exogenous demand. In this example, only the final consumption of households (H) is endogenous in the model, meaning that there will be a Keynesian (consumption) multiplier added to the Leontief (output) multiplier stimulated by the external (or exogenous) shocks of expenditure from the government, the private investment and exports. In the following Table 2, all the terms included in the cells other than the exogenous final uses are then divided by the sum in columns to obtain a matrix with ratios (or share coefficients) (Table 2). The sum of all columns but exogenous demand $F (=G+I+E)$ is therefore equal to one.

Table 2: Social Accounting Matrix in ratios

		Activities		Commodities		Factors		Households	Gov.	Saving/Invest.	RoW	Total
		A ₁	A ₂	C ₁	C ₂	K	L	H	G	I	E	
Activities	A ₁			$b_1 = X_1/Z_1$								X_1
	A ₂			$b_2 = X_2/Z_2$								X_2
Commodities	C ₁	$a_{11} = Z_{11}/X_1$	$a_{12} = Z_{12}/X_2$					$c_1 = C_1/Y$	G_1	I_1	E_1	Z_1
	C ₂	$a_{21} = Z_{21}/X_1$	$a_{22} = Z_{22}/X_2$					$c_2 = C_2/Y$	G_2	I_2	E_2	Z_2
Factors	K	$v_{k1} = V_{k1}/X_1$	$v_{k2} = V_{k2}/X_2$									V_K
	L	$v_{l1} = V_{l1}/X_1$	$v_{l2} = V_{l2}/X_2$									V_L
Final Users	H					1	1		R		W_H	Y
	G			$t_1 = T_1/Z_1$	$t_2 = T_2/Z_2$			$\theta = \Theta/Y$			W_G	G
	I							$s_H = S_H/Y$	I_G		W_I	I
	E			$m_1 = M_1/Z_1$	$m_2 = M_2/Z_2$							E
Total		1	1	1	1	1	1	1	G	I	E	

New symbols are introduced to express the coefficients: for instance, b is the domestic gross output share in the total demand of the two sets of commodities; a_{ij} is the share of commodity i as intermediate input consumed by domestic industry j to produce its output X_j , this ratio being commonly called technical coefficient in Input-Output tables. The coefficients v_K and v_L are respectively the income shares of capital and labor (added value) in the output value of each industry; m is the imported commodity share in the total demand of commodity j . In the final demand columns, c_i denotes the households' consumption as percent share of their total income. s_H is the household saving share in total income Y .

We use the symbols of Tables 1 and 2 to express the equations representing the total supply of every commodity on the left-hand side (Z_i) and total demand on the right-hand side as the sum of the intermediate uses by the domestic industries, household final consumption and other (exogenous) final uses ($F=G+I+E$). The row-wise reading of the SAM is therefore:

$$\begin{cases} Z_1 = a_{11}X_1 + a_{12}X_2 + c_1Y + F_1 \\ Z_2 = a_{21}X_1 + a_{22}X_2 + c_2Y + F_2 \end{cases} \quad (\text{Eq. 1})$$

The gross domestic output can only meet part of the total demand, with a column-wise reading:

$$\begin{cases} X_1 = b_1 Z_1 \\ X_2 = b_2 Z_2 \end{cases} \quad (\text{Eq. 2})$$

The households' income (Y) is composed by the capital and labor incomes:

$$\begin{cases} Y = (w_{K1} + w_{L1})X_1 + (w_{K2} + w_{L2})X_2 \\ Y = w_1 X_1 + w_2 X_2 \end{cases} \quad (\text{Eq. 3})$$

With $w_j = w_{Kj} + w_{Lj}$ to simplify the notations.

In this case, households' income and GDP will be identical because the Government expenditure is exogenous in the model and there are no social transfers nor factor taxes in this view, all value-added being paid to households who will then fully consume or save it. We put the gross output definition (Eq. 2) into the income equation (Eq. 3):

$$Y = w_1 b_1 Z_1 + w_2 b_2 Z_2 \quad (\text{Eq. 4})$$

Afterwards we can place the output and income equation (Eq. 2) and (Eq. 4) into the demand equation (Eq. 1):

$$\begin{cases} Z_1 = a_{11} b_1 Z_1 + a_{12} b_2 Z_2 + c_1 (w_1 b_1 Z_1 + w_2 b_2 Z_2) + F_1 \\ Z_2 = a_{21} b_1 Z_1 + a_{22} b_2 Z_2 + c_2 (w_1 b_1 Z_1 + w_2 b_2 Z_2) + F_2 \end{cases} \quad (\text{Eq. 5})$$

We adjust the equation by moving all the endogenous terms on the left-hand side:

$$\begin{cases} Z_1 - a_{11} b_1 Z_1 - a_{12} b_2 Z_2 - c_1 (w_1 b_1 Z_1 + w_2 b_2 Z_2) = F_1 \\ Z_2 - a_{21} b_1 Z_1 - a_{22} b_2 Z_2 - c_2 (w_1 b_1 Z_1 + w_2 b_2 Z_2) = F_2 \end{cases} \quad (\text{Eq. 6})$$

We then factorize the total demand terms (Z):

$$\begin{cases} (1 - a_{11} b_1 - c_1 w_1 b_1) Z_1 + (-a_{12} b_2 - c_1 w_2 b_2) Z_2 = F_1 \\ (-a_{21} b_1 - c_2 w_1 b_1) Z_1 + (1 - a_{22} b_2 - c_2 w_2 b_2) Z_2 = F_2 \end{cases} \quad (\text{Eq. 7})$$

We rewrite the equation using a matrix format:

$$\begin{pmatrix} 1 - a_{11} b_1 - c_1 w_1 b_1 & -a_{12} b_2 - c_1 w_2 b_2 \\ -a_{21} b_1 - c_2 w_1 b_1 & 1 - a_{22} b_2 - c_2 w_2 b_2 \end{pmatrix} \begin{pmatrix} Z_1 \\ Z_2 \end{pmatrix} = \begin{pmatrix} F_1 \\ F_2 \end{pmatrix} \quad (\text{Eq. 8})$$

At this point, we can identify the identity equation minus the coefficient matrix ($I-M$):

$$\begin{pmatrix} 1 - a_{11} b_1 - c_1 w_1 b_1 & -a_{12} b_2 - c_1 w_2 b_2 \\ -a_{21} b_1 - c_2 w_1 b_1 & 1 - a_{22} b_2 - c_2 w_2 b_2 \end{pmatrix} = (I - M) \quad (\text{Eq. 9})$$

$$(I - M)Z = F \quad (\text{Eq. 10})$$

Finally, we rearrange the terms to obtain the final multiplier matrix:

$$Z = (I - M)^{-1} F \quad (\text{Eq. 11})$$

The sums in columns of the $(I - M)^{-1}$ matrix represent multipliers of the exogenous final use terms to the whole amount of supply or demand in the economy. They capture the direct, indirect and induced effects of a particular change of final demand to the whole economy. Let's take the example of an external increase of demand for processed fish from the rest of world. The increase in fish product exports will first increase the domestic production of this industry which will purchase new intermediate inputs to meet this additional demand. This will stimulate the production of all other industries supplying these inputs (direct effects of production linkages) which in turn will purchase their own inputs from other national or foreign industries (indirect effects of production linkages + leakages to the RoW). By creating jobs and distributing capital and labour income, the activities will be further receiving extra-consumption from final users (induced effects of consumption linkages).

In this first approach, the taxes and imports can be considered as leakages out of the circular flow of the economy because the government and foreign companies are external to the system. However, in the next sub-section, we can include the government into the system which will invest in the blue economy and purchase commodities thanks to the additional revenue received from income tax and indirect taxes on products, including tariffs on imports. The gross capital formation demand from the domestic private sector can also be endogenized, transforming the national savings into investment for the economic development of Seychelles.

1.1.1 The case where the rest of world is the only exogenous final use sector

Suppose now that the private investment and public expenditure are endogenized, leaving the sole export sector as external component to the system (Table 3). Income and GDP will now be different, and the multipliers become slightly more complex to estimate.

Table 3: SAM with the RoW as sole external sector

		Activities		Commodities		Factors		House-holds	Gov.	Saving/ Invest.	RoW	Total
		A ₁	A ₂	C ₁	C ₂	K	L	H	G	I	E	
Activities	A ₁			b ₁ = X ₁ /Z ₁								X ₁
	A ₂			b ₂ = X ₂ /Z ₂								X ₂
Commodities	C ₁	a ₁₁ = Z ₁₁ /X ₁	a ₁₂ = Z ₁₂ /X ₂					c ₁ = C ₁ /Y	g ₁ = G ₁ /G	i ₁ = I ₁ /I	E ₁	Z ₁
	C ₂	a ₂₁ = Z ₂₁ /X ₁	a ₂₂ = Z ₂₂ /X ₂					c ₂ = C ₂ /Y	g ₂ = G ₂ /G	i ₂ = I ₂ /I	E ₂	Z ₂
Factors	K	v _{K1} = V _{K1} /X ₁	v _{K2} = V _{K2} /X ₂									V _K
	L	v _{L1} = V _{L1} /X ₁	v _{L2} = V _{L2} /X ₂									V _L
Final Users	H					1	1		r = R/G			Y
	G			t ₁ = T ₁ /Z ₁	t ₂ = T ₂ /Z ₂			θ = Θ/Y				G
	I							s _H = S _H /Y	i _G = I _G /G			I
	E			m ₁ = M ₁ /Z ₁	m ₂ = M ₂ /Z ₂							E
Total		1	1	1	1	1	1	1	1	1	E	

In this framework, Eq. (1) now becomes:

$$\begin{cases} Z_1 = a_{11}X_1 + a_{12}X_2 + c_1Y + g_1G + i_1I + E_1 \\ Z_2 = a_{21}X_1 + a_{22}X_2 + c_2Y + g_2G + i_2I + E_2 \end{cases} \quad (\text{Eq. 1'})$$

The households' income (Y) now includes the social transfer paid by the government in addition to the factors' primary income received from the activities (e.g. wages and royalties).

$$\begin{cases} Y = (w_{K1} + w_{L1})X_1 + (w_{K2} + w_{L2})X_2 + rG \\ Y = w_1X_1 + w_2X_2 + rG \end{cases} \quad (\text{Eq. 3'})$$

Where G is the government income and r the share of the budget allocated to social transfers. The government's budget is paid by direct (income) taxes (θY) and indirect taxes (t_1 and t_2) on products:

$$G = t_1 Z_1 + t_2 Z_2 + \theta Y \quad (\text{Eq. 2'})$$

We can then modify Eq. (3') to place the Government's income (Eq. 2') and Output (Eq. 2) equations:

$$\begin{cases} Y = w_1 b_1 Z_1 + w_2 b_2 Z_2 + r.(t_1 Z_1 + t_2 Z_2 + \theta Y) \\ Y = \frac{(w_1 b_1 + r.t_1)}{(1-r\theta)} Z_1 + \frac{(w_2 b_2 + r.t_2)}{(1-r\theta)} Z_2 \\ Y = k_1 Z_1 + k_2 Z_2 \end{cases} \quad (\text{Eq. 3''})$$

$$\text{Where } k_1 = \frac{(w_1 b_1 + r.t_1)}{(1-r\theta)} \text{ and } k_2 = \frac{(w_2 b_2 + r.t_2)}{(1-r\theta)}$$

The present model assumes that all savings and fiscal surplus are used for private investment:

$$\begin{cases} I = S_H + I_G = s_H Y + i_G G \\ I = s_H(k_1 Z_1 + k_2 Z_2) + i_G[t_1 Z_1 + t_2 Z_2 + \theta(k_1 Z_1 + k_2 Z_2)] \\ I = (s_H k_1 + i_G t_1 + \theta k_1) Z_1 + (s_H k_2 + i_G t_2 + \theta k_2) Z_2 \\ I = \alpha_1 Z_1 + \alpha_2 Z_2 \end{cases} \quad (\text{Eq. 4'})$$

Where $\alpha_1 = s_H k_1 + i_G t_1 + \theta k_1$ and $\alpha_2 = s_H k_2 + i_G t_2 + \theta k_2$

We have now all elements to place the various components into Eq. (1'):

$$\begin{cases} Z_1 = a_{11} b_1 Z_1 + a_{12} b_2 Z_2 + c_1(k_1 Z_1 + k_2 Z_2) + g_1[t_1 Z_1 + t_2 Z_2 + \theta(k_1 Z_1 + k_2 Z_2)] + i_1(\alpha_1 Z_1 + \alpha_2 Z_2) + E_1 \\ Z_2 = a_{21} b_1 Z_1 + a_{22} b_2 Z_2 + c_2(k_1 Z_1 + k_2 Z_2) + g_2[t_1 Z_1 + t_2 Z_2 + \theta(k_1 Z_1 + k_2 Z_2)] + i_2(\alpha_1 Z_1 + \alpha_2 Z_2) + E_2 \end{cases} \quad (5')$$

We adjust the equation by moving all the endogenous terms on the left-hand side and factorizing as for Eq. (6) and (7):

$$\begin{cases} (1 - a_{11} b_1 - c_1 k_1 - g_1 t_1 - g_1 \theta k_1 - i_1 \alpha_1) Z_1 + (-a_{12} b_2 - c_1 k_2 - g_1 t_2 - g_1 \theta k_2 - i_1 \alpha_2) Z_2 = E_1 \\ (-a_{21} b_1 - c_2 k_1 - g_2 t_1 - g_2 \theta k_1 - i_2 \alpha_1) Z_1 + (1 - a_{22} b_2 - c_2 k_2 - g_2 t_2 - g_2 \theta k_2 - i_2 \alpha_2) Z_2 = E_2 \end{cases} \quad (6')$$

We can rewrite eq. (6') using a matrix format:

$$\begin{pmatrix} 1 - a_{11} b_1 - c_1 k_1 - g_1 t_1 - g_1 \theta k_1 - i_1 \alpha_1 & -a_{12} b_2 - c_1 k_2 - g_1 t_2 - g_1 \theta k_2 - i_1 \alpha_2 \\ -a_{21} b_1 - c_2 k_1 - g_2 t_1 - g_2 \theta k_1 - i_2 \alpha_1 & 1 - a_{22} b_2 - c_2 k_2 - g_2 t_2 - g_2 \theta k_2 - i_2 \alpha_2 \end{pmatrix} \begin{pmatrix} Z_1 \\ Z_2 \end{pmatrix} = \begin{pmatrix} E_1 \\ E_2 \end{pmatrix} \quad (\text{Eq. 7'})$$

At this point, we can identify the identity equation minus the coefficient matrix (I-M):

$$\begin{pmatrix} 1 - a_{11} b_1 - c_1 k_1 - g_1 t_1 - g_1 \theta k_1 - i_1 \alpha_1 & -a_{12} b_2 - c_1 k_2 - g_1 t_2 - g_1 \theta k_2 - i_1 \alpha_2 \\ -a_{21} b_1 - c_2 k_1 - g_2 t_1 - g_2 \theta k_1 - i_2 \alpha_1 & 1 - a_{22} b_2 - c_2 k_2 - g_2 t_2 - g_2 \theta k_2 - i_2 \alpha_2 \end{pmatrix} = (I - M') \quad (\text{Eq. 8'})$$

Then the same model as Eq. (11) previously can be re-written:

$$Z = (I - M')^{-1}E \quad (\text{Eq. 11}')$$

The multiplier effects are now much more complex because they include multiple interactions between coefficients of different kinds (propensity to consume the income, tax rates, budget share of social transfers...).

1.2. Multiplier model with constrained supply

In this subsection, we are coming back to the simple case where all final uses but households' consumption are exogenous, but we now consider that at least one sector is unable to respond to the demand shock. It can be easily explained by the limitation of scarce resources or factors; their reallocation takes time during which the supply is unable to meet an extra volume of demand. The constrained multipliers are therefore found smaller than the unconstrained multipliers. This type of model can be referred to as a mixed (or semi-input) model in the Input-Output literature (Miller and Blair 2009, p. 621).

We make a distinction between the two sets of sectors: let Z_2 be supply-constrained. The output of the sector is now fixed and the imports substitute for its production. By doing this, the formerly endogenous supply (Z_2) is now treated as exogenous, and the formerly exogenous final demand of Sector 2 (F_2) is now treated as endogenous. If the exogenous final uses were restricted to the mere relationship with the RoW (E_2), net exports (exports minus imports) could now change to absorb the external shock.

We now replace the new exogenous components (Z_2) on the right-hand side of Equation (7):

$$\begin{cases} (1 - a_{11}b_1 - c_1w_1b_1)Z_1 = F_1 - (-a_{12}b_2 - c_1w_2b_2)Z_2 \\ (-a_{21}b_1 - c_2w_1b_1)Z_1 - F_2 = -(1 - a_{22}b_2 - c_2w_2b_2)Z_2 \end{cases} \quad (\text{Eq. 12})$$

To make the following adjustment, we need the same equation with a sign modification:

$$\begin{cases} (1 - a_{11}b_1 - c_1w_1b_1)Z_1 = F_1 + (a_{12}b_2 + c_1w_2b_2)Z_2 \\ (-a_{21}b_1 - c_2w_1b_1)Z_1 - F_2 = (-1 + a_{22}b_2 + c_2w_2b_2)Z_2 \end{cases} \quad (\text{Eq. 13})$$

We can observe a new adjusted coefficient matrix ($I - M^*$) which is a bit different from the ($I - M$) matrix. Actually, the second matrix column is refined from its coefficients. It means that sector 2, now treated as exogenous, will see its net exports decreasing during the process:

$$\begin{pmatrix} 1 - a_{11}b_1 - c_1w_1b_1 & 0 \\ -a_{21}b_1 - c_2w_1b_1 & -1 \end{pmatrix} = (I - M^*)$$

The first term on the right-hand side of Eq. (13) is a new term that can be abbreviated as B . If none of the sectors is constrained, B will be an identity matrix, showing no economic impact after a shock. Sector 2 being constrained, the second column of B will affect the industrial linkage effects.

$$\begin{pmatrix} 1 & a_{12}b_2 + c_1w_2b_2 \\ 0 & -1 + a_{22}b_2 + c_2w_2b_2 \end{pmatrix} = B \quad (\text{Eq. 14})$$

If we define Eq. (13) by its matrix abbreviations, we obtain:

$$(I - M^*) \begin{pmatrix} Z_1 \\ F_2 \end{pmatrix} = B \begin{pmatrix} F_1 \\ Z_2 \end{pmatrix} \quad (\text{Eq. 15})$$

Re-arranging this last equation, we finally obtain the formula to compute the constrained multipliers:

$$\begin{pmatrix} Z_1 \\ F_2 \end{pmatrix} = (I - M^*)^{-1} B \begin{pmatrix} F_1 \\ Z_2 \end{pmatrix} \quad (\text{Eq. 16})$$

The new inverse matrix $(I - M^*)^{-1}$ is now totally different from $(I - M)^{-1}$ or $(I - M')^{-1}$, and the exogenous shock may include both changes in final uses of Sector 1, but also changes in Sector 2's output.

A2. The Seychelles Industry Classification in 23 industries

	Industries
1	Agriculture
2	Fishing
3	Manufacture of fishery products
4	Manufacture of other food
5	Manufacture of beverage and tobacco
6	Manufacturing, other
7	Electricity, gas, steam and air conditioning supply
8	Water supply; sewerage, waste management and remediation activities
9	Construction
10	Wholesale and retail trade; repair of motor vehicles and motorcycles
11	Transportation and storage
12	Accommodation and food service activities
13	Information and communication
14	Financial and insurance activities
15	Real estate activities
16	Owner occupied dwellings
17	Professional, scientific and technical activities
18	Administrative and support service activities
19	Public administration and defence; compulsory social security
20	Education
21	Human health and social work activities
22	Arts, entertainment and recreation
23	Other service activities

A3. Simplified SAM of the Seychelles economy in 2014 (million SCR)*EXPENDITURE*

		Activities	Commodities	Factors	HH	Gov.	Sav./inv.	RoW	Total
<i>I</i>	Activities		35246						35246
	Commodities	20576			11389	3869	5125	17504	58463
<i>N</i>	Factors	14670							14670
	Households			14670		1693		-541	15822
<i>O</i>	Government		3018		2281			883	6182
	Savings/Inv.				2152	620		2353	5125
<i>M</i>	Rest of World		20199						20199
	Total	35246	58463	14670	15822	6182	5125	20199	

Source: NBS (SUT_2014 + GDP Table) + CBS (Government Finance).

