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Seychelles Public Expenditure Review

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ABBREVIATIONS AND ACRONYMS

| | |
|---------|---|
| AfDB | African Development Bank |
| A-level | Advanced-level (studies) |
| Cr1 | Crèche 1 (similarly, Cr2) |
| DPA | Department of Public Administration |
| EU | European Union |
| GDP | Gross Domestic Product |
| GFS | Government Finance Statistics |
| GOS | Government of Seychelles |
| GST | General Sales Tax |
| ICT | Information and communication technology |
| IGCSE | International General Certificate of Secondary Education |
| HRM | Human Resources Management |
| HSA | Health Services Authority |
| IMF | International Monetary Fund |
| MBE | Manpower Budgeting Exercise |
| MCDYSCA | Ministry of Community Development Youth Sports Culture and Arts |
| MOE | Ministry of Education |
| MOH | Ministry of Health |
| MOF | Ministry of Finance |
| NHRDC | National Human Resources Development Council |
| NIE | National Institute of Education |
| NSB | National Statistics Bureau |
| P1 | Primary 1 (similarly, P2, P3, P4, P5 and P6) |
| PER | Public Expenditure Review |
| PFM | Public Financial Management |
| PP1 | Pre-primary 1 (similarly, PP2) |
| S1 | Secondary 1 (similarly, S2, S3, S4 and S5) |
| SAHTC | Seychelles Agricultural & Horticultural Training Centre |
| SSF | Social Security Fund |
| TFE | Technical and Further Education Division (MOE) |
| VDS | Voluntary Departure Scheme |
| WEO | World Economic Outlook |
| WDI | World Development Indicators |

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SEYCHELLES PUBLIC EXPENDITURE REVIEW

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Since this report was first shared with the Government, a number of far reaching reforms have already taken place. As of June 2009 prior to formal publication of this report the Government continues to show a strong commitment to the macroeconomic stabilization program anchored in fiscal consolidation. To this end the Government has taken on many of the recommendations contained herein and summarized in an Appendix to the main report.

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EXECUTIVE SUMMARY

1. **Overall context.** In 2008, after many years of unsustainable fiscal policy and a distorted and overvalued foreign exchange regime, the Government of Seychelles embarked upon a bold economic reform program. This program aims to put the economy on a path toward macroeconomic stability, liberalize the economy and to allow the private sector to take over from the State as the driving force in the economy. Seychelles, a small open, middle-income island state with relatively low incidence of poverty and near full employment, faced acute economic difficulties in 2008 as a result of past economic management exacerbated by the rising global oil and food prices and the downturn in the global economy. This resulted in missed debt-service payments and the subsequent downgrading of its credit rating by Standard and Poors. Faced with current debt service difficulties and a historically poor credit track record, the authorities responded quickly by adopting a comprehensive reform program supported by a 2 year Stand By Arrangement with the International Monetary Fund (IMF) and commencing negotiations with Paris Club and other private and official creditors for debt restructuring. The government has embarked upon a comprehensive reform strategy aimed at restoring internal and external balances with the assistance of the international financial institutions and development partners. The reform program includes: (i) the complete liberalization of the exchange rate regime and float of the currency (which was introduced in November 2008), (ii) tightened fiscal policy, including improved targeting of the comprehensive social safety net and a privatization program to deal with the many state-owned enterprises.

2. **Public Expenditure Reforms.** This Public Expenditure Review (PER) is the first in a series of planned World Bank economic reports and analytical work in response to the government's request for assistance to implement structural reforms. The PER's focus reflects the government's request to focus on the overall size and functions of the public sector and in particular health and education sectors. We find that revising the role of the public sector to focus on core government functions in order to address fiscal sustainability concerns, lies at the heart of the policy reform efforts. This first phase therefore focuses on reforms in the civil service and efficiency improvements in the health and education sectors as based largely on a rapid assessment undertaken in the last quarter of 2008 designed to provide timely inputs to the government's policy agenda and in time for the 2009 budget preparation. It also provides the Bank with an analytical basis to inform its financial support in 2009.

3. **Fiscal Background.** The preference for high government spending is linked to the country's history of welfarist policies (the public sector provides services from the cradle to the grave—including free pre-primary schooling and funeral benefits) as well as a well-established state role in commercial activities). This development model has not been without success: Seychelles has good health and education outcomes compared to other small island states and is placed 50th on the 2004 UN Human Development Index. However, weak financial management of the public sector has led to inefficiencies and unproductive spending and a bloated public sector. The report cites many examples of the government taking on too

many functions while not carrying out core functions efficiently, persistent budget overruns and budget practices inconsistent with fiscal targets, and lack of incentives for efficiency improvements.

4. **The debt crisis has meant the government has moved decisively and swiftly to redress the economic mis-management of the past. Many of the reforms recommended here have already been initiated by the government following the discussions the team had as the analysis was commenced and the initial drafts shared with policy-makers in October 2008.** The government has demonstrated exceptional commitment to the economic reform program underway, and has embarked on a communications campaign which has rallied support from the political opposition as well as business community and civil society groups. Already these steps have resulted in a more stable macroeconomic environment, reduced external and internal imbalances and improved the sustainability of fiscal policy. Discussions with Paris Club creditors are due to take place in the first quarter 2009.

5. **The adverse external environment, a result of the credit crisis in Europe and the United States has started to impact the Seychelles tourism sector.** Tourism receipts were estimated to have fallen by 25 to 30 percent at the end of 2008. So far this has strengthened the resolve of the authorities to get through the transition. We encourage the authorities to continue the steps not only necessary for the fiscal consolidation (the main focus of this report) but also to take the complementary steps to put in place a safety-net (currently underway and the focus of a next phase of the PER) as well as reform of the business environment (see World Bank's Investment Climate Assessment 2008) to enable the private sector to quickly respond to the improved macroeconomic environment. We recognize that the latest economic growth projections show a much deeper recession will take place in 2009 than originally envisaged, which may if prolonged make the transition—and the necessary reforms—more difficult and painful. It is therefore important for the government to not lose sight of these complementary reforms so that the economic bounce-back projected for 2010 (of positive 2.5 percent growth, followed by 5.0 percent growth by 2012) can be achieved.

6. As a high priority we urge the Ministry of Finance to address issues of budget credibility by (i) consolidating the budget consistent with the definitions in the IMF's Government Finance Statistics Manual and (ii) strengthening capacity for developing macroeconomic forecasts and ensuring that there is consistency with the fiscal framework at the beginning of the budget process. Given the vulnerability of the economy to external shocks and the recent global downturn, additional work to develop alternative scenarios will be undertaken as part of the subsequent phase of the PER in order to address concerns with respect to the volatility of expenditures and revenues and adequate contingency planning. We also find that there is a need to strengthen central government functions such as building capacity in the Ministry of Finance's budget department, and improving finance and human resource skills in government ministries. We also note that considerable progress has been made in terms of public financial management, and commend the Ministry of Finance's successful efforts in 2008 to maintain fiscal discipline, as well as establishing improved public financial management practices which lead in the past to budget overruns without Parliamentary approval.

7. **Public Administration and Civil Service.** While a number of public administration reforms focused on reduction of posts were undertaken in 2008, their implied fiscal savings of

approximately 7.5 percent of the wage bill by 2010 will not be sufficient to meet fiscal targets in the medium term nor to address the underlying concern of improving public sector performance. Considering the macro-fiscal context of the Seychelles, and the contours of the adjustment program on which the Government has engaged, a two pronged approach to public administration and civil service reform is needed: one, a transition from emergency across the board staff cuts to a more strategic approach on the functions undertaken by the state and the way in which these functions are provided, and, two, initiating a wage system reform to ensure that the civil service attracts and retains qualified personnel within the sustainable fiscal targets. This should safeguard the impressive human development outcomes that the Seychelles has already achieved.

8. Further measures are encouraged over the course of the next two years, principally to privatize non core functions, particularly those where the State plays a role in providing private goods and commercial activities in competitive markets, and also to halt the practice of the public sector being the employer of last resort. In doing so there should be active engagement by senior government leaders to encourage community responsibility for important aspects of policies currently delivered solely by the state. Undertaking functional reviews of each Ministry should be undertaken to rationalize the government's role and identify core responsibilities, align posts and determine areas of overstaffing. An initial review of several ministries, including in detail in the health and education sectors, found examples of unproductive service provision as a result of too many people employed to provide services. Low national unemployment rates (currently estimated at 2.5 percent) and a reliance on expatriates (estimated to be some 9,000 nationally) to fill jobs in the private sector (including unskilled and semi-skilled positions) provide a favorable context for successful management of this reform including limiting negative household welfare impacts. That said, the global economic downturn that gathered momentum at the end of 2008 will provide additional challenges in 2009 for implementing this program. The subsequent phase of the PER will examine the effectiveness of the reforms, already underway, of the social welfare system and active labor market policies to enable the reform transition without detriment to the poverty profile. Clearly, the impact on expatriate labor (particularly low-skilled workers coming from countries such as Mauritius, India and Thailand), currently employed in the private sector in Seychelles is also likely to be detrimental during the transition and even more so since the global recession has started to adversely impact the Seychelles tourism industry. We simply note here this concern, which lies beyond the scope of the Seychelles PER.

9. The composition of the public administration is heavily skewed towards the provision of support services: low-skilled workers make up around one third of total civil service employment. This reflects in part an implicit strategy of the government in the past to be the 'employer of last resort', absorbing large numbers (including directly from unemployment schemes) into functions and positions that, based on international practice, should not be part of the core public service. We find several functions which should be considered for contracting out to the private sector through either individual contracts that would generally be based on hours worked, or through contracting with private sector providers where a competitive service sector is in place. In many cases the individuals currently employed by the public sector could re-organize themselves as a private sector contractor, with a government contract that would be subject to competition after an initial period. While contracting out might have a minimal aggregate fiscal effect in the near term—as expenditure shifts from the wages and salaries budget to the goods and services budget—over time with a

competitive private sector and robust procurement practices this is likely to both improve public sector service delivery and lower costs. International practice indicates that contracting out is likely to lead to efficiency improvements and fiscal savings under these conditions. An initial estimate of the potential civil service employment impact is up to almost 3,000 individuals or 28 percent of staff. Some of the fiscal savings would need to be re-invested in other areas—such as social security and/or active labor market programs—which would have to be worked out in the course of 2009.

10. Fundamental reforms of the civil service wage grid are also recommended to ensure that the remaining posts in the public sector can attract and retain qualified staff. We also find considerable lack of transparency surrounding wage-setting in Seychelles, through the use of multiple allowance schemes which are used to effectively raise take-home pay for specified groups of employees and/or individuals and recommend that these practices should be discontinued. In short these features arise from: (a) including a large a number of categories of staff; (b) setting artificially low base wage levels for senior staff, usually to give the impression of egalitarianism; and (c) fragmenting pay composition. Such wage systems not only lack transparency, but are also costly to administer (as payroll needs to take into account of ten or more pay components), open to abuse, and make pay levels unpredictable for staff. As a result the current wage system is neither efficient nor transparent, nor necessarily provides for a competitive wage system to attract and retain qualified senior staff. The compression ratio for current *real* salary levels (lowest paid staff to the average Principal Secretary) is approximately 1:6, which is at the lower end of what would constitute an acceptable compression ratio in international comparative terms. Establishing a durable wage grid may therefore require setting a higher compression ratio target, e.g. 1:7 or above. It is proposed to have 6 grades for professional staff, while each grade should have at least 10 steps. Introducing a new wage grid should follow the reorganization of the public sector and be preceded by a full fiscal impact assessment (aligning each post to their new position on the grid) to ensure that this is fiscally feasible in the near future. Making a wage grid durable requires setting differentials and percentages rather than absolute numbers.

11. Another critical issue will be reforms of Public Enterprises. While these will be looked at in more detail in the subsequent phase of the PER, an initial review finds a complex group of 44 enterprises with varying degrees of government involvement, exposure and oversight. The sector has had increasing transfers from the budget in recent years (around 4 percent of GDP) while dividends back to the government have decreased over the same period. We recommend adopting a standardized approach to governance and accountability relations. This would mean one for agency type institutions (regulatory and inspection functions), one for non-commercial state enterprises, one for commercial state enterprises with over 50 percent government ownership and one for commercial state enterprises where government has a minority shareholding, until such time as the government shares in these enterprises are divested. This would significantly reduce government exposure to risks and contingent liabilities and facilitate a more systematic approach to reforming the sector. We also recommend building capacity in the public enterprise monitoring unit and consider merging it with the privatization unit. As a priority, systematic financial reporting by, and monitoring of, the existing parastatals should be institutionalized, and over the medium term policies developed to guide government's involvement in new commercial ventures.

12. **Health Care.** Without jeopardizing progress on health outcomes, the Government could substantially reduce the health sector budget by identifying services where supply significantly exceeds demand and releasing staff in areas of low productivity. Half of government health spending is for wages and salaries, which is especially high given that expensive tertiary level care (with highly-paid medical staff) is not provided in the Seychelles, but rather patients are sent overseas for treatment. The number employed in the health sector has been increasing in recent years and so too has the share of ancillary staff (which is also high compared to other countries). Furthermore, average monthly incomes for public workers in the health sector are high compared to the rest of the public sector. Most telling, we found several examples of medical staff and facilities which do not operate at full capacity. For example physicians in public hospitals see on average 4 hospitalized patients per week. In addition to areas for contracting out—such as hospital meals, the government should also fully examine these unproductive service areas and release staff in unproductive positions. Preliminary analysis conducted for the PER suggests such staff reductions could reduce the health sector wage bill by almost SR 13 million per annum or 6.4 percent of 2007 government health spending.

13. While tertiary care is largely not provided in Seychelles the rest of the nationally provided health sector is characterized by low utilization rates comparable to European levels. In fact we find, Seychelles has an oversupply of health care facilities and more hospitals and beds per capita than other middle-income countries. There are extremely low occupancy rates in hospitals off-Mahe Island, as well as in wards within the main hospital in Victoria. To increase the average acute care occupancy rate in hospitals to 80 percent, the government is advised to close around 50 beds initially. While the health sector has been dominated by public provision, a new private sector hospital is scheduled to open in 2009 which should provide an opportunity for the government to contract specialized secondary and tertiary care *in-country* including open-heart surgery, renal transplantation, haemodialysis and cosmetic surgery, and this should dramatically improve access to such care and reduce spending on the overseas treatment.

14. As a result of the overseas treatment program and the need to import all medical supplies, the health sector has become highly indebted particularly in foreign exchange denominated debt. Arrears have accumulated over the past six years and the stock of arrears combined with outstanding debts as of October 2008—in other words prior to the devaluation—amounting to 45 percent of 2007 government health spending. Now that the Seychelles rupee has depreciated, health sector debts are also exposed to exchange rate risk since the majority of outstanding invoices are denominated in foreign currency. The government is advised to clear the debts, and improve debt and arrears management in the health sector in order to improve the sector's financial sustainability and relations with creditors thus opening-up opportunities with suppliers. There are potential cost savings from improving pharmaceutical procurement by larger bulk purchasing once the financial management of the sector is improved including the management of foreign exchange. Furthermore, recent endeavors to use telemedicine technology to import health services from overseas are far more cost effective than sending patients overseas and should be further explored in the future.

15. Currently, all domestically-provided public health services are provided free of charge, leading to excess demand in some cases. Patients co-pay for the use of private sector

care and treatment abroad. The government is encouraged to initiate a review to consider introducing small co-payments with exemptions to exclude vulnerable groups, initially for additional procedures such as physiotherapy, dental care and non-emergency visits at the emergency department. Introducing co-payments in many other countries has reduced unnecessary use of care. Any co-payment policy, however, should be explicit and exemptions should be transparent and cost-effective to administer and/or enforce e.g. for specific groups such as children and adolescents under 18 years of age or for specific services such as emergency services.

16. While a full review of the social security system will be undertaken as part of a subsequent phase of the PER, an initial review of the system found generous state-provided sick leave and evidence of abuse of the sick leave provision. The PER recommends therefore that sick benefits should be revised with the first thirty days paid by the employer rather than the state, with a maximum of 100 days state-paid sick leave per person per year. We also recommend eliminating the funeral benefit—which is a small non-targeted transfer.

17. **Education.** Like health care, the provision of education in the Seychelles is predominantly by the public sector, and centralized with both financing and provision largely in the hands of central government. Degree-level tertiary education is not provided in Seychelles, and at some cost to the government those that are eligible are fully funded to study overseas. Recent reviews of the education sector, have raised concerns about quality and examinations results: many candidates do not pass the internationally accredited IGCSEs and are particularly unsuccessful in technical subjects such as science and mathematics.

18. Given the relatively modest, and recently declining, government expenditures on education, and the relatively poor education outcomes, we do not recommend any major cuts in government spending and rather suggest that policy makers focus on how to improve education services, and use expenditure savings to re-invest in sector reforms aimed at increasing quality of education and education outcomes. As is typical, public education spending is principally on personal emoluments for schools-based staff. This also is where we find the most potential to improve efficiency of spending by contracting out and removing unproductive posts. Staffing reductions should be made once core functions have been defined and non-core services contracted out. On this basis we recommend that the education sector can achieve a targeted reduction of 12.5 percent of the wage bill. There is potential to improve efficiency in the sector by also introducing contracting-out of services. We recommend prioritizing school cleaning and school meal provision for contracting out in the short term.

19. The centralized management of the education sector allows the government to take advantage of economies of scale—which makes a lot of sense given the small size of the country and school population. However, in order to maximize the expenditure savings for contracting out at the school level, we also recommend decentralizing the authority for managing service provision to the schools themselves once (i) financial management capacity is raised at the school level, (ii) school governance institutions are established and (iii) once centralized contracting-out process guidelines are in place and well understood.

20. Equivalent to about X percent of the Ministry of Education’s budget is spent annually by the Social Security Fund on benefits such as education bursaries and pupil transportation

subsidies. We recommend reconsidering this approach by phasing out non-targeted subsidies and replacing them with a needs-based scholarship program. This includes fixing bus subsidies for primary and secondary students at current levels and eliminating in a step-wise approach bus subsidies for post-secondary school students. It also includes reducing bursaries for post-secondary school students who are effectively being paid by the State to stay on at school, which given the poor academic results is a questionable investment by both the State and the individual. For overseas students we recommend introducing co-payments for tuition fees, based on family income, for students eligible to study abroad, as well as basing cost of living support on means testing. We also recommend strengthening the alignment of overseas study with national development priorities.

21. While education unit costs are not completely out of line with comparators, we find that there is room for improving value for money in both the overseas and local post-secondary school institutions. In the case of the overseas program we support the government's plans to further focus government resources on supporting training in key sectors such as health, education, financial sector and tourism. We also recommend greater scrutiny be levelled at whether or not students are returning from overseas and strengthening the enforcement of the bonding mechanism which provides for the repayment of fees if students do not return. In the case of the post secondary institutions benchmarking the unit costs shows that there are considerable improvements possible in some institutions to bring these unit costs down. There is also scope to better align the resources dedicated to these institutions with the government's longer term strategy of having a workforce geared toward management in tourism, financial sector and off-shore services. Sharing administrative costs across more than one post-secondary institution would make greater use of economies of scale. This could involve bringing the institutions (back) under a single administration, or in view of plans now being developed by the Seychelles University Foundation for a national university, developing the schools as faculties or departments of a future university.

22. The PER provides several examples of how to deepen the public sector reforms initiated in 2008 through more structural reforms and efficiency gains in high spending Ministries. The Government of the Seychelles is taking a number of important steps in this regard. Given the scope of the problem and the ambitious nature of the vision, this process will need to continue over the next couple of years. In addition, the public expenditure reforms will need to expand its scope in other areas. To support the Government, the next phase of the PER work is expected to focus on the needed reforms in the social security system and public enterprise sector given the importance of both of these for a successful fiscal policy during the reform process. In addition, the work will support further analysis of alternative macroeconomic and fiscal scenarios in light of the improvements in commodity prices for a net-importer on the one hand, and the global slowdown in activity and its impact on Seychelles exports, including tourism, on the other, so as to help guide the authorities in their medium-term fiscal planning within an uncertain global environment.

23. The extent to which the government will want to move quickly on these fiscal reforms in 2009 will also depend on the macroeconomic environment. With near-full employment as an initial condition, under a relatively benign global outlook with limited impact on Seychelles tourism revenues there is considerable potential to move excess public employment to the private sector quickly with a social safety net in place to ease the transition. However, the bulk of the analysis in the Review was undertaken before the full

implications of the global slowdown were felt in Seychelles. With a global slowdown that impacts considerably on the Seychelles tourism industry the appetite for reforms could diminish rapidly and the opposition to the reform gain momentum. As we have seen in the past, Seychelles GDP growth has a history of volatility the most recent downturn being in 2001 as globally tourism receipts fell in response to the shock of the 9/11 terrorist attacks in the United States. At present, the global downturn has not dampened the policy-maker's commitments to the reforms, and both the business community and civil society groups recognize the importance of the transition—even though that transition might be more painful than previously envisaged. In response, the government has requested that the Bank assist them as the government places even closer attention to the policies required to ease the transition in the form of social security reform; and to the policies required to improve the business climate so that the private sector can and will grow as the macroeconomic situation is stabilized.

I. MACROECONOMIC STABILIZATION AND FISCAL POLICY

Background and Objectives of the Report

1. **In 2008, after many years of unsustainable fiscal policy and a distorted and overvalued foreign exchange regime, the Government of Seychelles embarked upon a bold economic reform program.** This program aims to put the economy on a path toward macroeconomic stability, liberalize the economy and to allow the private sector to take over from the State as the driving force in the economy. Seychelles, a small open, middle-income island state with relatively low incidence of poverty and near full employment, faced acute economic difficulties in 2008 as a result of past economic management exacerbated by the rising global oil and food prices and the downturn in the global economy. This resulted in missed debt-service payments and the subsequent downgrading of its credit rating by Standard and Poors. Faced with current debt service difficulties and a historically poor credit track record, the authorities responded quickly by adopting a comprehensive reform program supported by a 2 year Stand By Arrangement with the International Monetary Fund (IMF) and commencing negotiations with Paris Club and other private and official creditors for debt restructuring. The government has embarked upon a comprehensive reform strategy aimed at restoring internal and external balances with the assistance of the international financial institutions and development partners. The reform program includes: (i) the complete liberalization of the exchange rate regime and float of the currency (which was introduced in November 2008), (ii) tightened fiscal policy, including improved targeting of the comprehensive social safety net and a privatization program to deal with the many state-owned enterprises.

2. **Following the repayment of arrears to the World Bank in 2006, the government sought a more active engagement with the World Bank toward the end of 2007 in the context of the 2008 budget preparation.** A new Interim Strategy Note outlining the World Bank and African Development Bank's joint program of support to Seychelles is planned to go before the Board in early 2009. The Bank's strategy is to support the thrust of the economic structural reforms. In particular to support the fiscal adjustment required and assist the improvements needed in the business and regulatory environment. Pending resolution of the debt-sustainability and credit worthiness issues the Bank's support to the Government of Seychelles will likely include policy-based lending in 2009 in addition to demand-led analytical support.

3. **This Public Expenditure Review (PER) is the first in a series of planned economic reports and analytical work responding to requests from the government for World Bank assistance to implement structural reforms.** The first phase of the PER focuses on reforms in the civil service and efficiency improvements in the health and education sectors as requested by the government. The PER is a rapid assessment

undertaken in the last quarter of 2008 designed to provide input to the government's policy agenda as the government embarked upon the fiscal adjustment, and in time for the 2009 budget preparation. It also provides the Bank with an analytical basis to inform potential financial support in 2009. The specific objectives of the Review are to:

- Document the changing macroeconomic environment and issues that will impact the medium-term fiscal outlook. As the global slowdown gathered pace in the last quarter of 2008 after the main mission, the implications for the Seychelles outlook will be investigated in the next phase as the situation develops.
- Analyze key public finance reform issues, policy initiatives and reform proposals in the following areas: (i) civil service reform, (ii) education, (iii), and healthcare; and in a subsequent phase (iv) public enterprise reform and (v) social security reform.
- Offer recommendations to the authorities regarding future policy actions that should be considered in the short and medium term. These policies will also be considered further in light of potential policy-based lending in 2009.

4. The focus of the PER reflects the fact that revisiting the role and functions of government lie at the heart of the economic reforms that need to take place in the next two years. This chapter provides a survey of recent developments, medium-term macroeconomic developments and their fiscal policy implications. Chapter 2 examines public expenditure trends and budget management issues. Chapters 3, 4 and 5 examine civil service reform, health care and education issues respectively.

Recent Economic Developments

5. **The Seychelles faced rising fiscal and external account imbalances throughout 2008, culminating in extremely low foreign reserves, missed external debt service payments in July and October and a subsequent downgrade in Seychelles' credit rating to "SD" selective default.** Despite a fiscal target of a 3.7 percent of GDP budget surplus in 2007, the actual outcome was a deficit of 8.8 percent of GDP. The authorities developed a new fiscal consolidation plan for 2008 and a commitment to address fundamental fiscal imbalances. However, fiscal sustainability concerns have been brought about by a history of persistent budget overruns. An expansion in fiscal policy during the period of parliamentary and presidential elections in 2005-7 caused high budget deficits (averaging 7 percent of GDP per annum over this period). Coupled with the accumulation of public debt in the 1990s and 2000s meant that at end 2007, Seychelles had a debt to GDP ratio of 146 percent with approximately half denominated in foreign exchange. At the beginning of the year foreign exchange reserves were at extremely low levels—less than one month of imports—and the cost of Seychelles imports, especially food and oil were increasing rapidly. It became increasingly clear that the public debt situation was unsustainable, and international reserves would not be sufficient to meet external debt service obligations. This resulted in the missed external debt service payments in July and October and a subsequent downgrade in Seychelles' credit rating to "SD" selective default.

6. The next few years are not likely to be easy as the economy is steered through the transition. The government, however, has demonstrated it has a strong commitment to continue on this difficult reform path, to allow the possibility of a better and more sustainable growth path. Responding to the situation, the government embarked upon a comprehensive reform strategy aimed at restoring internal and external imbalances and quickly sought the assistance of the international financial institutions and approached creditors for debt rescheduling negotiations. The reform program requires:

- Liberalization of the exchange rate regime, elimination of all restrictions and floating the rupee.
- Tight fiscal policy backed by public employment reforms and a reduction in direct and indirect subsidies.
- Improved targeting of the social safety net.
- A reform of the role of government and a reduction of the state in the economy through further privatization.
- A review of the tax regime and elimination of exemptions.
- A reform of the monetary policy framework to focus on liquidity management based on indirect instruments.

7. **By the time the PER was finalized, many of these reforms had already been implemented or were underway.** In November 2008, the exchange rate was liberalized. The Seychelles rupee floated, and trading was SR16:\$1 by the end of the year representing a 50 percent depreciation, where it has broadly stabilized. The 2008 budget outcome showed that the government was able, through tighter fiscal controls, to keep to the 2008 budget aspirations recording an estimated primary fiscal surplus of 4 percent of GDP. The 2009 budget approved by Parliament at the end of 2008, in line with the IMF-supported program continued the fiscal consolidation initiated in 2008 with a budgeted surplus of 6.2 percent of GDP. The 2009 budget speech committed the government to continuing the reform program: requiring public enterprises to start operating with limited or no direct subsidies; and budgeting for the public sector voluntary departure and early retirement schemes as part of commitments to address structural reforms for fiscal sustainability. At the same time the government passed the new Welfare Act in November and established a new agency to administer a means-tested safety net for the existing vulnerable groups and those adversely affected by the reforms.

8. **To put public debt on a sustainable basis, the economic reforms will also need to be complemented by comprehensive public external debt restructuring consistent with Seychelles medium-term capacity to pay.—** Total public debt is estimated to reach almost 143 percent of GDP by the end of 2008; external public debt to reach 91.4 percent of GDP including arrears, mainly to Paris Club creditors, on privately placed amortizing notes, and on the Eurobond—the later two that the government stopped servicing in July and October 2008, respectively. Paris Club creditors have decided to treat Seychelles under the Evian approach and are considering alternative debt relief options. Formal negotiations with creditors are expected in Spring 2009.

9. **The macroeconomic outlook for Seychelles was revised in early 2009, as the impact of the global economic slow-down began to impact Seychelles tourism receipts and medium-term outlook.** The overall impact on economic growth of the macroeconomic reform program was initially (as of November 2008) an anticipated fall in economic growth from 7.3 percent in 2007 to negative 0.5 percent of GDP in 2009 with a rebound of 3.5 percent growth the following year. However, the macroeconomic situation and the 2009-2010 macroeconomic scenario (consistent with the targets and policies agreed in the MEFP) were updated in early 2009 during the first IMF review, to take account of the downturn in the global economy. As a result economic growth is expected to be a large and sudden drop to negative 9.5 percent of GDP in 2009. The revised macroeconomic outlook is summarized in Table 1. This is largely a result of the knock-on impact on Seychelles tourism industry that dominates Seychelles GDP. Tourism receipts continued to decrease in January and February 2009 and receipts from this sector are expected to decline by 25-30 percent in 2009.¹ Under this case the transition to positive economic growth is projected to still be quick (but not quite as high) reaching 2.6 percent by 2010 and 3.8 percent the following year. The Stand-By Arrangement targets have been updated in light of the more difficult external environment to maintain the fiscal adjustment, notwithstanding the much lower growth outlook on the strength of the fiscal structural reforms. The program continues to focus on implementing supporting policies for macro stabilization including continued fiscal (and monetary) prudence. Further work to update the Bank's macroeconomic medium term scenarios is currently being undertaken including and will be presented in follow-up work.

10. **The exchange rate depreciation is currently anticipated to pass through to domestic inflation averaging 37.0 and 38.9 percent for 2008 and 2009.** The float of the rupee has been successful and eliminated parallel market differentials. The rates have broadly stabilized (US\$1:SR16 represents a 50 percent depreciation against the US dollar). Domestic interest rates have risen markedly. High domestic inflation is caused by the exchange rate regime changes feeding through to domestic price increases and on into domestic interest rate increases. This will stress public finances in these years as both domestic and foreign procured goods and services and external interest payments rise in nominal terms, and domestic debt interest service payments will also increase. External balances improve as the terms of trade improve under the new exchange rate. Official reserves are also expected to recover in 2010 to 2 months of import cover.

¹ See World Bank P114822 Back-to-Office Report February 2009.

Table 1: Key Economic Indicators, 2005-2011

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|--------|--------|---------|-------|-------|--------|
| | Actual | Actual | Actual. | Est., | Proj. | Proj. |
| National income and prices % change | | | | | | |
| Nominal GDP (SR millions)) | 4,861 | 5,342 | 6,113 | 7,925 | 9,632 | 11,603 |
| Real GDP (Percent change) | 7.5 | 8.3 | 7.3 | 0.1 | -9.6 | 2.6 |
| CPI (Annual average) | 0.6 | -1.9 | 5.3 | 37.0 | 38.9 | 17.9 |
| CPI (End-of-period) | -1.6 | 0.2 | 16.8 | 63.3 | 16.1 | 11.5 |
| GDP deflator average | -2.1 | 1.5 | 6.7 | 29.6 | 34.5 | 17.5 |
| Money and credit % change | | | | | | |
| Net claims on government | 1.9 | 0.4 | 9.3 | 25.3 | 16.5 | 16.5 |
| Net claims on public entities | 1.7 | 3.0 | -14.9 | 3.2 | 3.7 | .. |
| Net claims on private sector | 3.4 | 32.7 | -23.1 | 0.6 | -10.0 | .. |
| Broad money (M2(p)) | 1.0 | 1.1 | 1.5 | 1.9 | 0.0 | .. |
| Reserve Money | 4.5 | 3.5 | 3.6 | 3.7 | 13.6 | .. |
| Velocity (GDP/average M2) | 1.9 | 0.4 | 9.3 | 25.3 | 27.7 | .. |
| Money Multiplier (M2/reserve money) | 1.7 | 3.0 | -14.9 | 3.2 | 27.7 | .. |
| Savings and investment % of GDP | | | | | | |
| Gross national savings | 14.6 | 14.2 | 9.1 | 32.1 | 26.8 | 24.7 |
| <i>Of which:</i> government savings | 6.0 | 0.5 | -4.8 | 3.9 | 3.5 | 6.4 |
| Gross investment | 34.3 | 28.1 | 32.5 | 36.0 | 30.3 | 31.1 |
| <i>Of which:</i> government investment | 5.3 | 8.1 | 6.1 | 2.3 | 3.7 | 5.2 |
| Government budget % of GDP | | | | | | |
| Total revenue | 41.1 | 42.0 | 35.9 | 36.2 | 35.2 | 34.8 |
| Expenditure and net lending | 40.4 | 49.5 | 45.9 | 43.9 | 39.9 | 36.7 |
| Overall balance, including grants | 1.7 | -6.1 | -9.6 | -3.7 | -4.5 | -1.9 |
| Primary balance | 7.3 | -0.5 | -2.2 | 4.2 | 9.8 | 8.2 |
| Total public debt | 147.1 | 139.5 | 146.0 | 149.3 | 165.9 | 144.8 |
| Domestic | 100.5 | 85.8 | 74.1 | 57.8 | 43.9 | 31.2 |
| External | 46.6 | 53.7 | 71.9 | 91.4 | 122.0 | 113.7 |
| External sector | | | | | | |
| Current account balance after official transfers | -19.7 | -13.9 | -23.4 | -32.1 | -26.8 | -24.7 |
| Total stock of arrears (\$ millions) | 184.0 | 123.5 | 160.4 | 309.6 | ... | ... |
| Total external debt outstanding (% of GDP) | 55.0 | 53.8 | 77.9 | 91.4 | 805.6 | 858.2 |
| Terms of trade (= - deterioration) | 4.4 | -0.3 | -1.2 | 0.4 | -3.1 | 2.5 |
| Real effective exchange rate (end of period) | -2.3 | -4.0 | -19.7 | -8.5 | .. | .. |
| Gross official reserves (SR millions end of year) | 56.1 | 112.7 | 9.8 | 50.9 | 90.9 | 140.9 |
| In months of imports | 0.7 | 1.3 | 0.1 | 0.7 | 1.2 | 1.7 |
| Exchange rate | | | | | | |
| Seychelles rupees per US\$1 (end of period) | 5.5 | 5.8 | 8.0 | 16.6 | .. | ... |
| Seychelles rupees per US\$1 (period average) | 5.5 | 5.5 | 6.7 | 9.5 | .. | ... |

Source: IMF estimates, February 2009

Impact of Macroeconomic Reforms on Product and Labor Markets

11. **This section provides a guide to the impact of the reform program pending a more quantitative approach as a macroeconomic model of the reforms is developed. The introduction of reforms to reduce direct and indirect government subsidies will contribute to the anticipated short-run contraction in overall output, as the parastatals and private sector adjust to higher input prices.** This is of course a partial analysis, as output is also impacted by the changing (and in this case adverse) external environment. As a result of the reform program, there is likely to be a short-run adverse impact on output. Initially GDP growth was expected to fall to -0.5 percent of GDP in 2009 from 7.3 percent of GDP in 2007. This impact, however, has been overshadowed by the slow-down in global economic activity which is having a knock-on adverse effect on Seychelles' tourism and foreign direct investment projections. The latest projections from the IMF now show that GDP growth was almost zero in 2009 and is anticipated to be sharply reduced to -9.5 percent in 2009.

12. **As far as the effects from the reform program are concerned, output will contract both directly as government consumption is reduced, and indirectly as transfers to the public enterprise sector diminish; prompting a realignment in prices.** For example, in the case of the state-owned enterprises providing electricity, water and public transport the reduction in government subsidies is leading to increased prices of these goods and services. This in turn raises input prices and alters the cost structures of other public and private enterprises. Output falls as some services and products are no longer profitable to produce or affordable to consumers (see Box 1 for several examples where prices will rise or have already risen as government transfers have fallen). Government policies to reduce subsidies and the timetable for their introduction are summarized in Table 3.

13. **The exporting sectors including tourism as well as import-competing sectors, however, will clearly benefit from the new exchange rate regime and will see an increase in output, even if they used imported inputs.** This gain is likely to be quick as there is a supply response, and could be sustained if these structural reforms allow for a meaningful supply response and if the nominal devaluation is also a real one and not eroded by inflation. On the other hand, non-tradable sectors will see a price increase (both on account of domestic inflation as well as increase in rupee price of imported inputs), and could witness a decline in output, depending on the elasticity of demand.

14. **We should not lose sight of the medium term objectives—which of course is positive economic growth as the private sector responds to the improved macroeconomic fundamentals.** As subsidies to parastatals are reduced there should also be a positive reaction from the private sector as unprofitable enterprises go out of business (dynamic creative destruction?) and the playing field is leveled between the public and private sectors. The private sector accounts for around 71 percent of GDP, parastatals contribute 14 percent and government remaining 15 percent of GDP. The institutional breakdown of GDP has not changed significantly over the period 2004 to 2007 and is expected to shift now that the government intends to limit its involvement in commercial activities and to improve the climate for the private sector. More work on

how to improve the business environment is currently underway by the World Bank in the form of an Investment Climate Assessment.

Table 2: Structure of GDP, Percent of Total

| | 2004 | 2005 | 2006 | 2007 | 2007 of which | | |
|-----------------------------------|--------|--------|--------|--------|---------------|--------|------------|
| | | | | | Private | Public | Government |
| Agriculture, Forestry and Fishing | 2.9 | 2.9 | 2.7 | 2.5 | 2.2 | 0.3 | 0.0 |
| Manufacturing | 12.2 | 12.5 | 11.9 | 10.7 | 9.7 | 1.1 | 0.0 |
| Services | 76.5 | 79.0 | 82.4 | 85.0 | 51.5 | 18.1 | 15.1 |
| <i>of which</i> | | | | | | | |
| Accommodation and Food | 9.6 | 9.4 | 10.3 | 15.4 | 15.4 | 0.0 | 0.0 |
| Professional Services | 14.4 | 15.0 | 15.2 | 15.1 | 14.8 | 0.3 | 0.0 |
| Transportation and Storage | 9.8 | 12.3 | 13.6 | 13.6 | 3.0 | 10.6 | 0.0 |
| Finance and insurance | 6.0 | 5.8 | 6.3 | 6.7 | 3.1 | 3.6 | 0.0 |
| Other | 8.5 | 5.6 | 3.1 | 1.8 | 7.4 | -5.6 | 0.0 |
| Total | 100 | 100 | 100 | 100 | 70.8 | 13.9 | 15.1 |
| GDP SR (millions) | 4653.6 | 4869.4 | 5366.7 | 6313.1 | | | |

Source: National Statistics Bureau

Table 3: Direct and Indirect Subsidies to be Removed in MEFP

| Action | Timing |
|--|------------------|
| Abolish fishermen fuel subsidy coupons. | October 1, 2008 |
| Eliminate indirect universal product subsidies and replace with a targeted social safety net by enacting the Welfare Agency Act. | November 1, 2008 |
| Eliminate SR90 per month electricity rebate for households. | January 1, 2009 |
| Raise and maintain Seychelles Public Transportation Company bus fare at operating cost-recovery levels. | January 1, 2009 |
| Eliminate implicit and explicit subsidies for Agro Industries, Hatcheries, Seychelles Trading Company and Coevity Prawns. | January 1, 2009 |
| Eliminate LPG subsidy by the state oil company (SEPEC) (about SR3 per kg.). | January 1, 2009 |

15. **The speed of the economic rebound will depend on the speed with which dynamic small and medium-sized enterprises respond to the more stable macroeconomic outlook.** Evidence from market reforms introduced in Eastern Europe in the 1990s would imply that the devaluation impact on output will be relatively short-lived as long as barriers to new business creation are low, dynamic new entrants will quickly revitalize growth. The economy is predominantly service-based (accommodation and food), driven by the tourism industry (see Table 2).

16. Tourism has been a driver of growth in the past two years resulting in buoyant related-service and construction sectors which should also respond well to the exchange rate devaluation and an end to foreign exchange restrictions, making Seychelles a more affordable high-end holiday destination. The off-shore financial sector is another

potential driver of growth in the short term, which has been growing in the short term and providing new jobs.²

Box 1: Price Liberalization, Subsidy Reforms and Global Price Changes

The government has embarked on several policies to liberalize prices, several of which will directly impact the average household's food basket. For example, in October 2008 the government eliminated the fisherman's fuel subsidy which was expected to raise the fish prices in the market.

From 2008, Seychelles Trading Company, a commercially-oriented publicly-owned enterprise with a social mandate to provide 15 core consumer products at affordable prices has been required to do so without government subsidies. It has thus far been able to do this only through cross-subsidization from more profitable business units (such as the duty free store at the airport in Victoria). However, as Table 4 shows the expected in-store commercial prices are some 50 to 100 times the fixed retail prices (as of July 2008), with the biggest price increases on rice varieties which are currently substantial loss-making items.

Table 4: Subsidized Core Commodities SR, 2008

| Product | Expected in-store price | Current wholesale price | Retail price Jan 08 | Retail price April 08 | Retail price July 08 |
|----------------------|-------------------------|-------------------------|---------------------|-----------------------|----------------------|
| Sunflower oil | 218.6 | 262.9 | 16.5 | 23.0 | 23.0 |
| Milk powder | 654.3 | 708.7 | 61.0 | 61.0 | 62.0 |
| Long grain rice | 456.1 | 238.1 | 5.0 | 5.0 | 5.0 |
| Regular basmati rice | 742.1 | 524.7 | 9.0 | 10.5 | 11.0 |
| Premium basmati rice | 1,012.1 | 1,023.8 | 16.5 | 18.0 | 21.5 |
| High protein flour | 404.9 | 392.1 | 8.0 | 8.0 | 8.0 |
| White sugar domestic | 238.1 | 238.1 | 5.0 | 5.0 | 5.0 |
| Iodized salt | 91.1 | 113.8 | 1.3 | 1.3 | 1.3 |
| Margarine | 336.4 | 382.0 | 16.5 | 17.5 | 17.5 |
| Potatoes | 4.9 | 6.4 | 7.0 | 7.0 | 7.0 |
| Onions | 4.9 | 6.4 | 7.0 | 7.0 | 7.0 |
| Garlic | 14.6 | 16.4 | 18.0 | 18.0 | 18.0 |
| Ginger | 16.9 | 18.3 | 20.2 | 20.2 | 20.2 |
| Apples | 16.0 | 18.6 | 20.5 | 20.5 | 20.5 |
| Oranges | 9.2 | 14.6 | 16.0 | 16.0 | 16.0 |

Source: Seychelles Trading Company

From 2009, transfers to public enterprises will drastically reduce resulting in further anticipated price increases in electricity, water and public transportation. From the beginning of 2008 the Public Utilities Company was advised by the Ministry of Finance that annual transfers from the central budget would no longer be forthcoming. As a result a new tariff schedule was introduced for electricity and water. Four electricity tariff hikes were witnessed in 2008; the latest in September 2008 raised the commercial tariff

² Agriculture, forestry and fishing comprise only 2.5 percent of GDP which, in the current environment causes concerns with respect to food security as the costs of food imports are adversely impacted by both the devaluation and the external environment. Agriculture could be a potential domestic growth area as it becomes more profitable to grow local produce rather than purchase expensive imports. As the government has already sold its own assets in farming new private operators have entered the market and are supplying fresh local produce. Manufacturing is relatively low at less than 11 percent of GDP and has been static or in decline in recent years. As the cost of new manufacturing capital goods will increase as a result of the devaluation this is unlikely to be a short term driver of a rebound in growth, but may well be a sector that in the medium term also responds positively to the new exchange rate improving the profitability of local production. Fish and fish processing is one potential growth area in which Seychelles has a large natural endowment

schedule as shown in Table 5 below. Such price rises were not solely due to the change in policy on subsidies however. Since fuel costs are approximately 80 percent of electricity generation costs, global fuel price increases were also driving up the electricity tariffs in 2008, see Figure 1:

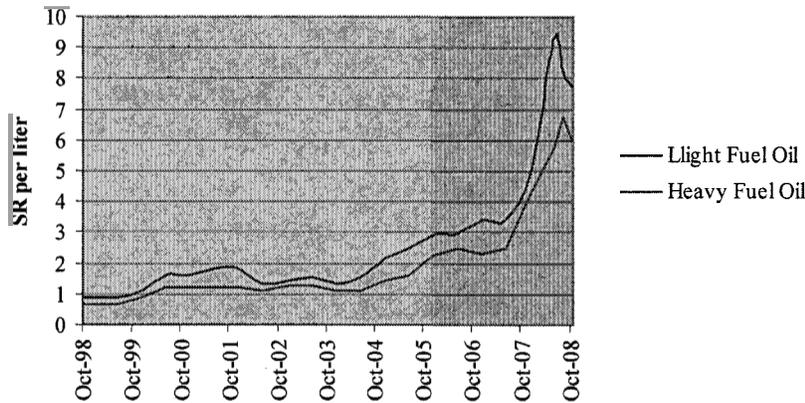
Table 5: Commercial Electricity Tariff Changes, 2008

| | First 500 units SR per KWh | Next 500 units SR per KWh | After which SR per KW |
|----------------|-------------------------------|------------------------------|--------------------------|
| August 2008 | SR 1.6 | SR 1.8 | SR 2.2 |
| September 2008 | SR 2.2 | SR 2.4 | SR 2.8 |

Source: Public Utilities Company

Also adversely impacted in 2008 by rising fuel prices as well as anticipated halt in government transfers to subsidize operations in 2009, the Seychelles Public Transport Company is planning to introduce tariff increases to accommodate the policy to remove their annual operating subsidy of around SR 15 million. For the public transport company to remain solvent, the bus fare will likely increase from the current flat rate of SR 3 per trip to a flat rate of SR 6 per trip. This would become the first bus fare increase since 1994.

Figure 1: Commercial Fuel Price Increases, 1998-2008



Source: Public Utilities Company

17. **However, the world wide economic downturn looks set to significantly affect economic outturn in 2009 far exceeding the impact of the reform program alone, and making it imperative for Seychelles to put the economy on a footing that will allow the private sector to weather the storm.** While the fuel prices are now on a downward trajectory, the global slowdown in economic activity has resulted in a downturn in tourist arrivals and possibly a fall in previously buoyant foreign direct investment inflows. With the domestic agriculture sector being relatively small global food price increase have heavily impacted the non-fish food basket costs to the average household, which rose by 34 percent from July 2007 to June 2008.

18. **While the downturn in economic growth is likely to impact employment too in 2009, one of the positive features of the current situation is the very low rates of unemployment witnessed at the start of the reforms, and the fact that Seychelles is an importer of labor, including unskilled and semi-skilled workers.** The last Labor Force Survey in 2005 found only 5.5 percent to be unemployed and more recent

estimates put this in the range of 1.9 to 2.5 percent. The total number of employees in the formal sector improved by 5.2 percent in 2007 over 2006, and by a further 3.7 percent in the first quarter of 2008 (latest available figures). Employment in the private, parastatal and government sectors all increased from 2006 to 2007, but fell in government and parastatals during the first quarter of 2008. While the private sector accounts for 71 percent of GDP it employs only 59 percent of employees, while 15 percent are in the parastatal sector and 27 percent in the government.

19. **There are certain skills shortages and labor supply constraints as evidenced by the number of expatriates living in the Seychelles.** In the government sector, expatriates make up 2.7 percent of the workforce (down from 3.2 percent in 2007)—and are predominantly employed in the health and education sectors. Expatriates are also 5.6 percent of parastatal employees (down from 6.2 percent in 2007) with the highest number employed in the fishing industry. The equivalent information from the private sector is not available officially. Anecdotally private-sector expatriates are concentrated in the tourism and construction industries.³

20. **Average nominal earnings have also been increasing in recent years, by an average of 5.3 percent in 2007 over 2006; and 11.8 percent in the first quarter of 2008** (a new, higher, minimum wage was introduced at the end of 2007). Average earnings are highest in the parastatal sector (SR5,465 per month), followed by government (SR4,216 per month) and private (SR4,535 per month) sectors. Average earnings are highest in the education private sector (SR6,622) followed by parastatal and private sector earnings in the transport and financial sectors.

21. **As reforms are implemented—particularly on the fiscal side we can anticipate a direct reduction in the numbers employed in the public and parastatal sectors.** The low unemployment rates, sustained increase in private sector employment in 2007 and 2008, and the presence of expatriate workers in the country provides some degree of comfort that the private sector can continue to expand and provide jobs for those affected directly and indirectly by the anticipated short-term economic downturn.

Welfare Impact

22. **The impact on real incomes and hence household consumption are also likely to be negative in the short run, as employment falls with the slowdown in output, as real wages are initially eroded by high inflation caused by the devaluation and households** cope with the immediate foreign exchange adjustment resulting in higher food costs. This should be a one-off adjustment, since households initially have Seychelles rupee denominated incomes, and predominantly import-related expenditures. While all households will be affected by the general price rises, those who work with (partially) indexed wages will be hurt less than those whose wages are more sticky in nominal terms (such as in the informal sector); and where real wages are more quickly eroded. Those working in sectors adversely impacted by the terms of trade shift are also

³ Anecdotally there are 9,000 expatriates working in the country out of a total of almost 40,000 employees.

more likely to be worse off. In addition to the price effects, those who lose their jobs (public sector, or other sectors affected) will of course be even more adversely impacted.

23. **In the short-term the government should guard against high nominal wage increases in anticipation of rising inflation as this will lead to a wage-price inflation spiral and prolong the adjustment.** Instead the government should, and is, focused on improving the welfare system, turning a large non means-tested welfare system present into one better targeted at maintaining reasonable incomes for poor and vulnerable groups. The government is designing a new means-tested welfare system to mitigate the impact of the reforms on the poorest. A new Welfare Act was passed by the Assembly in October 2008 and the detailed design work for implementation is underway. The approach is to protect the most vulnerable with monetary assistance, and to go beyond financial transfers to provide assistance in the form of incentive-to-work schemes. A new welfare agency responsible for implementing the new legislation began operations in November 1, 2008. The agency is funded directly by the government budget rather than social security contributions. Social security contributions, however, continue to fund statutory benefit schemes as detailed in the Social Security Act. Further work to assist the authorities with the implementation of the new welfare system, improved targeting, addressing fiscal sustainability and streamlining the existing statutory benefit schemes will be undertaken in the second phase of the PER planned in 2009.

24. **The impact on poverty of the reform program is difficult to ascertain at this stage. The most recent household expenditure survey data indicates around 13 percent of Seychellois are living below a SR 50 (approximately US\$ 3.5) per day poverty line.** This survey done in 2006/07 shows that since the last survey in 1999/2000 poverty continues to be relatively low but that inequality has increased with the gini coefficient going from 0.28 to 0.42 over this period. Non-monetary measures of poverty show that life has improved and access to goods and services has increased.⁴ In order to help the government with responding to the impact on the poor, the World Bank together with UNDP are exploring possibilities to assist the government with analysis of the social impact and impact on poverty of the reform program in 2009.

Fiscal Policy and Recent Developments

25. **The government has committed to undertake several far-reaching fiscal policy reforms as part of the MEFP, and these are central to the macroeconomic adjustment.** Over the medium-term a large and sustained fiscal adjustment is envisaged bring the public debt to a more sustainable basis. This will be achieved through a combination of revenue and expenditure measures, as well as improved budget management. The Medium-Term Budget Framework (MTBF) under this scenario envisages a tightening of fiscal policy and a targeting of a primary fiscal surplus of 6.2 percent of GDP and 6.6 percent of GDP in 2009 and 2010 respectively. The primary balance is a critical fiscal policy target, since it represents the total amount of government

⁴ World Bank (2006) "Welfare Impacts of Exchange Rate Adjustment and Policy Implications". Earlier work undertaken by the Bank for the government in 2006, estimated a 6.6 percentage point increase in the incidence of poverty as a result of the exchange rate devaluation at that time (SR5.5:\$1 to SR8:\$1). However, the paper also found that the effect would be short-lived, and that in addition to a targeted safety net the resumption of growth would be necessary for poverty reduction.

saving in the economy that is under the government's direct influence. The primary surpluses would ease gradually over the medium term, allowing capital spending to double from 3.6 percent of GDP in 2009 to 7.4 percent by 2013. The base case fiscal scenario is given in Table 6.

Table 6: Medium Term Budget Framework, 2008-2013

| (in % of GDP) | 2008 actual | Projections | | | | |
|--|-------------|-------------|------|------|------|------|
| | | 2009 | 2010 | 2011 | 2012 | 2013 |
| Total Revenue and Grants | 40.2 | 35.4 | 34.8 | 34.3 | 34.5 | 34.0 |
| 1. Total domestic revenue | 36.2 | 35.2 | 34.8 | 34.3 | 34.5 | 34.0 |
| of which Tax revenues | 31.0 | 29.6 | 29.3 | 29.3 | 29.5 | 29.2 |
| 2. Grants /1 | 4.1 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Expenditure and Net Lending | 43.9 | 39.9 | 36.7 | 38.1 | 35.0 | 35.1 |
| 1. Current expenditures | 31.6 | 37.1 | 31.9 | 31.2 | 27.6 | 27.2 |
| of which | | | | | | |
| Wages and salaries | 8.7 | 7.2 | 6.1 | 6.6 | 6.6 | 6.6 |
| Goods and services | 6.2 | 6.7 | 7.2 | 7.2 | 7.5 | 7.5 |
| Interest payments | 7.9 | 14.3 | 10.1 | 8.4 | 4.4 | 4.0 |
| Foreign interest | 4.3 | 5.4 | 4.1 | 3.8 | 1.2 | 1.1 |
| Domestic interest | 3.6 | 8.9 | 6.0 | 4.5 | 3.2 | 2.9 |
| Transfers | 8.7 | 8.8 | 8.5 | 9.0 | 9.1 | 9.0 |
| Social programs and SSF | 5.9 | 6.9 | 7.0 | 7.7 | 7.8 | 7.7 |
| To rest of public sector | 2.8 | 1.9 | 1.4 | 1.2 | 1.2 | 1.2 |
| 2. Capital expenditures | 2.3 | 3.7 | 5.2 | 6.9 | 7.3 | 7.8 |
| 3. Contingency | | 3.1 | 2.2 | 0.0 | 0.0 | 0.0 |
| Overall Fiscal Balance (cash basis) | -3.3 | -6.7 | -1.9 | -3.8 | -0.5 | 3.0 |
| Primary Fiscal Balance | 4.2 | 9.8 | 8.2 | 4.5 | 3.9 | -1.1 |
| Overall Fiscal Balance (commitment basis) | -3.7 | -4.5 | -1.9 | -3.8 | -0.5 | -1.1 |

Source: IMF February 2009

Notes: /1 an unexpected grant was received from Dubai at the end of 2008.

26. Public spending reductions are planned by eliminating direct and indirect subsidies (see Table 3) and by significantly lowering the real wage bill, which is targeted to fall from about 9 percent of GDP in 2008 to 6.5 percent of GDP in 2010. During 2008, government initiated several efforts to reduce the number of staff on the payroll: such as an early retirement scheme, a voluntary departure scheme and tight controls over new hiring. The potential to achieve this wage bill target and several recommendations on implementing public sector reform is discussed at length in Chapter 3. In addition to the fiscal implications of social welfare reforms, the next PER volume will also address the policies required for a sustainable reduction in subsidies to the public enterprise sector.

27. Tax policy measures are also planned to raise revenues and remove distortionary exemptions. These measures are summarized in Table 7 below. Structural reforms will be undertaken to strengthen the tax administration, improve public

financial management, reform the role of the public sector and further privatize publicly-owned enterprises. Given the revised macroeconomic scenario, it is anticipated that tax revenues will be affected by the growth slowdown, and lower tourism revenues. This places even greater urgency on reviewing tax policy options and the need to ensure a tax regime that is on the one hand consistent with fiscal targets, and on the other hand is supportive of the business climate reforms to help the private sector during the transition *and* downturn in global economic activity.

Table 7: Revenue Raising Measures Agreed in the MEFP, 2008

| Action | Timing |
|---|-------------------|
| Raise and harmonize taxes on local and imported cigarettes to SR500 per 200 cigarettes. | October 1, 2008 |
| Introduce 10 percent withholding tax on interest income for residents. | October 1, 2008 |
| Extend General Sales Tax (GST) to all telecom companies. | October 1, 2008 |
| Announce the introduction of the GST of 15 percent on residential rental income, effective January 1, 2009. | October 10, 2008 |
| Announce the removal of the exemption on interest income by companies (Tax Act) effective January 1, 2009. | November 1, 2008 |
| Reintroduce GST on locally produced soft drinks. | November 1, 2008. |
| Raise GST on tourism services from 7 percent to 10 percent. | November 1, 2008 |
| Raise specific taxes/excise tax rates for both locally manufactured and imported alcohol to adjust for inflation. | November 1, 2008 |
| Raise environmental levy to SR25 from SR10 per month per household. | January 1, 2009 |
| Adjust fees, fines, charges and rents and royalties for inflation. | January 1, 2009 |
| Reinstate GST on LPG. | January 1, 2009 |
| Raise GST on tourism services from 10 percent to 12 percent. | November 1, 2009 |
| Repeal all provisions for discretionary exemptions in the Trade Tax and Business Tax Acts | January 1, 2009 |

Medium-Term Expenditure Outlook

28. **The full impact and interaction between the macroeconomic and fiscal reforms, depends on the various linkages between the two as summarized in this section.** The macroeconomic indicators and medium-term budget framework shown in Table 1 and Table 6 are consistent with the reform scenario envisaged under the MEFP agreed in November 2008, and updated in the first quarter of 2009 as a result of (a) the slowdown in global activity leading to a fall in tourism arrivals, (b) the fall in global commodity prices seen at the end of 2008, and (c) a better than expected 2008 fiscal outturn. However, given the continuing uncertainties, particularly in the global environment and the impact on tourism receipts and FDI, the government will need to continuously monitor and evaluate outcomes on key targets as the program proceeds. The macroeconomic fiscal linkages are summarized below.

Interest payments

29. The foreign exchange devaluation has increased the costs of servicing external debt, in percentage of GDP terms external interest payments in third quarter 2008 were x

percent of GDP compared to first quarter 2008. While external debt workout and debt rescheduling will be required to ensure debt service obligations can be met in the medium-term without running up unsustainable arrears, the exact terms remain uncertain and so too will the required external debt service in the medium-term. Secondly the domestic interest rate will also adjust to the rise in inflation, and rising nominal rates will increase the costs of domestic debt servicing. There is a further implication of large domestic interest rate increases, as the domestic banking sector is adversely affected, and the government is put under increasing pressure to “bail out the banks”. This has been accommodated in part by a contingency (equivalent to 3.1 percent of GDP in the 2009 budget). By end 2008, the increase in interest on loans in the domestic banking sector has changed from 10 percent to 18 percent in one bank and from 7 percent to 13 percent in another. The rise in interest rates will also feed back into domestic economic activity as borrowers cope with rising mortgage and other loan payments. While the government’s initial estimates were that more than 50 percent of borrowers would be able to meet the increase in monthly payments, a significant portion would not and this has already prompted concerns about housing loan foreclosures and homelessness.

Goods and services

30. The rupee-equivalent costs of foreign-currency denominated government consumption has increased by x percent in response to the 50 percent rupee depreciation. As the price of imports will also feed through to domestic prices, higher inflation is also reflected in the high cost to government for locally procured goods and services. With the current mix of local and overseas procurement, the anticipated nominal goods and services spending could increase by 40 percent in 2009 or an additional 0.7 percent of GDP should the average foreign exchange rate for 2009 be SR12:\$1 and inflation reach 34 percent. An average foreign exchange rate of SR14:\$1 for the year, however, would increase the bill by a *further* SR 50 million or 0.5 percent of GDP at current procurement levels.

Wages and salaries

31. Reforms underway to reduce government employment will lower the total number employed in the sector, and nominal wage increases below inflation would erode real wages and lower the real wage bill. However, as rising prices can lead to pressure on government to raise nominal wages this can lead to a rising wage-price inflation spiral and will delay efforts to reach the wage bill target as well as prolong the impact of the reforms. Public employment reforms and effects on the wage bill are discussed further in Chapter 3.

Subsidies and transfers

32. Reforms are also underway to privatize government assets and to eliminate subsidies to the parastatals—largely those that are commercially oriented but in many cases also have a social function. For many enterprises who continue to provide a public service, they will be required to cross-subsidize unprofitable business units from

profitable ones. When profitable business units are also in a competitive environment this will reduce the enterprises' ability to do so without losing-out to competitors (e.g. the public transport company with private bus hire, and Seychelles Trading Company with the duty free store). Without a more strategic approach to reform in the sector, with an explicit contract between the government and service provider for social objectives; or an explicit acceptance that the social objectives is no longer required, there will continue to be contingent liabilities arising from the sector and risks that the government will be required to transfer subsidies to ensure the institutions solvency. Parastatal governance and risk issues are discussed at a general level in Chapters 2 and 3 and more detailed work will be undertaken on the sector in the second PER phase.

33. In the case of transfers to households through the social welfare system, this too will depend upon the full magnitude of the macroeconomic reforms on output and employment levels and hence household incomes; as well as the re-design of the social welfare net to improve targeting at the poorest and most vulnerable in society. With the forthcoming analysis on social security reforms, a more informed assessment of the fiscal impact should be forthcoming.

Revenues

34. **The high CPI and foreign exchange devaluations will likely cause the nominal tax collected on domestic sales and imports to increase.** Import duties are particularly high on relatively price-inelastic goods such as alcohol and tobacco. However, reduced demand (and hence reduced tax collection) might be anticipated in response to the devaluation on several high value goods—such as vehicles. A downturn in economic activity would reduce profits and related business tax collections. With a relatively narrow base the extent to which the overall tax revenue collection is effected depends on the extent to which the downturn in output affects the construction, banking, telecommunications, brewery and oil transportation industries. As we can see from table 1, public sector revenues are historically volatile as a result of both the narrow tax base and the introduction of both new taxes and levies and exemptions. With many more policy changes anticipated during the reform period over the next two years this is likely to add to the volatility of revenues.

Conclusion

35. Chapters 3, 4 and 5 of the Review analyze in detail the policies that will assist the government in its fiscal consolidation efforts as part of the macroeconomic reform program. It is clearly the case that for the reform program to be successful in the medium-term the government must make progress with not only debt restructuring but also the size and sustainability of the government sector to avoid a resumption of the credit problems faced in 2008. The potential wage bill savings and efficiency gains in the health and education sectors are examined in detail in this Review and various recommendations proposed. The key finding is that there is potential to make considerable wage bill savings consistent with the targets of the medium-term budget

framework, and several efficiency measures in the health and education sectors could also be implemented.

36. **The extent to which the government will want to move quickly on these fiscal reforms in 2009 will also depend on the macroeconomic environment.** With near-full employment as an initial condition, under a relatively benign global outlook with limited impact on Seychelles tourism revenues there is considerable potential to move excess public employment to the private sector quickly with a social safety net in place to ease the transition. However, the bulk of the analysis in the Review was undertaken before the full implications of the global slowdown were felt in Seychelles. With a global slowdown that impacts considerably on the Seychelles tourism industry the appetite for reforms could diminish rapidly and the opposition to the reform gain momentum. As we have seen in the past, Seychelles GDP growth has a history of volatility the most recent downturn being in 2001 as globally tourism receipts fell in response to the shock of the 9/11 terrorist attacks in the United States. At present, the global downturn has not dampened the policy-maker's commitments to the reforms, and both the business community and civil society groups recognize the importance of the transition—even though that transition might be more painful than previously envisaged. In response, the government has requested that the Bank assist them as the government places even closer attention to the policies required to ease the transition in the form of social security reform; and to the policies required to improve the business climate so that the private sector can and will grow as the macroeconomic situation is stabilized.

Table 8: Potential Expenditure Savings, 2008-2011

| (in SR millions nominal) | Projections | | |
|--|-------------|------|-------|
| | 2009 | 2010 | 2011 |
| Civil Service Reforms | | | |
| Wage bill savings (net) from VDS, MBE and early retirement 2008 reforms /a | 2.3 | 74.8 | 89.8 |
| Wage bill savings from additional medium-term structural reforms | 48.7 | 12.7 | 26.6 |
| Total wage bill savings | 51.0 | 87.5 | 116.4 |
| <i>Of which</i> | | | |
| Health care workforce reductions (posts reduced) | 326 | 326 | 326 |
| Education employee reductions (posts reduced) | 380 | 380 | 380 |
| Healthcare wages bill savings | 12.9 | 15.5 | 18.6 |
| Education wage bill savings | 13 | 15.6 | 18.7 |
| Healthcare Reforms | | | |
| Hospital efficiency improvements | 4.6 | 6.4 | 7.5 |
| Social Security Reforms | | | |
| Changes to sick benefit | 5.1 | 5.7 | 6.7 |
| Elimination of funeral benefits | 0.9 | 1.2 | 1.4 |
| Education Reforms | | | |
| Education-related cash transfer savings | 5 | 9.6 | 21.9 |
| Education contracting out net savings | 5.0 | 6.9 | 8.1 |

Source: Bank Staff estimates assuming nominal wage increases of 20 percent per annum in 2009-11 and CPI consistent with Table 1

Notes a: In 2009 net wage bill savings assumes SR13.8 million saved from the manpower budgeting exercise and payouts of SR11.5 million for the voluntary departure scheme. 2010 and 2011 combines total wage savings from early retirement and Voluntary Departure schemes incorporating nominal wage increases.

37. **While there are already short-term policy measures underway to reduce the numbers employed in the civil service such as the voluntary departure scheme and early retirement scheme; critically more fundamental reforms (to realign roles and functions of government and to contract out support functions) are required to meet wage bill targets.** Expenditure scenarios associated with these reforms are shown in

38. Table 8 below. Of the wage bill savings more detailed recommendations in Chapters 4 and 5 identify which posts in the health and education sectors could be contracted out or reduced without impacting on service delivery. The table does not show the net impact of the expenditure savings, and some increase in goods and services spending associated with contracting out support functions in health and education sectors can be anticipated.

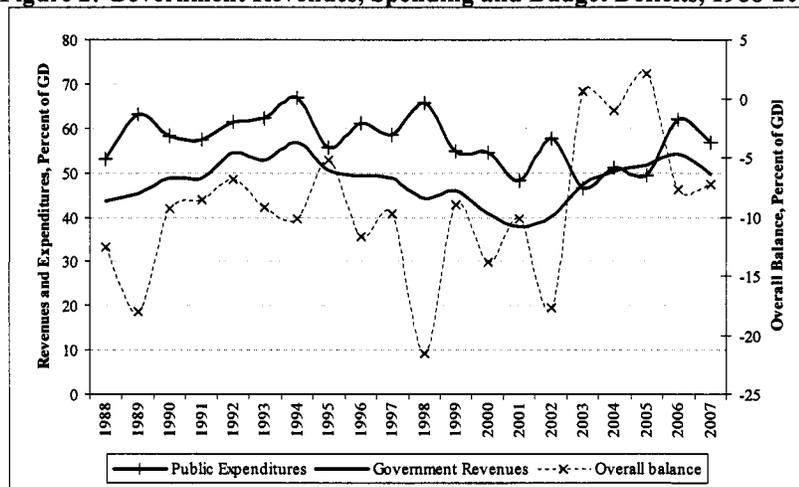
39. **We also find that in general the health and education sectors have potential to make considerable improvements to efficiency.** This can be achieved by reducing spending on service delivery areas that are underutilized (see for example the underutilized maternity wards discussed in the healthcare chapter), and reducing expenditures on cash transfers that are not well targeted (such as bus fare subsidies for post-secondary school students outlined in the education chapter). However, expenditure savings within the sector should not automatically imply a reduction in overall spending in the sector since a healthy, well-educated labor force is critical for long run growth. In education in particular, the chapter documents the poor education outcomes and low value-for-money of investment in this sector which must also be addressed for Seychelles to develop and achieve its developmental aspirations. Therefore, any savings additional to the wage bill savings envisaged above should be invested in improving outcomes in these sectors.

II. PUBLIC EXPENDITURES AND EXPENDITURE MANAGEMENT

Trends in Public Expenditures

35. Seychelles has a history of a high spending government that it has not been able to finance from domestic revenues—resulting in a high and unsustainable public debt stock. (See Figure 2). While in the 1980s, development grant assistance helped to finance fiscal deficits, as grants have ceased, the government increasingly turned to loans, including commercial and short-term debt, to finance spending. (See Figure 3 and Table 9).

Figure 2: Government Revenues, Spending and Budget Deficits, 1988-2007



Source: IMF

36. Seychelles is now one of the most highly indebted countries in the world with a debt to GDP ratio of 160 percent. Roughly half of the debt is domestic, and half external, including arrears and sovereign bonds, totaling US\$230 million. Debt service is now over 10 percent of GDP annually, and depending on the rate of growth it could stay at this level for the next seven to eight years, indicating that the past development model is unaffordable and unsustainable. The debt situation is unsustainable. As of end 2007 the country was in arrears in the amount of about US\$147.9 million. During 2008 Seychelles reserves fell to extremely low levels and the external debt situation resulted in a default on external debt service payments in the latter half of the year.

37. While studies of small states show that on average they tend to spend more on public services, Seychelles is also at the top-end of this group. Government consumption to GDP is around 19.4 percent on average in small states compared to only 15.7 percent in larger states.⁵ The gap reflects the higher costs of producing public goods

⁵ Favaro (2008). Small states are defined as those with less than 2 million people.

as a result of indivisibilities in production and the small size of the domestic market results in fewer government suppliers and a lack of competition (Alesina and Wacziarg 1998). Small states are also characterized by a much closer interaction between individuals in the public, parastatal and private sector that tends to blur roles and potentially lead to sub-optimal decision making. Small island states additionally suffer from high transportation and telecommunication costs related to their remoteness. In the case of Seychelles, however, we find that the higher costs of producing public goods only explains part of the large public sector story, and that even compared to other small island states at similar per capita incomes, spending is high. This reflects both a high, historic social preference, and development model for public sector provision (or a welfare state). In more recent years it is also a reflection of high interest payment associated with the stock of debt that has arisen from these aspirations.

Figure 3: External Debt and Extent of Concessionality, 1980-2006

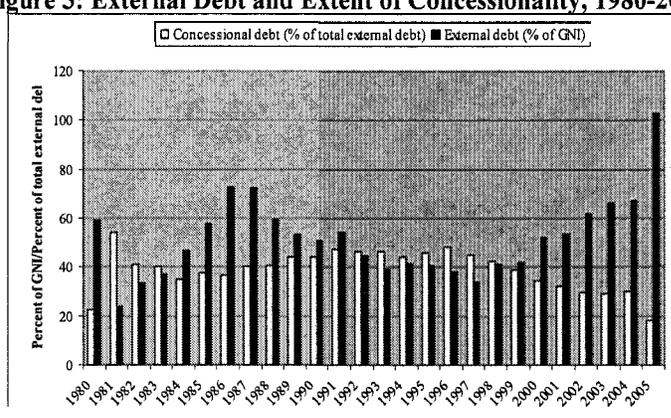


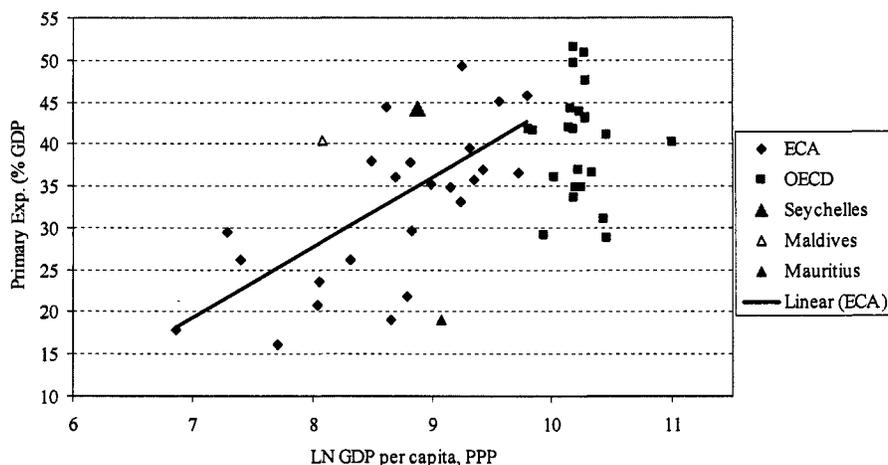
Table 9: External Debt Composition, 2002-2006, (US\$ million)

| | 2002 | 2003 | 2004 | 2005 | 2006 est |
|---|-------|-------|-------|-------|----------|
| Public sector external debt (end of period) | 392.3 | 361.5 | 380.7 | 411.5 | 577.7 |
| Multilateral | 100.7 | 73 | 77.8 | 83.3 | 47.1 |
| World Bank | 3.5 | 3.2 | 3.6 | 2.7 | 0.6 |
| African Development Bank | 82.7 | 55.8 | 57.6 | 63.2 | 28.7 |
| Other | 14.5 | 14 | 16.6 | 17.5 | 17.9 |
| Bilateral | 176.3 | 172.9 | 199.5 | 240.9 | 218.4 |
| Paris Club | 118.5 | 119 | 139.2 | 177 | 168.8 |
| Other | 57.8 | 53.9 | 60.3 | 63.9 | 49.6 |
| Commercial | 115.3 | 115.6 | 103.4 | 87.3 | 312.2 |

Source: GOS, WDI (2008)

38. **Comparing the 2000-2005 pattern of spending in Seychelles with other small economies we find average government expenditure of 36.1 percent of GDP that is 6.6 percentage points of GDP higher than the average (Table 10).** Comparing primary expenditures only (i.e. without interest payments), and taking account of Wagner's Law (i.e. countries with a higher per capita income tend to have higher public spending in proportion to GDP) we find that Seychelles lies above the observed correlation between size of government and per capita income (Figure 4).

Figure 4: Primary Expenditures as Percent of GDP, Seychelles and Comparators, average 2000-2005



Source: GFS, WEO, WDI and ECA Fiscal Database

39. **Relatively high social welfare spending, in part, explains the large public sector.** Compared to Organization for Economic Cooperation and Development (OECD) and Eastern Europe and Central Asian (ECA) countries, both groups which also have high social welfare expenditures, Seychelles is **again**, above the norm given its per capita income. In fact, average primary spending in Seychelles over 2000-05 was higher than two thirds of OECD nations. The IMF’s Fiscal Affairs Department recently conducted a similar exercise using a different small island state comparator group and found that in 2007, primary spending in the Seychelles was 20 percentage points of GDP higher than the average.⁶ While data limitations prohibited a greater analysis of small island state comparators, we note that primary expenditures on average over 2000-2005 was more than twice that of neighboring Mauritius.

Table 10 : Seychelles and Comparators Public Spending, average 2000-2005

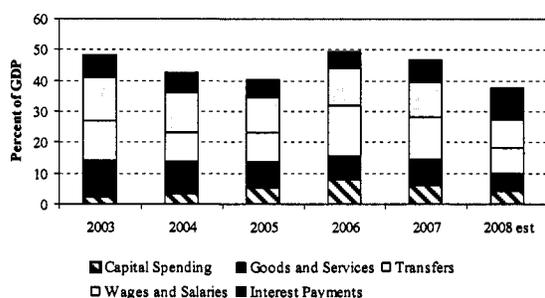
| | Government Recurrent Expenses (% of GDP) | Percent of Expenses | | | |
|---------------------|--|-------------------------|---------------------------|--------------------|----------|
| | | Subsidies and Transfers | Compensation of employees | Goods and Services | Interest |
| Barbados | 21.1 | 18.5 | 43.0 | 16.5 | 14.0 |
| Estonia | 24.3 | 43.7 | 21.3 | 17.3 | 0.0 |
| Fiji | 26.7 | 22.5 | 43.0 | 16.0 | 10.0 |
| Maldives | 33.3 | 3.0 | 24.8 | 67.5 | 5.0 |
| Mauritius | 28.2 | 33.0 | 38.8 | 12.8 | 13.0 |
| Seychelles | 36.1 | 29.8 | 29.3 | 21.5 | 15.3 |
| Trinidad and Tobago | 36.6 | 31.7 | 36.0 | 16.0 | 15.3 |
| Group average | 29.5 | 26.0 | 33.7 | 23.9 | 10.4 |

Source: WDI 2008

⁶ IMF (2008)

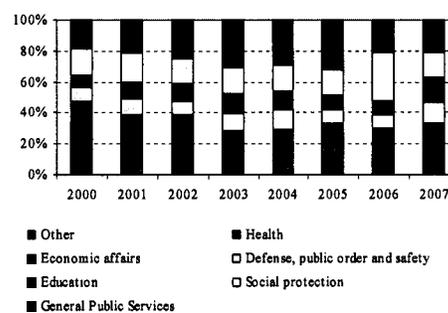
40. As a share of government spending, public spending on more discretionary expenditures such as goods and services and capital projects have been squeezed in recent years. This is despite the step devaluations in the foreign exchange rate in 2006 and 2007 which would have led to increased costs of foreign-procured goods and services. The goods and services and capital spending squeeze is most evident in the case of the 2008 expenditure consolidation. Discretionary expenditures have the advantage of being relatively easy to reduce in the short run, but the disadvantage that spending cuts are less likely to be sustained (for the simple reason that they are also easy to increase again). Furthermore, squeezing capital spending can eventually result in an erosion of the capital stock and build-up a back-log of maintenance expenditures that will need to be settled in the future.

Figure 5: Expenditure by Economic Classification, Percent of GDP



Source: IMF

Figure 6: Expenditure by Functional Classification, Percent of Total 2000-2008



Source: MoF

Note: Primary Expenditures Only

41. At the same time non-discretionary expenditures—such as wages and salaries and transfers have remained high since, until 2008, more fundamental and structural reforms of public spending have not been on the government’s agenda. Wages and salaries have remained at around one third of spending per year. Now, in addition to the debt restructuring, structural reforms are envisaged: of the civil service (i.e. wages and salaries spending), the social welfare system (i.e. transfers to households) and public enterprise reforms (i.e. subsidies and transfers to the rest of the public sector) which will start to address more fundamental spending pressures and bring these under control. Wage bill spending trends are addressed in detail in Chapter 3.

42. Comparing the trend in spending by function over time we find that social protection spending has been gradually increasing between 2003 and 2007, although this has not led to an improvement in equity. (Figure 6). Social security spending, (an average for the period 2000-05 of 29.8 percent of expenditures or 8 percent of GDP) is on a par with European countries, at the top end of middle-income countries, and higher than a comparator group of small island developing states averages. Redistributive policies can have a positive impact on equity. Seychelles has a relatively low gini coefficient provisionally estimated to be 0.40 in 2007; however, this has increased since 2000 when the gini was only 0.28 in 2000 and so the recent increase in social security spending has not been associated with an improvement in equity. Spending on socially-provided housing and community amenities has also been increasing in recent years—in

response to pledges made by the government to increase the availability of social housing in the run up to the 2007 election.

Table 11: The 2007 Top 6 Parastatals Receiving Central Budget Transfers

| | 2004 | 2005 | 2006 | 2007 |
|---|--------|--------|---------|---------|
| Public Utility Corporation | | | 59,715 | 77,000 |
| Seychelles Marketing Board (now Seychelles Trading Company) | | | | 68,000 |
| Seychelles Tourism Marketing Authority | 23,399 | 29,641 | 32,362 | 43,477 |
| Seychelles Broadcasting Corporation | 3,000 | 18,448 | 20,694 | 25,000 |
| Indian Ocean Tuna | | | | 22,500 |
| Seychelles Public Transport Company | 17,000 | 9,635 | 18,700 | 15,000 |
| Total Top 6 in 2007 | 43,399 | 57,723 | 131,471 | 250,977 |
| As Percentage of Total Outlays | 51 | 54 | 70 | 78 |

Source: MOF

43. **Several functional categories of spending have increased in the 2005-7 period including health and education.** The functional breakdown of central government expenditures (see Table 12) shows that over 20 percent of non-interest government spending is on general public services, and defense and public order and safety combined make up 14 percent of spending. There has been a gradual increase in both defense and public order and safety spending since 2000 of 78 percent and 74 percent to 2007 in nominal terms. Health and education spending has also been on the rise in the period 2005 to 2007, and as discussed further in Chapters 4 and 5 there are several policy measures that should be considered to improve efficiency in these sectors.

Table 12: Functional Composition of Central Government Spending, 2002-7

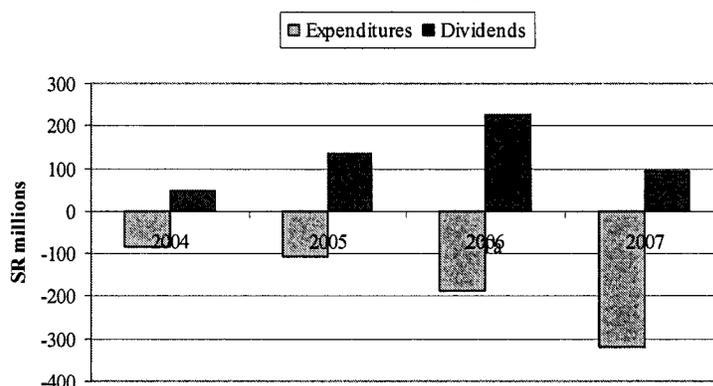
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|-------|-------|-------|-------|-------|-------|
| General public services | 24.9 | 30.9 | 28.9 | 31.9 | 20.9 | 20.6 |
| Defense | 4.2 | 5.2 | 6.5 | 3.8 | 4.0 | 6.3 |
| Public order and safety | 4.3 | 6.1 | 6.1 | 4.9 | 4.9 | 7.8 |
| Economic affairs | 8.9 | 9.6 | 11.3 | 5.5 | 6.5 | 11.7 |
| Housing and community amenities | 2.9 | 1.4 | 1.1 | 0.9 | 2.1 | 4.0 |
| Health | 7.3 | 12.2 | 12.7 | 9.9 | 8.2 | 11.4 |
| Recreation Culture and Religion | 1.3 | 5.3 | 4.2 | 3.2 | 3.7 | 3.0 |
| Education | 11.4 | 12.4 | 11.9 | 9.2 | 9.1 | 16.0 |
| Social protection | 16.2 | 16.9 | 17.2 | 16.8 | 31.4 | 16.3 |
| Total (after statistical discrepancies) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: GOS

44. **It is clear that further investigation of the public enterprise sector is critical to a successful fiscal policy.** Net transfers to the parastatal sector are large and erratic, and have required an increase in public spending in recent years. Furthermore the amount of dividends paid to the government has been decreasing (Figure 7). The state has provided significant subsidies to commercial and non-commercial enterprises, which as recent as 2007 amounted to 8.6 percent of public expenditure or over 4 percent of

GDP.⁷ As shown in Table 11, in 2007, the top six parastatals receiving budget transfers accounted for 78 percent of all transfers to the sector. Not only is the work critical from a fiscal policy point of view, but also in light of the fact that the parastatals dominate the economy would reiterate the importance of studying public enterprises as soon as possible, given their impact on the economy, such as their role as providers of inputs to the private sector (in the case of the utility and oil companies), significant employers with higher wages and (until very recently) subsidized suppliers in potentially competitive markets (e.g. Seychelles Public Transport Company and private bus hire). A framework for dealing with the parastatals should be developed as part of the PER follow-up work.

Figure 7: Flows to and From the Central Budget to Parastatals, 2004-07



Source: MOF

Public Finances and Economic Growth

45. **Can public spending be good for growth? Evidence from the fastest growing countries in the world show that the overall size of government tends to be relatively small.⁸** There have been a number of studies investigating the relationship between fiscal policy and growth. Robust empirical relationships, however, have been difficult to establish despite the analytical rationale that public spending can influence growth. Annex 1 summarizes the empirical findings on size and composition of growth. The size of government can affect growth in two main ways. First, public spending needs to be financed. Tax revenues reduce the returns to private sector activity and can therefore lower new investments if the tax burden on the private sector is high to finance government activity. Alternatively, government borrowing raises the costs of capital to the non-government sector, and as interest rates rise, the threshold rate of return on new investment also rises and reduces new private sector investments (i.e. government spending crowds out private investments). The empirical literature consistently finds private sector investment is positively correlated to growth. Secondly big governments are more likely be less-flexible to respond pro-cyclically, since the size of non-discretionary expenditures are tend to be high. Finally, big governments tend to also

⁷ A recent IMF report (IMF, 2008b) provides an overview of all public enterprises, and evaluates the fiscal risks that these organizations pose to the state.

⁸ World Bank (2008a)

have larger fiscal deficits which are not good for growth. Empirically, fiscal surplus in proportion to GDP is positive and statistically significantly correlated with growth.⁹

46. There are mixed results on the composition of public spending and the effect on growth; but productive spending such as human and physical capital investments are generally found to be positive, through both their direct effect on factor accumulation and indirectly by increasing the marginal productivity of public and private production. Perhaps the most consistent conclusion from the literature is the positive correlation between public spending on education and growth and public investment and growth. Additionally, Bloom, Canning and Sevilla (2001) find good health has a positive, sizable, and statistically significant effect on aggregate output.

47. Seychelles is at the bottom end of the comparator group in terms of the mix of productive and unproductive public spending. Based on the typology put forward in Bleaney Gemmel and Kneller (2001) we compare the available data on “productive” (i.e. good for growth) and “unproductive” public spending in Seychelles with a comparator group. Productive spending defined as spending on health, education, environmental protection and transport, and is more than one third of public spending in Barbados, Fiji, the Bahamas and Trinidad and Tobago; while in Seychelles it accounts for around 18 percent of total outlays. Unproductive expenditures, on the other hand, defined as social security and welfare payments as well as spending on recreation, culture, religion, and public debt are significantly higher in Seychelles accounting for more than half of all spending.¹⁰ This illustrates the challenge in Seychelles of finding fiscal space to finance productive spending. Undertaking a fiscal consolidation should keep in mind the requirement not only to improve technical efficiency and productivity within sectors—which the chapters on health, education and public administration provide specific recommendations on, but also how to improve allocative efficiency across spending categories to improve the overall contribution of public spending to growth.

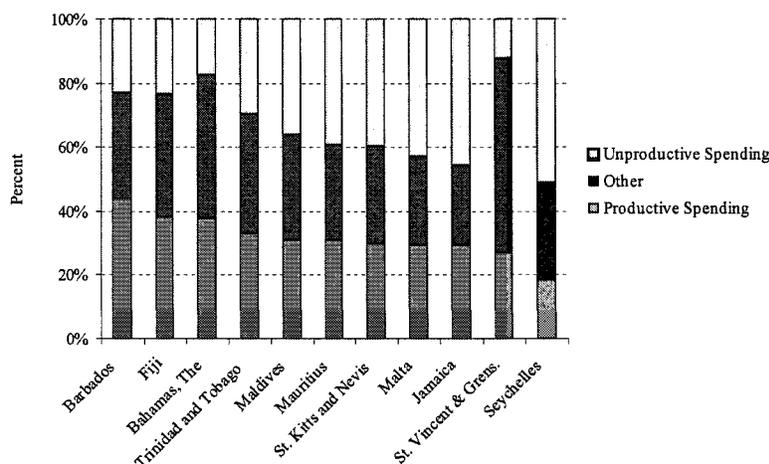
48. Good practice on determining appropriate government spending is consistent with positive economic growth. Focusing expenditures on core government functions such as the provision of public goods is consistent with a positive impact on economic growth. The government should also ensure good spending practices across all sectors: such as determining whether there is a market failure requiring government intervention, considering options for government and private sector provision and the relative efficiencies and risks involved (e.g. considering whether there is potential for collusion on the part of the private sector providers, and government failure on the part of state actors), understanding the costs and benefits of government provision and where possible

⁹ Most recently, World Bank (2008) concludes (i) private capital accumulation has been one of the main engines of growth in the seven fastest growing developing countries: Korea, Singapore, Malaysia, Thailand, Indonesia, Botswana and Mauritius which have been among the top performers in terms of GDP per capita growth during the period (1960-2006); and (ii) the fiscal surplus to GDP ratio is always positively correlated with GDP growth.

¹⁰ There is some debate over what should be counted as productive and what as unproductive spending in the literature. The finding that Seychelles has a low productive to unproductive spending ratio is not sensitive to some of the potential changes in definition. For example including housing in productive spending, or general public services in unproductive spending. The definitions used here depart somewhat from the definition in Bleaney et al given the specific nature of these economies. We do not include all general public services in the definition of unproductive spending—only the sub-category of public debt transactions. Also we do not include housing in the category of productive spending, but we do include environmental protection. Defense and public order are in the “other category”.

quantifying these and allocating spending to areas with a positive net present value. Where quantification of benefits is not possible or problematic, policy makers should analyze cost effectiveness to ensure that the least cost alternative is chosen.

Figure 8: Comparison of Productive and Unproductive Expenditures



Source: GFS (2008)

Notes: Data are for latest year reported in GFS. Maldives (2007), Fiji, Jamaica, Mauritius and Seychelles (2006), Bahamas, Malta, Trinidad and Tobago (2005), Barbados, St Kitts and Nevis and St Vincent and Grenadines (2004).

49. **The way in which the government chooses to finance public spending (inflationary financing, taxation and public borrowing) can result in crowding out private investment which in turn has a negative impact on growth.** The literature is more consistent on this finding and most recently, World Bank (2008) found that total fiscal revenue to GDP is negatively (and statistically significant) correlated with GDP growth.

Lessons for a Successful Fiscal Consolidation

50. **An attempt to reduce the fiscal deficit during 2003-5 was successful but short-lived as spending increased in 2006 and 2007 in response to political pressures and pending elections.** The sizeable 2003 adjustment was achieved through a simultaneous reduction in expenditures (by a significant 11 percent of GDP) and an equally impressive but not sustained increase in revenues (by 7 percent of GDP). The expenditure cut was largely reversed in 2006, and the revenue increases were not sustained beyond 2006, causing public debt to increase exponentially that year. The projected path of the debt is estimated to be fiscally unsustainable.

51. **Success at sustaining fiscal adjustments (at least until the impacts can be positively seen on economic growth) and limiting the adverse impact on vulnerable groups, depends on the way in which the deficit is reduced.** While the appropriate combination of fiscal adjustment measures depends on country-specific circumstances of course, the following stylized facts based on international experience describe more

successful fiscal adjustments, associated with a positive growth response, which can help Seychelles in charting its own course of fiscal adjustment.¹¹

- Fiscal adjustments based on expenditure reductions are more likely to be successful and sustained than those based on revenue increases.¹²
- A fiscal consolidation that persists over time has the greatest positive effect on growth.
- Expenditure composition matters, shifting from non-productive to productive spending will have the greatest impact on growth, and shifts from current to capital spending are associated with longer periods of fiscal consolidation.
- Expenditure consolidation is more likely to be sustained when a result of structural reforms (e.g. civil service and social security reform) rather than cuts in discretionary expenditures.
- The size of adjustment matters: large cumulative reductions in the deficit are more likely to be sustained.

Figure 9: Overall and Primary Balance, 1999-2007

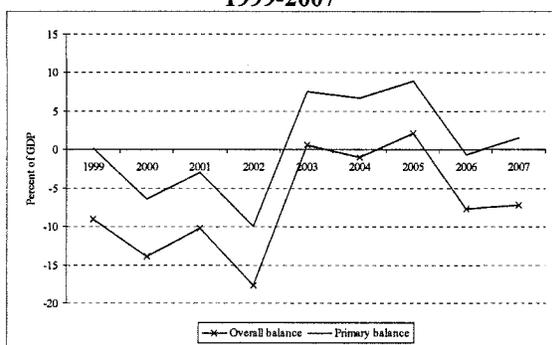
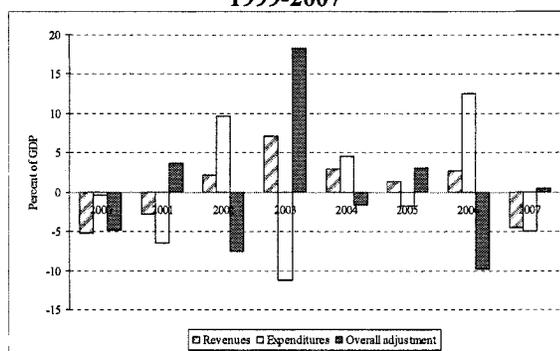


Figure 10: Composition of Fiscal Adjustment, 1999-2007



Source: IMF

52. **The current government can also learn from the previous 2003-5 fiscal adjustment, which was largely drive by short-lived expenditure cuts.** This is to be expected when the initial size of government is already large. Looking at the composition of the adjustment we find that almost 65 percent of the 2003 expenditure cuts were in capital spending, while the reversals in 2006 were largely a result of a massive increase in transfers to the rest of the public sector (Table 13). To sustain the adjustment on the expenditure-side the government will need to address the structural reforms required to bring down wages and salaries spending, and limit the claims on budgetary spending from the parastatals.

¹¹ See Baldacci, Clements and Gupta (2003), Bladacci, Hillman and Kojo (2003), World Bank (2007)

¹² Purfield (2003), Afonso, Nickel and Rother (2006)

Table 13: Expenditure Adjustment Composition, 2003-2007

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---------------------------------------|-------|------|------|------|------|
| Expenditure and net lending | -11.2 | 4.6 | -1.8 | 12.5 | -5.0 |
| Current expenditure | -2.9 | 2.5 | -3.9 | 9.0 | -1.6 |
| Wages and salaries | 0.4 | 1.0 | -1.3 | 1.1 | -0.6 |
| Goods and services | -0.6 | 2.1 | -1.8 | -0.9 | -0.1 |
| Interest payments due | -0.7 | 0.8 | -0.9 | 0.1 | 1.7 |
| Foreign interest | -0.3 | -0.1 | 0.3 | 0.2 | 2.0 |
| Domestic interest | -1.8 | 1.0 | -1.2 | -0.1 | -0.2 |
| Transfers | -2.1 | -1.4 | -0.1 | 8.7 | -2.7 |
| Social programs of central government | -0.8 | 0.3 | -0.1 | 0.3 | 0.7 |
| Transfers to public sector | -2.3 | -1.2 | 0.3 | 8.1 | -2.8 |
| Benefits and Social Security Fund | 1.0 | -0.4 | -0.4 | 0.4 | -0.6 |
| Other | 0.0 | 0.0 | 0.1 | -0.1 | 0.1 |
| Capital expenditure | -7.2 | 2.1 | 2.1 | 3.6 | -2.2 |
| Net lending | -1.1 | 0.0 | 0.0 | -0.1 | -1.2 |

Source: IMF

53. **Strengthening the public financial management framework and the budgetary process will be necessary to implement the proposed fiscal consolidation since budget credibility is weak.** Budget outcomes have tended to exceed the approved appropriation at the start of the fiscal year, by on average 22 percent per annum in the period 2005 to 2007. Figure 11 below shows the deviation between spending patterns and the original intentions by the main economic categories of spending. With the exception of wages and salaries spending in very recent years, across the board the budget is exceeded.

54. **The poor budgetary performance is a result of a variety of problems with public expenditure management that have been well-covered in assessments carried out in 2008.** The first, a Public Financial Management Review (or PEFA assessment) was undertaken in April financed by the European Commission. Second, a review of the budget process was undertaken by IMF's Fiscal Affairs Department in June and as part of the structural reform program, the government has committed themselves to undertaking the reforms recommended in the IMF report (see Box 2). To avoid duplication therefore we summarize key concerns and highlight recommendations which we would propose should be prioritized.

Box 2: The Budget Process

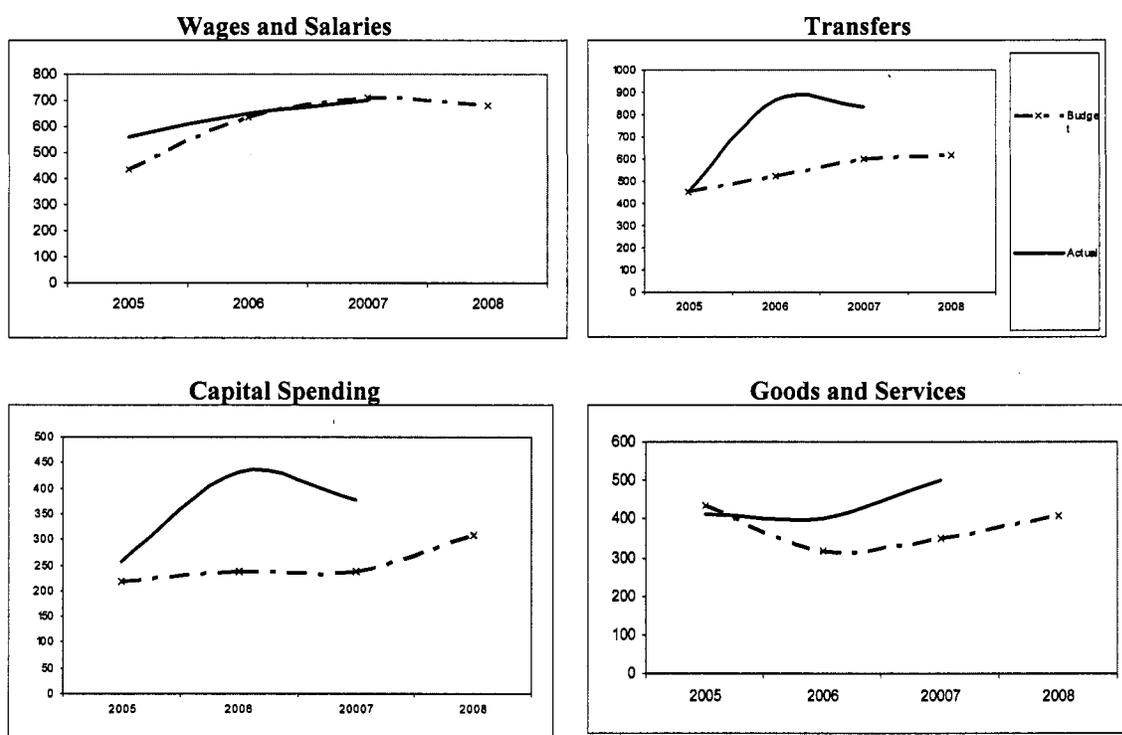
The starting point of budget formulation is an internal assessment—primarily based on the execution of the current year's budget—by the Financial Planning and Control Division of the MoF of what is a reasonable financing of each ministry and authority. These proposed ministerial budgets are sent out together with the budget preparation circulars in late July. Budget submission from ministries and authorities are sent to the MoF approximately one month later, i.e. in early September. On the basis of these draft estimates, bilateral meetings between the MoF—the Minister of Finance and/or the Principal Secretary—and the minister, principal secretary and the accounting officer of the line ministry or authority are held, where the allocations for the upcoming year are negotiated. Following this, the MoF prepares a consolidated budget, which is evaluated against the Government's fiscal objective of a surplus corresponding to 5.0 per cent of GDP. If necessary, the MoF will make adjustments in the proposed revenue or expenditure policies, after which the budget is submitted to the President for approval in mid November, and to the Cabinet shortly thereafter. The Government's draft estimates of revenue and expenditure are submitted to the National Assembly in late November or early December, and are adopted by late December.

Expenditure for major capital projects¹³ is budgeted separately from current expenditure. The capital budget is not presented for approval by the National Assembly, but is included in the summary of budget estimates in the budget document.

The Social Security Fund is organized as an entity fully separate from the budget. It collects revenue through employer and employee contributions, and bears the responsibility for social security expenditure and for special projects commissioned by the Government. In the event of a surplus, a transfer—the size of which is determined discretionally by the Government—is made to the budget. Any remaining surplus is invested by the Fund. The MoF is not involved in the preparation of the budget for the Social Security Fund. The Pension Fund—also set up as an extra-budgetary fund—makes payments for old-age pensions. It is financed by transfers from the Social Security Fund.

Source: Reproduced from IMF (2008)

Figure 11: Budget Credibility: Budget and Outcomes 2005-2008



Source: IMF, MOF

Budget Preparation

55. **The macroeconomic assumptions underpinning fiscal policy analysis and budget preparation are not prepared systematically nor used in a consistent fashion.** There is no unit with central responsibility for preparing projections of relevant macroeconomic variables such as GDP-growth, the inflation rates, exchange rate, interest rates, unemployment, etc. As a result: (a) the macroeconomic framework and budget

¹³ Minor capital outlays, such as the purchase of office furniture, computers and vehicles, are included in the current budget.

framework are not internally inconsistent and (b) various revenue and expenditure items are not prepared on the basis of consistent macroeconomic assumptions.

56. Budget targets are focused on aggregate fiscal surplus/deficit targets but do not drive strategic expenditure allocations. Disaggregated budget ceilings are prepared by the Ministry of Finance on the basis of an increment over the previous year, they take only limited or no account of: (a) spending pressures from non-discretionary items, (b) the implied resource available (c) consistency with the macroeconomic variables and fiscal balance targets and (d) the alignment of spending with strategic priorities within the overall fiscal framework. Only after individual budget submissions are received is total expenditure consolidated and compared to the revenue projections.¹⁴ The budget also has a one year time horizon and this further inhibits any forum for policy discussion over medium-term priorities and the use of the budget as a tool to implement those policies. Furthermore, policies even for the upcoming year are not set by Cabinet in a comprehensive process.

57. The budget is not focused on measuring performance or results, and no assessment is done of productivity, efficiency or value-for-money in the allocation of funds. The annual exercise of allocating resources does not take into account the performance of various sectors in delivering against agreed upon targets (such as primary school enrollments for example). Neither is any assessment of cost-effectiveness of efficiency taken into consideration to assess whether there is room for delivering results with less. With a small budget department in the Ministry of Finance, there are few resources in the MOF to engage more actively in the discussion of budget estimates and preparation by the line Ministries which could drive the inclusion of these aspects to the budget process.

58. Separate budget circulars are currently issued for recurrent and capital budgets and, given the annual time horizon for the recurrent budget, there is no requirement to ensure recurrent cost implications of capital projects can be afforded. The process for new capital project is initiated by the line Ministry with the submission of a policy paper to be discussed at Cabinet level. There are no centralized guidelines on what sort of information should be contained in the project proposal and robust and consistent capital project economic appraisal techniques are not used. As a result the economic benefits of the project may or may not exceed their costs; and the project may or may not be adequately funded depending on the degree of uncertainty surrounding cost estimates. If Cabinet approves the project, the details are passed on to the MOF to finance and/or co-finance the project. If the budget does not allow the additional capital expenditures frequently a token amount is allocated toward the project and the time horizon is stretched to fit the likely availability of resources. The end result is of course significant cost and time overruns, and a back-log of incomplete capital projects.

¹⁴It is, however, not consolidated with the budget of the Social Security Fund and the Pension Fund, which make up a significant part of total government expenditure.

Budget Execution

59. **There is a reasonable system for monitoring and controlling spending during the course of the year.** The considerable cost overruns witness in the last few years have largely occurred as a result of new budget outcome approvals made during the course of the financial year, which up until 2007 were not approved by the Assembly as supplemental budgets. The financial information system is available in line Ministries too so they can keep track of their commitments and expenditures.

60. **In order to enhance oversight over parastatals and publicly-owned enterprises, the Ministry of Finance (MoF) established a Parastatal Monitoring Unit in 2008.** The Unit is currently managed by just one expatriate staff. Discussions with the Unit for the PEIR revealed the lack of information currently available to government over the operations and financial position of many of the enterprises which the government manages or has a stake in. For example, regular financial reports are generally not available. Even though Government intends to phase out subsidies in the course of the year 2009, it is clear that the government will continue to be exposed to serious contingent liabilities and fiscal arising from the operations of its enterprises which highlights the need to have a more standardized approach to the governance and more active oversight, particularly of the financial positions.

Recommendations

61. To achieve the fiscal adjustment required we recommend the government tackle structural reforms required to lower spending, particularly in the wage bill. This requires the government look systematically across the public sector to determine the core functions of government and align jobs with these roles and responsibilities. Recommendations on how to implement such a plan are provided in detail in the next chapter. This requires the policy makers to go beyond the short-term measures that have already been undertaken such as the voluntary departure scheme.

62. We also find that the gradual increase in social security spending is not associated with improvements in equity outcomes. At the same time the high public spending is also not associated with the experience of fast-growing economies. There is therefore potential to reduce transfers to households in general, and as highlighted in chapter 1 a need to improve the targeting of the welfare system since there will be groups who will be adversely impacted by the macroeconomic reforms underway. Detailed recommendations to assist implementation will be forthcoming in the next volume.

63. While we commend the commitment of the government to reduce subsidies to the public enterprise sector, we note the need to address more fundamental issues of the role of the public sector particularly in commercial activities and urge the rapid implementation of the privatization program. Furthermore, there is a need to address the more complex roles of individual parastatals and separating commercial, regulatory and social functions. In addition to improved monitoring of the financial performance of the parastatals this needs to closely feed into the budget department to ensure appropriate contingency planning is undertaken.

64. A functional breakdown of spending shows a relatively high level of military and defense spending for a small island economy with only limited historical precedent of social and political unrest. This should be an area for future consideration by the policy makers but lies beyond the scope of the World Bank's technical advice.

65. In other functional areas, the emphasis should be on how to improve value-for-money and maintain or improve public service delivery levels with lower public spending. Chapters 4 and 5 provide detailed recommendations on how to achieve this in the health and education sectors.

66. To sustain the fiscal adjustment, the government should concentrate on the expenditure consolidation required, and ensure that the measures are based on deep-seated reforms, rather than short-term reductions which in the end cannot be sustained since they are driven by external factors which continue to lie beyond the government's direct control.

67. In addition to the full set of recommendations captured in the IMF (2008) report we highlight the following budget process reform priorities:

Near-term priorities

- As a high priority the Ministry of Finance should develop scenario planning and ensure adequate attention is paid to the macroeconomic forecasts and consistency with the fiscal framework at the beginning of the budget process. The 2010 Budget guidelines should provide sufficient information on the macroeconomic assumptions underpinning the framework to ensure internal consistency and a consistent approach to budget preparation across government ministries and agencies.
- The budget department should continue their efforts to consolidate the budget and present a comprehensive budget consistent with the definitions in the Government Finance Statistics Manual.
- A multi-year outlook to the budget should be provided to indicate the direction of inter- and intra-sectoral policy shifts—such as a decline in subsidies to the parastatals, and a shift from wage bill to goods and services spending within sectors where there is an agreement to contract out large support functions.
- Ensure the PEMU is adequately staffed and financed so that more active financial monitoring of public enterprises is done and the risks and contingent liabilities associated with the sector better understood and integrated in the budget process. We strongly support the external audits of the parastatals to be undertaken as part of the reform program. Integrate the monitoring function with the unit responsible for public enterprise restructuring and privatization so that scarce skills are concentrated on the comprehensive reform of the sector. We would recommend the combined Unit have at least four experienced professional staff and a budget that is sufficient to hire in the industry-specific expertise for financial auditing and monitoring, as well as advice on industry structure and parastatal restructuring prior to privatization.

A strategy for dealing with the public enterprises should be drafted and presented to Cabinet, and as necessary the appropriate legislation and regulations put in place to give the Minister of Finance the authority to deal with public assets and liabilities as per the strategy.

- As the government adjusts capital spending as part of the fiscal consolidation, this should give the policy makers space to define new capital project planning processes and investment priorities consistent with Vision 2030. The back-log of capital projects that are receiving on-going small and still insufficient funds in each budget year should be reviewed and sunk costs re-examined to determine whether the capital project still has a positive economic return, should still be a national priority, and/or can be afforded at this time. Non-priority and projects that no longer have positive economic returns should be halted and capital funds be focused on fewer high priority projects.

Priorities for the next 2 years

- Initiate the budget process with a policy discussion at Cabinet on the macroeconomic environment, short term spending targets and medium-term development objectives to drive policy priorities, spending ceilings and allocations. The development of a policy paper to prepare the Cabinet and Assembly prior to budget discussions should follow once the government has developed macroeconomic forecasting capacity and has consolidated the budget.
- Ensure that there is an adequate contingency budgeted for to account for the volatility of revenues and expenditures and the medium-term fiscal risks that can impact upon these. Further work should be undertaken on this aspect to determine appropriate planning for both global implications and domestic impacts on revenue and expenditure volatility in the subsequent phase of the PER.
- Prepare guidelines for the preparation of capital investment projects, requiring minimum standards of cost information, and economic appraisal based on consistent assumptions (e.g. economic rate of return, CPI projections). Capital projects should primarily be considered at the start of the fiscal year and should only be approved if sufficient financing (from all sources) is available for the project to be completed. This will necessitate a multi-year approach to budgeting since capital projects typically require the capital and recurrent costs to be considered over more than one budget cycle. Integrate the budget circulars so that capital and recurrent implications are considered comprehensively.

Table 14. Summary of Public Financial Management Next Steps.

| Implementation Step | Timeframe |
|---|--------------------------|
| Budget circular for 2010 budget contains information on macroeconomic forecasts and assumptions for budget preparation purposes. | June 2009 |
| 2010 Budget is comprehensive and publicly presented using GFS guidelines. | December 2009 |
| 2010 Budget is presented with forward estimates of broad aggregates (at least: revenues, expenditures – recurrent (wages, interest, other) and capital) into the medium term 2010-2015. | December 2009 |
| External Audits for Parastatals conducted | On-going throughout 2009 |
| Revise capital project planning procedures. | January 2010 |
| Introduce new procedures and multi-year costing of capital projects. | December 2010 |
| Initiate budget discussion in Parliament with presentation on economic program and achievements, expectations and policy priorities. | December 2010 |
| Undertake work on volatility of revenues and expenditures and update budget preparation process to take into account risks and contingency plans. | December 2010 |

III. PUBLIC ADMINISTRATION AND PUBLIC SERVICE REFORM

Context

68. **One of the key elements of the economic reform program is to change the role of the state, which historically has provided a package of services that is literally ‘cradle to the grave’—ranging from free pre-primary care, management of playgrounds to funeral benefits and burial services.** The emphasis on public provision extends to the provision of many services that are often provided by the private sector such as housing, oil shipment, food imports and distribution. Currently, services are provided either directly by central government or through one of the 44 parastatals (used here to refer to all regulatory or statutory bodies and publicly-owned enterprises)¹⁵. This chapter examines in some detail the steps to be taken to take forward the reform of public administration, and details the cost-savings associated with these reforms. Notwithstanding the strong commitment of the government and the support of the business community and civil society to take these forward, we recognize that should the adverse external environment result in a slower economic recovery (beyond the current rebound projected in 2010), this may make the reforms more difficult to introduce in the near term.

Table 15: Comparative Wage Bills of Small States, 2000-2005

| | Percent of Government Expenses |
|---------------------|--------------------------------|
| Barbados | 43.0 |
| Estonia | 21.3 |
| Fiji | 43.0 |
| Maldives | 24.8 |
| Mauritius | 38.8 |
| Seychelles | 29.3 |
| Trinidad and Tobago | 36.0 |
| Group average | 33.7 |

Source: WDI 2008

69. **Reflecting the size of the state, total public spending and wage bill expenditures as a percentage of GDP are high, and beyond what is generally considered good practice.** Public sector employment levels are similarly very high at about 11 percent of GDP and have been falling in recent years (down from 14 percent of GDP in 2003).¹⁶ In 2007, total public sector employment accounted for 46 percent of total employment (estimated to be at 41 percent as at mid-2008) including those employed in agencies and commercial and non-commercial parastatal organizations, which alone account for close to 15 percent of total employment.

70. **The public wage bill is high, partly as a result of economies of scale challenges in providing services to a small population residing on multiple islands (which automatically entails a certain level of administrative overheads).** A

¹⁵ The total number of parastatals varies according to definition. Here we include companies in which the government has a minority shareholding and the total number is based on the number being monitored by the newly established Public Enterprise Monitoring Unit.

¹⁶ Overall benchmarks that are generally applied is that public sector wages should not exceed 10 percent of GDP and 30 percent of public expenditure if these expenditures are not to crowd out private sector activity through excessive taxation and limit the scope for public investment in infrastructure

comparative table reflecting the high wage bill as a percentage of public spending in other states with similar challenges is shown in Table 15. This illustrates that while Seychelles is on a par with other several countries there are also countries whose wage bill is a lower proportion of government expenditures. The government is estimated to have spent 8.7 percent of GDP on wages and salaries in 2008, down from a high of 14.4 percent of GDP in 2003.¹⁷ In terms of *primary* public expenditures, more than 30 percent of public expenditure goes towards the payment of wages and salaries.

71. The chapter is organized in three main sections to address the following questions:

Reforms underway

- What is the impact of the public employment reforms introduced in 2008 and is this likely to be sufficient to meet wage bill targets in the medium-term fiscal framework?

Organizational and structural reforms

- In what aspects do the functions of government in the Seychelles deviate from international good practice on core government functions?
- What are the main areas of state involvement in the economy where privatization of contracting out is recommended?
- How could the remaining core government institutions be reorganized to more efficiently provide services?
- What would be the combined fiscal impact of these reforms?

Wage structure reforms

- How can the public sector wage system be made transparent and efficient so that it creates the right conditions to attract and retain qualified staff and thereby allow the state to effectively deliver its core functions?

72. **In short we find that the reforms undertaken in 2008 will produce fiscal savings of approximately 7.5 percent of the wage bill by 2010 through the lower number of posts.** However, this is not sufficient to meet fiscal targets in the medium term or to address the underlying efficiency and overall size of government that is hampering public sector performance and economic growth. Further measures are encouraged over the course of the next 2 years principally to privatize non core functions (essentially commercial activities producing private goods that can be self-standing business units) and contract out services which will lead to a reduced wage bill and a compensating increase in the goods and services budget which experience indicates will likely decline over time as long as there is a sound process for contracting services. Furthermore, the practice of the public sector as the employer of last resort needs to

¹⁷ IMF Article IV (2008)

change and the intake of a large number of employees from the Unemployment Reduction Scheme in 2006 needs to be reversed. Active labor market policies will be considered in the next phase of the PER to provide further advice on how to transition the excess public workers to the private sector. Finally fundamental reforms of the wage grid are recommended to ensure that the remaining posts in the public sector can attract and retain qualified staff, and that the lack of transparency surrounding wage-setting through the use of multiple allowance schemes be discontinued.

Reforms Initiated in 2008

73. The government's reform program initiated in 2008 has already brought about wage bill savings. The reforms have brought about a reduction of posts in the public administration through the elimination of vacant posts, and the introduction of early retirement and voluntary departure schemes. The subsidy reductions to publicly-owned enterprises have prompted employment cuts in several of these too. In terms of wage bill expenditure, the main savings have come through the Manpower Budgeting Exercise (MBE), which was conducted at the end of the first quarter (in 2008), to reduce the projected wage bill 'overrun' of SR 17.8 million (3 percent of the 2008 budgeted wage bill). Following the MBE exercise, a projected 'deficit' of only SR 4 million or 0.62 percent of the wage bill remained.¹⁸ It is proposed that in 2009 the MBE exercise to be replaced with a strategic review of functions that would generate additional savings in 2009-2011.

74. Secondly, an early retirement scheme was introduced at the beginning of the year for civil servants over the age of 55 years. The scheme has remained open for the remainder of 2008. Those eligible can apply for the scheme which pays 40 percent of salary until the official retirement age of 65 years. Since, the scheme is still active, a full impact assessment cannot yet be calculated, as this would require the final list of retirees and their specific salary information. While the early retirement scheme may be continued into 2009, it is recommended instead that more targeted packages be devised in its place.

75. The next phase of public employment reforms was introduced in October 2008, which consists of a freeze in non-essential vacancies (which will remove an estimated 503 posts) and the introduction of a voluntary departure scheme (VDS). The VDS is expected to remove approximately 927 staff currently in post.¹⁹ The VDS offers to pay a voluntary redundancy payout in two installments the first at the end of December 2008 and the second in mid 2009. At the time of writing, it was not possible to assess the net impact of the VDS (considering the application deadline is 21 November 2008), however, based on the Department of Public Administration's (DPA) preliminary calculations we estimate net savings for 2009 of SR 36 million²⁰, or 5.8 percent of the

¹⁸ This compares to an execution ratio of 99 percent in 2007 and 110 percent in 2006

¹⁹ The full estimate of 1274 staff includes staff of Coetivy prawns and the Public Utilities Corporation, which are no included in the public sector wage bill

²⁰ Based on the assumption that 2/3 of voluntary departures would be from the low skilled staff while 1/3 would be professional staff. In addition, for VDS participants, 3 months of the departure allowance will be paid from the 2009 budget, which reduces relative savings

current wage bill and permanent annual savings would be approximately SR 48 million, or 7.9 percent of the wage bill.²¹

76. **Given the magnitude of the fiscal adjustment required, as discussed in chapter 1, continued efforts to reduce wage bill spending will be required,** particularly if the government is to achieve its medium term targets of a wage bill in proportion to GDP down of 7.2 percent of GDP by 2012, down from 11.2 percent in 2008. A preliminary estimate of the cumulative effect of the MBE exercise, VDS and early retirement schemes is an approximate a permanent net saving of 10 percent of the wage bill or 3 percent of primary public expenditures.²² This implies significant further reform measures will be needed for a wage bill reduction of 4 percent of GDP or 12 percent of primary public expenditure.

Table 16: Estimates of the Wage Bill Savings Measures, SR millions (nominal) and Percent of the Wage Bill

| Year | Savings from MBE | | Savings from Early Retirement /a | | Savings from VDS /b | |
|------|------------------|----------------|----------------------------------|----------------|---------------------|----------------|
| | SR | % of wage bill | SR | % of wage bill | in SR | % of wage bill |
| 2008 | 13.8 | 2.3 | .. | ... | -11.5 | -2.0 |
| 2009 | .. | .. | 14.4 | 1.9. | 34.5 | 4.5 |
| 2010 | .. | .. | 14.4 | 1.9 | 46 | 5.5 |

Source: World Bank Staff estimates based on 2008 wage bill levels, MOF data.

Notes: a/ Whereas complete numbers on early retirement are not yet known, the number of requests received up until mid October is approximately 250, and may reach 400 by the end of the year. More than 80 percent of these are low skilled workers

b/ 44 staff in the Department of Community Development had been double counted in 2009 and is corrected for here.

Towards a More Strategic Approach: Organizational and Structural Reforms

77. **Whereas ongoing reforms measures are both necessary and appropriate, and represent ‘quick win’ measures, it is important that future reform steps be based on a more strategic approach to public sector reform.** This is required both to achieve the significantly higher wage bill savings required to meet the fiscal and macroeconomic objectives as well as to ensure that the quality of governance and service delivery does not suffer.

78. **There are two risks inherent in the current staff reduction approach to the reforms being implemented.** First, cutting vacant posts poses the risk of eliminating posts that are difficult to fill, but nevertheless core to service delivery. Second, voluntary departure schemes, based on experience in other countries and institutions, tend to be taken up by those who would most easily find employment elsewhere or have the entrepreneurial spirit to set up a business, thus reducing overall capacity in the administration and service delivery institutions.²³ Similarly, across the board reductions

²¹ The SR amount saved is likely to be higher as wages will be increased to offset the impact of currency devaluation, though the relative amount is likely to remain the same

²² This number does not yet take into account additional pension payments. However, it also does not account for wage increases

²³ World Bank (1999).

in subsidies and other government support measures can have an adverse effect on public service quality, if not properly designed and targeted.

79. Therefore, whereas the early retirement and VDS should be one-off exercises, it would be desirable to transform the MBE exercise, which was an ad hoc process in 2008, into a more strategic review of functions and related staffing numbers. This would aim to re-allocate functions to the private and voluntary sectors, seek organizational efficiency gains as well as reducing civil service staff numbers accordingly. A strategic process of reflection on the core role of the state in the Seychellois economy and society, and the introduction of a program of targeted reforms should replace the ‘emergency measures’ of 2008. Such a process would not be unlike processes undertaken recently in Central and Eastern European transition states, (such as the Baltic States and Slovakia), which all faced similar fiscal challenges to the Seychelles. ²⁴Other examples include the strategic reflection on the role of the state carried out in Cape Verde in 2005-06, which led to a fundamental re-orientation of the role of the state, paired with the implementation of an alternative vision for the development of the country, towards a technology-based and investment friendly economy and an emphasis on the development of tourism-related infrastructure.²⁵

Defining the Core Functions of Government

80. The re-definition of the role of government is a complex undertaking as, contrary to what is often assumed, there is no clear ‘menu’ or recipe for defining the ‘core’. Whereas there is largely no dispute on sovereign functions such as defense, police, finance, the environment and other generally recognized public goods, in which the state tends to be the exclusive guarantor and provider of services. However; the extent to which the state engages in service delivery in other areas is subject to much academic and political debate. Even in traditional public service areas such as health and education there is more consensus on the need for the state to guarantee access to services, but not necessarily on the degree to which the state itself should provide those services. Traditionally, discussions on the role of the state use certain standard comparators, e.g. OECD practices, which define a minimum threshold of service delivery, or the EU system which also sets certain minimum requirements for state involvement, through regulation or service provision. Other methods of assessing minimum levels of service provision include cross-country comparisons focusing on countries with a similar size or level of economic development and orientation. However, in the end the limits of state provision depend both on the strategic orientation of the government, based on citizen preferences, and fiscal capacity. In this context it is important for the GOS to rapidly translate its strategic vision (2017) into a reform program for the public sector, since many of the principles outlined in the vision statement are clearly at odds with the still over-extended system of state-provided public services, which the country can ill-afford.

²⁴ See Verheijen (2007). A review of civil service and administrative reform processes in the eight new CEE member states of the EU highlights the performance of Latvia and Lithuania in particular as states that achieved a radical and successful transformation of public sector management systems, in contrast to the performance of other states in the same region that did not engage in deep public sector reforms.

²⁵ World Bank (2006), Cape Verde, Re-Defining the Role of the State

81. **It is important to ensure that the public sector reforms take into consideration the quality of development outcomes, including health and education outcomes; and ensure that these outcomes do not decline.** Overall spending decisions related to these outcomes should be based on improving efficiency and productivity improvements rather than across the board cuts. As noted in the following chapters, spending on health and education, which together constitute the majority of primary public expenditure, does not exceed patterns observed in states of similar size or level of economic development. Education expenditures are approximately 5 percent of GDP and 8 percent of public expenditures, while health expenditures amount to 4 percent of GDP and 9 percent of total public expenditure. (Spending on health and education as a proportion of primary expenditures is 22.3 percent which is also in line with comparator states).

82. **The evaluation of expenditure composition in health and education sectors (see Chapters 4 and 5) draws very different conclusions with respect to the wage bill.** In the area of education, considering the relatively poor quality of learning outcomes, it is recommended that teaching staff should be retained at current levels, though significant cost savings could be generated by rationalization of support functions and office staff, some of which could be re-invested in developing teaching capacity in areas where education outcomes are currently weak (mathematics, science etc.). In the health sector on the other hand, the share of wages in total government spending on health care is 50 percent. This is considered excessive considering (i) there is no tertiary care sector and (ii) utilization rates; (inpatient and out-patient visits per doctor) are very low when compared with even Western European countries. The proposed strategy here is to re-invest some of the saved wage bill resources in upgrading primary care capacity.

Table 17: Wage Bill and Primary Expenditures by Function, 2007

| | Proportion of Wage Bill Spending | Proportion of Total Primary Expenditure |
|-----------------------------------|---|--|
| Defense | 9.6 | 6.3 |
| Police | 8.2 | 6.1 |
| Community Development | 6.6 | ... |
| Youth, Sports, Art and Culture | 4.7 | 6.1 |
| Economic Affairs | 9.6 | 11.7 |
| Environment and Natural Resources | 5.6 | ... |
| Health | 17.4 | 11.4 |
| Education | 24.4 | 16.0 |

Source: Bank staff estimates based on MOF data

83. **Priority policy areas for lowering wage bill spending include economic management, community development and youth sports and culture police and defense.** Table 17 shows each policy area that accounted for more than 5 percent of total wage bill expenditure or more than 5 percent of total primary expenditure in 2007. In terms of the wage bill, these categories combined accounted for over 85 percent. Therefore, any further wage bill savings would have to come mainly from these sectors and a pragmatic approach to public sector reform would need to consider these sectors as priority areas for reform.

Reviewing Sector Functions: An Initial Assessment

84. One of the main methods for reviewing government functions and matching organizational structures to strategic priorities is a functional review (see Annex 3 for types of functional review). Functional reviews are essential to organizational reform, especially in public sector organizations. They typically distinguish between (a) strategic and policy-making functions, (b) regulatory and licensing functions; (c) supervisory functions, (d) inspection functions, and (e) service delivery functions. Each type of function brings with it specific requirements for accountability and reporting relations, legal status and management systems. The main purpose of the initial review undertaken here is to examine core government functions and ways to enhance efficiency in public sector operations. This section provides: (a) an overall assessment of inter-institutional relations between core government institutions, parastatals and commercial and non-commercial enterprises; (b) a review of arrangements for the systemic functions of personnel and public financial management; (c) a basic review of common support functions, (over 30 percent of all public sector staff work in these roles which is highly unusual); and (d) a basic review of the functions and organizational structures of: the Ministries of Community Development; Youth, Sports, Arts and Culture; Employment; Finance; as well as of the structure of: the Departments of Environment; Employment; Public Administration; Police and Defense; and a selected number of subordinate bodies.^{26 27}

Core Government and the Public Sector

85. **The administrative structure of the Seychelles public sector is highly complex.** It includes a large number of parastatals (including here, statutory and regulatory bodies, commercial and non-commercial publicly-owned enterprises). This section reviews parastatals and state owned enterprises from an accountability and governance perspective, while fiscal risk issues are addressed in Chapter 1 and trends in transfers to the public sector in Chapter 2.

86. **A review of the parastatal sector reveals the lack of a clear pattern of accountability regimes.** Whereas all bodies in which there is a significant level of government participation should have government representation on their Boards of Directors, in reality government is often not represented. Where government is represented, this tends to be by the Principal Secretary of the Ministry of Finance, who does not (or should not) have the necessary time to fulfill this function in an appropriate manner. Occasionally, representation is by the Central Bank, which as an independent institution should not normally fulfill this role.

87. **The fiscal risks inherent in governance arrangements concern mostly the non-commercial and commercial publicly-owned enterprises.** Most other parastatals are agency type institutions, which tend to function under the strict budgetary control of

²⁶ Bank reviews usually do not address police and defense issues, but in view of the specific context it was agreed to conduct a limited organizational review of these institutions

²⁷ Other public administration bodies have been reviewed in parallel by the DPA.

their parent ministry, and are required to fully apply public service employment rules.²⁸ Whereas agency-type parastatals have greater flexibility in budget management than the ministries and core public sector organizations, this does not apply to setting their establishment numbers or to wage setting, in which they are obliged to seek permission of the DPA as well as their parent ministry. In relation to these institutions, it might be desirable to design a more arms length accountability relationship, as they are engaged in sensitive functions such as regulation and licensing.

88. The adoption of a standardized approach to governance and accountability relations would significantly reduce government exposure to risks and contingent liabilities. Each agency or enterprise is established based on its own Act. Reporting requirements differ according to the Act causing a potential lack of transparency in their operations. Furthermore, government currently lacks the manpower and capacity to effectively monitor the operations of these institutions, which until recently received subsidies in the order of close to 4 percent of GDP. Although the newly established Public Enterprise Monitoring unit goes some way to addressing this concern, it is currently insufficiently staffed and lacks the legal framework to improve financial monitoring, governance and oversight.

89. Standardizing the accountability regime will facilitate a more systematic approach to reforming the sector. Four different types of oversight relations should be developed based on the type of institution and relationship with government. This would mean one for agency type institutions (regulatory and inspection functions), one for non-commercial state enterprises, one for commercial state enterprises with over 50 percent government ownership and one for commercial state enterprises where government has a minority shareholding, until such time as the government shares in these enterprises are divested. This would allow a more systematic approach to introducing public sector reforms, such as: privatization, bringing in firms under management contracts, splitting regulatory and commercial functions, and sale of minority interests. Furthermore, the current lack of clarity in accountability and oversight regimes would likely detract serious private sector interest in many of the sectors.

90. The accountability regime would need to define the extent to which government policies on wages and hiring and firing would apply. Whereas the Seychelles has a public service employment regime that is very close to the private sector employment regime, there are a number of specific regulations that apply only to the public sector, like the Public Service Orders. Whereas these rules do not fully apply to non-commercial publicly-owned enterprises and generally do not apply to commercial publicly-owned enterprises, the extent to which they apply again depends on the specific Act of establishment of each enterprise. This includes the extent to which management has to seek approval from the DPA on the level of additional supplements that can be paid to staff. In the context of the move to put all commercial and non commercial publicly-owned enterprises on a cost-recovery mechanism, it is desirable that all public

²⁸ The main exception is the Health Service Authority, which has a large number of senior management positions to which wage limits do not apply.

service rules (including wage setting), are abrogated for these institutions and that accountability for budget management practices is exercised through the Boards only.

91. **In the short term government should:** (a) significantly strengthen governance arrangements, including consistent government participation on Boards; (b) categorize and standardize establishment acts, at least as far as accountability and reporting relations are concerned and; (c) define a coherent policy on personnel and wage management, which should include the abrogation of public sector rules for all enterprises. With time, the introduction of more flexibility on wage setting and personnel management practices in agencies could also be considered, though in the current context of fiscal adjustment this is not yet recommended. An exception may be made for Chief Executive Officers of such organizations.

Systemic Functions of Personnel and Financial Management

92. **There is a large discrepancy between Human Resources Management (HRM), which is relatively well staffed, and the budget support function at the Ministry of Finance, which appears to be staffed well below what is required.**²⁹ In terms of HRM, the DPA provides central support and guidance on job evaluation and grading, on the negotiation of performance contracts (Public Service Commission contracts), it reviews and approves schemes of service and controls wage setting for individual staff, except for the police and the defense department, and for agencies with delegated authority. Concerning the management of the budget function, central support for the budgeting function is not only poorly staffed, with only some 8 staff in the two units engaged in budget preparation, but also diluted by the separation of the management of the capital and recurrent budget.³⁰

93. **There is a relatively good degree of consistency in the way HRM and budget management functions are organized. They are usually placed under a Director of Corporate Services who reports directly to the Principal Secretary of the institution.** The Health Services Authority has a special status, as it executes its own payroll, and therefore has important additional discretion on administering the allocation of allowances and supplements. Whereas the task of the DPA is complicated by the complex and convoluted process of wage setting, DPA is seen as providing adequate support. However, HR units in ministries tend to be weak, which enhances the role of the DPA in providing guidance and support, yet takes away some of its capacity to engage in strategic planning of HR policies or, indeed, in the management of HR reform processes.³¹

94. **There are two key issues that negatively affect the performance of cross-cutting functional units: (a) shortage of skilled staff and (b) overly complex**

²⁹ The Department of Public Administration has a staff number of approximately 80, including support staff, while it has 100 positions. See IMF (2008) with respect to the Budget Department's

³⁰ This, for instance, is one of the reasons why the MBE exercise has to be conducted only three months into the budget year, salary increases and decisions on supplements had not been adequately reflected in line ministry budgets

³¹ The fact that the Management Audit department, responsible for the MBE exercise and the current functional review work has just one staff is an illustration of the kind of problems experienced.

processes. The limited professional staff able to conduct HR and budget management functions tends to be based at the central ministries responsible for these functions, the DPA (which is part of the Office of the Vice President), and the MOF. Ministry level units are often considered to be little more than mailbox functions. The main solution to this problem lies both in considering re-grading these positions, as well as in the development of targeted training programs. The Seychelles Institute of Management is intending to offer a targeted training program on HRM in the public sector, but this is still under development. This would be the best possible solution to the capacity constraints. Overly complex processes, in particular on public sector wage management and, to a lesser degree, on budget management are another constraint. The public sector wage system will be discussed in the next section, it is comprised of an unwieldy system of allowances, some of which are general, some based on the “scheme of service” and others periodic. Each of these areas requires policy guidance and control. A significant simplification of the wage system would not only bring benefits in terms of enhanced transparency and predictability of the wage system, but also allow for the DPA to shift its attention from control and guidance to strategic direction and capacity development.

95. Budget management itself is another example of a process that should be simplified. The separation of recurrent and investment budget planning dilutes the already limited capacity for budget planning in MOF and reduces the amount of guidance and support that can be provided by the Ministry. A reform of budget preparation and execution procedures, with an integrated budget preparation process, would significantly enhance the effectiveness of the central support function of the ministry.

96. Addressing the above concerns would require the government to initiate a three-pronged rationalization process. First, strengthening central functions. This implies staffing-up the policy planning department in the MOF to an appropriate level, as well as investment in the training of staff of finance and HR units in the line ministries. Second, and in parallel, design a program of process reforms. In the area of budget management this would imply integrating capital and current expenditure budgeting processes and building up clear manuals and guidelines for budget preparation for line ministries, including in capital budgeting, as well as on the job coaching of budget units in line ministries. In HRM this would imply a drastic simplification of the public sector wage system, along the lines proposed in the next section, as well as a rationalization of the scheme of service and performance contracting system. A third phase of the proposed plan of action would require a re-alignment of the organization of the budget department, which would gradually need to build up strategic, and eventually results based budgeting capacity, and of the DPA, which would need to re-allocate internal resources to engage in strategic human resource planning and, eventually, deepening the current approach to performance contracting.

Streamlining Support Functions

97. The Seychelles administration is heavily skewed towards the provision of support services: low-skilled workers make up around one third of total public

service employment.³² This reflects the implicit strategy of the government to be the ‘employer of last resort’, thus absorbing large numbers of staff into functions and positions that, based on international practice, should not be part of the core public service. While the debate on what is “core” in terms of the public service does not have a single answer, there is consensus that basic support functions should where possible be contracted out, either through individual contracts that would generally be based on hours worked³³, or through contracting with private sector providers where a competitive service sector is in place.

98. There are three types of support functions that rely on low-skilled workers, requiring individual strategies to be designed: classic support function; office clerks and employees formerly from the employment scheme. The ‘classic’ support functions are those that administrations tend to contract out, such as cleaning, cooking, security, and laundry. The number of staff currently holding such positions in the administration is estimated to be approximately 70 percent of the total number of staff in ³⁴the bottom wage bracket. This estimate is based on a review of the payroll and HR databases, the PEIR analysis on health and education (see Chapters 4 and 5) and discussions held with counterparts. Parastatals employ similar or in some cases higher proportion of low skilled workers.

99. While the small scale of the Seychelles economy and relatively under-developed role of the private sector poses challenges to any attempts to contract out services, this does not mean that the option should not be further developed.³⁵ Recent experience with contracting out support functions has not always been positive. For instance, the contracting out of the laundry service in the Ministry of Health is considered a success by the Ministry, (although it has not undertaken a detailed cost comparison analysis). However, contracting out of kitchen services in Victoria’s main hospital, is estimated to have increased costs by almost 50 percent in the last two years³⁶ Attempts to contract out security services, for instance by the Ministry of National Development, failed as no competitive bids were received. However, there are three over-arching reasons why contracting out services (to individuals or companies) should be an important strand of the reform program.

- First, contracting out is likely, over time, to lead to cost savings. In this regard it is important to pair the implementation of a contracting strategy with measures that facilitate the establishment of small and medium-sized

³² According to DPA data in 2008.

³³ Contracting services such as security cleaning, cooking and landscaping to individual was for instance successfully completed in Tajikistan in 2006-2007, and took 20 percent of all previous public service positions off payroll. Even though the country does not have a well developed service sector, estimates show that even through individual contracting important saving levels were achieved.

³⁴ This might not apply across the board as the education sector has support services that are relatively easy to contract out.

³⁵ The business environment is currently not conducive to setting up small business and large foreign investors (resorts and hotels) drive up contract cost, finally the service sector is not well developed

³⁶ Based on discussions with the Principal Secretary Health, instead of asking a contractor to provide kitchen services while using the existing facilities in the hospital, a catering solution was opted for, which entails significantly higher cost. The ministry is exploring ways of getting out of the contract and to re-contract the service to a firm that would provide kitchen services using the hospital’s facilities

enterprises, which would be likely to bid for contracts. Initial estimates for contracting out education services, as presented in the education chapter, show that savings of up to 30 percent of current costs could be possible.

- Second, even if cost savings may be limited initially, contracting provides the government with flexibility to respond to fiscal constraints, as services contracted as part of the goods and services budget can be more easily revised downwards than personnel.
- Third, without a rationalization of support staff functions it will be impossible to implement wage system reform measures, due to the over-extension of the public service system.

100. **Taking into consideration the economic context and the mixed experience in implementing contracting reforms thus far, the following strategy for contracting out classic support functions is proposed.** First, to take a government wide decision on contracting out certain categories of services, including at least kitchen services, cleaning services and warden services. Security services for low risk objects and buildings could also be included in this category. Secretarial support services, in particular in core ministries, should remain within the public service, but more effective ways of providing these services could be sought. Second, define common parameters for contracting (e.g. for kitchen services, in house facilities should be used, cleaning services should generally be contracted to firms, in view on security concerns, a specific study on how security services might be contracted out would need to be conducted). Third, test contracting mechanisms for a representative set of services in each area. Fourth, launch a parallel communication campaign on the type of services government is likely to contract, and provide fast track business registration services to facilitate the establishment of new enterprises in these areas. Fifth, where possible, use pooled contracting arrangements, that are likely to make contracts more attractive for bidders. It is important to phase-in contracting measures in an appropriate time frame, e.g. over a 1 year period, to avoid the kind of negative experiences accumulated thus far.

101. **A second set of low-skilled workers comprises mainly office clerks, charged with filing copying, and typing.** These are different from the more-high end office management skills that the government would need to retain, but are classified often at a similar level. In discussions with different ministry representatives it was revealed that there is significant scope for reducing staff levels among this group through rationalization and a change in the current ‘presumptions’ that each member of senior staff has access to at least one or more clerks that can collect and re-file documents, type up reports and do copying and other tasks. In reality, most office clerks are not fully occupied and even where they are, much of the work they do is low value-added.

102. **A third set of low-skilled workers constitutes a very specific case: these are staff recruited from the former social employment schemes** (e.g. the beautification and/or Unemployment Reduction Scheme). It is estimated that in the Department of Community Development alone there are some 550 staff in this category, and another 203 staff work in the remainder of the administration. It is estimated that this category makes up the remaining 30 percent of low skilled workers. In discussions with the

Department of Community Development it was emphasized that of the 984 district level positions currently existing in the Ministry (178 of which are vacant), approximately 730 are low skilled posts (550 occupied) and that district offices could be run with as little as 120-125 staff. Productivity of these workers is said to be negligible, and they therefore represent a clear burden on the budget.

103. **It is recommended that government at the highest level take a strategic decision to terminate their employment relationship.** At the same time government should review options to assist all those facing redundancies in seeking alternative employment (and other active-labor market policies), in light of the extent of expatriate labor relied upon in the country. Active labor market policies and social security issues will be considered in more detail in phase two of the PEIR. Net savings to the government could amount to over SR 28 million per annum, or 4.7 percent of the public sector wage bill, which would give the government options to re-invest part of these resources into active-labor market programs.³⁷

Review of Selected Institutions

104. Based on discussions with the authorities, and an initial review of public expenditure composition, more in-depth reviews of the following institutions was conducted: Department of Community Development; Department of Youth, Sports, Culture and the Arts; Ministry of National Development; Ministry of Finance; Department of the Environment; Ministry of Employment and the National Human Resource Development Council; Department of Public Administration; Police and Defense departments under the President's Office. The details of the individual organizational reviews can be found in the Annexes.

105. **To summarize, these in-depth reviews together with the education and healthcare chapters, provide evidence that there is significant scope for rationalization measures in the administration.** A strategic approach to restructuring and rightsizing should involve:

- Changing the role of the state from provider to facilitator. This is the most complex area of the process, and should include e.g. provision of social housing.
- Design and implement a program of gradual transfer of functions to other actors (communities (e.g. youth programs), not-for profit institutions (e.g. homes for the elderly) and, private sector (e.g. burial services).
- Design and implement a program of contracting-out support services that would apply across the board where feasible. Suggest phasing this with a focus on catering, landscaping and cleaning services in the first half of 2009 and more complex functions (security) later.
- Strengthen core functions such as budget management and HRM functions, where needed by adding or training additional staff.

³⁷ Not including potential retirement cost where applicable.

- Build capacity to manage the public sector reform programs.
- Implementation of ‘quick win’ solutions such as departmental mergers and phasing out staff that do not fulfill core functions.
- Phase out the superfluous staff at the District Offices.

Estimated Fiscal Impact of Structural Reforms

106. **An initial and conservative estimate of the potential employment impact is up to 2,939 staff which is close to 28 percent of current total staff.** (See Annex 5). This estimate does not take into account *all* institutions, but does comprise all main ministries.³⁸ Most of these staff are low skilled and earn below the average monthly public service salary of SR 4,292. Potential permanent annual savings would amount to SR 107 million. Whereas some duplication with VDS and early retirement numbers is likely, additional savings will also come from reviews of other organizations that are being conducted by the DPA, and real wage bill savings are therefore likely to amount to at least SR 150 million per annum or 26 percent of the wage bill. However, some of these savings would need to be re-invested in the contracting of goods and services and spending in other areas might also increase—such as social security and/or active labor market programs—which would have to be worked out in the course of 2009.

107. There are some important conditions that would need to be respected if the reform program is to be successful.

- First, a communication strategy to engage with communities on their role and responsibility in partnering with government on the delivery of programs is essential. This may pose problems as it requires a change in mentality, which, based on experience in CEE transition states, may take several years to come about. However, given the small size of the Seychelles and the closely interwoven nature of society, this may be less problematic in this case.
- Second, the government needs to move away from ad hoc initiatives and instead plan carefully reform measures. Many of the measures outlined are complex (e.g. housing sector, but even straightforward areas such as burial services will need to be thought through carefully) and will require a serious effort to be designed. External technical assistance would certainly be needed.
- Third, accompanying policy frameworks in areas such as insurance policy, small and medium-sized enterprise development and others will need to be designed if any contracting or transfer effort is to be successful.

108. Finally, care would need to be taken that reasons for redundancies are clearly formulated and argued. The independent Public Service Appeal Board, which is an impartial body with a strong track record in handling public sector employment disputes, is unlikely to accept collective dismissals, unless in the context of agreed programs (such as VDS and early retirement). Individual dismissal notices would therefore be formulated in a way as to not leave these open to contestation. An alternative approach

³⁸ Numbers on the police and defense forces cannot at this point be established.

would be using other instruments (voluntary redundancy and early retirement) also in 2009, which would avoid the risk of contestation, but the former of course brings with it significant cost.

Public Sector Wage Structure Reform

109. **This section reviews the public sector wage system and examines what measures could be taken to bring it into line with international best practice.** Reforming the wage system as such is unlikely to lead to cost savings. Experience from other states shows that if anything it leads to an increase in wage costs as: (a) the re-alignment of wages usually implies that some staff will need to be ‘bumped up’ to fit into new categories, while those that are above grade are grandfathered, and (b) the integration of bonuses and allowances into base pay, which is an essential element of wage system reform, usually brings with it additional costs as there is an alignment of staff along the highest level.³⁹ Nevertheless, wage system reform is essential if the government is to ensure that the core of state functions that remain after the adjustment program is completed, are executed with high quality and that the skills needed for the fulfillment of these functions are retained.

Box 3: International Best Practice in Wage System Reform

Based on the experience of OECD countries, best practice in wage system reform can be summarized as follows:

- Base pay is the main element of total pay, typically forming at least 80 percent (and usually more) of total pay.
- Bonuses are not common—it is generally considered difficult to devise bonus schemes in the civil service environment that are objective and that motivate staff. Where bonuses exist they are usually on an annual basis, taking account of performance over the full previous year.
- Benefits in kind (i.e., housing, cars, mobile phones) are not common—benefit schemes are regarded as expensive to administer and potentially divisive, i.e., some people get greater value from the benefits than others for whom the benefits may not be relevant.
- Total pay levels in the civil service are typically 80 percent to 90 percent of private sector pay levels. This recognizes that civil servants usually have greater job security than in the private sector, and civil service pension schemes are generally comparable with those in the private sector.
- Pay structures are usually based on a series of grades that reflect relative job levels. The grade of a job is usually decided by means of a job evaluation system that allocates jobs to grades on the basis of an assessment of relative job outputs, accountability, knowledge and skills required, management responsibility, the extent and nature of contacts inside and outside the department, etc.
- For each grade there is usually a pay range that allows staff at each level to receive an annual salary increase each year (up to the maximum of the pay range) to reflect increasing ability and performance at that job level.
- There is a significant differential between pay levels at successive grades, normally at least 12 percent (and often more). This provides the financial motivation for staff to accept a higher level of responsibility.
- There is a common grade and pay structure, at least across the public service, which reflects the critical HR principle of “equal pay for equal work.” Having a common structure and common pay levels facilitates the movement of people between institutions, opens up career and promotion prospects on at least a sector-wide basis, and helps to foster a corporate identity.⁴⁰

³⁹ Some good recent examples of wage system reforms include Serbia and Latvia. Among island states Cape Verde has engaged in an important wage system reform exercise, but this has not yet been completed.

⁴⁰ Higher pay levels are sometimes provided for specific jobs that are at a premium in the market, i.e., high level IT or financial skills. (Such pay levels are regarded as exceptional, require specific justification, and are subject to regular review.) Also, agencies that are created as separate entities generally have more freedom to decide their own pay levels but in practice tend to be fairly consistent with general pay levels.

Main Features of the Current Wage System

110. **The main features of the current system are:**⁴¹

- A highly compressed base pay system, which is less so when allowances are taken into consideration. Base pay compression ratios are approximately 1:2.7, while a minimum of 1:6 is considered essential to retain staff. However, when all supplements and allowances are taken into account, compression ratios actually go up to 1:7.
- A large number of allowances and supplements. These include: (a) 'schemes of service' which provide specific allowances for specific professional groups and/or institutions, (b) performance contracts, (c) 'inducement supplements' for hard to recruit posts, and (d) periodic allowances, such as overtime payments, reimbursement of personal telephone costs etc.. Staff can receive up to 14 different types of supplements and allowances.
- A partially integrated system, covering most of the public service, except for the police and defense sector. This is not uncommon. However, in terms of payroll management the health sector is administered separately from the rest of the public service, which poses certain risks as controls on the proper application of rules are limited.
- A wage grid that has a relatively small number of grades and steps compared to the range of positions it is expected to cover, e.g. from cleaners to principal secretaries.

111. **Several reform steps have been taken over the last two years with the aim to make the wage system more performance based, including the use of performance contracts for certain categories of staff.** The posts to which performance contracts apply are defined through a job evaluation system which was designed with the assistance of the Commonwealth Secretariat. However, so far the job evaluation system has been used only for this specific purpose.

Real Wages, Allowances and Supplements

112. The current salary structure includes 5 non-graduate grades and 4 senior (graduate) grades, with 6 salary points (steps) in each, except for the two lowest grades that have 4 and 5 points respectively. The structure is heavily skewed towards the low skilled and support office staff that make up 35 percent of the public service. In addition it establishes salary levels rather than distance percentage points, which makes the system inflexible and subject to subjective wage setting. The salary structure sets base wages only, between SR2,200 and SR6,400 per month.⁴²

⁴¹ This section is based on Kwami, E. (2006), Public Sector Salary Review, Summary Final Report, Commonwealth Secretariat.

⁴² A few staff in the Youth department are listed as earning SR 1,864 per month, which is lower than the minimum wage in the public service.

113. **Base pay can be as low as one third of real wages.** The basic features of the system of allowances and supplements are discussed at length in Kwami (2006); we draw upon this work to highlight a few key features of the system here. The first important feature of the current system is the discrepancy between base pay and real pay, and the asymmetric nature of this discrepancy. Base wages bear no relation to *real* take-home wages, which range from about SR 2,400 (low skilled worker) to SR 18,000 (e.g. a Principal Secretary) for most of the public service, and even higher for a few outlying agencies. The average real wage in the public service as of August 2008 was SR 4,292.

114. **The wage system has a multitude of schemes of service and periodic allowances.** The first in particular is problematic. Whereas schemes of service had been designed to determine professional requirements for specialized positions and the related rate of career advancement, they have become an instrument to address the shortcomings of the current wage system without addressing the root cause. Schemes of services, which have mushroomed in recent years, basically provide additional salary supplements based on qualification levels of staff. However, in a well-designed wage system, qualification levels should be reflected in the job evaluation process not assessed separately. Therefore, schemes of service as currently used present a clear break with best practice. In addition, some schemes of service, in particular those for health sector staff, include a number of factors, which are subsequently lumped together as one category in the payroll system. Not only is this inappropriate from the point of view of good practice in wage policy, it is non-transparent and open to potential abuse, particularly since the health payroll is administered separately from the general payroll. For particular categories of employee or professional it might be necessary to review the salary system and provide a separate wage grid. This might apply for example to medical professionals and teachers. However, a decision on this issue would depend on the final design of a new wage grid.

115. **Periodic allowances are a common feature of many public service systems, though the global trend is to move towards consolidating such allowances into base pay.** The reasons for this are that they are; (i) costly to administer and; (ii) open to abuse and mismanagement. Periodic allowances in the Seychelles include the 'classical' categories such as overtime, transport, telephone cost, on-call etc.

116. **Public Service Commission Supplements are large and beyond what is established good practice.** Whereas the mechanism of performance contracts for defined positions is in line with modern principles of public management, and the method of identifying the posts is transparent (i.e. based on a job evaluation process) the size of such supplements goes well beyond what is good practice (see the principles listed above). Similarly, the 'inducement allowances' for posts for which skills are in short supply are a feature of many pay and grading systems, but also in this case appear to be applied to many more positions than would normally be the case, i.e. they should be the exception and not the rule.

117. **Top salaries are significantly higher in agency-type institutions** (such as Boards and Authorities). For example, in the Revenue Commissioners, the top salary is

SR 41,000 per month; and in the Health Service Authority (HSA), three senior staff earn monthly wages of between SR 31,000 and 32,000 compared to the Principal Secretary wages of around SR 18,000.⁴³ (While the inclusion of expatriate employees on payroll is an anomaly—these should be hired under service contracts since they are temporary services contracted in and not public service permanent staff—it is striking that the HSA has top salary levels for local employees 70 percent higher than the average for a Principal Secretary.⁴⁴

118. There is a trend to public sector wage increases by establishing ‘Authorities’ to take on elements of state functions. While moving certain regulatory and service delivery functions to agency-type institutions make sense from the point of view of effective public management, at the same time wage levels for managers in these units appear to have skyrocketed (e.g. in the HSA which previously had a top salary of SR 23,000). While it may be necessary to pay higher wages for (temporary) management of these bodies, care should be taken that ‘Authorities’ are not proposed solely for the sake of circumventing pay policy principles.

119. As a result, average wages per core public sector institution vary significantly. Among the ministries and institutions review, the average monthly salary ranges from SR 3,119 in the Ministry of Community Development, Youth, Sports, Culture and Arts (MCDYSCA) to SR 4,865 in the Ministry of Finance. By comparison, the average wage in the public health sector is SR 4,578 and in public education SR 4,231. Public sector health and education wages are relatively high due to scheme of service allowances (see below) and in the health sectors, as discussed a result of the outlying senior management salaries. The MCDYSCA on the other hand has few schemes of service and a large proportion of low skilled workers.

120. In sum, the wage system is neither efficient nor transparent, nor necessarily provides for a competitive wage system to attract and retain qualified senior staff. In short these features arise from: (a) including a large a number of categories of staff; (b) setting artificially low base wage levels for senior staff, usually to give the impression of egalitarianism; and (c) fragmenting pay composition. Such wage systems typically lack transparency, are costly to administer (as payroll needs to take into account of ten or more components), open to abuse, and make pay levels unpredictable for staff.

Establishing a Functioning Wage System.

121. The establishment of a functional wage and grading system will need to be based on an in-depth fiscal analysis, as it will need to reflect the budget constraints which the government will continue to face for at least the next five years. Nevertheless, this reform is an essential element of a reform process that aims to reduce the size of the public service while retaining the quality of development outcomes. Putting in place a new wage system with the 2010 budget would therefore be an important reform objective. Here, we set out the overview of a reform agenda that would

⁴³ The posts are for expatriate and Seychellois employees.

⁴⁴ In fact, HAS has ten positions with a monthly salary in the range of SR23,000 to SR32,000.

subsequently need to be followed up by detailed technical work. The government should continue to draw upon the technical expertise provided by the Commonwealth Secretariat on job evaluation and process design. Additional technical expertise should be sought to conduct a detailed fiscal impact assessment which, based on experience in other states, is likely to take a few months to complete.

122. Bringing the pay and grading system in line with international principles would require: a revision of the current salary structure, bringing schemes of service back to their original purpose and phasing out periodic allowances and limiting PSC supplements. A revision of the salary structure should integrate most allowances and supplements into base pay, and therefore reflect an appropriate compression ratio. The new structure should be permanent, and be defined in fixed percentage steps that would automatically change with each increase of the base salary level (the lowest pay grade). This would prevent the erosion of senior salaries that tends to lead to the invention of additional supplements and allowances. The new wage structure should also reflect the new structure of the administration and an emphasis on retaining essential and professional staff, as well as be fiscally viable.

123. The compression ratio for current *real* salary levels (lowest paid staff to the average Principal Secretary) implies of approximately 1:6 is at the lower end of what would constitute an acceptable compression ratio in international comparative terms. Establishing a durable wage grid may therefore require setting a higher compression ratio target, e.g. 1:7 or above, though this should be determined following a fiscal impact assessment to ensure that this is feasible in the near future. This does not take into account a small number (up to 14 posts in total) of outlying salary levels paid to senior management in agencies. A policy on pay of senior executives of Authorities and Agencies should be adopted which could be based on negotiated contract levels if their Act of establishment so provides. It is also recommended to review the specific case of the HSA, which appears to have set exceptionally high supplements for senior staff compared to other state bodies, to establish whether there is a necessary justification on technical grounds. Making a wage grid durable requires setting differentials and percentages rather than absolute numbers.

124. The new wage grid should reflect the changed profile of public sector organization following restructuring. Based on the conclusions of the review conducted in the previous section and its conclusions on the need to reduce low skilled and support service posts by two thirds or more, the grade structure equivalently should have no more than 2 grades for support staff (reflecting moves to contract out or eliminate most of these functions by 2010). This should be sufficient to accommodate essential secretarial and clerical support and essential drivers. It is proposed to have 6 grades for professional staff, while each grade should have at least 10 steps to ensure the possibility for career growth and to allow for the elimination of the current practice of paying experienced staff 'off pay-band' (see Kwami 2006 reference). A wage grid based on these assumptions is shown in Table 18.

Table 18: Potential Wage Grid Structure under Restructured Public Service Model

| Positions | | | | | | | | | | | Grade |
|-----------------------|------|------|------|------|------|------|------|------|------|------|--------------|
| Step: | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | Differential |
| Chief Executive Grade | 4.29 | 4.51 | 4.73 | 4.97 | 5.22 | 5.48 | 5.75 | 6.04 | 6.34 | 6.66 | 25.0% |
| Senior Executive 1 | 3.43 | 3.6 | 3.79 | 3.97 | 4.17 | 4.38 | 4.6 | 4.83 | 5.07 | 5.33 | 25.0% |
| Senior Executive 2 | 2.75 | 2.88 | 3.03 | 3.18 | 3.34 | 3.51 | 3.68 | 3.86 | 4.06 | 4.26 | 25.0% |
| Senior Officer 1 | 2.20 | 2.31 | 2.42 | 2.54 | 2.67 | 2.8 | 2.94 | 3.09 | 3.25 | 3.41 | 25.0% |
| Senior Officer 2 | 1.76 | 1.85 | 1.94 | 2.03 | 2.14 | 2.24 | 2.36 | 2.47 | 2.6 | 2.73 | 25.0% |
| Senior Officer 3 | 1.41 | 1.48 | 1.55 | 1.63 | 1.71 | 1.79 | 1.88 | 1.98 | 2.08 | 2.18 | 25.0% |
| Grade 1 | 1.13 | 1.18 | 1.24 | 1.30 | 1.37 | 1.44 | 1.51 | 1.58 | 1.66 | 1.75 | 12.5% |
| Grade 2 | 1.0 | 1.05 | 1.1 | 1.16 | 1.22 | 1.28 | 1.34 | 1.41 | 1.48 | 1.55 | |
| Step Differential: | 50% | | | | | | | | | | |

125. **The grid should apply only to budget-funded organizations and not to commercial and non-commercial publicly-owned enterprises.** As an exception contracts outside the grid could be negotiated, but only for the heads of Agencies and Authorities, as per their approved Acts of establishment. For all other agency staff the grading system should fully apply, at least until the end of the fiscal adjustment program, even though agencies should be given delegated authority to administer the wage system. Fiscal viability, the ‘bottom-up’ method of setting the wage grid, should limit the fiscal cost of this option. The proposed wage grid reflects the fact that supplements and allowances are currently skewed towards higher-end staff, by setting the grade differentials between grades 1 and 2 at a lower level than those between grade 2 and the subsequently professional grades. Nevertheless, costs of introducing a new system will need to be assessed in detailed. Particularly, as a certain number of jobs will need to be re-graded, due to the distortions currently introduced through different schemes of service and allowances which may reflect only partially the degree of post-holder responsibility and job complexity. This should be the starting point of the job evaluation exercise.

126. **A job mapping exercise can be conducted once decisions on the overall reform program are taken, and could be started in the second trimester of 2009, so that fiscal impact on the 2010 budget could be assessed on this basis.** For this the government will need to bring in a technical team, which could be led by the expert currently financed by the Commonwealth Secretariat, supported by sector specific reviewers for job evaluations in health, education, other social services (including community development, youth, arts and sports), productive sectors and environment, and a small team of fiscal analysts. ⁴⁵

127. **The proposed wage grid is based on the assumption that most allowances and supplements would be eliminated and this will therefore require a fundamental re-thinking of the approach to using schemes of services.** Instead, the grading system proposed would provide sufficient scope to account for complexity of work (which is one element of the current scheme of service supplements) for all professional groups through a job evaluation system. In order to arrive at a common wage grid, even if possibly with different mechanisms for determining placement and promotion according to professional

⁴⁵ Job evaluations should be done by the respective institutions but externally reviewed.

groups if this is needed, schemes of service would need to be brought back to their original purpose, which is to determine professional standards. The DPA would therefore need to instruct all institutions that remain under the central wage grid to revise their schemes of service accordingly.

128. Periodic allowances (yet another factor limiting transparency and predictability in public sector wage policy) would also be phased out under this model, and limits placed on the PSC supplements.⁴⁶ It would be proposed to apply periodic allowances only to those positions in grades 1 and 2, and to tighten the monitoring system for their application. A rationalization of all possible allowances is also proposed. Finally, it is proposed that the current system of PSC posts be retained for certain categories of posts, including all the chief executive grade and selected positions in the two senior executive grades, and that the method for identifying these posts (based on the job evaluation method designed by the Commonwealth Secretariat consultant) should also be retained (and the method should in fact be applied to the classification of all posts). Performance contracts should also continue to apply. However, supplements for performance should be reduced to 15 percent or less of base pay, based on a performance assessment (annual performance evaluation), to ensure that a base pay to real pay ratio of at least 80 percent is respected for these positions. Inducements for difficult-to-hire skills are an appropriate tool for personnel management and may also be retained. Their use should be based on a proper analysis of labor market conditions in the sector concerned. These inducements should be revised on an annual basis.

Conclusions and Implementation Steps

129. In conclusion, considering the macro-fiscal context of the Seychelles, and the contours of the adjustment program on which the Government has engaged, a two pronged approach is needed:

- A transition from emergency across the board staff cuts to a more strategic approach on the functions undertaken by the state, and the way in which these functions are provided (e.g. direct provision or facilitation).
- Initiate a wage system reform to put in place the conditions to safeguard the impressive development outcomes that the Seychelles has already achieved.

130. The two sections of this chapter have set out a possible path towards achieving both objectives, with a tentative timeline along which these measures could be achieved. The review undertaken shows that turning around the current system, both in terms of functions fulfilled, delivery methods and incentives, is possible in a medium term timeframe of four years, the objective set by government. In doing so there should be active engagement by senior government leaders to encourage community responsibility for important aspects of policies currently delivered solely by the state. Furthermore, there needs to be creative solutions for the issues that make the implementation of 'classical solutions' such as contracting out, concessions, cost sharing more difficult to

⁴⁶ They are also reviewed at length in Kwami (2006).

implement in a remote small island context, while recognizing that remoteness and size are not reasons for a lag in productivity. This means investment in those functions that are crucial to the operation of the state, even in a difficult fiscal context, and resisting the temptation to see cost reductions as an ideology. At the same time, transparency and effectiveness of public spending should be placed before political interests or counterproductive aspects of egalitarianism, especially in public sector wage policy. If these basic principles, which are referred to throughout this report, are adhered to, the more technical solutions proposed in this Chapter are likely to be successfully implemented.

| Implementation Step | Timeframe |
|---|---|
| Government decision on the structure and design of the wage grid, its scope of applicability (what organizations and what positions) as well as decisions in principle on schemes of service, periodic allowances, PSC supplements and inducements. | December 2009 |
| Undertake initial fiscal impact assessment | December 2009 |
| Issue mandatory instructions on revising schemes of services | January 2009, for completion by end February 2009 |
| Conduct a review of periodic allowances and scope for phasing out at least 50 percent of all categories, considering they will no longer apply to professional and management staff. | by end February 2009 |
| Revise regulations on PSC supplements and inducements in line with revised wage policy. | by end February 2009 |
| Initiate combined job mapping and fiscal impact assessment exercise, including Proposals by individual institutions | by end March 2009 |
| Initial costing exercise to be conducted based on proposals submitted | April-May 2009, |
| Review to be conducted. | arbitration as needed in |
| Final review of cost based on changes introduced | June 2009 |
| Determination of final base wage number for 2010, based on fiscal scenarios, real cost savings from restructuring and projected wage growth, | September 2009 |

IV. HEALTHCARE

Health System Context

131. **This Chapter examines issues of financial sustainability, efficiency in the allocation of funds and productivity in the delivery of care in the health sector; and proposes short-term and medium-term measures to improve the sector's performance.** The Chapter also aims to respond to the government's request to present key-issues to consider if the health system were to move from a tax-funded health system (as it currently is) to one based on social health insurance. A complete overview on the subject social health insurance or any recommendations on its feasibility for the Seychelles is not undertaken, as this would go beyond the scope of the PEIR.

132. Following a brief description of the health sector context, the Chapter examines the extent of total funds for health and a breakdown of public spending in the health sector to compare this as well as health outcomes, with other small island states. The broad overview leads into a discussion and recommendations in several specific areas where there is scope for productivity and efficiency improvements. Since we do not find that the total amount of public resources spent in the health sector is particularly low by international standards, these funds could be reallocated within the sector in order to ensure even better health outcomes (which are for the most part are quite good) and improved financial viability of the sector.

133. **The system is characterized by successful health outcomes, and low utilization rates comparable to European levels.** Seychelles has a tax-funded health system that offers primary and secondary health care in the public sector and provides for prioritized patients to travel overseas when in need of tertiary and specialized care. The Ministry of Health (MOH) has policy, strategic, planning and analytical functions and is institutionally separate from the HSA which is responsible for the management oversight of the public health sector (including hospitals). Health facilities do not have any management autonomy

134. **At the same time, the public health sector is highly indebted and characterized by several inefficiencies in the allocation of funds and provision of care.** The health sector is heavily indebted in foreign currency, as a result of services procured for the overseas treatment program, and all pharmaceuticals and medical supplies are imported. The health budget is primarily formulated on historical expenditures of input factors. Funds are allocated from the Ministry of Finance (MOF) to the Ministry of Health (MOH); and funds and service provision are managed centrally. This has resulted in several areas of inefficiency in funds allocation, and poor productivity indicators. The government has started to address overcapacity and inefficiency in the health sector and is committed to implement measures to reduce costs in line with the fiscal adjustment program. The impact of reforms on the sector's performance will need to be monitored and evaluated carefully, in order to identify any adverse effects, and to develop corrective measures as necessary.

135. **The government is interested in the possibility of introducing social health insurance to raise additional funds for the health sector.** To prevent any negative effect of adding a payroll tax on the labor market, there is a need to implement several measures before considering implementation of a social health insurance scheme. First, the health sector needs to become more efficient to ensure the labor market does not have to pay for the current inefficiencies; second, there is a need to streamline the social security system and consolidate current benefits to reduce the existing social costs borne by the taxpayer; and third, if the government wishes to introduce a health insurance payroll tax without increasing the overall labor cost, then the social security contribution rate should be lowered accordingly.

Health Status

136. **Health outcome indicators; including life expectancy, child and maternal mortality rates are better than many other small island states and are comparable to European levels.** Life expectancy is 73 years, and non-communicable and life-style related diseases dominate the country's burden of disease. Mortality rates are highest for heart diseases (13.2 percent), hypertensive diseases (8.9 percent), and pneumonia (6.8 percent). Diabetes and traffic accidents cause 3.7 percent and 2.5 percent of all deaths, respectively, highlighting the need to invest in both healthy lifestyle and promotion accident prevention. (See Table 19).

Table 19 : Health Outcomes Indicators for Seychelles and Comparators, Latest Year Available

| | Seychelles | Barbados | Mauritius | Cape Verde | Trinidad & Tobago | Fiji | Maldives |
|--|------------|----------|-----------|------------|-------------------|------|----------|
| Life Expectancy, years | 73.0 | 75.4 | 73.0 | 70.7 | 70.0 | 68.3 | 59.0 |
| Infant Mortality, per 1000 births | 11.0 | 11.0 | 13.0 | 26.0 | 17.0 | 15.7 | 75.0 |
| Under-5 Mortality, per 1000 | 13.0 | 12.0 | 15.0 | 35.0 | 19.0 | 17.9 | 114.0 |
| Maternal Mortality, per 100,000 births | 0 | .. | 24.0 | 150.0 | .. | 32.0 | 684.0 |
| Percent of births attended by skilled health staff | | 98.0 | 99.2 | | | 92.0 | 41.0 |

Source: WDI (2008). Seychelles Annual Health Statistics (2007).

Health Spending

137. **Total health spending, including from private and public sources, amounted to about 4 percent of GDP in 2007** (Table 20). About 89 percent of this comes from the government health budget, and an estimated 11 percent is from patients in the form of out-of-pocket payments.⁴⁷ However, private spending is expected to be much higher as

Table 20: Total Health Spending, 2007

| | SR millions |
|-------------------|-------------|
| Public | 214.5 |
| Private | 25.6 |
| Total | 240.1 |
| per capita (SR) | 2,823 |
| in percent of GDP | 3.9 percent |

Source: MOF, MOH, NBS

this amount probably does not include out-of-pocket spending of patients who seek treatment abroad at their own cost. Private spending is mainly used to pay for private sector care and to purchase pharmaceuticals, which averages SR 300 per capita per year. In addition, there are some small donor-funded investments in the health sector including capital investment; (for example, Anse Royale hospital renovation is financed by a Chinese grant), and donor-funding of expatriate physicians. These amounts should be added to the total health spending when a National Health Accounts (NHA), which are due to be conducted later this year.

Table 21: Trend in Government Health Expenditures, 2005-2007

| | 2005 | 2006 | 2007 |
|---|-------|-------|-------|
| Public health expenditures, SR millions | 174.7 | 203.7 | 214.5 |
| in percent of total expenditures | 8.9 | 7.7 | 7.8 |
| in percent of GDP | 3.6 | 3.8 | 3.5 |

Source: Ministry of Finance

138. **Government spending on healthcare is comparable with other small island states and countries at similar levels of GDP** (see Table 22). In terms of the share of total government spending, health care spending declined slightly between 2005 and 2007 from 8.9 percent to 7.8 percent of total spending, and as a share of GDP from 3.8 percent to 3.5 percent (Table 21).

139. **Government health spending is predominantly for hospital treatment and primary health care (PHC) in community health centers.** The share of the total health budget spent on hospital care (46 percent) is very high, especially when compared to European countries with much more sophisticated hospital care systems. For example, Portugal spends around half this, only 23 percent of the health budget and Poland 29 percent on hospitals. Primary health care accounts for around 25 percent of spending, while around 20 percent of public health spending is for “corporate services” (previously administration and planning) which is mainly used to pay administrative salaries and wages (35 percent), some goods and services (21 percent) and vehicles (13 percent). The public/environmental health budget (4 percent of spending) is used to pay for the environmental health workforce, which is quite sizeable. The largest increase in

⁴⁷ Note, the 2007 household budget survey (HBS) reports health expenditures by households for pharmaceuticals and private sector care in the amount SR12.77 million. However, HBS generally under-report private health spending; hence, we assume that households spend twice as much. The resulting amount is still less than the WHO 2004 estimates for private health expenditures in Seychelles which is 24 percent of total health expenditures.

spending from 2007 to 2008 is reported by the division for planning and information; (from SR 4 million to SR 19 million in the first six months of 2008) and this increase should be further examined to determine the rationale and possible cost-reducing measures (See Table 23).

Table 22: Seychelles and Comparators, Health Expenditures, Average 2002-2004

| | GDP per capita 2006 (current \$) | Public health expenditure, in percent of GDP | Private health expenditure, in percent of total health expenditures | Health expenditure per capita (current \$) |
|--------------------------------|---|---|--|---|
| Maldives | 2,375 | 4.0 | 21.0 | 159 |
| Fiji | 3,826 | 3.4 | 36.5 | 128 |
| Dominica | 3,978 | 2.9 | 28.7 | 211 |
| St. Vincent and the Grenadines | 4,032 | 5.0 | 34.6 | 200 |
| Belize | 4,457 | 2.5 | 48.9 | 186 |
| Grenada | 4,796 | 3.6 | 26.9 | 288 |
| Mauritius | 5,105 | 3.9 | 46.9 | 190 |
| St. Lucia | 5,354 | 4.2 | 33.3 | 225 |
| <i>Seychelles</i> | <i>8,899</i> | <i>3.5</i> | <i>11.0</i> | <i>534</i> |
| St. Kitts and Nevis | 10,316 | 4.7 | 36.6 | 478 |
| Estonia | 11,238 | 3.4 | 23.3 | 364 |
| Antigua and Barbuda | 11,583 | 1.4 | 28.2 | 478 |
| Barbados | 11,751 | 2.2 | 33.8 | 712 |
| Trinidad and Tobago | 13,700 | 5.7 | 62.0 | 303 |
| Group average | 7,244 | 3.7 | 33.7 | 316 |

Source: WDI 2008

140. **Half of government health spending is for wages and salaries, which is high given the level of care provided in-country.** In 2007, the public health sector employed 12.8 percent of the staff working in the public sector. The health workforce wage bill accounted for 17.4 percent of the total government wage bill in that year (see Table 24). This is very high compared to the EU average of 29 percent, especially considering that tertiary care (with more specialized staff) is not offered in the Seychelles but patients travel overseas for treatment.⁴⁸ As reported in Chapter 3, the average monthly income in the health sector is also high compared to elsewhere in the public sector and amounts to SR 4,213 of which SR 3,386 (80.4 percent) is salary and SR 827 (19.6 percent) allowances on average.

141. **Expenditures for salary and wages could be reduced substantially by releasing staff in areas with lower productivity.** The Government is advised to substantially reduce the current wage bill by identifying and releasing staff in areas of low productivity, and examine the possibility for reducing salaries and allowances for highly paid positions based on a comparison of salaries and functions across the Government.

⁴⁸ See WHO Euro: Health For All database.

Table 23: Government Recurrent Health Expenditures by Division, 2005-2008

| Division | 2005 | | 2006 | | 2007 | | 2008 (Jan-Jun) |
|-------------------------------|----------------|---------------|----------------|--------------|----------------|---------------|-------------------|
| | SR millions | % of total | SR millions | %of total | SR millions | % of total | SR millions |
| Hospital Services | 79.6 | 47.9 | 85.4 | 46.3 | 92.0 | 45.8 | 58.4 |
| PHC | 40.3 | 24.3 | 44.4 | 24.1 | 50.2 | 25.0 | 23.5 |
| Corporate Services | n.a. | n.a. | 36.3 | 19.7 | 41.5 | 20.6 | 7.7 |
| Administration and Planning | 34.0 | 20.5 | 4.8 | 2.6 | .. | .. | .. |
| Environmental / Public Health | | | 5.3 | 2.9 | 7.9 | 3.9 | 1.9 |
| Disease Prevention & Control | 4.2 | 2.5 | | | | | |
| Home for the Elderly | 3.1 | 1.9 | 4.0 | 2.2 | 4.5 | 2.2 | 1.9 |
| Planning and Information | 3.4 | 2.1 | 3.9 | 2.1 | 4.1 | 2.0 | 19.2 |
| Minister's Secretariat | 1.5 | 0.9 | 0.6 | 0.3 | 0.8 | 0.4 | 0.4 |
| Total | 166.0 | 100 | 184.6 | 100 | 201.0 | 100 | 112.9 |

Source: MOH

142. **Pharmaceutical spending has been brought down by adherence to expenditure control measures introduced in the last couple of years.** MOH have already introduced several measures to improve the efficiency of spending on pharmaceuticals, and these measures have led to a substantial decrease in pharmaceutical expenditures since 2004 (Table 24). These measures include procuring only generic drugs and least costly drugs on the essential drug list. This highlights the need for continuous tight expenditure control in tendering and procurement practices, price setting, and ensuring physicians' adherence to standard prescription protocols.

143. **Pharmaceutical spending could potentially be more efficient still, by eliminating consumption tax, introducing co-payments for patients to avoid over-demand and reviewing the timely allocation of foreign exchange to pay foreign pharmaceutical suppliers.** There are two further measures to be considered. First, the rationale for charging consumption or sales tax on publicly-provided pharmaceuticals should be re-examined, since the government is incurring an administrative cost to collect a tax on its own spending. Second, patients currently do not pay for pharmaceuticals provided in the public sector. In other countries this policy has led to over-prescription of pharmaceuticals and escalating costs. The MOH is advised to follow the example of health reforms in other countries to share costs with patients by introducing a small co-payment. These measures are particularly important in a financially depleted health sector and will help to prevent over-demand which can lead to rationing and stock-outs—particularly where pharmaceuticals have to be imported and prepaid in foreign currency (the shortage of which has constrained spending in the past). It is also recommended to evaluate the system for foreign exchange allocation by MOF for pharmaceutical purchases to facilitate purchasing products in bulk (even larger than currently undertake) which would therefore be at a lower unit-price, and to ensure timely payment so as to establish a relationship with a broad range of potential suppliers.

144. **Capital expenditure commitments should be re-examined, prioritized and kept to projects which can be afforded in the medium-term** (Table 24). In general,

capital expenditures are not too high, insufficient funds to pay for construction often leads to delays in project completion resulting in up to 30 percent cost overruns over time (see Chapter 2). Hence, to prevent such cost increases, the overall capital budget should not be spread across too many projects that cannot be completed or maintained—and the same is true in the health sector. Several capital investments are often supported and financed in part by donors this can influence the relative priority of capital projects according to the financing available. The MOH is advised to monitor the financial flow of these investments for the purpose of the NHA; and conduct investment planning to prevent high maintenance costs, and ensure that new investments in the health sector can be run and do not add to inefficiencies that already exist.

Table 24: Government Health Expenditures by Economic Classification, SR Millions

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------------------------|-------|-------|-------|-------|-------|
| Wages and salaries | 45.6 | 94.2 | 106.7 | 106.0 | 55.8 |
| Goods and services | 31.8 | 35.1 | 40.5 | 51.8 | 31.9 |
| <i>Of which</i> Pharmaceuticals | 50.9 | 36.7 | 37.5 | 43.3 | 25.2 |
| Maintenance | 2.1 | 1.7 | 3.0 | 2.9 | 1.5 |
| Vehicles | 4.1 | 5.3 | 5.4 | 5.8 | 2.5 |
| Capital | n/a | 8.6 | 19.1 | 13.5 | 8.0 |
| Total | 128.3 | 174.7 | 203.7 | 214.5 | 120.9 |

Source: Bank Staff estimates based on MOH and MOF data

145. **There is scope to lower incidental costs across the health sector through cost controls and improvements in contracting-out.** The government is recommended to examine expenditures in each division and in each expenditure category to identify unwarranted spending, particularly for non-medical costs. For example, in 2007 corporate services spent 6 percent of its total expenditures on local telephone costs, which was considerably higher than other departments. Corrective action by the MOH meant that in the first six months in 2008, this amount has been reduced substantially. The MOH is therefore encouraged to continue with tight cost control to reduce spending to lower levels. Another high cost item is the food supplies contract for hospitals which has been outsourced to a private provider. Expenditures for hospital food increased radically from SR 6.8 million in 2005 to SR 10.8 million in 2007, comprising an astonishing 12 percent of total hospital expenditures. Clearly, the MOH needs to re-examine the contract for food supplies and is advised to conduct a comparative cost analysis to evaluate different food providers. Critically, this should be done on the basis that the hospital kitchen (which is currently being used as a store) could be used by the contracted out private provider which could considerably lower costs. In line with the recommendations in Chapter 3, instead of each individual Ministry pursuing contracting-out for similar services to private companies; the government should also consider a more coherent approach across government possibly centralizing the contracting-out function for all Ministries at the Department for Public Administration. This would potentially allow the government scope to negotiate a lower price for a larger quantity of goods and/or services.

146. **The health sector is highly indebted, mainly because of the overseas treatment program and imports of medical supplies.** Arrears have accumulated over

the past six years and the stock of arrears combined with outstanding debts as at October 2008 amounted to 45 percent of 2007 government health spending. Now that the Seychelles rupee has floated the highly indebted health sector is also exposed to exchange rate risk since the majority of outstanding invoices are denominated in US\$, Euros and Indian Rupees. With an average exchange rate of say SR15: US\$ 1 for 2009 for example, without clearing the stock of external arrears the SR value will double from the estimates shown in Table 25. The domestic debt and arrears have also accumulated to a further SR 6.4 million. The main creditors are private companies of services that have been contracted out, communication, transport, hotel service providers and parastatal companies. The MOH is advised to clear these debts, improve debt and arrears management and implement measures to reduce expenditure in order to improve the sector's financial sustainability.

Table 25: Arrears and Debt Stock, October 2008

| | SR | USD |
|---|------------|------------|
| External arrears | 90,044,628 | 11,116,621 |
| Overseas treatment | 79,251,302 | 9,784,111 |
| Pharmaceuticals and medical supplies | 10,793,326 | 1,332,509 |
| Local debts and arrears | 6,412,369 | 791,650 |
| Total | 96,456,997 | 11,908,271 |
| In percent of 2007 government health spending | 45 percent | |

Source: Ministry of Finance; as of Oct 15, 2008

Notes: Exchange rate US\$1= SR8.1

Availability of Health Care Facilities

147. **Seychelles has an oversupply of health care facilities.** With a total of 5 hospitals⁴⁹, the Seychelles has considerably more hospitals and beds per capita than other middle-income countries (Figure 12). The Victoria hospital is the central referral hospital. Seychelles has currently 16 health centers and some outposts (Figure 13). Recognizing that there is low utilization of some of these centers, MOH is in the process of rationalizing health centers down to 10 and phasing-out health posts. There are more hospital beds than needed by the small population (Figure 14). This is evidenced by extremely low occupancy rates in La Digue, Praslin and Anse Royale hospitals (which is currently under reconstruction) (Figure 15). Upon further examination the low overall occupancy rate in Victoria hospital is a result of the particularly low at, occupancy rate in the maternity and female medical ward—at only 50 percent—pointing to the option to close hospital beds, merge wards and reduce staff to lower costs while still offering adequate access to facilities.

⁴⁹ Source: Annual Health Statistics 2007, including Victoria, Anse Royale, Praslin, La Digue, and North East Point. Silhouette with 4 beds and Les Canelles mental hospital with 45 beds did not report any activities in 2007.

Figure 12: Hospitals per 100,000

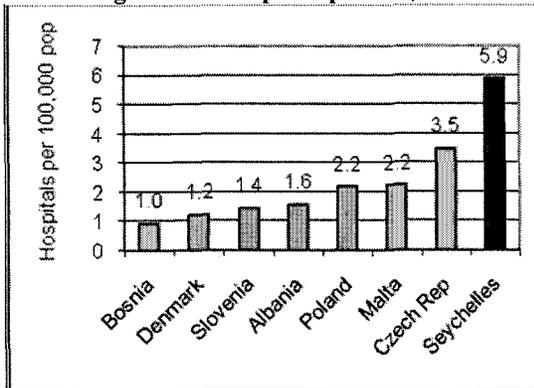


Figure 13: PHC Units per 100,000

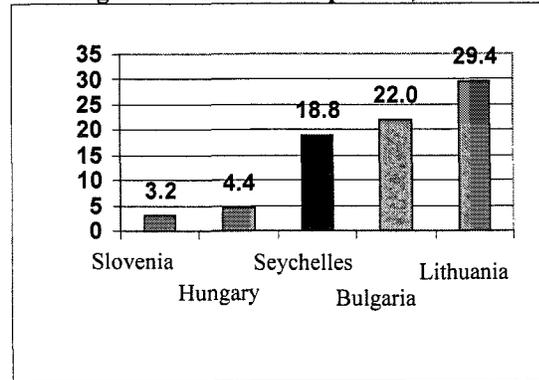


Figure 14: Hospital Beds per 1,000

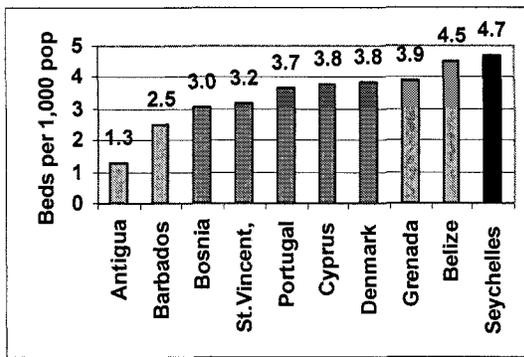
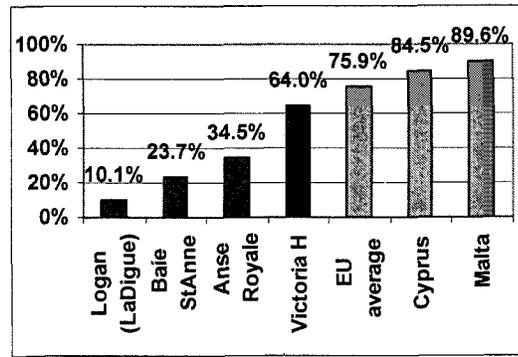


Figure 15: Acute Hospital Occupancy Rate



Source: WHO (2006); Seychelles health statistics (2007)

148. To increase the average acute care occupancy rate in hospitals to 80 percent, the government is advised to close around 50 beds initially and an additional 10 to meet the productivity targets. This measure would result in a total of 340 beds and a bed/population ratio of 4, which should be set as a ceiling. The MOH plans to restructure hospitals into health centers and reduce hospital beds and staff. The MOH has already started reforms and is currently redefining the required number of hospitals and health centers through the regionalization strategy to reconfigure the Praslin and La Digue hospitals into health centers, reduce the total number of hospital beds, and also the number of health centers from 16 to 10. The renovated Anse Royale hospital will continue to have 19 beds and house the health center in the same building. This will allow dismantling of the adjacent old health center.

149. Closing a combined 50 beds in Baise St Anne, Logan and Victoria and maintaining a maximum of 19 beds in Anse Royale will result in around SR 4.6 million savings annually.⁵⁰ The number of health posts will be phased out over time by reducing opening hours. The Islands of Praslin, La Digue and Silhouette could offer first aid and maternity care only, as the emergency referrals to the Victoria hospital is already

⁵⁰ Annual savings based on 2007 hospital expenditures of SR 92.0 million projected to fall to SR 87.4 million after reforms, provided empty facilities are rented out and/or sold off.

assured by air transport. The Victoria hospital is advised to close about 40 beds to increase its occupancy rate; particularly in anticipation of the opening of a private hospital and the re-opening of the Anse Royale hospital. In 2008, hospitals are overstaffed with 742 staff resulting in 3.4 staff per occupied bed at an average occupancy rate of 55 percent. In line with bed reductions, the number of staff working in hospitals ought to be reduced (see below), empty buildings and rooms should be sold or rented out to the private sector or other health and social activities (e.g. private physicians, crèches, elderly day care etc). It is estimated that implementing these measures and reducing the related costs including staffing, utilities and maintenance could lead to a 5 percent reduction in hospital expenditures over time. Short-term cost increases to implement these measures may occur.

150. The health sector has been dominated by public provision, but in addition to several private health care centers, a new private sector hospital is scheduled to open in 2009. This private hospital is being constructed on the outskirts of Victoria and will have about 90 beds. It plans to offer specialized secondary and tertiary care including open heart surgery, renal transplantation, haemodialysis and cosmetic surgery. The hospital will largely cater for expatriates, tourists, and the local population who can afford paying private sector prices—including patients who would otherwise have to go overseas for treatment. Once operational the government could also consider contracting with the private hospital, as a more cost-effective solution to either providing these secondary and tertiary services itself, or sending patients for treatment abroad. The government is thus advised to negotiate and if cost-effective contract selected services with the local private hospital to decrease the number of patients on the overseas treatment program and improve access to care for patients in need of specialized care.

151. Telemedicine should help to improve the availability of tertiary and specialized diagnostics. Since October 2008, a five-year telemedicine project commenced to connect the Victoria Hospital with hospitals based in India where Indian specialists can provide consultations, second opinions and interpret diagnostics. This project is supported by EU funds and the Indian Government, who will sponsor all of the operational costs for five years, after which the prices for telemedicine services will have to be negotiated by the Government of Seychelles with individual suppliers.

Availability and Productivity of the Health Workforce

152. The numbers employed in the public health sector increased by 5 percent in 2008 over the previous year (Table 26). Most staff work in community health centers (30 percent) and hospitals (41 percent). Since 2006, the share of ancillary staff (including drivers, clerks, assistants, cleaners, etc) increased considerably from 22 percent to 33 percent of the total health workforce, a level that is extremely high compared to other countries. E.g. only 13 percent of health staff perform these duties in the UK. Seychelles has 95 staff working in environmental/public health, resulting in 11 public health specialists per 10,000 inhabitants which is again very high—compare this to Mauritius where the ratio is 1.9 per 10,000 population⁵¹. A productivity analysis should be

⁵¹ WHO data and statistics at www.who.org

conducted to identify an efficient target ratio for the health sector including ancillary and environmental health staff.

153. **Physicians in the public sector are not working at full capacity.** Most physicians work in hospitals that only provide primary and limited secondary care), resulting in a ratio of about 3.5 occupied beds per doctor and only 4 hospitalized patients per doctor per week, suggesting that hospital doctors do not work at full capacity. Forty-eight physicians work in outpatient care, based on the 2007 health statistics, they see on average 22 patients per day. These numbers compare with say 33 visits per doctor in the USA, a level that is reasonable to apply as a standard for capacity.⁵² In the absence of tertiary and specialized treatment, and given the rather low patient throughput per week and visit rate per day, the current ratio of physicians to patients appears to be at the upper end of requirements.

Table 26: Public Sector Health Workforce, 2005-2007

| | 2005 | | 2006 | | 2007 | |
|-----------------------------|--------|------------|--------|------------|--------|------------|
| | Number | % of Total | Number | % of Total | Number | % of Total |
| Physicians (GPs) | 72 | 4.0 | 75 | 4.5 | 91 | 5.3 |
| Consultant physicians | 15 | 0.8 | 16 | 1.0 | 15 | 0.9 |
| Dentists | 10 | 0.6 | 15 | 0.9 | 16 | 0.9 |
| Pharmacists | 7 | 0.4 | 4 | 0.2 | 4 | 0.2 |
| Other Medical Professionals | 185 | 10.3 | 187 | 11.3 | 106 | 6.1 |
| Para-Medicals | 429 | 23.8 | 493 | 29.9 | 432 | 25.0 |
| Nurses | 390 | 21.7 | 414 | 25.1 | 411 | 23.7 |
| Student Nurses | 86 | 4.8 | 73 | 4.4 | 80 | 4.6 |
| Ancillaries staff | 607 | 33.7 | 372 | 22.6 | 576 | 33.3 |
| Total | 1,801 | 100.0 | 1,649 | 100.0 | 1,731 | 100.0 |
| Annual change, (percent) | | | -8.4 | | 5.0 | |

Source: Ministry of Health. Annual health statistics 2007

154. **Substantial cost reductions could therefore be achieved by reducing the number of physicians in areas of low productivity.** With 106 physicians working in the public sector in 2007, Seychelles reports more physicians for its population than countries such as Mauritius and Maldives (Table 20). They are also predominantly from abroad. Expatriates account for 62 percent of physicians and dentists in the public sector.⁵³ To increase the number of local physicians, the requirement for Seychellois physicians and dentists who are trained abroad to return, should be enforced. Currently, many medical students are stay on for several years to practice and specialize following training, and there should be stronger incentives for them to return to practice in Seychelles to reduce the reliance on expatriate doctors. The government plans to invest into the training of nurse practitioners who will be able to take over some of the workload of physicians, which could also help in this regard as long as they are not hired in addition to the existing doctor and nursing staff.

⁵² The US full capacity norm for PHC physicians is 33 visits per day. See: US Department for Health and Human Services, <http://bphc.hrsa.gov/>

⁵³ Most of them are from India, Sri Lanka and Cuba.

155. **Seychelles also has more nurses for its population than other small island states and several European countries** (Figure 16). Assuming that in each country a similar share of nurses work in outpatient care, the productivity of nurses can be approximated by calculating the total number of nurses per occupied hospital bed (Table 27). Comparing across countries would imply that the hospital nurses in Seychelles are also operating at less than full capacity and seem to be less busy than, for example nurses

working in Cyprus and Portugal. Furthermore, nurses in the Seychelles do not have to take care of work-intensive tertiary care patients, and hence, the average time a nurse needs to spend with a patient is likely to be lower in the Seychelles. For every two nurses in the Seychelles there is also on average one health care assistant, which is rather high given the already very high

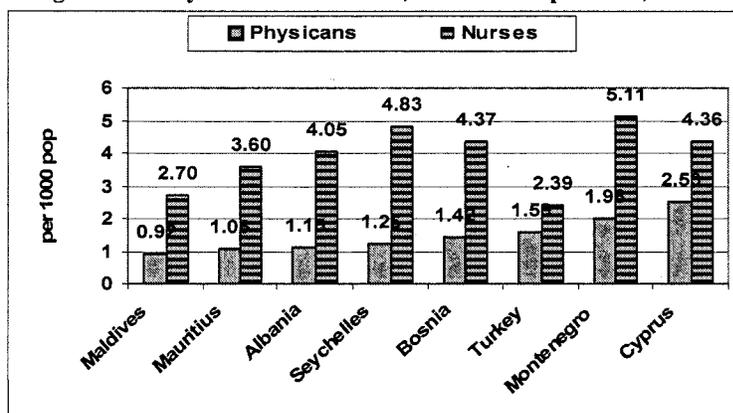
Table 27: Nurses per Occupied Hospital Bed 2006/7

| | Nurses | Beds | Occupancy rate | Nurses per occupied bed |
|------------|--------|------|----------------|-------------------------|
| Cyprus | 4.4 | 3.8 | 85 | 1.4 |
| Turkey | 2.4 | 2.7 | 64 | 1.4 |
| Portugal | 4.6 | 3.7 | 73 | 1.7 |
| Seychelles | 4.8 | 4.7 | 55 | 1.9 |
| Bosnia | 4.4 | 3.0 | 71 | 2.0 |
| Albania | 4.1 | 3.0 | 54 | 2.5 |

Source: Bank staff estimates

number of ancillary staff and nurse students. Reducing this ratio to 3 nurses per assistant would allow releasing approximately one-third of nurse assistants and lead to substantial savings in salary expenditures.

Figure 16 : Physicians and Nurses, Per 1000 Population, 2006/7



Source: WHO and Seychelles Annual Health Statistics 2007

156. **The health workforce should be reduced in areas of low productivity.** As part of ongoing reforms to reduce the public sector by 12.5 percent of total positions in 2008 the MOH has eliminated 85 vacant posts and offered the early voluntary departure with a compensation package to 105 positions. By the end of 2008, this measure is expected to reduce the health workforce by 10.4 percent to 1,638 positions, reaching a level similar to that established in 2006. The government is advised to conduct functional productivity analysis in the health sector to examine departments where productivity is low to propose sustainable staff reductions. The implementation of this program should be monitored

carefully to prevent re-hiring in 2009 and 2010. Based on productivity analysis, departments should set new ceilings for their total positions.

157. **Preliminary analysis conducted for this Review suggests staff reductions could reduce the health sector wage bill by almost SR 13 million reflecting 6.4 percent of 2007 total government health spending** (see Table 28). This sum could be reinvested to improve access to specialized and tertiary care for patients and improving targeting of scarce funds to lower-income groups. Based on indicators of low productivity, preliminary analysis shows the total number of health care/nurse assistants could be reduced by 68 positions (33 percent), ancillary staff by 216 posts to 20 percent of the total health workforce or approximately 320 positions; and the number of environmental/public health staff by approximately 51 to 42 positions to reach the target ratio of 5 staff per 10,000 population.

Table 28: Health Sector Wages and Salaries Savings, 2008-09, SR millions

| | 2008 | Projected 2009 | Potential reduction in expenditures |
|---|------|----------------|-------------------------------------|
| Reduce number of health care assistants by 68 positions (33 percent) to 139 positions | 8.6 | 5.7 | 2.8 |
| Reduce number of public/environmental health staff by 42 positions from 95 to 51 | 5.3 | 3.0 | 2.3 |
| Reduce ancillary staff by 216 to 2006 levels of 360, or approx 20 percent of total health staff | 20.7 | 13.0 | 7.8 |
| Total Savings | | | 12.9 |

Source: MOH data for number of staff and average income including salary and allowances

Utilization of Health Care

158. **Hospital care is being used adequately and inpatient and outpatient use is at a level comparable to European standards.** There is an inpatient admission rate of 15 admissions per 100 population per year, which is comparable to Sweden. The average length of hospital stay ranges from 2 days in La Digue to 5 days at the Victoria hospital, and 7.8 days in Anse Royale. The length of stay is expected to be low as there is no tertiary and specialized care in the Seychelles. The Seychelles report four outpatient doctor visits per capita per year, which is similar to Finland and Denmark. Most patients seek care in the English River Health Center in Victoria. Some health centers and outposts are less busy than others. For example, the SMB health center in Central Mahe reports only about 7 patients per doctor per day, which is extremely low. The MOH has already started evaluating the need for these health centers based on a productivity analysis and taking into account the growing private health sector, and plans to reduce total health centers to 10 and phase out health posts.

159. **The growing private sector suggests that there is a strong demand for private sector outpatient care.** There are at least six private practices with each of them employing around 3 to 4 physicians (generalists and specialists); in addition the private sector counts 4 dental practices. Private practitioners set their own prices and apply differential pricing to cross-subsidize care across their patients depending on their socio-

economic background. With the exception of communicable diseases, the provision of care in the private sector is not monitored. However, private practices appear to work near full capacity with a physician seeing about 33 patients per day⁵⁴. The government is advised to facilitate the growth of the private sector, use the private health sector to supplement the public sector where shortages exist, and monitor and evaluate the use of private sector care over time.

160. **The Government rations access to tertiary and specialized care abroad by funding treatment for a small number of prioritized patients.** About 200 patients per year are transferred abroad (to La Reunion and India) for specialized and tertiary care not available in the Seychelles, (e.g. radiotherapy, transplantations, hip replacement, open heart surgery etc). This is a very small number of patients and reflects only 1.6 percent of total hospital admissions in 2007. Assuming that about 10 percent of hospitalized cases would need tertiary or specialized care; this would result in 1,072 patients either having to pay out-of-pocket for catastrophic expenditures abroad, or not being able to receive care. Over the past years, total expenditures for the program as well as the unit cost per patient has increased substantially, reflecting 6.1 percent of total government health expenditures in 2007 (Table 29). The MOH is advised to monitor and evaluate all patients who need treatment overseas, including those who pay out-of-pocket or cannot afford to go, to assess total private overseas expenditures, and the rationing impact of not offering these services in the Seychelles, and the limited public fund available for overseas care.

Table 29: Overseas Treatment, Expenditures and Patients, 2005-2007

| | 2005 | 2006 | 2007 |
|------------------------------------|---------|------------|------------|
| Total overseas expenditures (US\$) | 847,344 | 1,043,302 | 1,525,775 |
| Annual change, in percent | | 23 percent | 46 percent |
| Number of patients treated abroad | 181 | 231 | 199 |
| Unit cost per patient (US\$) | 4,681 | 4,516 | 7,667 |

Source: Expenditure data from MOF; Number of patients from MOH.

161. **Access to the overseas treatment program is rationed based on guidelines with priority criteria such as patient age and expected healthy life years gained.** The program is not officially means-tested; however the MOH conducts with each patient, a family conference to discuss possible cost-sharing options. A board of five physicians proposes the selection which has to be approved by the Health Service Authority CEO. Board members are not allowed to present their own patients. As of 2009, patients will be asked to pay transport cost and cost-share other expenses. While overseas treatment may be less expensive than investing in offering these limited specialist services in the Seychelles, the government is advised to improve the transparency of the selection process, introduce and publish explicit selection criteria and an official means test, but still supplement information on the household's socio-economic background through family conferences. The patient composition on this list is expected to change with the opening of a private hospital with specialized services being offered from 2009 (including renal transplantation and open heart surgery).

⁵⁴ Based on interview with private practitioner.

162. **Utilization of preventive care should be increased to reduce the number of diseases that require high-cost treatment.** Several high-cost diseases that are preventable rank highly in the country's Burden of Diseases among them cancer, led by breast cancer and cervical cancer, heart diseases and diabetes. While cervical cancer prevention rates are rather high (59 percent), the government is advised to improve breast cancer screening and evaluate the effectiveness of the current family planning program. The rather high abortion rate (29 percent) indicates a need to improve access to modern contraceptives for teenagers and women to reduce the relatively high teenage pregnancy rate and abortions. Similarly, the HIV prevention program should be targeted to teenagers and high-risk groups including prostitutes, and drug users who share needles, to prevent an increase in HIV/AIDS (Table 30).

Table 30: Preventable Diseases with High-Cost Treatment, Number of Cases

| | 2005 | 2006 | 2007 |
|------|------|------|------|
| HIV | 45 | 42 | 43 |
| AIDS | 21 | 23 | 12 |

Source: Annual Health Statistics 2007

Out-of-Pocket Payments in Form of Co-Payments and Private Insurance

163. **Introduce small co-payments with explicit exemption mechanism.** According to the Constitution, primary health care is provided free of charge to the population. Currently there are no co-payments in the public sector for primary and secondary care, dental care and pharmaceuticals on the essential drug list. User fees are charged to expatriates, which are planned increase to cover full costs. The Victoria hospital offers a small number of private rooms to paying patients. The MOH is planning to introduce co-payments for physiotherapy, dental care and non-emergency visits to the emergency center.

164. **European countries have some form of co-payment for patients combined with exemption mechanisms that exclude vulnerable groups from paying.** In the Seychelles, patients already co-pay for the use of private sector care and treatment abroad. Many other countries have introduced co-payments with the objective of reducing unnecessary use of care and raising additional revenue for a financially depleted health sector. Co-payments are generally charged for pharmaceuticals; and they tend to be lower if a patient has a referral from a general practitioner before visiting a specialist or a hospital. The MOH is currently considering introducing co-payments for specific services, and is encouraged to follow the example of other countries that introduced small co-payments for services such as curative care visits, dressings and issuing of sick leave certificates at the community health center; pharmaceuticals and hospital stay. Using the utilization statistics from 2007, and assuming that 30 percent of encounters will be exempt from paying, the government could raise approximately SR 8.5 million per year in form of co-payments, equivalent to 4 percent of the government health expenditures in 2007 (Table 31). To prevent leakages into private pockets of staff, charging health facilities will have to follow professional accounting practice and need to be audited regularly. The government's co-payment policy should clearly define the use of revenues from co-payments in health facilities.

Table 31: Potential Annual Revenue from Co-Payments

| | Utilization in 2007 | Co-payment | Projected Revenue SR /a |
|---|------------------------|----------------|----------------------------|
| Outpatient visits, curative care, dressing (visits) | 586,018 | SR5 per visit | 2,051,063 |
| Cost of Pharmaceuticals, in (SR) | 43,251,584 | 20 percent | 6,055,222 |
| No. of hospital night | 56,542 | SR10 per night | 395,797 |
| Total (SR) | | | 8,502,082 |

Source: Bank staff estimates

Notes: a Based on the assumption that 30 percent of encounters are exempt

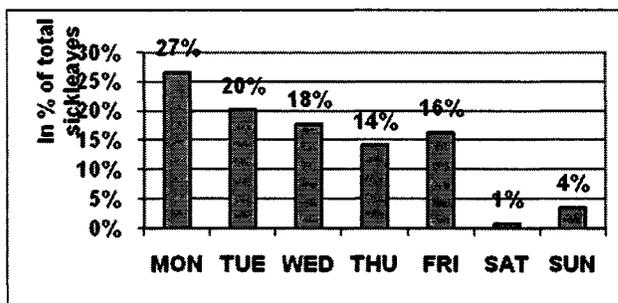
165. **Transparent co-payment exemption policies aim to ensure access to care for vulnerable groups.** As in Europe to protect the poor from the financial impact of co-payments, the following population groups and services could be exempt from co-payments: (i) children and adolescents under 18 years of age; (ii) homeless people; (iii) emergency services (the lack of attending the patient in emergency status involves threat of death or possibility of permanent damage to health); (iv) preventive care services, public health services, pregnancy, obstetric and neonatal care services. It is recommended to monitor and evaluate the effectiveness of exemption policies regularly.

166. Private health insurance is expected to grow as private healthcare provision increases. There are two private insurers and six branches with indemnity insurance and travel insurance to cover unexpected health risks during travel without covering pre-existing and existing conditions. The insurers also work as agents for international private health insurance institutions such as Axa and IMI Singapore and offer an overseas treatment policy. However, due to the small numbers and risk-rated premiums, uptake has been low and the population has limited incentive to purchase private health insurance, since care is largely provided for free in the public sector and the probability to need high-cost tertiary treatment abroad is relatively low. In the future, the growing private health sector for outpatient and hospital care will make it more attractive for private health insurers to provide insurance policies. The government is advised to negotiate with private insurers to cover high-cost care not funded by the government and ensure appropriate regulation of the sector.

Social Security Benefits

167. Sick-leave puts a heavy strain on the economy, the health system and the social security fund.

Figure 17: Sick-Leave by Day of the Week, 2008



Source: Social Security Fund: Overview of sickness benefits, (2008)

the system is being abused, with 40 percent of sick leaves being short-term and most sick days being claimed on Monday, Tuesday and Fridays (Figure 17). The study also found that sick leave is less frequent during months with more public holidays. By preventing people from becoming sick or by curing them rapidly, the health sector can be expected to reduce the amount and length of sick leave, boosting the labor supply and thus the economy's potential output.

168. Expenditures for sick, maternal and funeral benefit are very high, reflecting 6.7 percent of total public health spending (Table 32).

Table 32: Social Security Direct Benefits Expenditures, SR

| | 2006 | 2007 |
|-------------------|------------|------------|
| Sickness benefit | 10,271,209 | 11,269,759 |
| Maternity benefit | 850,599 | 1,394,010 |
| Funeral benefit | 990,306 | 869,539 |
| Total in SR | 12,112,114 | 13,533,308 |

Source: Social Security Fund Balance Sheet December 21, 2007

in Victoria reports that 11.5 percent of total visits are by patients who need a medical certificate to qualify for sick leave benefits. While the number of births per annum has not changed; maternity benefit payments increased by 64 percent from 2006 to 2007. In 2007, funeral benefits were paid for 630 deaths resulting in an average payment of SR 1,380, suggesting that the program pays a small benefit at rather high administrative costs, and does not serve any equity purpose. By adjusting the current social benefit system to European standards, the Seychelles would be able to realize immediate cost reductions in health and social security.

169. Direct benefits paid by the Social Security Fund could be reduced by almost SR 6 million.

The government is advised to change the Social Security Act such that

Sick-leave largely reflects various aspects of a country's institutional framework including generosity of sickness benefits, type of job contracts and strictness of employment protection legislation. In the Seychelles, sickness benefits are granted starting the first day of sickness up to 130 days to individuals with a medical certificate they have to obtain from a physician. A study conducted by the Social Security Fund suggests

countries, e.g. in Serbia before the benefit reforms. In 2007, the social security fund spent 0.18 percent of GDP on sickness benefits. On average, about 4 percent of the workforce is on sick-leave at any given time. The English River health center

employers cover the first 30 workdays of sickness, and reduce the maximum numbers of sick days per person to 100 days per year. Beneficiaries with more than 30 days should be audited regularly. In addition, sickness during maternity should be consolidated into the sickness benefit. Funeral benefits should be phased out completely and related administrative costs eliminated. These measures are expected to lead to about 40 percent reduction in related expenditure. Accordingly, the Social Security Fund could reduce expenditures for direct benefits by almost SR 6 million per year (Table 33).

Table 33: Estimated Reduction in Expenditures for Sick Leave and Funeral Benefits, SR

| | 2008 | Projected 2009 | Potential reduction in expenditures |
|--|------------|----------------|-------------------------------------|
| Sickness benefit. Pay as of 31st day of sickness only, maximum of 100 days per year, audit long-term users | 11,269,759 | 7,598,261 | 5,065,508 |
| Eliminate funeral benefit | 869,539 | 0 | 869,539 |
| Potential cost reductions, in SR | | | 5,935,047 |

Source: Social Security Fund

The Case for Social Health Insurance

170. **The MOH is interested in introducing social health insurance to improve access to high-cost care and raise funds for the financially depleted health sector.** Introducing an insurer who will take the function of a purchaser of care, would require decisions about the insurance features, including (i) financing, (ii) risk pooling, (iii) purchasing and provider payment, and (iv) the insurance benefit package. It would also require changes in the current tax-financed health system which does not separate between the purchaser and providers. The following section raises some key-issues that need to be considered when moving towards a health system with SHI in the context of the Seychelles.

Table 34: Comparing the Financing of Social Health Insurance Funds

| | Austria | Germany ^a | France ^b | Switzerland ^c |
|---|---------|----------------------|---------------------|--------------------------|
| Contribution in percent of gross earnings | 6.9-9.1 | 14.3 average | 5.25 | Flat per capita |
| - Employer share, percent of contribution | 50 | 50 | 94 | 0 |
| - Employee share, percent of contribution | 50 | 50 | 6 | 100 |
| Contributions, percent of total | 80.8 | 100 | 54.5 | 81.8 |
| Subsidies from tax revenue | 0 | | 45.5 | 18.2 |
| Other revenues | 19.2 | | | |

Source: Country specific reports

Notes a): Germany: Government transfers to Social Health Insurance starts in 2004. Average contribution rates are 14.3 percent, but vary across funds. As of July 2005, financing shares are 54 percent for employees and 46 percent for employers; b) HIT France: In 2000, annual income threshold to be exempt from premium payment is €6600; c) 2004: Households with annual income threshold below specific level pay social health insurance premiums and are reimbursed by the government when income is assessed during the tax filing season.

171. **Social health insurance is financed by contributions from employers and employees as well as tax-funded government subsidies.** In European countries, social insurers are financed from tax revenues (Latvia and Poland), payroll taxes (Germany), and most often from a mix of the two (France). In Switzerland and to some extent in the

Netherlands, people pay per capita premiums directly to the social insurer. The collecting agent in tax-funded and payroll funded insurance system is generally the tax administration who transfers funds to the insurer, or the social insurer directly. Health insurance funds in Germany and Austria receive most of their revenues from payroll contributions; in France, payroll contributions reflect only 54.5 percent of total revenues of the social health insurances, with the rest being paid from government tax-revenues. Payroll contribution rates vary across countries and in France have also decreased over time (Table 34). Government transfers are either paid directly to the insurance fund as in France, or indirectly by reimbursing premium-paying households based on their tax-statement as in Switzerland.

Table 35: Scenarios for Contribution Rates and Revenues for Social Health Insurance

| | 2007 workforce | Annual wage in SR | Contribution | | | Revenue potential for insurance (SR lions) | | |
|--|-------------------|----------------------|--------------|-------|-------|--|-------|-------|
| | | | 6 % | 8 % | 10 % | 6 % | 8 % | 10 % |
| Private | 22,155 | 46,692 | 2,802 | 3,735 | 4,669 | 62.0 | 82.8 | 103.5 |
| Government | 13,537 | 42,792 | 2,568 | 3,423 | 4,279 | 34.8 | 46.3 | 57.9 |
| Parastatal | 6,142 | 54,336 | 3,260 | 4,347 | 5,434 | 20.0 | 26.7 | 33.4 |
| Total | 41,834 | | | | | 116.8 | 155.8 | 194.7 |
| In percent of Government 2007 health expenditures | | | | | | 58 | 77 | 97 |

Source: Workforce NSB, Seychelles in figures (2007); NSB, Statistical Bulletin, December 2007

172. The government is currently looking into introducing a social health insurer with mixed funding from the government general revenues and payroll taxes as in most other countries. The government has an active and growing labor market with about 5.5 percent of the labor force being unemployed⁵⁵. Depending on the average salary, contribution rates, administrative costs and contribution evasion, the introduction of payroll taxes could generate substantial revenues for the health sector. The revenue raising potential of an insurer with a 6 percent contribution rate on payroll (same as in Bulgaria) and no contribution evasion is estimated to be approximately SR 117 million reflecting 58 percent of the 2007 government health expenditures. This amount could increase to almost equally as high as the 2007 government health spending if the payroll tax is set at 10 percent (Table 35). However, social insurers in transition economies often report substantial contribution evasion, resulting in up to 40 percent revenue shortfall. Social insurers in Europe report low administrative costs: In Poland, the single insurance fund has 1 percent administrative costs; in Slovakia they are 3 percent, in Austria 3 percent, in the Netherlands 4 percent and in Switzerland 5.7 percent⁵⁶. The formal sector is too small to fund the entire health sector and introducing payroll taxes for health insurance does not mean the government should get disengaged from financing the health sector; however, payroll taxes will allow reducing health spending from government general revenues substantially.

⁵⁵ NSB (2005).

⁵⁶ The World Bank (2008b): Health insurance and competition. Europe Central Asia Human Development.

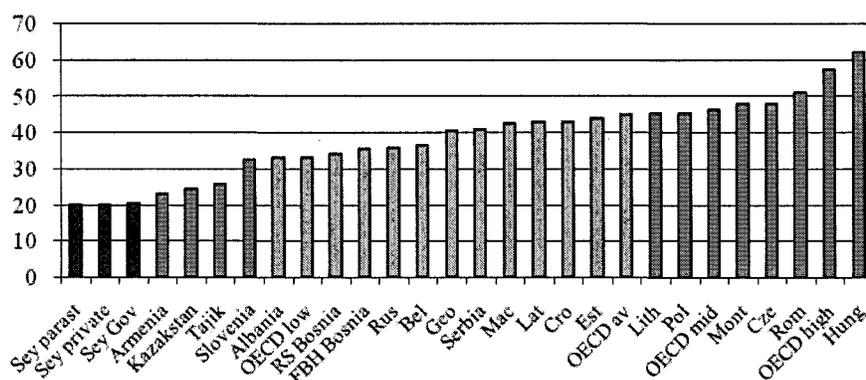
173. **The decision to introduce payroll taxes in the Seychelles to finance social health insurance will affect labor costs and the labor market.** In the Seychelles, 72 percent of the population is economically active. There is no income tax in the Seychelles but various consumption taxes are levied on goods and services. Payroll taxes are deducted for social security and a pension flat rate which combined with different average salaries results in a different tax wedge⁵⁷ across the sectors (Table 36). A high tax wedge on labor income can be expected to reduce employment in the formal sector. The tax wedge in the Seychelles is lower than in other transition economies in Europe and Central Asia, and than in OECD countries (Figure 18).

Table 36: Payroll Taxes and Tax Wedge across Sectors, In SR, 2008

| | Contribution | Private sector | Government sector | Parastatal |
|--|--------------|----------------|-------------------|------------|
| Average salary, SR | | 3,891 | 3,566 | 4,528 |
| <i>Employer contribution (percent)</i> | | | | |
| Social security | 20 | 778.2 | 713.2 | 905.6 |
| Pension | 50 | 50 | 50 | 50 |
| Total labor cost | | 4,719 | 4,329 | 5,484 |
| <i>Employee contribution (percent)</i> | | | | |
| Social security | 2.5 | 97.3 | 89.2 | 113.2 |
| Pension | 25 | 25 | 25 | 25 |
| Take home pay | | 3,769 | 3,452 | 4,390 |
| Tax wedge | | 20.1 % | 20.3 % | 19.9 % |

Source: Bank staff estimates

Figure 18: Seychelles Tax Wedge Compared to OECD, Europe and Central Asia



Sources: OECD, Taxing Wages 2002/03 for OECD and ECA OECD, except Slovenia (based on 2001); Bank staff estimates for others (using 2003 for ECA countries taken from World Bank ECA Labor Market Study, forthcoming, and 2004 for RS and FBH). Tax wedge calculated for non-agricultural AW worker without dependents in ECA and production AW worker without dependents in OECD. OECD groupings exclude ECA OECD: (i) low (less than 40 percent wedge) includes Australia, Iceland, Ireland, Japan, Korea, Mexico, New Zealand, Portugal, Switzerland, United Kingdom and United States; (ii) mid (40-50 percent) includes Canada, Denmark, Greece, Luxembourg, Norway, Spain and Sweden; (iii) high (51+ percent) includes Austria, Belgium, Finland, France, Germany, Italy and Netherlands.

⁵⁷ The tax wedge on labor expresses the wedge between the employer's total labor cost and the individual's take-home pay and is defined as follows: tax wedge = (total labor cost – take-home pay) / total labor cost * 100.

174. **Adding a payroll tax for social health insurance without decreasing the contribution rate for social security and pensions, will increase the tax wedge.** For each scenario in Table 19 it is assumed that social security and pension contributions remain unchanged; and health insurance contributions paid by the employee are 2 percent. In scenario 1, the employer part is 4 percent (total 6 percent), in scenario 2 it increases to 6 percent (total 8 percent) and in scenario 3 employers pay 8 percent resulting in a total of 10 percent with employees paying the difference. As a result, the tax wedge increases from currently 20 percent to 24 percent in scenario 1, to 25 percent in scenario 2 and 26 percent in scenario 3. Adding a payroll tax for health may therefore be politically difficult to introduce as it will increase labor costs to employers and may have a negative effect on employment. The government is thus advised to identify possible reductions in benefits and inefficiency in social security that would allow reducing the related contribution rate of currently 22.5 percent to a level that will make the introduction of social health insurance overall almost tax-neutral.

Table 37: Health Insurance Scenarios and Impact On Labor Costs and Tax Wedge, SR

| Sectors | Scenario 1 | | | Scenario 2 | | | Scenario 3 | | |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Private | Gov | Parastatal | Private | Gov | Parastatal | Private | Gov | Parastatal |
| Average Salary | 3,891 | 3,566 | 4,528 | 3,891 | 3,566 | 4,528 | 3,891 | 3,566 | 4,528 |
| Employer Contribution | | | | | | | | | |
| Social Security | 778.2 | 713.2 | 905.6 | 778.2 | 713.2 | 905.6 | 778.2 | 713.2 | 905.6 |
| Pension | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 |
| Health Insurance | 155.6 | 142.6 | 181.1 | 233.5 | 214.0 | 271.7 | 311.3 | 285.3 | 362.2 |
| Total Labor Cost | 4,875 | 4,472 | 5,665 | 4,953 | 4,543 | 5,755 | 5,030 | 4,614 | 5,846 |
| Employer Contribution | | | | | | | | | |
| Social Security | 77.8 | 71.3 | 90.6 | 77.8 | 71.3 | 90.6 | 77.8 | 71.3 | 90.6 |
| Pension | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 |
| Health Insurance | 78 | 71 | 91 | 78 | 71 | 91 | 78 | 71 | 91 |
| Take home pay | 3,710 | 3,398 | 4,322 | 3,710 | 3,398 | 4,322 | 3,710 | 3,398 | 4,322 |
| Tax wedge | 23.9% | 24.0% | 23.7% | 25.1% | 25.2% | 24.9% | 26.2% | 26.4% | 26.1% |

Source: Bank staff calculations

175. **Risk pooling in most countries is off-budget by one insurer if the population is small.** The small population size in the Seychelles will favor a single risk pool. Once SHI is introduced, the MOF would have to redirect the financial flow to the health insurer, which will assume full responsibility for risk pooling and purchasing of health care. Insurance revenue in the risk pool (whether generated by general taxation, payroll contributions, or individual premiums) seeks to cover a chosen package of health care services as contracted with providers. Insurance risk-pools are generally managed and administrated by not-for profit private insurers or a public autonomous entity that reports to the government and contracts with the MOH and private sector providers. Poor financial management, lack of guidelines for the investment of insurance funds, weak banking systems, and incidents of fraud and misappropriation of funds aggravate performance of the insurance systems. Therefore, insurers have to apply international

accounting standards, publish their financial and performance results on their webpage and undergo regular external audits. To ensure political independence, the legal form of the insurer could be a public autonomous not-for-profit organization. At the beginning, the Seychelles may want to consider contracting out of insurance management to an experienced international health insurance company that could also help build human capacity by training local staff on the job and provide the necessary IT investment (data bases are needed for claims, members, providers etc.).

176. Purchasing includes contracting between the insurer and providers and the provider payment systems. In the Seychelles the insurer would be expected to contract with accredited health care providers who offer a defined set of services to the population against an established price. Service providers would be given increased autonomy to effectively produce these services and the defined benefit package and their performance evaluated against an established set of performance standards. In other countries, insurers increasingly contract selectively and exclude providers with lower quality care and productivity from contracts. Payments are then made to providers for services provided to patients, based on the terms agreed upon in the contract between the insurer and providers. Around the world, provider payment reforms show a move from input-based payment based on the number of staff and other expenditures, towards output-based payment. Consequently, outpatient providers are paid a capitation amount per person registered with the provider, which can be adjusted by some performance incentives (e.g. for quality of care compliance); and hospitals receive a case-based payment to set them an incentive to increase the number of patients hospitalized.

177. Mostly, social insurance benefit package generally covers all levels of care in the public sector; and patients are charged co-payments to prevent overuse of pharmaceuticals and medical care (moral hazard problem). Considering the importance of the private sector in the Seychelles and the lack of tertiary care in the public sector, it is advisable for the social insurer to cover inpatient and specialist care in the public and private sector as well as catastrophic expenditures related to treatment abroad. Actuarial cost analysis of the benefit package should be conducted to estimate the future funding needs, adjust the benefit package to an affordable level, and propose a composition of funding from public and private sources that leads to equity in access to care and financially sustainable health financing.

178. Health facility directors will need greater autonomy and flexibility to respond to the new financial incentives set by SHI and improve productivity. Hospital and PHC facilities could be corporatized as nonprofit autonomous organizations, competing for patients with private for-profit providers. On the regional level, a community oversight body should be formed to supervise the functioning and performance of the PHC center or hospital and ensure transparency in major financial and operational decisions. The responsibility and accountability for management and financial decisions rests with the hospital and PHC directors. Management autonomy involves expanding management responsibility for key areas including hiring and firing; determining the number of staff and its skill mix based on the MOH guidelines; doing financial management, determining the level and scope of activities, and deciding on

capital developments, the number of beds, and technology mix. This autonomy needs to be accompanied by professional financial management in health facilities with annual financial and performance audits to prevent management failure. Managers must be equipped with the necessary resources and tools to make decisions, and kept accountable for performance results.

179. Introducing social health insurance will require investments in legislation, regulations, new governance and organizational structures, and information management so as to ensure proper accountability of all actors. The MOH would assume a policy-making and stewardship role, and implement reforms in quality assurance in the provision of care, organization of health facility management, and management of resources including staffing and pharmaceuticals. The government will need a clear vision about what kind of health insurance would be financially and organizationally most feasible in the Seychelles and what the implications would be for the current financing functions. Such a vision and the related strategy should be based on the overall health policy goals of the sector and taking into account the financial, institutional, organizational, and human resource situation.

Concluding Remarks

180. In general, the Seychelles does not spend too much on health care; however, the way health funds are currently allocated across expenditures categories, does not lead to an efficient production of care. Currently, there appears to be substantial room to reduce cost and improve productivity by reducing the number of staff, examining the levels of salaries paid to staff, reducing non-medical expenditures including for services that have been contracted out to the private sector and by closing overcapacities in hospitals and health centers. The resulting cost savings should be reinvested in the health sector by improving access to specialized and tertiary care for more patients either in the private sector in the Seychelles or at a lower unit cost price abroad; and by investing in the prevention of high-cost diseases. The government is recommended to implement first a series of efficiency-enhancing and cost-reducing measures and revisit the current benefit structure of the social security system with the objective of a possible contribution reduction for social security, before giving any further considerations to Social Health Insurance.

Recommendations

181. Based on the analysis presented in this Chapter, the following short- and medium-term measures are recommended to be implemented.

Short-term

Reduce inefficiency in health care spending

- Conduct a comparative cost-efficiency analysis for all contracts outsourced to the private sector (food, laundry, cleaning, etc) and identify less costly private contractors for these services. Instead of each Line Ministry contracting-out similar services to private companies; the Government is advised to centralize the contracting-out function for all Ministries at the Department for Public Administration. This would allow negotiating a lower price for a larger quantity.
- Streamline and consolidate the current 266 job positions to fit into a wage grid, in line with overall public administration reforms; and revisit the levels of salary payments by comparing across different Government functions. Conduct a productivity analysis of the health workforce to identify the number of staff needed at a level of higher productivity particularly among health care assistants, ancillary services and environmental/public health staff.
- Convert the Baie St Anne (Praslin), Logan (La Digue) and Silhouette district hospitals into triage health centers with approximately 8 beds in Praslin and 4 beds in La Digue mainly for maternity and first aid care, which would allow closing of about 40 beds. Emergency referrals to the Victoria hospital are already assured by air transport. The Victoria hospital is advised to close about 20 beds on its maternity and female medical ward, and both wards should be reorganized or merged to increase the hospital's ALOS to 80 percent. In line with the reduction of beds and restructuring of hospitals into health centers, and phasing out of six health centers, the number of health staff working in these health facilities needs to be reduced.

Introduce explicit selection criteria and cost-sharing rules for specialized care overseas

- Ensure transparency, explicit selection criteria and guidelines for selecting patients and cost-sharing.
- Consider setting-up a fund to finance overseas treatment, against which patients can borrow money for treatment. Reimbursement by patients to the fund should depend on patients' socio-economic background to ensure equity in access.
- Negotiate an attractive contract with the new private hospital to be opened in Victoria in 2009 to allow patients to be treated locally instead of sending them overseas (e.g. open heart surgery, renal transplantation etc).
- To maximize the number of beneficiaries, the Government needs to negotiate a package at lower unit costs in neighboring countries (e.g. Nairobi hospital, Mauritius).
- Introduce small co-payments on pharmaceuticals and inpatient and outpatient care.

182. Reduce inefficiency and abuse of social security system: The Government is advised to revisit the Social Security Act Chapter 225, and implement the recommendations of the study conducted by the Social Security Fund on the Overview of Sickness Benefits in 2008. In addition, and based on the experience from other countries, the following measures are expected to lead to substantial expenditure reductions for direct benefits, reduce social security administrative costs, and reduce the workload on the health workforce.

- First, Social Security should pay sick leave benefits only starting on the 31st sick day with the employer paying the first 30 days per year. In addition, the maximum number of sick days should be reduced from currently 130 days to 100 days.
- Second, eliminate funeral benefits as a direct benefit and the related administration.
- Third, improve the monitoring of sick leave by reporting annually the total number of cases and the average number of sick leave days per case; request second opinions for sick leave patients who report more than 30 days per year, and frequent sick leave users.

Monitor and evaluate the flow of funds and performance of the health sector

- Conduct a first National Health Accounts (NHA) and approve a plan to institutionalize NHA
- Analyze the impact of reforms on the performance of the health sector based on routine data collected in health facilities on utilization rates, occupancy rates and levels of productivity

Medium-term

Clear all local debts and arrears and introduce cost saving measures in communication, transport and hotel expenditures to reduce future debts.

- Reduce the capital budget to prevent cost increases due to delays in construction and payment.

Improve the availability of medical professionals

- Enforce the requirement for Seychellois physicians and dentists to return within an agreed number of years after having finished University to work at least five years in the Seychelles (public or private sector); or otherwise reimburse the Government for the total amount invested into their University education.
- Do not allow public physicians to work in private practice while on public payroll, as they will otherwise refer public patients to their private practice

- Introduce a nurse practitioner training program and adjust the job description of physicians to delegate designated tasks to nurse practitioners.

Invest into better availability of preventive measures

- Ensure access for all population groups to preventive care such as modern contraceptives, cancer screening, early detection of hypertension and heart diseases, and other life-style diseases.

183. **The impact of these reforms should be carefully monitored and evaluated to identify and correct for possible negative effects at an early stage.** Some of changes currently being implemented may lead to unexpected adverse effects that would have to be corrected, such as inequity in health financing, or substandard quality of care. To monitor progress and detect negative effects, a monitoring and evaluation framework should be adopted that assesses baseline results before the introduction of reforms and conducts regular follow-up surveys to measure progress. A baseline could establish results based on surveys on equity in utilization and financing of health care, patient satisfaction and care seeking behavior, quality of care and cost and efficiency levels in health facilities. Findings from the baseline could help to inform the reforms and identify progress as well as areas that would need strengthening.

Table 38. Summary of Health Sector Implementation Next Steps

| Implementation Step | Timeframe |
|---|--------------------------|
| Conduct a comparative cost-efficiency analysis for all contracts outsourced to the private sector. Revise out-sourcing contracts as necessary. | June 2009 |
| Conduct a productivity analysis of the health workforce to identify the number of staff needed at a level of higher productivity particularly among health care assistants, ancillary services and environmental/public health staff | June 2009 |
| Convert the Baie St Anne (Praslin), Logan (La Digue) and Silhouette district hospitals into triage health centers with approximately 8 beds in Praslin and 4 beds in La Digue mainly for maternity and first aid care, which would allow closing of about 40 beds | December 2009 |
| Clear all local debts and arrears and introduce cost saving measures in communication, transport and hotel expenditures to reduce future debts | On-going throughout 2009 |
| Reduce inefficiency and abuse of social security system (see para 182 for details) | January 2010 |
| Introduce explicit selection criteria and cost-sharing rules for specialized care overseas. | January 2010 |
| Conduct a first National Health Accounts (NHA) and approve a plan to institutionalize NHA | December 2010 |

V. EDUCATION

Education Sector Context

184. **This Chapter continues the analysis of how to achieve short term fiscal adjustment efforts, while maintaining, if not improving, public sector performance, with respect to the education sector.** The chapter examines the funding for the sector, room for efficiency and value-for-money improvements and provides some recommendations of how to allocate funds to improve learning outcomes. While the education sector appears to be reasonably well funded compared to comparator countries, learning outcomes need to be considerably improved if the Seychelles is to achieve dynamic and modern economy vision laid out in Strategy 2017.

185. **Like health care, the provision of education in the Seychelles is predominantly by the public sector, and centralized with both financing and provision largely in the hands of central government.** The Ministry of Education (MOE) operates 29 kindergartens (“crèches”), 22 primary schools and 10 secondary schools. Crèche education covers two years (Cr1 and Cr2), and the official age range of crèche pupils is between 3.5 years and 5.5 years. Primary education covers six years (P1-P6), officially for those between the ages of 5.5 years and 11.5 years, and secondary education covers five years (S1-S5), for those aged between 11.5 years and 16.5 years. Most schools in the Seychelles are situated on Mahe, the main island, where 87 percent of the population lives. At least one school at each level can also be found on Praslin and La Digue, the other two islands with significant year-round populations. There are only three private schools—the International School (the oldest of the three), the Independent School and l’Ecole Française—all in Victoria, each offering classes from Cr1 to S5 and together enrolling about 7-8 percent of all students at these levels (approximately 1.4 thousand out of 19.2 thousand students). While not compulsory, government-provided crèche education is free of fees, and participation is nearly universal.⁵⁸ The Constitution of 1993 and the Education Act of 2004 guarantees education free of fees through the secondary level and specifies ten years as compulsory, meaning that students cannot generally leave school before having completed S4.

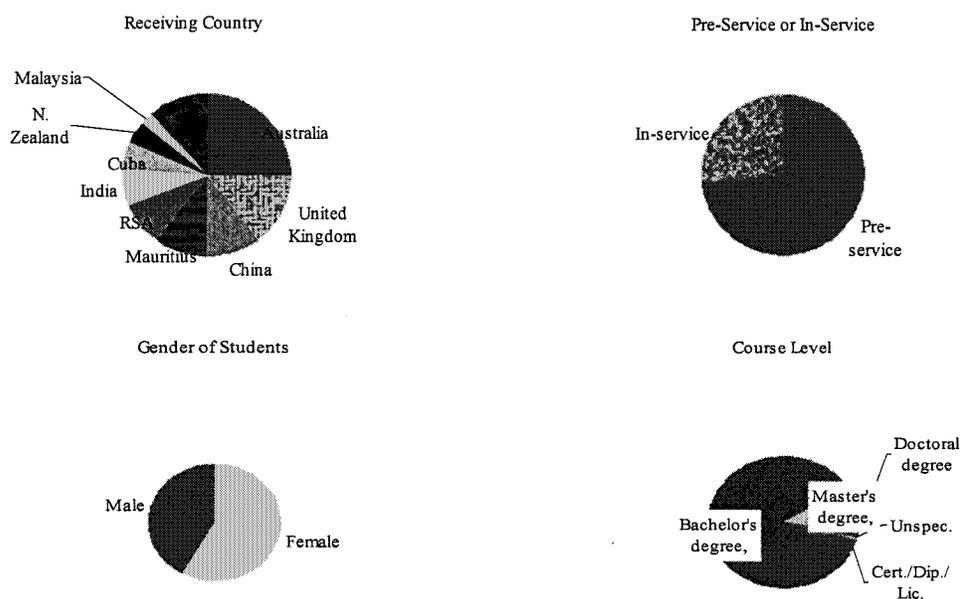
186. **Degree-level tertiary education is not provided in Seychelles, and at some cost to the government, those that are eligible are fully funded to study overseas.** Students can sit the Cambridge International General Certificate of Secondary Education (IGCSE) examinations at the end of S5, and performance here determines which students progress to the final two years of academic study at the School of Advanced Level Studies. There are nine post-secondary institutions, and all are government-run.⁵⁹ Selection of students for tertiary study (whether overseas or in one of the degree-level programs operated in the Seychelles in partnership with overseas universities) is based on

⁵⁸ In 2007, the population younger than 5 was 7,303 (data provided to the PER team by NSB), and the number of crèche pupils was 2,835 (MOE 2007b).

⁵⁹ In addition, there is now one private post-secondary institution, the American Institute of Medicine, an unaccredited institution with ties to education in the United States, but it draws nearly all of its students currently from outside the Seychelles. Just two Seychellois were enrolled in 2008.

student performance on the Cambridge A-level exams. With the exception of a few small degree-granting programs in some of the nine linked to overseas universities in Australia, Austria, Ireland, Kenya, Republic of South Africa, Singapore and the United Kingdom, post-secondary training in the Seychelles is entirely pre-tertiary, offering training only to certificate and diploma levels. For most degree-level education, students must go abroad. A number of Seychellois (407 as of October 2008) are studying abroad, most of them with full funding from the Government (or, in a few cases, from the recipient countries) to cover tuition fees, travel and living costs. Figure 19 shows the breakdown of the overseas training provided. Twenty-five percent of overseas students were studying in Australia, and 14 percent in the United Kingdom. About three-quarters of overseas students are recent secondary school graduates who passed the minimum A level grade requirements and the rest are in-service (i.e., within public service) candidates. Most are pursuing bachelor's degrees.

Figure 19: Sponsored Students Studying Abroad (N=407) as of October 2008



Source: Data provided to MOE team by International Relations and Training Section of MOE.

187. **The Ministry of Education has the responsibility for sector policy strategy and management of the provision of education services.** An organizational chart showing MOE's structure, which was modified slightly in 2008, is presented in Annex 13. The system is highly centralized. Thus the government does have the potential to maximize economies of scale, for example, in the purchase of text books. However, schools have very little autonomy and virtually no responsibility to manage resources in order to improve learning, which is likely to impede optimizing resource-use.

Education Outcomes

188. Compared with other small island states at similar levels of development we find that Seychelles is doing relatively well in terms of the enrollment rates as shown in Table 37. Recent reviews of the education sector, however, have raised concerns about quality.⁶⁰ As Figure 20 shows the results in IGCSE examinations are quite poor, particularly in mathematics. In the four subjects shown, exam results were considerably better in the private sector, establishing a potential benchmark to which the public sector can aspire. In English language, 88 percent of the 45 candidates from this one private school earned grades of A* and A, while only 10 percent of the 930 government school candidates did so. In geography, the percentage of candidates earning either of the top two grades was 51 percent and 3 percent in the private and public sectors respectively; in mathematics, 35 percent and 1 percent; and in history, 25 percent and 7 percent. Clearly private schools are selective whereas the government schools offer comprehensive education. However, there may well be more that the public sector can learn from the practices in the private sector.

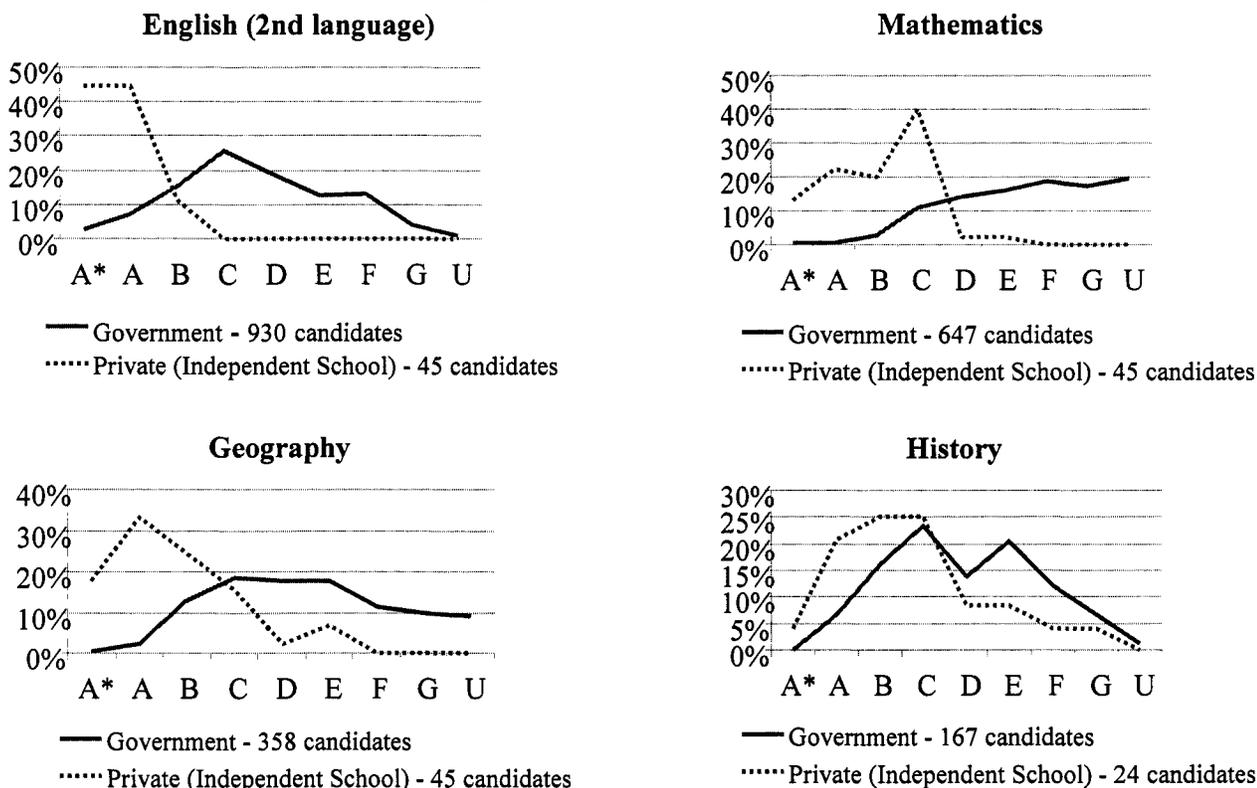
Table 39: Comparison of Education Indicators, Latest Year Available.

| | Barbados | Belize | Fiji | Jamaica | Maldives | Malta | Mauritius | Seychelles | St. Kitts & Nevis | St. Vincent & Grenadines |
|--|----------|--------|------|---------|----------|-------|-----------|------------|-------------------|--------------------------|
| Gross enrollment rate, pre-primary (%) | 94 | 34 | 16 | 92 | 82 | 97 | 101 | 109 | 99 | 88 |
| Gross enrollment rate, primary (%) | 103 | 123 | 100 | 95 | 116 | 100 | 102 | 125 | 94 | 97 |
| Gross enrollment rate, lower secondary (%) | 100 | 87 | 99 | 93 | 124 | 104 | 100 | 116 | 99 | 90 |
| Gross enrollment rate, secondary (%) | 102 | 79 | 84 | 87 | 83 | 99 | 88 | 112 | 105 | 75 |
| Net enrollment rate, primary (%) | 96 | 97 | 91 | 90 | 97 | 91 | 95 | 99 | 71 | 90 |
| Net enrollment rate, secondary (%) | 89 | 67 | 79 | 78 | 67 | 87 | 82 | 94 | 65 | 64 |
| Girls enrollment share, primary (%) | 49 | 49 | 48 | 49 | 48 | 48 | 49 | 49 | 54 | 51 |
| Girls enrollment share, secondary (%) | 50 | 51 | 51 | 50 | 50 | 49 | 49 | 50 | 50 | 55 |

Source: UNESCO Institute for Statistics.

⁶⁰ See Nolan (2008)

Figure 20: Some IGCSE Results, 2007

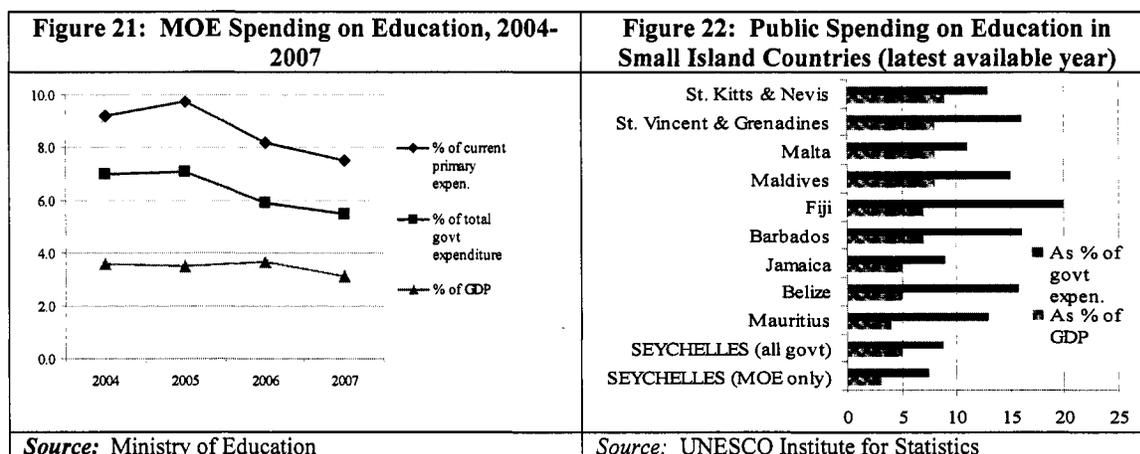


Source: MOE (2008)

Education Spending

189. **Total public education spending is around 5 percent of GDP.** Ministry of Education (MOE) expenditure has ranged between 3 percent and 4 percent of GDP between 2004 and 2007; and it fell from 10 percent to 7 percent of current primary expenditures over this period. Including capital spending on education and other education spending (e.g., education bursaries and foreign exchange payments for overseas tuition fees) education is about 9 percent of total government spending and 5 percent of GDP.

190. **A comparison with a selection of other small island countries suggests that total public education spending as a share of total government spending is on a par with comparators.** This is despite the fact that education in the Seychelles is predominantly publicly provided and free of user costs and the fact that total government spending is unusually high (50 percent of GDP). Household expenditure surveys show some private spending on education – which amounts to an additional 1 percent of GDP (SR 61 million by all households in 2007), and this brings total (public plus private) spending on education to about 6 percent of GDP (Table 40).



191. **Given the relatively modest, and recently declining, government expenditures on education, we do not recommend any major cuts in government spending on education.** Despite the fiscal situation at this time and an acknowledged need to reduce total government spending, we do not recommend increased spending but we do recommend making needed improvements in efficiency and using these resources to tackle the problem of learning outcomes. Recalling the literature on public education spending on growth, we recommend ensuring that the public investment in education becomes more productive with a focus on outcomes for the longer-term growth strategy of Seychelles.

Table 40: Total Education Spending, 2007

| | 2007 |
|--|------|
| 1. Recurrent expenditures | 282 |
| (a) Spending by MOE | 190 |
| (b) MOF subventions to education institutions /a | 10 |
| (d) Spending by SSF on transportation subsidies and post-secondary bursaries | 18 |
| (e) Spending by MOF on overseas tuition and student bursaries | 65 |
| 2. Capital expenditure by MOF on projects for education | 25 |
| <i>As percent of government capital spending</i> | 7.4 |
| 3. Total government spending on education | 307 |
| 4. Household spending on education (estimate from NSB) | 61 |
| 5. Total public and private spending on education | 368 |
| <i>As percent of GDP</i> | 6.0 |

Sources: IMF (2008), MOE, MOF, SSF and NSB

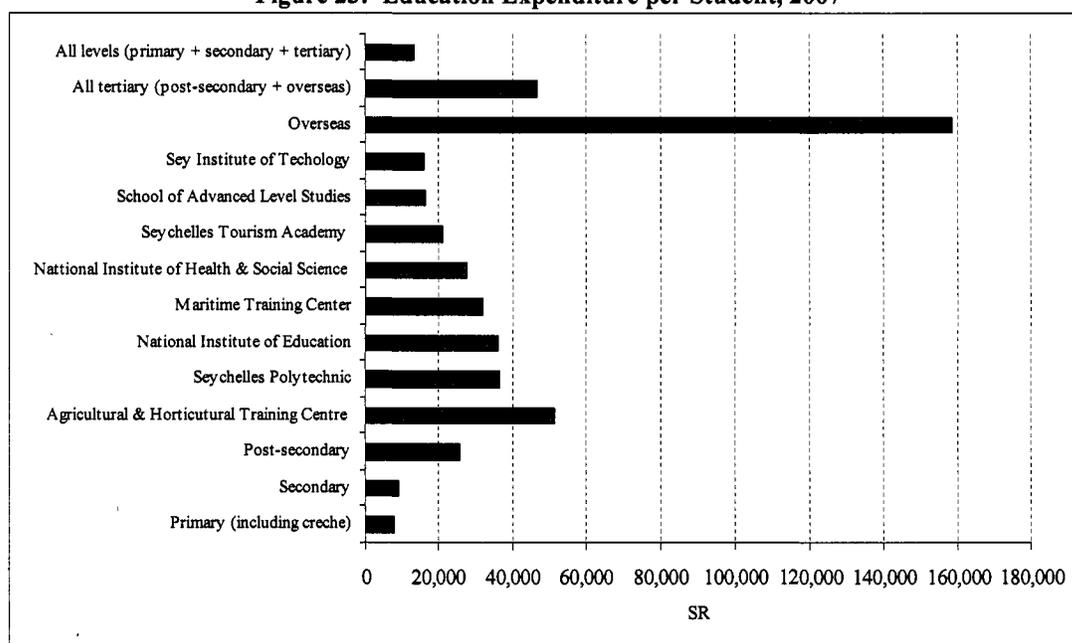
Notes: a/ This is to Seychelles Institute of Management and Seychelles Qualifications Authority.

192. **Government education spending is principally on personal emoluments for school-based staff.** MOE spending in 2007 totaled SR 190 million, 60 percent of which was spent by the Schools Division to cover the personal emoluments of crèche, primary and secondary school teachers. Around 16 percent is allocated to Technical and Further Education (TFE), from whose budget post-secondary salaries are paid. Personal emoluments account for the vast majority of MOE's budget (79 percent) as shown in Table A14-1 in Annex 14. The Finance, Administration & Personnel Division accounts

for around 16 percent of MOE spending. Given the structure of the budget, it is possible to allocate SR 139 million (73 percent) of MOE's expenditure in 2007 to the specific levels of education and post-secondary institutions, as shown in Table A14-2. The remaining SR 51 million (27 percent) cannot be tied to specific levels or institutions, and for computing unit costs, therefore, these "overhead" expenditures are allocated on a pro-rated basis according to the allocations of direct spending.

193. **MOE spending accounts for only about two-thirds of total government spending on education in the Seychelles.** In 2007 a further SR 64 million was spent directly from the budget of the Ministry of Finance (MOF), to pay the tuition fees, travel and living expenses of tertiary students studying abroad; SR 18 million was spent by the Social Security Fund on education-related benefits; and SR 25 million was spent on education capital projects from the MOF budget.

Figure 23: Education Expenditure per Student, 2007

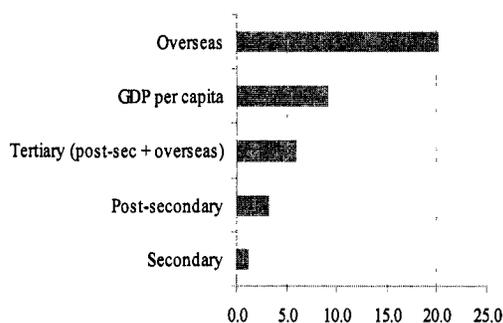


Source: MOE

194. **Total unit costs vary considerably across levels of education, and particularly at the post-secondary level some institutions are more cost-effective than others.** Combining recurrent costs across the public budget and allocating these to levels of education gives us a good idea of unit costs. The per student cost of overseas tertiary-level training is considerably higher than that at institutions based in Seychelles. The average per student cost of overseas study is approximately SR 99,655 per annum (approximately US\$ 12,500 in 2007 prices) for tuition fees and an additional SR 58,964 (US\$ 7,400) for the bursaries that cover the students' travel and living expenses. (See Table Annex 14-3 for more details of unit costs). Of the post-secondary institutions based in Seychelles there is also considerable variation in unit costs, ranging from the Seychelles Institute of Technology (SR 51,263 per student) to the Seychelles Agricultural and Horticultural Training Center (SAHTC) (SR 15,960 per student).

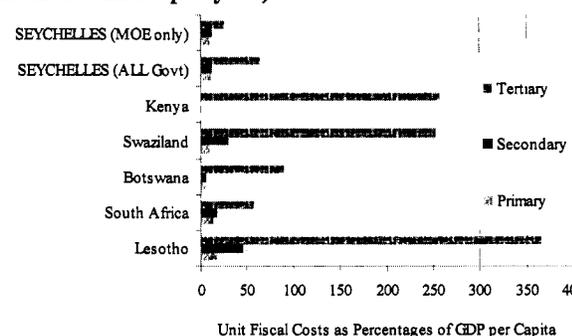
195. **Comparing across the system we find that the unit costs are only fractionally higher for secondary than for primary level schooling.** This is given that considerably more instructional materials and qualified staffing inputs are generally required in secondary education shows that the unit fiscal cost of secondary education is only 10 percent higher than that of primary education, while the costs of domestic post-secondary education and overseas study are three and twenty times higher. Tertiary education (the weighted average of domestic post-secondary education and overseas study) is six times higher.

Figure 24: Unit Fiscal Costs as Percentage of Unit Fiscal Cost of Primary Education 2007



Source: MOE, WDI

Figure 25: Unit Fiscal Costs Selected Countries (latest available per year)



Source: World Bank (2005)

196. **Compared with several other countries in the region, the ratio of the tertiary-level unit cost to GDP per capita levels is not high.** To compare the Seychelles with other countries, unit fiscal costs can be “standardized” by expressing them as a percentage of GDP per capita. By comparison with small African states such as Lesotho and Swaziland, which also rely heavily on overseas tertiary education provision, the relatively high tertiary level unit costs in Seychelles are less pronounced. South Africa and Botswana show similar relative unit costs, although at a lower GDP per capita.

197. **While unit costs are not way out of line with comparators, there is room for improving value for money in both the overseas program and in local post-secondary school institutions.** In the case of the overseas program, we agree with the government’s plans to further focus government resources on supporting training in key sectors such as health, education, financial sector and tourism. We also recommend that greater scrutiny be levelled at whether or not students are returning from overseas and that the bonding mechanism ensuring the repayment of fees if students do not return be strengthened and enforced. In the case of the post secondary institutions in Seychelles, a benchmarking of unit costs shows that there are considerable improvements possible in some institutions to bring unit costs down. There is also scope for better alignment of the resources dedicated to these institutions with the government’s longer term strategy of having a workforce geared toward management in tourism, financial sector and off-shore services. One possibility is to consider sharing administrative costs across more than one post-secondary institution to make greater use of economies of scale. This could involve

bringing the institutions (back) under a single administration or, in view of plans now being developed by the Seychelles University Foundation for a national university, developing the schools as faculties or departments of a future university.

198. **About 10 percent of the education budget is spent annually on education benefits in the form of bursaries and transportation subsidies.** Primary (including crèche) and secondary students living more than 3.5 km from their schools are entitled to free bus passes to use the Seychelles Public Transport Company buses. These are funded by the Social Security Fund, which transfers the funds to the public transport company, which then provides the bus passes to the MOE. All post-secondary students also receive transportation subsidies giving them free travel between their homes and where they study. Furthermore, despite the fact that the majority of the direct costs associated with continuing education is covered by MOE, post-secondary students receive bursaries—ostensibly to offset the private costs of their study (foregone earnings plus any direct costs they might incur). In effect, these students are being paid by the taxpayers.

199. **We recommend reconsidering this approach and phasing out non-targeted education subsidies and replacing them with needs-based scholarships.** From an equity point of view the transportation subsidy at the post secondary level is not well targeted since the subsidy is given universally and since, in general, post-secondary education is better accessed by the middle-classes. Table 41 summarizes the recommendations and indicates the potential budgetary savings. In addition, to greater use of co-payments (see next section) we recommend replacing the current system with a needs-based scholarship program to assist overseas students (who have already met the merit criteria) and who demonstrate an inability to meet increased cost-sharing obligations—in effect, allowing the bursary and tuition payments to vary between 0 percent and 100 percent of current levels but equaling a 19 percent reduction in costs over current levels on average.

200. **Capital spending in education accounts for about 8 percent of total education expenditures and fluctuates significantly from year to year.** The separation of capital and recurrent budgets means that these investments are not necessarily driven by maximizing education outcomes. Furthermore, the strong link between capital projects and the existence of an external donor often drives the choice of capital project. We recommend instituting a system within MOE to prioritize capital projects. This should be based on an assessment of critical rehabilitation and maintenance needs firstly and should take due consideration of student number projections and the potential to share resources across schools so as to maximize beneficiaries. Principles of cost effectiveness and cost benefit analysis should be applied.

Table 41: Recommendations for Education Subsidies

| Subsidy | Recommendation | Timing | Total amount in 2007 (SR million) | Proposed annual budget savings (SR million) |
|---|---|---|--|--|
| Bus subsidies for primary and secondary education students | Leave at current levels, even if bus fares go up in the future | January 2009 | 2.3 | .. |
| Bus subsidies for post-secondary students | Eliminate in two steps | Leave at current levels in 2009 Eliminate in 2010 | 5.0 | 5.0 |
| Bursaries for post-secondary students | Grandfather students entering in 2009 at current levels. Reduce value by 44 percent by 2011 | Reduce per student amount by 25 percent in 2010. Reduce per student amounts by a further 25 percent in 2011. | 10.5 | 4.6 |
| Bursaries and tuition payments for overseas students | Grandfather existing students in 2009 at current levels. Target 19 percent reduction <u>on average</u> through introduction of co-payments and choice of training program. | Reduce per student amounts for students starting in 2010 by 10 percent Reduce per student amounts for students starting in 2011 by a further 10 percent. | 64.6 | 12.3 |
| Total annual savings when all recommendations have been fully implemented | | | | 21.9 |

Source: Bank staff estimates

201. **Based on our analysis of efficiency and equity in the sector, we find that major reallocations in government spending on education would achieve greater “value for money” in the sector.** The unit cost analysis provides a basis for examining whether Seychelles is getting good value for money for its education investment. Certainly, at the post-secondary level there are a number of institutions that are expensive to run but that do not provide training in the economic sectors prioritized in Strategy 2017. At the same time the much lower unit costs for secondary education and academic post-secondary education are in line with the general observation that vocational training is generally more expensive, yet even here there is considerable room to improve learning outcomes for this investment as we have seen above. Over time, increased total spending may be warranted, but certainly at the present time, this should not rely on increased government spending. Greater cost sharing, together with better targeting of government subsidies to reflect socio-economic differences on the part of students, will be needed to raise the quality (learning outcomes) and relevance (labor market outcomes) of Seychellois education. The remaining analysis will focus on a number of specific ways and make recommendations that could help the country to meet these goals.

Co-Payments and Cost Sharing

202. **Some level of cost-sharing (private financing) could address differences in government subsidies between students and other population groups; and also between students at higher and lower levels of the education system.** At present, except for those attending the three private schools in Victoria, nearly all costs of study in the Seychelles are financed by the Government. Some degree of cost-sharing could also render the education system more efficient than it is at present. When students are investing some of their own resources, their incentive to learn is greater, particularly at higher levels of study, and they are more likely to seek training in skills that are valued by the economy. Many educators and government officials interviewed for this study were of the opinion that students who pay practically nothing at all for their education today fail as a result of not valuing their education adequately and that they are prone to making ill-considered decisions (e.g., on what to study and when to stop studying), resulting in a less than optimal allocation of scarce public resources.

203. **We recommend a sharing of costs in those areas where subsidies will be reduced and also the introduction of a co-payment for examination fees.** In addition to the subsidies already discussed, a proposal is made to introduce some modest cost-sharing to help cover the fees (now paid in full by the government to Cambridge International Examinations in the UK) for students to sit the IGCSE and A-level examinations.

Enrollment Trends

204. **The total student population has been relatively static over the last 4 years at around 21,000 students** shows the number of pupils in crèche, primary and secondary education in the five years between 2004 and 2008 by level and grade. The diagonals shown are sample cohorts moving their way through the system. Sometimes we find more students in one grade than were enrolled a year earlier in the prior grade, suggesting either that there is repetition in the system or that some students transfer into the system, perhaps arriving in or returning to the Seychelles from abroad.⁶¹

Table 42: School Enrollments (including Private School Enrollments) by Level and Grade, 2004-2008

| Grade | Academic year | | | | | % |
|---------|---------------|-------|-------|-------|-------|--------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | change |
| Crèche | 2,812 | 2,833 | 2,823 | 2,835 | 2,923 | 3.9 |
| Primary | 9,504 | 9,173 | 8,910 | 8,998 | 8,744 | -8.0 |
| P1 | 1,416 | 1,402 | 1,459 | 1,461 | 1,432 | 1.1 |
| P2 | 1,551 | 1,425 | 1,410 | 1,431 | 1,459 | -5.9 |
| P3 | 1,605 | 1,535 | 1,407 | 1,412 | 1,464 | -8.8 |
| P4 | 1,578 | 1,573 | 1,524 | 1,566 | 1,425 | -9.7 |
| P5 | 1,694 | 1,559 | 1,564 | 1,551 | 1,423 | -16.0 |

⁶¹ The Ministry has a policy of “automatic promotion” and claims that little or no repetition exists.

| | | | | | | |
|-----------|-------|-------|-------|-------|-------|-------|
| P6 | 1,660 | 1,679 | 1,546 | 1,577 | 1,541 | -7.2 |
| Secondary | 7,827 | 7,852 | 7,756 | 7,852 | 7,542 | -3.6 |
| S1 | 1,643 | 1,644 | 1,634 | 1,651 | 1,580 | -3.8 |
| S2 | 1,694 | 1,628 | 1,642 | 1,672 | 1,516 | -10.5 |
| S3 | 1,653 | 1,645 | 1,599 | 1,631 | 1,617 | -2.2 |
| S4 | 1,523 | 1,566 | 1,579 | 1,583 | 1,568 | 3.0 |
| S5 | 1,314 | 1,369 | 1,302 | 1,315 | 1,261 | -4.0 |

Source: MOE

205. **Relatively large numbers of students leave the system (“drop out” to start work or enter a certificate course in one of the post-secondary institutions) at the end of secondary level form 4.** S4 marks the end of the compulsory 10-year education cycle in the country. To have students leave secondary education after S4, just one grade before they become eligible to sit the IGCSE examinations, is not a natural breaking point. Nolan (2008) has argued for a restructuring of the education system as summarized in Box 4.⁶²

Box 4: Nolan Recommendations for Restructuring the Secondary School System

Dr. Nolan, a Special Advisor on Education to the President of the Seychelles, in his 2008 report recommended that:

- (a) by 2012, the existing five-year program plus the additional two years at the “A” Level school be replaced by a common six-year secondary school program, to be offered by each of the ten (10) Secondary Schools, which would get “added value” from the number of teachers already in these schools who are qualified to teach beyond S5 level, but who, to date, have not had the opportunity to teach beyond that level,
- (b) the sixth year (S6) be regarded as a Pre-University Year, aimed at raising the entry standard for future Seychellois students entering the University of Seychelles, or Universities and other third-level institutions overseas, or entering employment in the public and private sectors in Seychelles,
- (c) the five-year and a six-year comprehensive program eventually be reduced to a five-year Secondary School Cycle.

In other words, Dr. Nolan’s proposal calls for a reduction in the length of the post-primary cycle from seven years (S1-S5 followed by the two-year A-level course) to six years (S1-S6) in step 1, and then, in step 2, to five years (S1-S5). According to his proposal, students would continue to sit for the Cambridge IGCSE examinations (or a national examination introduced to replace the IGCSE) at the end of S5, and Seychellois students would no longer sit for the A-level examinations. Given concerns at present about the average performance of Seychellois students on both the IGCSE and A-level examinations, Nolan’s proposal to reduce the number of years between primary education and (for those who qualify) tertiary education deserves some careful further research and debate.

⁶² Nolan (2008)

206. **Whether or not secondary education is reduced in length, there is a strong argument for introducing a break in the cycle after S3 and marking a transition between what might be called “junior” and “senior” secondary education.** This would require a redefinition of the 10-year compulsory education cycle mandated under the Constitution, perhaps making Crèche 2 (Cr2) the first year of compulsory education. It would probably also require the introduction of a (national) examination at the end of the S3 year. Table 43 shows post-secondary enrollments over the five-year period between 2004 and 2008. The analysis is complicated by the fact that several institutions were redefined and/or renamed during this period, including bringing some that came under the authority of other line ministries (e.g., the Ministry of Health and Social Services in the case of the National Institute of Health and Social Science and the Ministry of Environment, Natural Resources and Transport in the case of SAHTC) under the umbrella of MOE. In addition, some study programs were moved from one institution to another. For example, several technical subjects were moved in 2006 from the Seychelles Polytechnic to the Industrial Training Center, which became the Seychelles Institute of Technology.

Table 43: Enrollments by Level and Institution, 2004-2008

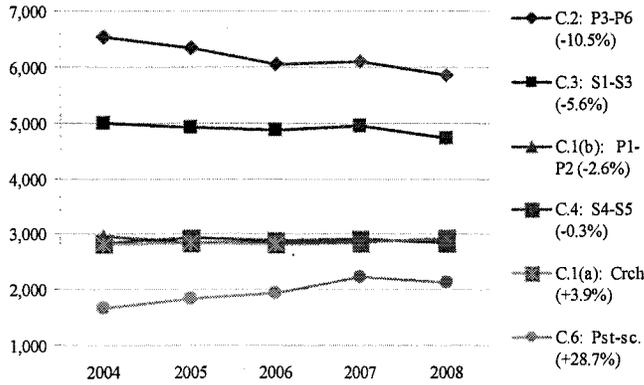
| | Academic year | | | | | % |
|---|---------------|--------|--------|--------|--------|--------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | change |
| Crèche, primary and secondary | 20,143 | 19,858 | 19,489 | 19,685 | 19,209 | -4.6 |
| Post-secondary | 1,655 | 1,837 | 1,931 | 2,217 | 2,130 | 28.7 |
| Seychelles Polytechnic | 389 | 421 | 329 | 311 | 287 | -26.2 |
| <i>Business Area</i> | 154 | 174 | 193 | 181 | 172 | 11.7 |
| <i>Visual Arts a/</i> | 112 | 106 | 136 | 130 | 115 | 2.7 |
| <i>Technical Area b/</i> | 123 | 141 | | | | 48.7 |
| Seychelles Institute of Technology c/ | 261 | 343 | 494 | 567 | 571 | |
| School of Advanced Level Studies d/ | 279 | 292 | 339 | 375 | 369 | 32.3 |
| National Institute of Education | 204 | 223 | 243 | 274 | 231 | 13.2 |
| Maritime Training Center | 55 | 58 | 72 | 97 | 103 | 87.3 |
| SAHTC | 54 | 58 | 59 | 59 | 57 | 5.6 |
| Seychelles Tourism Academy e/ | 211 | 275 | 259 | 330 | 301 | 42.7 |
| National Institute of Health & Social Science | 202 | 167 | 91 | 168 | 151 | -25.2 |
| International School (A-level students) | | | 45 | 36 | 60 | |
| All levels | 21,798 | 21,695 | 21,420 | 21,902 | 21,339 | -2.1 |

Source: MOE (2008)

Notes: a/ Before 2006, operated as separate institution (National College of the Arts). b/ Transferred to Seychelles Institute of Technology in 2006, c/ Name changed in 2006: formerly known as Industrial Training Center. d/ Before 2006, operated as division of Seychelles Polytechnic. e/ Formerly known as Seychelles Hotel & Tourism Training Center.

207. The observed trends in enrollment reflect both demographics (fluctuations in cohort sizes in the case of crèche, primary and secondary education) and market demand (fluctuations in the popularity of different post-secondary courses). In general, post-secondary education was the biggest education “growth sector,” with

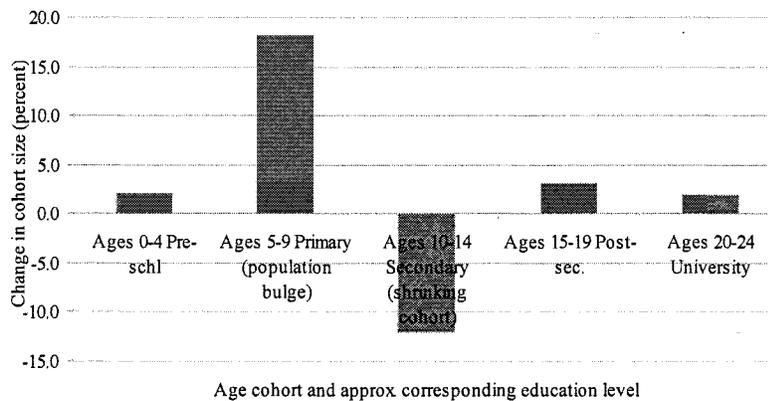
Figure 26: School Enrollments by Cycle (Sub-Level) of Education, 2004-2008



Source: MOE

enrollments across the nine post-secondary institutions rising by 29 percent over the five-year period. While enrollments at the Maritime Training Center and School of Advanced Level Studies grew by 87 percent and 49 percent, respectively, between 2004 and 2008, growth at SAHTC was not quite 6 percent. Crèche enrollments also grew, reflecting higher labor-force participation rates, which now approach 100 percent, but also the fact that children born in the early years of the new millennium comprised an unusually large cohort with the result that these children reached the age of crèche entry between 2004 and 2008. On the other hand, primary and secondary school populations declined between 2004 and 2008, by as much as 10.5 percent in the case of “cycle 2” (P3-P6). These differences can be seen in Figure 27 which shows changes projected for the next five years (2007-2012) of different school-age populations.⁶³

Figure 27: Projected Growth of School-Age Population Cohorts, 2007-2012



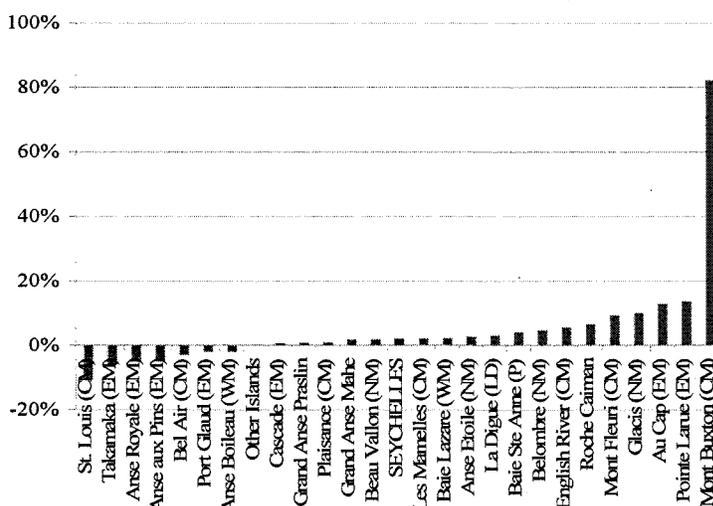
Source: NSB

⁶³ These projections are based on a recent study by the NSB that updated earlier estimates reflecting the results of the 2002 population census. The “population bulge” that hit crèche education earlier in this decade will now begin to affect primary education. Interestingly, this unusually large cohort follows an unusually small one that affected primary education in recent years and will now start to affect secondary education.

208. **There is considerable regional variation in student population growth with implications for demand on regional schools and resources.** Figure 28 shows that, while the pre-school (0-4 years) age population is projected to grow quite slowly on average (by 2.1 percent) over the next five years, there is likely to be significant variation across the country's 26 districts. At the two extremes, both of which districts happen to be within the same geographic zone (Central Mahe), projections show that the pre-school age population of St. Louis will drop by nearly 11 percent whereas that of Mont Buxton will grow by over 82 percent.

209. **New demographic patterns and changing preferences need to be factored into MOE planning and resource allocation decisions.** For example, the Ministry will need to have more flexible arrangements to shift teachers and other inputs between institutions so as to avoid the emergence of inefficient allocations. While achieving this should not require an increase in the budget for education, it definitely requires foresight and political will to adapt to trends particularly if this leads to downsizing institutions in some areas.

Figure 28: Projected Growth in 0-4 Year Age Cohort by District, 2007-2012



Note: CM=Central Mahe, EM = East M, NM = North M, WM = West M, LD = La Digue, P = Praslin.

210. **To improve the flexibility of education staff, adapting pre-service and in-service teacher training programs run by the National Institute of Education (NIE) is recommended.** The first curriculum change would involve a new requirement that all new students training to be certified as secondary school teachers qualify in at least two subject areas (a major subject and a minor subject specified in each trainee's study program) in order to give secondary schools more flexibility in drawing up timetables and to ensure that all teachers carry full teaching loads. Single-subject teachers already teaching in schools would be encouraged to add a second subject through in-service training. The second curriculum change would involve an opportunity for those training to become primary school teachers to study multi-grade teaching methods which, while not needed in many primary schools, would be useful for those teaching in more remote schools with smaller class cohorts. The introduction or improvement of multi-grade

teaching in these schools should prove cost-effectiveness, and some observers argue for multi-grade classes even in schools with adequate-sized age cohorts in light of international research showing that younger students benefit from exposure to and help from older students, while older students are not held back. The up-front costs of curriculum change at NIE would not be great, but technical assistance might be needed, and international donor(s) should be sought to provide this on grant or concessional loan terms.

211. **The teacher compensation package should be amended to encourage flexibility.** To encourage new as well as existing teachers to acquire the desired attributes (such as qualification in two or more subject areas, multi-grade teaching skills, as well as qualification in subject areas currently in short supply e.g. mathematics and the physical sciences), the DPA and MOE should work together to design and implement effective incentives. An obvious incentive would be to reward teachers with the desired attribute(s), by placing them at a higher point on the civil service wage grid for example. This reform could be budget neutral if attention were given to ensure the reverse – that teachers *without* the desired attribute(s) are placed at a *lower* point on the grid or even, given notice, declared redundant if they do not, within a reasonable time period, upgrade themselves in ways specified by MOE management and school heads.

Productivity of Education Staff

As with most education systems worldwide, staff costs dominate the budget of MOE.

212. Table A14. 1 in Annex 14 presents the expenditure on personal emoluments by division and section in 2007. Any effort to improve the efficiency of government spending on education must look at staffing issues to see how teachers and other workers are being used and whether staff reallocations and/or reductions can lead to efficiency gains. Of the total number of MOE staff (2,821), 71 percent are classified as instructional staff—teachers, lecturers, ancillaries and others who, in their current jobs, are in regular direct contact with students in classrooms. The remaining 29 percent of staff are either office staff (administrators, accountants, secretaries, and messengers) or support staff (cleaners, maintenance workers, kitchen staff, watchmen, security guards and school wardens). The average monthly salary varies across and within these three groups, but office workers are the highest paid on average, even though many secretaries, clerks, messengers and low-level office staff earn below the ministry average. Included also in this broad category are senior administrative workers, who in many (probably most) cases are former teachers promoted out of the classroom.

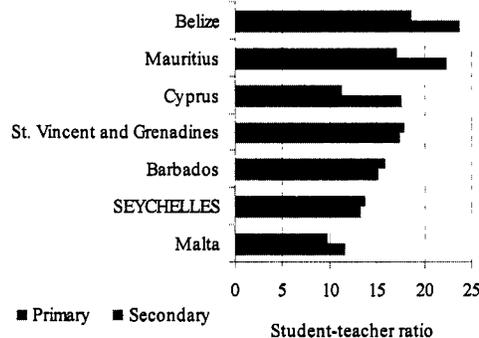
213. **Student-teacher ratios are low in the Seychelles, ranging from 9.9 in post-secondary institutions to 14.2 in crèches.** Low ratios are common in small island countries, but Seychelles is still at the low end of this spectrum. Figure 29 shows student-teacher ratios in a sample of other small island countries. Mauritius reports student-teacher ratios in primary and secondary education of 22:1 and 17:1 respectively – which is significantly higher than those observed currently in the Seychelles (13:1 and 14:1, respectively).

Table 44: MOE Staffing, 2008

| | Staffing | | | Payroll | | Average Salary. Per Month (SR) |
|---|--------------|--------------|------------|---------------|--------------|-----------------------------------|
| | Num. | % of total | % of Group | SR '000 | % of total | |
| Instructional staff | 1,991 | 70.6 | 100.0 | 8,721 | 74.2 | 4,380 |
| Teachers, lecturers | 1,533 | 54.3 | 77.0 | 7,227 | 61.5 | 4,714 |
| Head Teachers, principals | 51 | 1.8 | 2.6 | 372 | 3.2 | 7,285 |
| Ancillary teachers, lab technicians, librarians, etc. | 407 | 14.4 | 20.4 | 1,123 | 9.5 | 2,759 |
| Office staff | 410 | 14.5 | 100.0 | 1,957 | 16.6 | 4,774 |
| Support staff | 420 | 14.9 | 100.0 | 1,082 | 9.2 | 2,575 |
| Maintenance staff | 113 | 4.0 | 26.9 | 296 | 2.5 | 2,617 |
| Cleaners | 202 | 7.2 | 48.1 | 501 | 4.3 | 2,482 |
| Cooks, kitchen staff | 14 | 0.5 | 3.3 | 45 | 0.4 | 3,214 |
| Drivers | 15 | 0.5 | 3.6 | 41 | 0.3 | 2,741 |
| Watchmen, security workers | 37 | 1.3 | 8.8 | 97 | 0.8 | 2,612 |
| School wardens | 39 | 1.4 | 9.3 | 102 | 0.9 | 2,613 |
| Total | 2,821 | 100.0 | -- | 11,760 | 100.0 | 4,169 |

Source: MOE

Figure 29: Student-Teacher Ratios in Small Island Countries (latest year available)



Source: UNESCO

214. **Increasing student-teacher ratios should be goals for the medium-term, but emphasis in the short-term should be on upgrading instructional staff performance.** Student-teacher ratios are especially low in primary education. Ordinarily we would expect to find higher student-teacher ratios in primary than in secondary education. The ratios are also particularly low in post-secondary institutions. However, in the short term, given the low education outcomes observed we would caution against introducing policies that would reduce the number of instructional staff and, instead, introduce measures that include incentives for teachers to upgrade their skills. Also, greater attention should be given to the performance of teachers and to greater autonomy,

including measures that would allow schools to encourage less productive teachers to leave the system.

215. Seychelles has recently introduced ancillary teachers to assist regular classroom teachers in the youngest classes (Cr1-P2). We encourage MOE to undertake rigorous monitoring and evaluation (possibly through use of case studies and comparative surveys) of the initiative to determine whether this policy improves learning outcomes.

Table 45: Student-Teacher Ratios, 2008

| Level of education | Students | Teachers | Ratio |
|--------------------------------|----------|----------|--------|
| Crèche | 2,923 | 206 | 14.2:1 |
| Primary | 8,744 | 670 | 13.1:1 |
| Crèche and primary | 11,667 | 876 | 13.3:1 |
| Secondary | 7,542 | 547 | 13.8:1 |
| Post-Secondary–Polytechnics /1 | 326 | 34 | 9.6:1 |
| Post-Secondary–other /1 | 1,906 | 175 | 10.9:1 |

Source: Bank staff estimates

Notes: 1 Data are for 2007

216. **Improved productivity of the workforce would therefore concentrate on reducing the numbers of office and support staff.** MOF and DPA have targeted an across-the-board 12.5 percent reduction in staff under the VDS. Given the current staffing of MOE this should be concentrated in the office and support functions. The numbers of office and support staff seem quite high as compared with instructional staff. In 2008, three out of every ten workers in MOE have no classroom duties currently (although many office workers in administrative positions were probably classroom teachers earlier in their careers. Table 46 presents our recommendations on where to cut staff in MOE.

Table 46: Proposed Reductions in Office and Support Staff

| | Current staff | Proposed new staffing. | Average salary per month (SR) |
|--|---------------|------------------------|-------------------------------|
| Instructional staff | 1,991 | 1,991 | 4,380 |
| Office staff (12.5 percent reduction) | 410 | 359 | 4,774 |
| Support staff (78.6 percent reduction) | 420 | 91 | 2,634 |
| Maintenance staff (contract out) | 113 | 0 | |
| Cleaners (contract out) | 202 | 0 | |
| Cooks, kitchen staff (contract out) | 14 | 0 | |
| Drivers | 15 | 15 | 2,741 |
| Watchmen, security workers | 37 | 37 | 2,612 |
| School wardens | 39 | 39 | 2,613 |
| Total | 2,821 | 2,441 | 4,373 |

Source: Bank staff estimates

217. Office staff are proposed to be cut by 12.5 percent, in line with the government-wide target. With respect to support staff, the recommendation is to contract out all maintenance, cleaning and kitchen staff to the private sector. The effect of the employment reduction is estimated to be SR

13 million per annum saved from the wages and salaries bill. Of course, to hire in maintenance, cleaning and meal services from the private sector would result in increases in “goods and services” spending but, as argued in Chapter 3, this can lead over time to substantial savings and flexibility for the government. Although the cost of procuring

these services from the private sector cannot be known in advance with certainty, the working assumption reflected in the table is that the same levels of service will initially cost 20 percent less and hence net savings would be SR 5.0 million annually, or 4 percent of the current payroll budget.

School Autonomy

218. Increasing school autonomy is recommended in order to encourage greater oversight of funds and responsibility for efficiency improvements in the education sector to the first-line level of service delivery. This is in line with the government's own plans for schools to be "given greater autonomy from central government, reducing bureaucracy and fostering a greater sense of school ownership amongst staff, students and parents. In addition, schools will be encouraged to seek private sector expertise and funding to enhance their education provision."⁶⁴ Recent talks among the Department of Public Administration (DPA), MOF and MOE have identified steps needed to implement this policy. In practice, school autonomy means that a part of MOE's budget allocation in the future will be deposited into school bank accounts and be used by local school administrators for on-time procurement of approved categories of school inputs. Certainly, for example, the contracting out of maintenance, cleaning and meal services, discussed above, could be entrusted to individual institutions rather than procured centrally. To oversee the use of funds, school boards of governors should be elected by parents, teachers and other community members.

Addressing Quality of Education Concerns

219. As discussed above, there is considerable concern with respect to the quality of basic education in Seychelles as evidenced by the relatively poor examination outcomes. At present, the curricula for primary and secondary education seem crowded. There are 11 core subjects in primary education⁶⁵ and 14 in secondary education.⁶⁶ Streamlining the two curricula would increase the focus (time given) to core subjects, including mathematics, languages and the sciences. This should improve quality of learning in core subjects and reduce the need for specialized teachers, especially in secondary education, which results in the low student-teacher ratios. There is a particular concern with respect to mathematics and the sciences, since poor instruction leads in turn to unacceptably low levels of learning on the part of students, who end up fearing and avoiding these subjects. As a result, of those who decide to become teachers, too few choose to specialize in mathematics and the sciences, and so the circle repeats itself.

⁶⁴ Republic of Seychelles (2007)

⁶⁵ English (7-8 periods per week, depending on the class (P1-P6) in primary), Creole (4-8), French (3-5), mathematics (7-8), science (2-3), personal and social education (3), art and music (2), physical education (2), religion (2), technology enterprise (2), social studies (0-3).

⁶⁶ Required subjects in S1-S3: English (6 periods per week), French (5), mathematics (6), combined science (6), geography (3), history (3), technical enterprise (2), ICT and arts (2), personal and social education (2), physical education (2), religion (3). Required subjects in S4 and S5: English (5), French (4), mathematics (6), combined science (4), coordinated science (8), personal and social education (2), careers (1), physical education (2), religion (2). Optional subjects in S4 and S5: geography (4), history (4), technical enterprise (4), ICT and arts (4).

MOE recruits expatriate teachers,⁶⁷ but these teachers do not usually stay in the country for more than one or two years. Moreover, even with expatriate recruitment, good teachers of mathematics and the sciences are the most difficult to attract.

220. **A strategy is needed to retard and reverse the mathematics and science teacher downward cycle.** One policy option to consider is to develop, in consultation with NIE, a program of master teachers, whereby the best specialists in these subject areas in the Seychelles, whether in MOE, elsewhere in government or in the private sector, are mobilized to design and deliver lectures aimed at students in different classes in primary and secondary education. NIE would record these lectures and make them available to schools on CDs.⁶⁸ Inexperienced or less qualified teachers of these subjects would help students to understand the lectures and complete follow-up assignments, and in so doing, these teachers' own skills would grow over time, until at some point the recorded lectures would no longer be needed. This strategy is relatively "low-tech" and would not be expensive, although some investment might be needed to place CD players and/or ensure intranet connectivity in all schools and also to compensate the master teachers, at least those from outside the Government. The recurrent costs (for example, CDs and maintenance of the system) would be small compared with the much higher costs of recruiting large numbers of new teachers from the private sector or from abroad.

Private Education

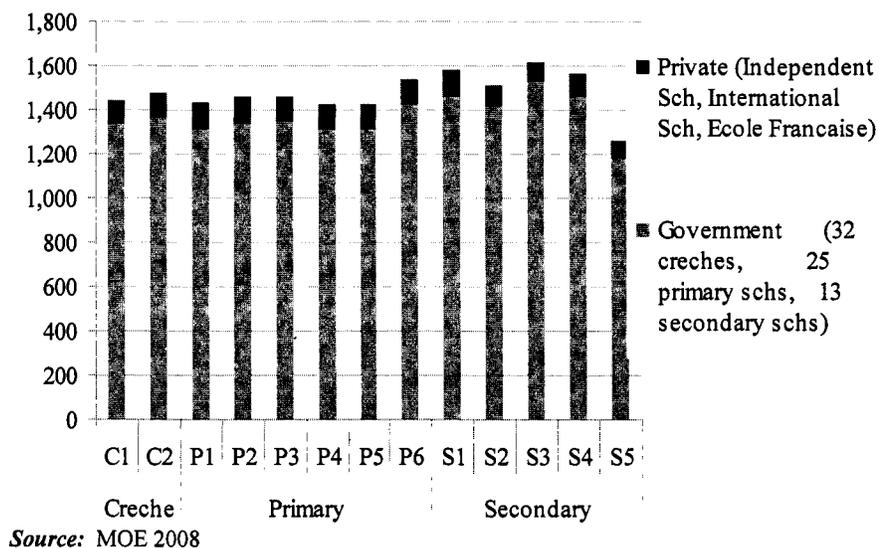
221. One strategy to increase private spending on education is to increase the number and student coverage of private education providers. As indicated, at present only three private schools operate in the Seychelles. Figure 30 shows private and government enrollments by grade in crèche, primary and secondary education in 2008. Private education accounts for only 8 percent of enrollments in crèche and primary, and 6.5 percent in secondary. To ease the burden of education and training on the budget, GOS may want to consider incentives to attract new private providers, at the academic levels where they now exist and also in vocational and technical education and training at both the secondary and post-secondary levels.⁶⁹ Attracting private providers does not obviate the Government's responsibility to assure quality and help consumers to make informed decisions in regard to the selection of education and training programs.

⁶⁷ In 2008, approximately 15 percent of secondary school teachers are non-Seychellois, with the largest numbers of expatriate teachers recruited from Kenya (5 percent of all secondary school teachers) and from Uganda, India (3 percent), and Sri Lanka and Uganda (2 percent each).

⁶⁸ Alternatively, the lectures could reside on a server in Victoria, making it easier to update and revise them, and schools could access them via an MOE intranet

⁶⁹ Some private VOTECH establishments, for example, in ICT and foreign language training, do exist in the Seychelles, but a survey of this sub-sector was deemed to be outside the scope of this PER.

Figure 30: Enrollments in Public and Private Schools by Level and Grade, 2008



University (Degree-Level) Education

222. In June 2007, President Michel announced that he was setting up “a foundation to create a Seychelles University comprised of local and international partners to develop a high-level institution of training for Seychellois, as well as foreigners.” The establishment of the Seychelles University Foundation, together with a Cabinet decision in August 2007 according to which government ministers agreed to contribute one day’s salary per month to help finance the costs of the Foundation, indicates that the creation of a university is seen as a high priority by the government. The plans are driven, not just by national pride, but also by a desire to reduce the large amount now spent from the budget to support Seychellois pursuing university degrees overseas.

223. **We recommend a cautious approach and gradual process toward establishment of a national university.** In light of the nation’s very small population, certain caveats are called for to ensure that the costs of this new initiative do not escalate out of control. The national university should begin as an affiliated college of an established overseas university—one carefully selected and demonstrating willingness to be a serious partner. For the foreseeable future, the degrees earned by those studying at the national university college would be awarded by the overseas partner institution. When it first opens its doors, the college should offer degrees in a limited number of high-priority study areas, this number to be increased only when the success and cost-effectiveness of the initial programs have been clearly demonstrated. To the extent possible, the college should make use of distance teaching methods, including correspondence, recorded lectures and video-conferencing. This places the responsibility for success on individual students. The likelihood that graduation rates will be (a lot) lower than they have been for students studying abroad needs to be acknowledged, but the potentially (much) lower unit costs could justify the difference.

224. Students at the college should pay the full cost (or a substantial portion of the full cost) of their education, but as with the overseas training, needs-based scholarships should be offered to ensure that poor but deserving students are not barred from study because they cannot afford the fees.

225. For students at the new institution (as well as those studying abroad) who still have difficulty covering the direct costs of their study, the government might consider a program of student loans (and pilot the program before bringing it to scale). To be sustainable, however, and to avoid the creation of a new but hidden subsidy, the loan program should charge market rates of interest. Moreover, loans should be given only to those backed by credible (credit-worthy) guarantors, and the earnings or pensions of the guarantors must be subject to automatic deductions (no exceptions) in the event of loan non-repayment. In light of the unusually good information on individual earnings in the Seychelles, with every individual assigned a unique universal identification number, and also given the efficient operation of the Social Security Fund, it might be possible to consider the creation of an income-contingent student loan scheme for the Seychelles as opposed to a program of mortgage-type student loans.

Summary of Key Recommendations

226. The key recommendations from the sections above and their estimated impact on the government budget are summarized in Table 47.

Table 47: Recommendations and Estimated Impact on the Budget

| Recommendation | Estimated Impact on Annual GOS Spending (in 2007 prices) |
|--|---|
| <p>Reduce bursaries for post-secondary students by 50 percent</p> <p>Reduce bursaries for overseas students by 20 percent on average</p> <p>Reduce tuition payments for overseas students by 20 percent on average</p> | <p>SR 5.3 million (savings)</p> <p>SR 4.8 million (savings)</p> <p>SR 8.1 million (savings)</p> |
| <p>Implement needs-based scholarships for post-secondary and tertiary students</p> | <p>Budget neutral if cost-sharing inversely related to scholarships, with richer families paying more and poorer families paying less but families, on average, satisfying the cost-sharing targets</p> |
| <p>Freeze bus subsidies for crèche, primary and secondary education students at current level (SR 2 per trip)</p> | <p>None (families to cover any increases in bus fares)</p> |
| <p>Eliminate bus subsidies for post-secondary students</p> | <p>SR 5.0 million (savings)</p> |
| <p>Charge students taking IGCSE and A-level exams SR 50 per subject</p> | <p>SR 3.2 million (savings)</p> |
| <p>Rationalize the administration and staffing of post-secondary education through institutional mergers that make sense</p> | <p>Savings from this are captured in the recommendation to reduce MOE office staff</p> |
| <p>MOE to respond in timely fashion to new demographic patterns as well as changing preferences on the part of secondary and post-secondary students in their choice of study programs</p> | <p>None; requires leadership and political will only</p> |
| <p>Require all secondary school teachers to be certified in at least two subject areas</p> | <p>Little or none; perhaps some upfront costs to help NIE modify its training curriculum</p> |
| <p>Provide more primary school teachers with skills in teaching multi-grade classes</p> | <p>Ditto</p> |
| <p>Introduce salary incentives for teachers certified in subject areas in short supply (e.g., mathematics and the physical sciences) as well as secondary teachers certified in two or more subject areas and primary teachers trained in multi-grade teaching methods</p> | <p>Budget neutral given incentives that are symmetric, meaning that teachers <i>without</i> the desired attributes are paid <i>less</i></p> |
| <p>Reduce office staff in MOE by 12.5 percent</p> | <p>SR 2.9 million (savings)</p> |
| <p>Eliminate maintenance, cleaning and kitchen staff from MOE payroll</p> | <p>SR 10.1 million (savings)</p> |
| <p>Procure maintenance, cleaning and meal services from the private sector</p> | <p>SR 8.1 million (addition to “goods and services” budget of MOE)</p> |
| <p>Give greater autonomy to schools and other educational institutions</p> | <p>Budget neutral but should result in efficiency gains (improved education outcomes)</p> |
| <p>Streamline curricula of primary and secondary education so as to increase the focus (time given) to core subjects</p> | <p>Perhaps none, although it might lower costs by reducing the need for specialized teachers</p> |
| <p>Mobilize “master teachers” of mathematics and the sciences to design and deliver lectures aimed at students in different classes in primary and secondary education and record the lectures for access on CDs and/or the intranet by the schools</p> | <p>Some investment may be needed to improve intranet connectivity and to compensate the master teachers, but inexpensive relative to the cost of recruiting large numbers of new teachers of these subjects</p> |
| <p>Consider incentives to encourage an increase in private provision of education and training</p> | <p>Budget savings resulting from less reliance on government financing difficult to quantify in advance, but they could be significant</p> |
| <p>The plans formulated by Seychelles University Foundation and the steps taken by GOS to create a national university should be gradual and careful so as to ensure that costs (financed from the budget) do not escalate out of control</p> | <p>Budget trade-off between training degree students domestically and sending them abroad needs to be studied as part of a detailed costing and careful cost-benefit analysis of plans for the university</p> |

Annex 1: Summary Table of the Empirical Research on Public Finance and Growth

| | Significantly positive effect | Inconclusive/No effect/Complex effects | Significantly negative effect |
|---|---|--|---|
| Impact of government consumption on long-run growth | Cronovich (1998) Ram (1986), Sattar (1993), Macnair, Murdoch Pi and Sandler (1995), Devarajan, Swaroop and Zou (1996) | Kromendi & Meguire (1985) Grossman (1990) Levine and Renelt (1992) Sheeby (1993) Lee & Lin (1994) Garrison & Lee (1995), Grossman (1988), Hansen (1994), Hsieh & Lai (1994), Gemmel (1983), Saunders (1985) Rao (1989) Bairam (1990) Sattar (1993) Evans & Karras (1994) Hansen (1994) Andres, Domenech and Molinas (1996) Zhang and Zhou (1998) | Landau (1983). Scully (1989), Barro (1991), Durden and Elledge (1993), Hansson and Henkerson (1994) Karikari (1995) Landau (1985), Landau (1986) Grier and Tullock (1989), Assane and Pourgerami, (1994) Barro (1997), Guseh (1997) |
| Impact of taxes on long-run growth | | Koester & Kormendi (1989) Easterly & Rebelo (1993) Kocherlakota and Yi (1997) Easterly & Rebelo (1993) | Garrison & Lee(1996) Kocherlakota and Yi (1997) Helms (1985) Canto & Webb (1987) Yu, Wallace & Nardinelli (1991) |
| Impact of education expenditure on long-run growth | Landau (1983) Barro (1991) Moomaw & Williams (1991) Hansson & Henrekson (1994) Ansari & Singh (1997) Singh & Weber (1997) Evans & Karras (1994) Barro (1997) Baffes & Shah (1998) | | |
| Impact of public infrastructure and/or public investment on long-run growth | Da Silva Costa, Ellson & Munnell (1990) Moomaw & Williams (1991) Binswanger, Khandker & Rosenzweig (1993) Easterly & Rebelo (1993) Sanchez-Robles (1998) Ratner (1983) Aschauer (1989) Munnell (1990) Lynde & Richmond (1992) Bajo-Rubio & Sosvilla –Rivero (1993) Lynde & Richmond (1993) Harmatuck (1996) Wylie (1996) Kocherlakota & Yi (1996) Kocherlakota & Yi (1997) Lau & Sin (1997) Aschauer (1989) Easterly & Rebelo (1993) Morrison & Schwartz (1996) Odedokun (1997) Eisner (1991) Munnell (1992) Glomm & Ravikumar (1997) | Mullen & Williams (1990) Barro (1991) Hansson & Henrekson (1994) Laudau (19986) Hulten & Schwab (1991) Holtz-Eakin & Schwartz (1995) Hulten & Scwab (1991) | Landau (1985) Evans & Karras (1994) Devarajan, Swaroop & Zou (1996) |

Source: Based on Poot (2000)

Annex 2: Description of the Legal and Institutional Framework for Public Financial Management (PFM) ⁷⁰

The legal framework for PFM

Constitution

24. Chapter XII of the 1993 Constitution of the Seychelles (as amended) sets out the basic foundations for PFM in the Seychelles. This includes the presentation of estimates before Parliament, the operation of the Consolidated Fund, the establishment of other funds, the imposition of taxation and the broad mandate and independence of the Auditor General.

Public Finance Act 1996

25. The Public Finance Act 1996 (Act no. 22 of 1996) and its associated Financial Instructions from July 1997 provides for the control and management of the public finances of the Seychelles. The Act of 1996 repeals the original Public Finance Act of 1991 (Chapter 188 of the Laws of Seychelles). However, statutory instruments made under chapter 188 continue in force if it is not withdrawn or amended by the act of 1996.

26. The Public Finance Act and its associated Financial Instructions regulates among others: i) the powers and duties of the Minister of Finance; ii) the powers and duties of the Principal Secretary; iii) the duties and responsibilities of the Accounting Officers; iv) the establishment of various funds (consolidated fund, contingencies fund, development fund) and procedures to establish other funds; v) procedures for procurement and payments from the funds; vi) procedures for collection and receipt of revenue; vii) procedures for advances, imprests, deposits and suspense accounts; viii) the custody of public money and ix) the custody and control of other assets.

The Audit Act 1973

27. The Audit Act dates back to 1973 and had been amended in 1991 (chapter 11 of the Laws of Seychelles) to bring it into conformity with the Constitution that came into force on 31st December 1991. The Audit Act specifies the duties and powers of the Auditor General and its staff. Moreover, it regulates the appointment and salary of the Auditor General. A new Audit Bill has been drafted and is currently with the Council of Ministers.

Revenue legislation

28. The main laws applicable to revenue include the Revenue Commission Act (2007), The Goods and Service Tax Act (2001), the Social Security Act, The Business Tax Act and the Trades Tax Act. With the exception of the GST Act, all other tax acts date back to 1987 with revisions only for rates and application.

⁷⁰ Reproduced from the PEFA Assessment June 2008.

Procurement

29. Procurement regulations are currently set out in the financial regulations. The National Tenders Board Act 2004 established a six member National Tender Board with powers to administer and make recommendations to the Government for the procurement of goods and services, and the hiring and letting of assets and properties belonging to the Government that are valued above SR 500,000⁷¹, for all budget-dependent government agencies. It also has the powers to administer and make recommendations to the Government on the disposal of government assets and properties. A Procurement Bill has recently been drafted.

The institutional framework for PFM

President

30. The President is the Head of State and Government, as well as Commander in Chief of the armed forces. The President is elected by direct universal adult suffrage and is restricted to three terms of office of five years each.

Legislative

31. Legislative power is vested in a unicameral parliament, the National Assembly. 25 members are elected in first-past-the-post single member constituency elections. Up to 10 further members are elected by proportional representation (PR); each party is allocated 1 seat for every 10% of the vote obtained; the threshold for a PR seat is 10%. The term of the National Assembly is five years. Presidential elections took place in June 2006 and parliamentary elections in May 2007. There is one committee, the Finance and Public Accounts Committee, responsible for public financial matters. The Committee comprises of 11 MPs selected to reflect the weight of powers in the National Assembly. The mandate of the Committee is to scrutinize the budget estimates, the budget statements and the reports of the Auditor General. It is not currently chaired by the Opposition in accordance with Commonwealth guidelines.

Executive

32. Executive authority is established in the office of the President. The Council of Ministers comprises of a minimum of seven and a maximum of 14 members. Members are appointed by the President with the approval of the Assembly

Judiciary

33. The legal system is based on English Common Law, the Napoleonic Code and the 1993 Constitution. Company law is based on English Law and the highest court is the Court of Appeal. The court system comprises a Court of Appeal, a Supreme Court and subordinate courts and tribunals. There is no specialized commercial court.

⁷¹ This excludes military equipment and other security related items.

Administration

34. Since 2007, the Business of Government is distributed amongst 15 ministries and departments. As noted earlier, recent reform initiatives have created a number of semi autonomous regulatory bodies and agencies. These bodies have been created either through specific enabling acts or administrative orders.

35. The Ministry of Finance is responsible for overall financial and economic management. It has four main “divisions”, the Treasury, Financial Planning and Control, Policy and Research and Administration. The Revenue Commission came into operation in March 2008 and is charged with the collection of all domestic taxes and social security contributions. The National Economic Planning Council is responsible for the development of the national strategy.

The key features of the PFM system

36. The financial year in the Seychelles is from 1st January to 31st December. Financial statements are currently prepared on a cash basis⁷². Capital projects are accounted for through a Development Fund. For central ministries and departments, the GoS has a centralized payments system and uses Visual Accounts Mate financial software. Processing and recording of transactions is on a decentralized basis with all ministries and departments having access to the Visual Accounts Mate system. For ministries and departments, the budget process should be as follows: appropriation (by parliament), authorization (by the Minister through the signing of a general warrant), commitment (by the relevant accounting officer through the raising of a local purchase order) and payment (on receipt and validation of invoice by Treasury).

37. Businesses and employers, not individuals are responsible for all tax and social security payments. There is no capital gains tax or tax on interest. The Auditor General is a constitutional appointment with his powers, scope and mandate derived from the Constitution and the Audit Act.

⁷²The Financial statements for 2006 refer to the use of modified cash, but no evidence of accrued revenue could be found.

Annex 3: Categorizing Functional Reviews⁷³

Vertical Review

1. A vertical review focuses on the activities of one institution. The institution may be a ministry, an agency, or a central body such as the government secretariat or the presidential administration. A vertical review of a ministry may or may not include a review of subordinate agencies, and may focus only on the central ministry or include de-concentrated units. The main focus of a vertical review is the extent to which the institution performs the functions required to meet its objectives and the extent to which the organizational structure of the institution fits logically, without duplication or gaps, the requirements for the performance of those functions. At any one time, one or more vertical reviews may be conducted, but the vertical review of each institution is essentially separate from the reviews of other institutions. There are numerous good and bad examples of vertical reviews, with the case of the Latvian ministry of Agriculture (1997) often highlighted as 'best practice'.

System Review

2. A system review focuses on a comparative review of one or more common functions across a number of institutions, and thus mainly assesses the ability of administrations to function as in integrated system. A common function is one performed by all or most institutions, such as personnel, internal administration, legislative drafting and budgeting. A system review of one or more common functions is carried out across the entire administration or one part of the administration, such as all ministries, all subordinate agencies, or all ministries in a given sector. The main focus of a system review is on the comparability in performance of common functions across different institutions. In particular, a system review seeks to determine the extent to which the status and position of a function within different institutions is comparable, e.g., is there a personnel department in some ministries but only a section within a department in others? If there is a difference in status, is it justified by differences in the size or complexity of the institutions? It also allows for examination of the equitability of staffing levels and staff quality for a given function between different institutions, and of the extent to which the same activities are performed, in a similar fashion in all units. For example, do all personnel departments perform activities related to recruitment, or are there some institutions in which recruitment is strictly the prerogative of line managers.

3. A number of system reviews can be conducted concurrently, but the review of each function is essentially separated from the review of other functions. Even if there have been cases where system reviews were carried out separately, to address particular problems in, for instance, legislation drafting, system reviews are most often conducted in combination with one or more vertical reviews. Good examples of combined functional reviews are the Centre of Government reviews, carried out by the OECD Governance division for OECD member governments, which address all common functions, or the HRM, budget planning and policy planning reviews carried out in Latvia and Lithuania in 1999-2001 and the HRM review in Russia conducted in 2004.

⁷³ UNDP (2002)

Horizontal Review

4. A horizontal review focuses on the distribution of functions between institutions. The focus of such a review is primarily on objectives and competencies, seeking to establish if at the level of the administration as a whole the distribution of competences is rationalized, without undue duplications and gaps. A horizontal review can also focus on the extent to which all ministries follow the same methods in defining relations between central and deconcentrated units, or the extent to which financial and accountability relations between ministries and subordinated agencies are comparable across the system. Such horizontal reviews are particularly difficult to conduct and are relatively rare. They may be carried out not as separate reviews but as an attempt to draw systemic conclusions from a series of vertical and system reviews. Good examples of horizontal reviews, with or without in-depth vertical follow up reviews include the 'organizational audit' of the Slovak government, carried out in 2000-2001 and the horizontal review of the administration of Cape Verde carried out under the strategic re-alignment program in 2007-2008.

Annex 4: Ministry of Community Development, Youth, Sports, Culture and the Arts Institutional Review

1. The MCDYSCA includes two main departments: (a) Community Development and (b) Youth, Sports, Culture and the Arts) as well as several subordinated organizations (National Arts Council, National Sports Council etc.)

Department of Community Development

2. The Department of Community Development (DCD) defined and implements community development programs and manages 25 district offices, which form the backbone of the de-concentrated services of the Government. The Department has 1148 posts, 178 of which are vacant, and to be suppressed in the ongoing rationalization exercise.

3. The Division for Community Development has 85 positions, 52 of which are to manage the nine homes for the elderly which together constitute a department of the ministry. The remaining staff in this division are responsible for the design and implementation of Community Development Programs, one unit is responsible for programs (17 posts) and one for project implementation (13 posts). The division currently has 100 project requests for a total of SR 27 Million.

4. The second main division of the Ministry is the Community Management Division is heavily skewed towards the management of district offices, which employ a total number of some 645 staff in post. The other section in this department is the District Operation division, which houses the inspection and emergency management units.

5. The third division is Burial Services which includes 118 staff and is responsible for organizing burials.

6. Finally the Administration and Finance division employs 44 staff, and provides HR, budget management and support services.

7. The Community Development Department is a typical example of the state driven development model of the Seychelles:

- Instead of funding bottom-up defined community initiatives through a fund or subsidy mechanism, the Department defines programs and projects (though the latter with community input) and is directly involved in their implementation.
- The state run homes for the elderly, as a section of the Department, are an anomaly, as such services are rarely managed as a government department in other states.
- The core function of the district offices, which is the coordination of public service delivery in the districts, has been severely diluted through the mandatory absorption of workers taken on under a social employment

scheme, which brought the department from a staff number of 325 in January 2006 to 1111 in July 2006. The problem in this case is not only the artificial increase of staff numbers, but also the fact that by having to manage large numbers of low productivity low-skilled workers, the district offices are unable to effectively fulfill their primary function, which is the local coordination of public service delivery. This is proven by the fact that none of the other Ministries reviewed currently use the services of the district offices or recognize their coordination role, and operate their own de-concentrated services in isolation.

- The inspection function should not be housed in the same department as it is supposed to be inspecting, but rather put directly under the Principal Secretary.
- Support services are overstaffed, the directorate includes 18 cleaners and other low skilled workers.

8. The core functions of the Department, support for community development initiatives and the coordination of public service delivery in district offices, could be delivered with a significantly smaller workforce and structure.

9. The three divisions in the Community Development Division could be easily merged into one by:

- i) Closing down the projects section and only retaining a program section. It is up to communities themselves to define and implement projects and submit these for financing to government, where such financing is available. The government could define overall priority programs under which applications could be submitted.
- ii) The function of homes for the elderly should be taken out of government and replaced with a means-tested subsidy mechanism, while those that can afford to pay should finance their own stay. The homes for the elderly should be run as not for profit organizations under a board of trustees. The district offices could nominate a government board member as needed.

10. This would allow for the suppression of 60 of the current 85 positions in the Division, leaving 25.

11. The Community Management Division could be significantly streamlined, as in the view of the Principal Secretary it takes only 120 staff to manage effectively the district offices, instead of the 960 current positions, about 111 of which are vacant. However, streamlining this department would be achieved under the measures on rationalizing support staff in the previous section. The department would in this case not need more than 125 staff, including central coordination.

12. The current District Operations section would be moved directly under the Principal Secretary and could also be streamlined to 10 staff, instead of the current 16.

13. Finally the Burial Services division is another anomaly in the structure of the Ministry. For this department, a strategy for privatization would need to be defined,

though currently there are no private undertakers in the Seychelles, nor is there an adequate insurance system to handle burials. Since this is a sensitive function, changing provision to private and putting in place an insurance mechanism will take time. However, the objective should be to privatize this function within the four years of the fiscal adjustment program.

14. Cemetery maintenance, where this cannot be ensured by religious organizations, could be handled by the district offices, which could contract landscaping and other maintenance functions to individual contractors or firms. As this would not impose a significant burden on district offices this could be absorbed by the 4-5 core staff. Reorganizing the provision of this function would therefore lead to net savings of 118 posts.

15. In relation to support services, low skilled support services could be contracted out under the overall strategy set out above.

16. In conclusion, it appears that the Department would need no more than some 195 positions, compared to the current number of 1148. Whereas much of the impact of this reform is already included in the review of the support services section, savings of an additional 220 positions would seem feasible over time.

Youth, Sports, Culture and the Arts

17. The Youth, Sports, Culture and Arts Department currently has some 415 staff, 66 of which are likely to be reduced in the context of the ongoing rationalization exercise.

18. The structure of the Department is complex, and has 6 divisions, sports strategic planning and marketing, public relations, marketing and special events, culture, major games, youth and administration and finance.

19. Under these divisions the structure of the Department is highly fragmented, with many single post sections that could easily be merged together. A rationalization exercise looking into each of the units of the department and review the potential for merging units (with related overhead savings) should therefore be conducted.

20. Based on initial reviews and discussion, the Department includes a number of functions that are not generally considered core state functions:

- The National Museum and National Conservation of Performing Arts (under the culture division), with 60 staff.
- The International Conference Centre (under administration and finance), with 37 staff.
- A playground, under the youth division, with 19 staff.
- The Major events and Kreol festival units, with 15 staff.
- Major games, with 10 posts.

21. The functions inherent in each of these units could be provided in a more effective manner:

- i) Playground and International Conference Centre should be privatized (ongoing).
- ii) The National Museum and Conservation should be transformed in not-for-profit foundations, with Boards of Trustees. A subsidy arrangement on a declining rate could be put in place to ease the transition, as concerns have been expressed about safeguarding national heritage.
- iii) Major Games should be made the responsibility of the different Sports Federations.
- iv) The Kreol festival organization should equally be housed in a not-for-profit foundation with a potential state subsidy.

22. Introducing these 'quick win' reforms would lead to a reduction of posts by about 150. Whereas net budget savings would be lower due to the initial subsidy arrangements it is likely that significant savings would be achieved overall.

23. Apart from these obvious measures it is recommended that the Youth section and its operations be rationalized. For instance, Youth activities could be coordinated by the 7 program coordinators, but the 42 youth workers (which work from 8-16 when youth are actually in school) posts could be suppressed. It is suggested that other aspects of the work of the Department be reviewed in detail. Many of the sections and units in this division perform functions that could be transferred to communities or community based organizations, such as youth centers, young citizens' movement etc.

24. Finally the administration and finance section has a very large number of security personnel and a disproportionate number of support service staff (26, compared to 18 in the much larger DCD). The implementation of reforms in the provision of support services could therefore lead to significant savings for this Department.

25. Apart from the core ministry, the extensive mandate of the National Sports Council has also been noted, in particular the fact that the sports council currently fulfills functions that go well beyond its expected mandate of coordination of sports federations and cross cutting issues, and includes for instance the direct management of the national swimming pool. There is therefore significant potential for rationalization also in this autonomous organization, which currently employs 166 staff, through the privatization of functions such as swimming pool management, as well as transferring responsibilities to the various sports federations.

Annex 5: Ministry of Employment and the National Human Resource Development Council Institutional Review

1. The Ministry of Employment and the subordinated National Human Resource Development Council constitute the smallest of the organizations reviewed in this chapter. The Ministry was created in 2005, when the previous Department of Employment was upgraded to a Ministry. The National Human Resource Development Council, which is an institution with largely strategic functions, was moved under the Ministry in 2008.
2. The Ministry does not have Main Departments and is organized in two divisions, Industrial Relations and Employment and Administration and Finance. A small policy unit charged with analyzing issues impinging on productivity as recently established under the Principal Secretary, and a Planning, Research and Information department is responsible for data collection and the liaison with bodies such as the ILO and other international organizations.
3. The Division of Industrial Relations and Employment provides employment services, including services to job seekers and employers, registration and referral services, monitoring of labor market trends and established the regulatory framework for foreign workers. 15 staff are engaged in the unit charged with this function. The Labor Inspections Unit has 10 staff and performs classical labor inspection functions, such as enforcing the labor code and health and safety at work regulations. A further 15 staff work in the Industrial Relations unit and are responsible for designing the normative framework for settling labor disputes, but also currently for mediation services.
4. The current orientation of the Division reflects the traditional perception of the role of the state in the Seychelles as the provider of all services. In the context of the ongoing reform program the Ministry plans to:
 - i) Outsource services to job seekers and employers to a private employment agency, there is an ongoing search for potential interested partners.
 - ii) Transfer the settlement of labor disputes to a new industrial relations tribunal. At a later stage, the transfer of mediation services to a joint entity established by employers and employee organizations might also be considered.
5. These measures, which are sensible, may reduce staff numbers from the current 40 to about 25. Further savings would be possible in the support services unit, which employs some 20 low skilled workers, such as cleaners, drivers and office clerks.
6. On the other hand, in view of the obvious productivity issues identified, for instance, in the chapter on Health Expenditures, it would be recommended to enhance the capacity of the Productivity unit, which supports an inter-institutional committee charged with analyzing key issues reducing productivity levels in the Seychelles. It would be recommended to add an additional 2-3 staff to this unit, at least in the short term.

7. The National Human Resource Development Council (NHRDC) is mainly a strategy setting institution, and has 19 staff. It coordinates professional training and formulates long term skill development plans. Based on this, the Council also sets norms for overseas programs, including to what venues candidates can be sent. Recent changes in approved venues have started to significantly reduce cost (e.g. doctors can now only be sent to India, Mauritius and South-Africa, while previously the preferred destination was New Zealand). The Council also is expected to monitor the respect for the Bond that overseas students sign with the government, but enforcement is left to the Ministry of Education.

8. One recommendation that has been made, and which is supported by this study, based on the analysis in the education chapter, that the management of the overseas studies program is also moved from the Ministry of Education to the NHRDC, as this institution is already responsible for defining venues and monitoring the application of the Bond. The NHRDC's Governing body also has to approve all placements. Centralizing program management could in particular enhance the enforcement of the Bond, as currently functions are divided between monitoring and enforcement. In addition, the NHRDC, as an inter-ministerial body, is better placed to handle the coordination of the program. The NHRDC, with its small staffing size, is unlikely to be able to make significant staff cuts, though some savings on support staff may be possible. These will be more limited than in other institutions as the NHRDC makes use of the pooled administrative services of National House.

9. Finally, an anomaly on the governance arrangements for the NHRDC was noted, in that the Minister chairs the board of the Council, while he is also responsible for its oversight. This is a clear case of conflict of interest and would need to be removed. Alternatively, the Principal Secretary Employment could represent the Ministry on the Board, so that the Minister can take final political decisions without regard to his/her role in the Board.

Annex 6: Ministry of Finance Institutional Review

1. The Ministry of Finance is a relatively flat organization, which includes two large Departments placed under the Principal Secretary, the Revenue Commission and the Treasury, as well as 11 central divisions or units. This includes departments as varied as the Postal Services and the single person Public Enterprise Monitoring Unit.
2. Total number of staff employed in the Ministry is 273, but this includes 118 Postal workers. The Revenue Commission employs an additional 224 staff.
3. The capacity constraints in the Ministry were already noted in the section on systemic functions, whereas the Ministry has a large number of units and divisions, staffing levels on core functions are very weak, with less than 10 full time staff in the Policy and Strategy Department. The key aspect of reorganization in this ministry would therefore be a focus on core functions and the transfer or privatization of everything non-core.
4. The organization of the Ministry also poses span of control issues; the Principal Secretary is directly responsible for overseen 11 diverse entities, including several that would be best organized as autonomous entities (consumer protection, commercial credit), or privatized. However, it would still make sense to organize the remaining entities into two departments, a budget department and a trade and state owned enterprises department.
5. In relation to this point, the obvious candidate for privatization or at least commercialization are the postal services, which should be taken out of the Ministry as soon as possible and be made either a non-commercial state owned enterprise or, if feasible, be privatized. This would take 118 posts off wage bill and allow the Ministry to focus on its core functions. Other organizations that could be run in an autonomous manner would be the Consumer Protection Authority and the Commercial Credit Authority, though a change of status in these two organizations is already being contemplated. This would allow for staffing up the Policy and Strategy Department which is severely understaffed.
6. Implementing these measures is likely to reduce the net number of posts in the Ministry by about 100. However, it is likely that making the postal services self sufficient may take 2-3 years, and net savings therefore need to take into account any state contribution that will be made.

Annex 7: Ministry of National Development Institutional Review

1. The Ministry of National Development is a highly complex structure which currently employs 269 staff in the core ministry, plus an additional 43 in the Planning Authority and the Seychelles Investment Bureau. The ministry includes three departments, each headed by a Principal Secretary, a Division for Corporate Services headed by a Director General and two parastatal organizations that report directly to the Minister, the Planning Authority and the Seychelles Investment Bureau.
2. However, from the point of view of administrative processes the Ministry deals with three basic functions, physical planning and land management, housing and information and communications technology (ICT). From the discussions with the Ministry, the Seychelles Investment Bureau, the Planning Authority and the Investment, Land Management and Industries operate in a single chain of administrative process on decisions on land management.
3. The Housing Management Department deals mainly with the planning and provision of social housing, but depends on the other chain of administrative processes for land allocation.
4. The ICT department operates largely separately from the remainder of the ministry, and was recently transferred from the Vice President's Office. The rationale for this decision is not fully clear, as IT services are an across government function that is generally better placed at either the President's or Vice President's office. It is equally unclear why the Ministry still has its own IT services unit.
5. The review of the organization of this ministry focused on two issues; (i) are the functions it performs core state functions and, (ii) would there be ways to organize those services that are core in a more effective manner.
6. In relation to the first question, the answer is clear on land management, which is a classical state function, and ICT, but much less clear on social housing, where the Seychelles have focused on the direct provision of housing rather than on making housing accessible to a large portion of the population.
7. Considering the area of land management, problems arise mainly with administrative processes. Even though the Department of Investment, Land Use and Industries operates in a single administrative process chain with the Planning Authority and the Seychelles Investment Bureau, the three units are clearly silos. A first recommendation in relation to this ministry would be therefore to place the Planning Authority and the Bureau under the Department, rather than directly under the Minister, which would significantly facilitate administrative processes.
8. In relation to the services provided by these three institutions, most of these do constitute core functions of the state, apart from possibly land surveying, which could be contracted out. The Ministry feels that based on initial attempts to contract out services (as the relevant division is understaffed and has a significant backlog), this solution is unlikely to be cost efficient. However, a full costing exercise of the function has not yet

been done, and it is recommended that this be undertaken. Similarly, a merger of the land planning and land management and development divisions could be considered.

9. Regarding the provision of social housing, it would be recommended that the Government of the Seychelles focus on facilitating home ownership rather than engage in direct provision of social housing, as it currently does. The Department of Housing could in this case be reorganized into a single division, focusing on the definition of policies to make home ownership accessible to an as large as possible proportion of all Seychellois, with access to be handled through the banking system. The management of land allocation for housing projects as well as permits for individual home construction and for housing projects could in this case be transferred to the land planning and management division.

10. The Planning Authority and Seychelles Investment Bureau were not visited so no direct rationalization measures for these divisions can be proposed. However, the proposed rationalization of administrative procedures should also lead to cost savings in these two entities.

11. In terms of Corporate Services this ministry has disproportionately small HR and Finance units, and it would be important that staffing up these units be considered, in the context of the earlier discussion on systemic functions.

12. Unlike for the two previously reviewed departments, it would not appear that significant staffing cuts could be achieved in the Ministry of National Development. The main short and medium term actions to be considered are:

- i) Conduct a full costing exercise of land surveying work and consider contracting out this function, which may need to be carefully phased.
- ii) Rationalize the Housing Department by organizing services in a single division and change the policy focus to facilitation rather than direct provision.
- iii) Move the Planning Authority and the Seychelles Investment Bureau under the Principal Secretary Investment, Land Use and Industries and rationalize administrative procedures for land planning and allocation.
- iv) Consider moving the ICT department back to a Centre of Government institution (Presidency or Vice Presidency), as this is a clear cross cutting function.

13. Whereas some reduction in post numbers would be achieved through these actions (approximately 20-25 positions), the main savings in this ministry would come from contracting out the support service function, as the ministry employs a relatively large number of low skilled workers (chainmen, gardeners, as well as a large number of secretarial support staff).

Annex 8: Department of Public Administration Institutional Review

1. Some elements of the work of the DPA have already been discussed in the section on systemic issues, but the team was requested to also review the structure of the DPA itself. The Department currently employs 79 staff, equally divided between administration and support services and specialist departments. Specialist departments include several policy support units directly subordinated to the Principal Secretary as well as the Public Sector Support Department.
2. The policy support units supporting the Principal Secretary mainly deal with the secretariat and substantive preparation functions of the Public Service Commission and the Chief Executive Forum (the secretariat of which is held by the Director General Public Sector), the Terminal Employment Benefit Unit and a Technical Advisory Team (consisting of the externally funded Commonwealth Secretariat Consultant and a national advisor on Quality and Performance Management).
3. The Public Sector Support Department handles the Human Resources database, processing and monitoring database changes, monitoring the application of Public Service Orders and Schemes of Service and the Management Audit Function. This unit in particular suffers from the convoluted nature of the wage and payroll management systems. The former is discussed in detail in the next section, but the latter poses serious problems as well.
4. Payroll management is heavily decentralized. Even though pay is executed by the Treasury (except for Health, Police and Defense), it is supposed to be calculated based on Human Resources data collected at the DPA. However, there is no effective link between this database and the Treasury payroll information and a simple comparison of data reveals serious discrepancies in data, even between DPA and Treasury, leaving aside the potential risks posed by the separate administration of the health sector, which has the most complex scheme of service in the public sector. Whereas these may not necessarily cause errors in payments levels, they do pose serious risks, and rapid action to establish a single HRM-Payroll module linking both sections should be taken.⁷⁴
5. The other issue facing the Department is the lack of staff in the Management Audit unit. In view of the complexity of the program outlined in this chapter, and the challenges even more simple rationalization processes are already posing to the current team (consisting effective of the Director General, one senior specialist and one administrative assistant) the Government will need to invest in building up the capacity of this unit with at least 4 additional staff, as well as to seek technical assistance support to monitor and accompany the implementation of the program.

⁷⁴ This conclusion is in contrast with the recently completed PEFA assessment which evaluates payroll controls as solid, a conclusion that is unjustified based on a more detailed review of the real operation of payroll management.

6. The division of administration and finance employs almost half of the staff of the Department, a total number of 38, some 28 of which are support staff. Even for Seychellois standards the number of support staff is therefore excessive at 36 percent of total staff. The main cost savings in this Department could therefore be made by support staff rationalization, which could reduce current staff by 20 positions, while other minor gains might be possible in central policy support and the public sector support department. However, increasing the capacity of the Management Audit Unit will be essential if the reform program is to be implemented successfully.

Annex 9: Department of Environment Institutional Review

1. The Department of Environment is part of the Ministry of Environment, Natural Resources and Transport. The reason for reviewing environment in particular is its strategic importance to the Seychellois economy (both in terms of external grant income and because the attraction of the Seychelles to tourists is to a large extent the still pristine nature of many of the islands). This is therefore an area in which any reduction in staff size would have to be carefully considered against the value of the environment to the economic and quality of life in the country.
2. The Department currently employs some 358 staff, or around 3 percent of the active public service, and is divided in three divisions, Nature and Conservation, Pollution Control and Environmental Impact and Climate and Environmental Services.
3. The Nature and Conservation Division employs some 160 staff, most of whom are employed as national park rangers and in the forestry section, which deals with planting, harvesting and marketing of high end timber (Mahogany and Sandalwood). The remainder of staff work in the Conservation Department (13), which is responsible for the implementation of international agreements (which bring significant revenue to the Seychelles) and Terrestrial Ecological Research centers, which include the botanical gardens and a biodiversity center (40).
4. The Pollution Control and Environmental Impact Division includes the environmental police, an inspection and enforcement service (18 staff), and the Environmental Impact Assessment unit, with only 3 staff, which is responsible for conducting the internal review of EIA studies for major investment projects, in particular in the tourist sector.
5. The Climate and Environmental Service division includes the meteorological service (46 staff), the wetland program management service (24 staff) and the environmental engineering unit (4 staff), which is in charge of policies and assistance on drainage and water issues and sea level projections.
6. Central units of the Department include an international cooperation officer responsible for GEF issues, 6 district officers based on Praslin and la Digue and administrative and support services. Total central service employment is 66 staff, which includes some 40 support staff, most of which are low skilled workers.
7. Based on discussions, and considering the strategic priorities of the Seychelles, there appears to be significant scope to right size the Department. It fulfills a number of services which should be handled under a concession (forestry exploitation) or under a separate, self-financing service (national park services, biodiversity center and botanical garden).
8. Attempts at issuing a concession for the exploitation of forests have been made, but only few options were explored. In view of the high end nature of production, even the small volume produced currently may attract outside interest, potentially from countries that were not yet considered. In addition, the Department reports that forestry

management poses significant risks of corruption and that several officials have had to be dismissed from service for this reason.

9. Plans for creating a National Park Service are being developed and the Department estimates that this can be made self-sufficient, under condition that the Service would manage all national parks and not, as is currently the case, only those that are less likely to generate revenue. Including the Botanical Gardens and the Biodiversity Center under the National Park Service may also be considered, especially since the former already generates some revenue (Euro 100,000 annually).

10. The Department currently also charges a fee for the internal review of EIA studies, which covers its operational cost for producing these reports. It does not yet charge for meteorological services to the airport, which may also be considered. However, the revenue generated generally does not fully flow back to the Department.

11. The creation of a National Park Services, which could be made self-financing within the period of the adjustment program, including the Botanical Gardens and Biodiversity Center and placing the forestry management under concession would free up significant resources, and could reduce the number of current positions by 140. A further reduction of 15 staff will be achieved by the planned termination of the wetland program. Some of these savings would need to be re-invested in initial subsidy arrangements for the National Park Service, which would be provided on a declining rate.

12. However, at the same time, the Department urgently needs to staff up key departments such as Environmental Impact Assessment, Inspections and Environment Engineering, where severe staff shortages pose considerable risks to the Seychellois environment and, by extension, the economy. In addition the staffing profile in the Conservation Department would need to be upgraded to staff of at least MA/MSc education level, in order to effectively engage with international NGOs that monitor international agreements.

13. Net budget savings of reforms will therefore be lower than the number of potentially reduced posts would suggest, as lower end staff would depart, but higher end staff would need to be additionally recruited for the critical functions that are highlighted above. In addition, if no concession agreement on forestry could indeed be reached, alternative forms of provisions would need to be studied, which could take additional time.

Annex 10: Department of the Police

1. The Police Department is placed under the President's office. Its payroll is managed separately from the overall payroll, and the Department does not follow the central pay and grading system, but rather has its own. The Department has 6 divisions, the Crime Support Wing, the Operations Support Wing, the Public Security Support Wing, which includes the Fire Brigade, the Port and Airport Police, the Resources Development Wing and the Administration and Finance Wing. Total current staff is 1163, out of which 97 are civilian posts. The Police Department has a large vacancy ratio. Key issues for the police force are the growing drug trade, but petty and major crime levels have been significantly reduced over the last months.

2. The organization and management of the, relative large, police services has been the subject of intensive debate in recent months. An Irish police expert was brought in to review police operations and his report suggests that there is a need to fully reorganize the police force, as well as to reduce its staff, mostly by having the Police Department focus on core functions at community level. The Police force has responded by conducting its own review, which shows the need for a significant increase in staffing levels.

3. Discussions with the Commissioner for Police and the head of the Administration and Finance support wing highlighted a number of organizational issues:

- Some core functions, such as airport security and port security are inadequately staffed. Based on international norms, total numbers should be up to 320 staff, while only 180 posts are currently filled.
- At the same time, the police department also provides functions such as the fire brigade, which, apart from the airport and port services, is usually not fully state provided, but based on a volunteer's service.
- There is a lack of flexibly deployable units, the police force currently aims to fully staff all units, which is not an effective approach to management, considering that most police services are rarely required. For instance, there is a fully staffed riot squad which has not had to be operational for many years. Whereas at times riot squad staff is used for other functions, this is not done in a systematic manner.

4. Striving for a fully staffed police organization, fulfilling all currently defined functions, is not a realistic objective in the current fiscal context. At the same time, many of the organizational objectives set out by the Police Department are sensible, e.g. the objective to ensure that more police stations are open 24 hours a day. Therefore, a reform strategy would need to combine a focus on core functions with more flexible deployment of staff. Some areas that might be considered in this context are:

- i) Building up a voluntary fire brigade, in particular on Mahe Island.
- ii) Merging the Tourism Police and Community Policing sections, as these fulfill largely similar functions.
- iii) Constitute a riot squad of general police officers, who would receive special training, rather than establishing a full time riot squad. Once the fire brigade

would be reorganized as a community service (while the airport and port sections would be brought under port security), it would be possible to merge all operational functions into a single support wing with a community policing (incl. tourism) and a security division.

- iv) Merge the different administration and personnel sections into a single HRM unit.
- v) Consider reorganizing the police academy into a budget supported autonomous entity.

5. Implementing these reform measures would allow for; (i) a reallocation of wage budget resources to those areas which are now under resourced (airport and port police); (ii) meeting the Departments objectives of having 24 hour community police support available.

Annex 11: Department of Defense

1. Whereas the World Bank does not generally take position on the organization and management of Departments of Defense, at the request of the Government discussions were held with the Management of the Defense Department, which is subordinated to the President, who is the Commander in Chief.
2. The Defense Department has experienced serious problems with staff retention, and suffers from continuous rapid turnover of new recruits. This is a pattern that has established itself in the past 4 years, and is attributed to 'mentality issues', a problem raised frequently also by other Ministries and Departments. The Department currently takes in three new groups of recruits of 90 staff each every year, but does not manage to retain more than 30, which is insufficient to fill vacancies arising from retirement and voluntary departures. This problem that has accumulated for the last four years, establishment numbers are currently 600, while effective numbers are 320.
3. In many ways, this situation is surprising. The Defense Department offers employment conditions similar to those in the Police, and has attractive foreign training programs (France, India), which are fully externally funded, creating good opportunities for skill development. The Department also has an active recruitment program, and is engaged in a publicity effort. Nevertheless, most young Seychellois apparently find a Defense career unattractive.
4. Due to the problems highlighted above, the Department is unable to effectively fulfill many of its core functions. For instance, the Department has three patrol boats to patrol the economic zone of the Seychelles, but lacks personnel to put together full crews for these boats, unless staff are put on double shifts. This is problematic as the increasing risks posed by the operation of Somali Pirates close to the territorial waters of the Seychelles and the growing drug trade, pose new security challenges. One of the patrol boats was recently refitted in India to serve more effectively in countering such threats. Effectiveness is further hindered by the fact that the Coast Guard does not have any posts on outlying islands, due to a lack of facilities. In addition, the Department has one surveillance aircraft, but has not been able to recruit or train a pilot.
5. Other key functions of the Department are the protection of the airport perimeter, the Dog Unit (mostly used for airport security), the Defense Academy, and Presidential Security. The Department is also involvement in disaster management. However, in this area responsibilities are divided between three units, all based at the Office of the President, the Disaster/Emergency Committee, the Police and the Military. It would be more effective if a single unit to handle emergency response issues were to be created, an issue already discussed in the section on the Police Department.
6. In conclusion, the Defense Department is likely to face a number of further years of staff deficits, which is not in the national interest of the country. Whereas the development of an integrated approach to emergency and disaster management might lead to some efficiency gains, further measures would not be recommended until current understaffing (excessive vacancy levels on operational forces) are addressed.

Annex 12: Summary of Government-Wide Potential Staff Reductions⁷⁵

| Ministry/Function | Assumptions made about staff reductions | Potential reduction | Establishment to remain /a |
|--|---|---------------------|----------------------------|
| Unemployment Reduction Scheme-financed staff | Can be made redundant, can potentially find low skilled work in tourism or other sectors. | 203 | 0 |
| Beautification initiative and Unemployment Reduction Scheme staff at the Department of Community Development | Can be made redundant, can potentially find low skilled work in tourism or other sectors. | 550 | 0 |
| Support staff and low skilled workers | MOE (330). MOH (247). Estimated potential pro-rated number in other ministries: (550) /b | 1127 | 800 across government |
| MOE other | Administrative staff reductions | 51 | 2489 |
| MOH other (inc.HSA) | Nursing assistance/nurse ratio reduced to 1:4 from the current 1:2 (221). Rationalization environmental health: (51) | 272 | 1295 |
| Community Development | Homes of the elderly made not-for-profit organizations (58). Suppress community projects section (merge into community programs, (7). Privatize Burial services and contract out cemetery maintenance (118). Rationalize inspectorates (6). | 189 | 195 |
| Youth, Sports, Culture and Arts and National Sports Council | Make museums and conservatory independent not-for-profit organizations, privatize playground and International Conference Center, major games to be moved to Federations, major events to be set up as independent not-for-profit organization (150). Remove Youth Worker district posts (42). Privatize Swimming Pool (11 staff). Close down sports-for-all program (8). Close down Federations Support Program and phase out foreign coaching program (24). | 235 | .. |
| Ministry of Employment and National Human Resource Development Council | Privatize employment agency functions. Reduce mediation department once alternative provision available. Add staff to productivity unit (+3 positions). | 12 | .. |
| Department of Environment | Create National Parks Authority and make this self financing, issue concession on forestry exploitation (140). Terminate Wetland Cleaning program (15). Strengthen environmental impact assessment unit and environment engineering section (+18 staff). | 137 | .. |
| MOF | Postal services privatized. Strengthen budget department (+10 positions) | 118 | .. |
| Ministry of National Development | Land Surveying function contracted out. Land management procedures rationalized. Housing policy: change from provision to facilitation. | 25 | .. |

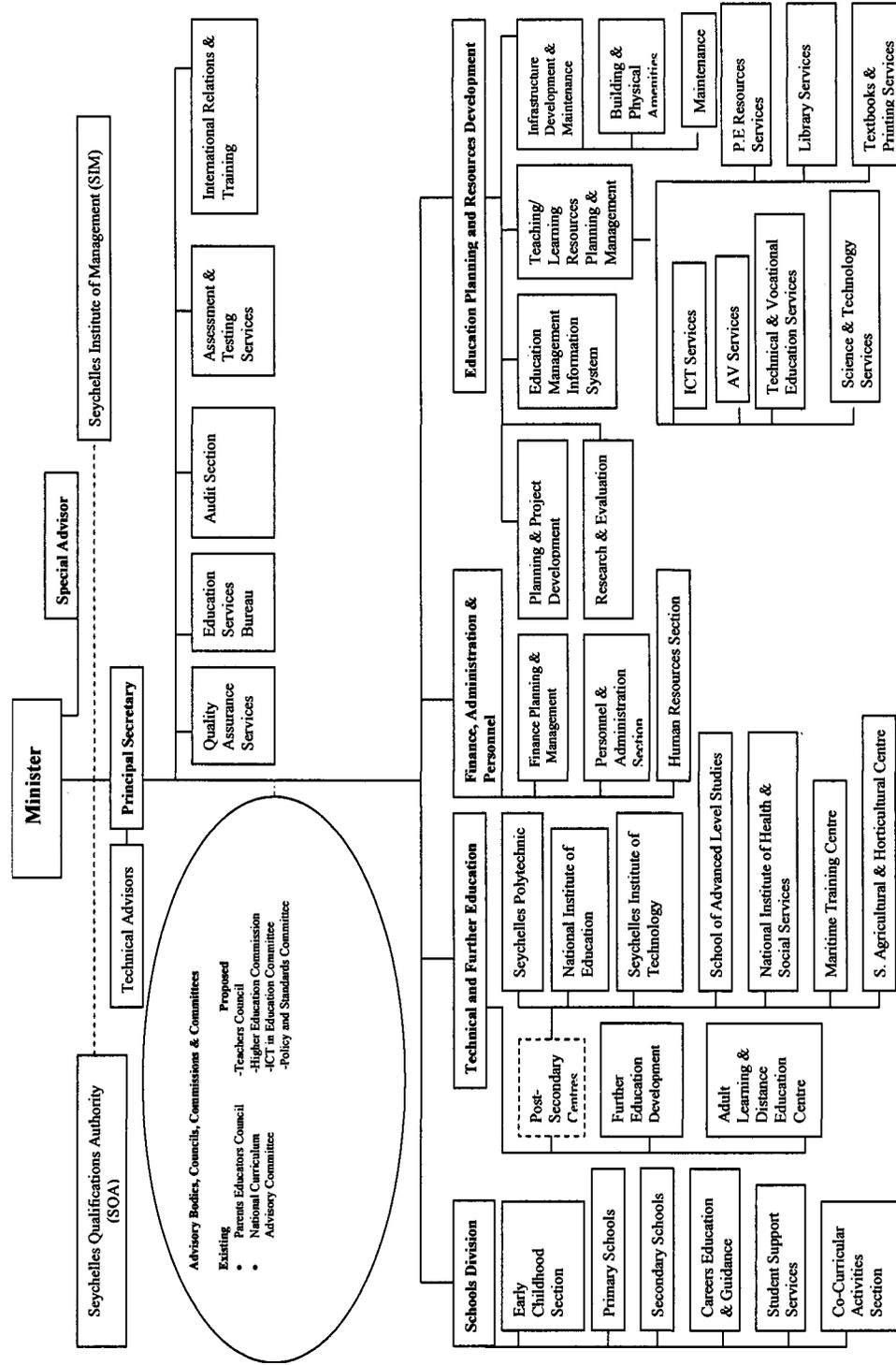
⁷⁵ Based on review of selected ministries only (those with over 5 percent wage bill spending).

| Ministry/Function | Assumptions made about staff reductions | Potential reduction | Establishment to remain /a |
|--------------------------|---|---------------------|----------------------------|
| DPA | Reduce staff in processing and monitoring unit (2 staff) Strengthen Management Audit unit (+4 staff for 4 years) Rationalize finance division and centralized transfer payment functions to payroll (2 staff) Contract out Support Services (20 staff) | 20 | 56 |
| Department of Police /c | Merge Community and Tourism Policing. Conduct feasibility study on voluntary fire brigade creation. Change the status of the police academy. Merge different administration and finance units. Create a flexibly deployable emergency response unit instead of a permanent riot squad. Staff up airport and port units up to required levels. | .. | .. |
| Department of Defense /c | Address recruitment problems (vacancy ratio of 40 percent). Create integrated emergency response division instead of the three separate units now responsible under the Presidency | .. | .. |
| Total | | 2939 | |

Source: Bank staff estimates

Notes: a/ based on August 2008 payroll; b/ Where possible excluding those working in institutions to be privatized and excluding those already counted under other institutions. c/ Numbers on police and defense were not available and specific estimates cannot at this point be provided. Net savings on both organizations are likely to be limited due to the recruitment problems in the defense forces and the need to strengthen port and airport security in the police force.

Annex 13: Ministry of Education Organogram



Source: MOE, Finance, Administration & Personnel Division

Annex 14: MOE Expenditures, 2007

Table A14. 1: MOE Expenditure Breakdown by Division

| | Actual Expenditure (SR 000s) | Of which, Personal Emoluments (SR 000s) | Spend as % of total MOE spending. | Personal Emoluments as % of total spending. |
|--|------------------------------------|--|--|--|
| Minister's Secretariat | 303.5 | 112.7 | 0.2 | 37.1 |
| Finance, Administration & Personnel | 30881.2 | 6986.0 | 16.2 | 22.6 |
| Education Planning & Resource Dev. | 9871.7 | 3920.0 | 5.2 | 39.7 |
| Schools | 116626.7 | 112324.0 | 61.3 | 96.3 |
| Secretariat | 113893.7 | .. | 59.9 | 98.6 |
| Primary Schools | 1464.5 | .. | 0.8 | .. |
| Secondary Schools | 1268.5 | .. | 0.7 | .. |
| Technical & Further Education | 31172.7 | 25443.4 | 16.4 | 81.6 |
| Secretariat | 25643.7 | .. | 13.5 | 99.2 |
| Seychelles Polytechnic | 1246.5 | .. | 0.7 | .. |
| Adult Learning & Distance Education | 118.8 | .. | 0.1 | .. |
| Seychelles Institute of Technology | 701.4 | .. | 0.4 | .. |
| National Institute of Education | 521.1 | .. | 0.3 | .. |
| International Relations & Training (administration only) | 31.1 | .. | 0.0 | .. |
| Seychelles Tourism Academy | 1182.7 | .. | 0.6 | .. |
| National Institute of Health & Social Studies | 311.6 | .. | 0.2 | .. |
| Sey Agricultural & Horticultural Training Centre (SAHTC) | 372.3 | .. | 0.2 | .. |
| School of Advanced Level Studies | 325.8 | .. | 0.2 | .. |
| Maritime Training Centre | 717.8 | .. | 0.4 | .. |
| Information Technology | 1279.9 | 1006.1 | 0.7 | 78.6 |
| Quality Assurance | 25.2 | .. | 0.0 | .. |
| Total for MOE | 190160.8 | 149792.3 | 100.0 | 78.8 |

Source: MOE

Table A14. 2: MOE Expenditure by Level of Education 2007

| | Level-Specific Costs (SR 000s) | Pro-rated Overhead Costs (SR 000s) | Total Costs | No. of students enrolled - | Unit Fiscal Cost SR |
|--|-----------------------------------|--|----------------|----------------------------------|---------------------------|
| Primary (including Creche) | 61,948 | 22,633 | 84,581 | 10,929 | 7,739 |
| Secondary | 48,008 | 17,540 | 65,548 | 7,364 | 8,901 |
| Tertiary | 29,075 | 10,957 | 40,031 | 2,175 | 18,405 |
| Adult learning and distance education | 1,211 | 456 | 1,668 | .. | .. |
| Sey Agricultural & Horticultural Training Centre | 1,891 | 713 | 2,604 | 59 | 44,133 |
| Seychelles Polytechnic | 6,610 | 2,491 | 9,101 | 311 | 29,263 |
| National Institute of Education | 5,759 | 2,170 | 7,930 | 274 | 28,940 |
| Maritime Training Center | 1,733 | 653 | 2,386 | 97 | 24,600 |
| National Institute of Health & Social Science | 2,479 | 934 | 3,413 | 168 | 20,316 |
| Seychelles Tourism Academy | 3,300 | 1,244 | 4,544 | 330 | 13,769 |
| School of Advanced Level Studies | 2,455 | 925 | 3,381 | 369 | 9,161 |
| Sey Institute of Technology | 3,636 | 1,370 | 5,006 | 567 | 8,829 |
| All levels | 139,031 | 51,129 | 190,161 | 20,468 | 9,291 |

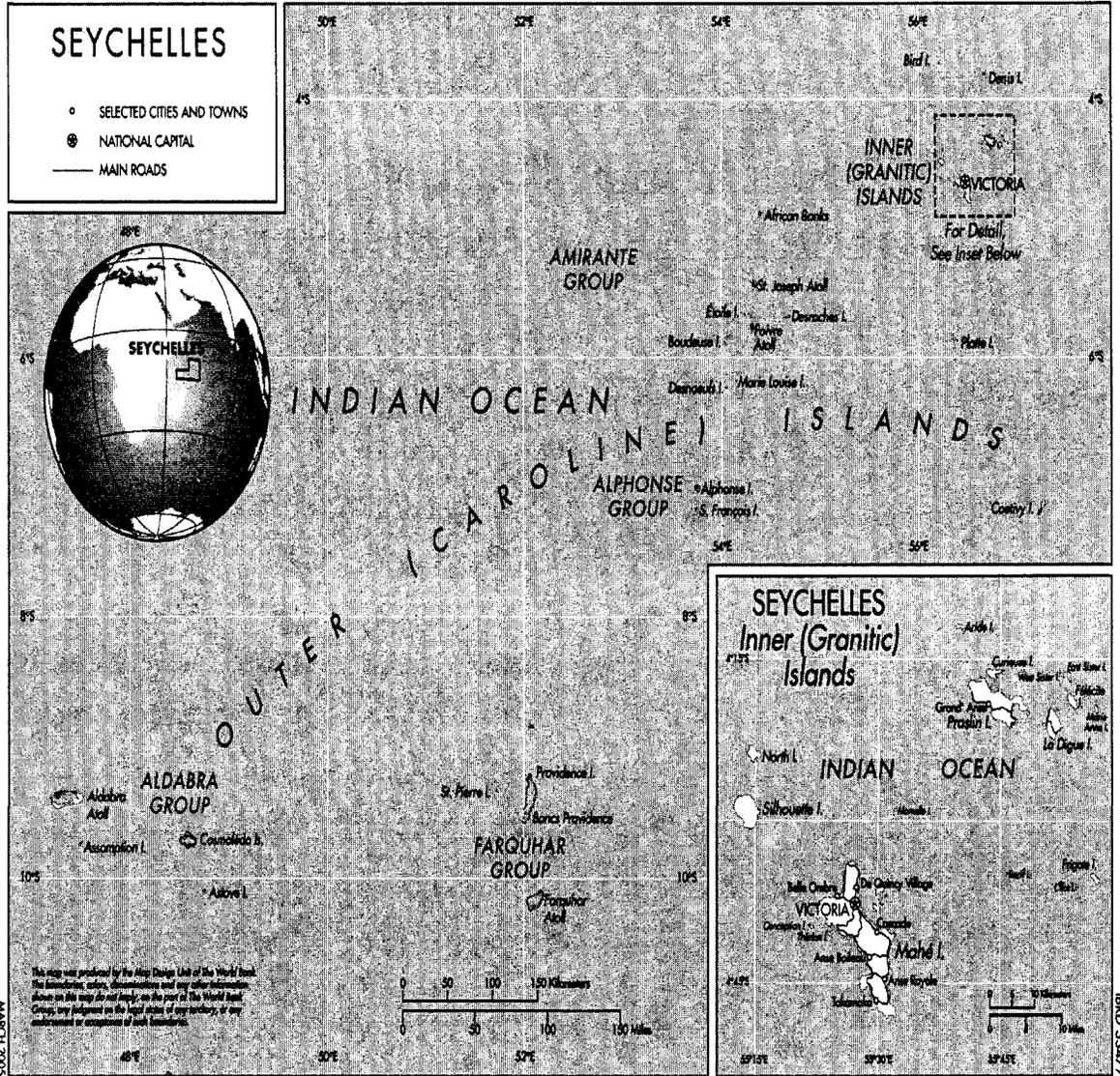
Source: MOE

Table A14. 3: Total Education Expenditure per Student by Level of Education, 2007

| | Total Education Unit Costs | MOE Costs | Public Transport Subsidies (SSF) | Post- secondary Bursary (SSF) | Overseas Tuition (MOF) | Overseas Bursary (MOF) |
|---|----------------------------------|--------------|---|--|------------------------------|------------------------------|
| Primary (including creche) | 7,857 | 7,739 | 118 | -- | -- | -- |
| Secondary | 9,019 | 8,901 | 118 | -- | -- | -- |
| Post-secondary | 25,536 | 18,405 | 2,302 | 4,829 | -- | -- |
| Agricultural & Horticultural Training Centre | 51,263 | 44,133 | 2,302 | 4,829 | -- | -- |
| Seychelles Polytechnic | 36,394 | 29,263 | 2,302 | 4,829 | -- | -- |
| National Institute of Education | 36,071 | 28,940 | 2,302 | 4,829 | -- | -- |
| Maritime Training Center | 31,731 | 24,600 | 2,302 | 4,829 | -- | -- |
| National Institute of Health & Social Science | 27,447 | 20,316 | 2,302 | 4,829 | -- | -- |
| Seychelles Tourism Academy | 20,900 | 13,769 | 2,302 | 4,829 | -- | -- |
| School of Advanced Level Studies | 16,292 | 9,161 | 2,302 | 4,829 | -- | -- |
| Seychelles Institute of Technology | 15,960 | 8,829 | 2,302 | 4,829 | -- | -- |
| Overseas | 158,620 | -- | -- | -- | 99,655 | 58,964 |
| All tertiary (post-secondary + overseas) | 46,514 | | | | | |
| All levels (primary + secondary + tertiary) | 13,049 | | | | | |

Source: MOE

Annex 15: Map of Seychelles



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APPENDIX

Government Response To The Review

Public Administration and Public Service Reform:

This section provides a summary on sector implementation of the world bank's recommendations which was derived from review work conducted in coordination with ongoing discussions between the DPA and the line ministries. The public sector reforms focused on aiming for:

- Better government administration through a leaner structure: Contracting out of services to the private sector, or privatization, a component of downsizing.
- The work focused on the reduction of the number of employees in each institution by 12.5 percent, and a review of functions for which alternative modes of provision could be considered as well as efficiency gains that could be obtained.
- Greater public expenditure reduction and control: better management of organizations, budgets and personnel emoluments to ensure the sustainability of the organization and management of recurrent costs to ensure sustainability of projects.
- The Manpower Budgeting Exercises (MBE) was conducted in Ministries and Departments to verify how the budget allocation is handled so as to streamline the organization's establishment to fit within the financial resources allocated. It also enabled DPA to carry out a strategic planning exercise to establish the needs for a given year vis-a-vis the costs involved. To ensure the use of a fair and transparent procurement system the Ministry of Finance has set up the National Tender Board under the Public Procurement Act, 2008 to see to amongst others the program of contracting out of services.
- Increased managerial efficiency: focus on organizational restructuring; decentralized management and creation of executive agencies out of monolithic bureaucracies, and the introduction of market or quasi-market principles in the delivery of services.

Strategy 2017 has provided the impetus through a strategic positioning of Government as facilitator.

A functional review of certain ministries was undertaken and good governance structures created taking into account the need to separate corporate responsibility from social responsibility; one being a function of a business entity and the latter an important role of government as is policy formulation, planning and development. The functional review process examined what functions could be commercialized and what could merely be

contracted out so that the responsibility of service provision remains that of government, through an agency for a period of time.

The report covers the following Ministries and Departments:

The Ministry of Education;
Community Development Department
Youth, Sports and Culture Department, including the National Sports Council.
The Ministry of National Development
The Ministry of Finance
Environment Department
Natural Resources and Transport Department
The Ministry of Employment and the Human Resources Development, including the Council;
The Health Sector
The Department of Police; and
The Department of Public Administration

Ministry of Education

The Ministry went through the process of streamlining to include the Voluntary Retirement Scheme and this brought the establishment down to 3188 posts compared to the previous of 3427. The World Bank recommended that there should be a potential reduction of 51 administrative staff but in this area only 14 such employees exited on VDS

The Ministry of Education is moving towards the role of facilitator, to that of leadership, funding, policy and legislation development, education system governance, setting results-based standards, develop accountability frameworks, and monitor and evaluate performance. In the long term plans autonomy of schools is being considered, and work on the structures of schools is being undertaken and there is the possibility of further cuts (reduction in number of laborers and handymen).

Outsourcing of cleaning services in educational institutions is being undertaken after phasing out of 62.7% of institutional-based cleaners (113 out of 180).

Rationalization

Physical Planning is limited to planning, technical and advisory services, project preparation, pre-investment and feasibility studies as these are requirements of donors (BADEA), and once contracts have been allocated to the private sector implementation and monitoring of project construction should take place; all construction and maintenance work is contracted out thus closing down the Maintenance Unit.

The work previously undertaken by the National Audio-Visual Centre is to be contracted out.

The portfolio for International Training has been transferred to the National Human Resources Development Council.

Other specificities raised in the report on Education will be undertaken as medium and long term action.

Ministry of Community Development, Youth, Sports, Culture And The Arts

This Ministry has two main departments, the Community Development and the Youth, Sports, Culture and the Arts, as well as a few agencies, amongst others the National Arts Council and the National Sports Council.

Community Development Department

In response to the government's call to down size the public service it is to note that significant attention has already been given by the Department in this regard. The Department has undertaken the following changes to its structure and nominal roll:

There are now two main divisions replacing the previous three—the Community Development Division and the Community Management Division. The total work force prior to the cuts was 838. Apart from the 407 who exited on the different schemes, 2 retired at the age of 63 and 1 person resigned. Currently the Department has a workforce of 428 staff.

As per the Department of Public Administration's recommendation the Districts Operations section in the Community Management Division has been phased out. The suggestion to re-name the Inspectorate unit to Quality Assessment and Inspectorate unit has been strongly appreciated. There are only 4 posts of which one is vacant. It is hoped that the District Administration offices take the work of that unit seriously.

The Department has reduced the number of cleaners in the District Administration offices to one cleaner per district whilst at secretariat level the number has been reduced from six to three. We do not share the view that such duties (both at secretariat and district offices) should be outsourced due to the sensitivity of these offices. Furthermore the outsourcing of these services would be much more expensive; so common sense prevails.

The Department emphasizes that some of the recommendations made in the document should be reconsidered due to the fact that our mandate requires us to manage certain aspects specific to the matters of the local communities.

Districts Projects

This section has been there since the establishment of the Local Government Department and then Community Development Department. It is not a program area. Though the request for projects emanates from the districts, it is more cost effective for the projects to be managed centrally in terms of effective quality control, standards and accountability.

Please note that the request for 2009 was 27 million. Due to budgetary constraints it has been reduced to 16 millions. A total of 250 small community projects are to be implemented. This has to be professionally managed as per the Public Procurement Act – 2008. Communities need to be advised and guided with regards to undertaking major capital projects. Community projects once identified, the District Authority seeks professional advice from the District Project Section whereby based on the experience and knowledge of the officers, the project is validated. The main functions of the District Project Section are as follows:

Administration: management of projects, overseeing section staff, advising the districts on new project proposals, preparation of tender and contract documents, organizing meetings.

Finance: budget management of all projects, preparation of payments, of periodic reports for Management/Project Appraisal Committee and the preparation of monthly reconciliations with Ministry of Finance.

Planning and Implementation: preparation of program of works, scope of works and the preparation of plans and submit to the Planning Authority as well as going on District visits for monitoring.

Homes for the Elderly

The remarks made regarding the running of the Homes for the Elderly by the government should be addressed by higher authorities of the State. The Department has advised the government since 2004 that the running of the Homes should be community owned. It is to that effect that we have initiated the “Community ownership program”. Since then there has been a remarkable move in gradually transferring ownership from Government to Community; a process which started with the establishment of the Board of Trustees in 2004. It is the Department’s aim in the coming years to hand over the total responsibility of the management of the Homes to the respective Boards of Trustees. It is to be noted that the Homes are not run for profit making, however through the various activities organized funds are raised to cater for improved general environment and social programs.

Voluntary Departure Scheme

As at December 2008, the staffing for the Homes for the Elderly has been reduced considerably to being manned by a Home Administrator only; 20 staff exited on VDS, while 15 vacant posts were deleted bringing a total deduction of 35 posts.

Other recommendations made re Burial and support services:

With regards to the recommendations made in the World Bank Report No. 13, 14 & 15 the Department will, in its medium to long term plans, review the services being offered by the Burial Unit as well as the provision of security services in the District

Administration offices. It must be noted however, that in the Burial Services Unit 20 staff exited on the VDS program.

The Department emphasizes that caution must be applied with the idea of streamlining central government through decentralization bearing in mind the needs of the most vulnerable at community level, the capacity of the District Administrations, costs and controls. The reform program must not turn out to cause more harm than good with regard the effectiveness, efficiency and timeliness of service delivery at community level.

The Community Development Department would like to place on record that it has contributed substantially towards the reforms and was engaged in the restructuring process way before the mention of economic reforms.

Youth, Sports And Culture Department

Voluntary Departure Scheme

In December 2008, the Department of Youth, Sports and Culture finalized the voluntary departure of 72 members of staff with 8 others exiting the service on the Early Retirement Scheme bringing the total to 80. The Department had 324 people on the Department's payroll as at January 31, 2009 from the original 415 staff. This goes to show that there is no more "a large number of security personnel and disproportionate number of staff." We cannot abolish all the security posts because we will always need some in-house security staff.

Reforms – Short Term Phase (2008/09)

The major change in the structural reforms attempts to separate policy, planning and development (setting goals and direction) from that of implementation (the 'doing and achieving) this will slowly help steer the Department from the role of direct service provision to that of a facilitator. This action can be seen in the removal of the public relations, marketing and special events division, the sports strategic planning and policy analysis division, the major games division and the culture policy planning and development section. Instead the Department has created a Policy, Planning and Development Section in the Secretariat of the Principal Secretary to provide the advice required on the variety of issues the Department deals with. The section is comprised of policy analysts and planners; professionals with knowledge and experience in the fields of culture, sports, physical planning and youth issues.

Reforms – Medium to Long Term Phase (2009- 2011)

Privatization Program

The process of privatizing the Children's Playground is on-going. Meanwhile the 13 staff members of the playground have left on voluntary departure scheme, making it easier for when the talks on the privatization process is finalized and the playground handed over to the new owner.

The International Conference Centre (ICCS) too features in the plans for privatization and once this becomes a reality the Department will be ready to handover.

Autonomy of certain affiliate bodies

Discussions have started on the drafting of the necessary legislation that will give autonomy to the Kreol Institute.

The other institution in the medium/long term plans of the Department is the National Conservatoire of Performing Arts. Studies are being undertaken to decide on its structural form; whether as an agency or a body corporate that could sell its services to the public.

Not-for-profit organizations

The Ministry feels that the proposal to turn the museums and conservatory into independent not for profit organizations cannot be entertained at this stage because of the fear that the country would lose its national heritage. In the medium to long term phase of the reforms a thorough study will have to be undertaken.

Youth Division

The Youth Division has streamlined its operations and has merged a number of its operations for more efficiency and cost effectiveness. It has become leaner especially after the voluntary departure exercise. However the suppression of the 42 post of youth workers will have to be discussed further because it would mean a radical change of focus of the National Youth Policy. Talks will be held shortly between the Principal Secretaries of Community Development and Education to discuss the portfolio for the Young Citizens Movement, a program currently carried out by both ministries.

National Sports Council

Seychelles currently has only one Olympic size Swimming Pool which equitably serves our school and the public at large. Its operation is fairly complex and demanding. In our opinion, the suggestion to privatize the swimming pool should be deferred until we are satisfied that the know-how exists for its management and general upkeep. Nevertheless, the staff complements have been reduced by 3 who opted for the voluntary departure scheme.

Sports-for-All-Program: this program is one of the pillars of our sports policy objectives which is relied upon by a huge sector of our population for a healthier lifestyle and their social well being, more so now with the economic reforms in place.

Federation Support Program: this has to be maintained in view of its importance for the development of high level sports. We have also given consideration to the fact that since federations are driven by voluntarism, they need as much support as possible for the laid down objectives to be fulfilled. But the division has been downsized by 5 posts abolished under the voluntary departure scheme.

Foreign Coaching: NSC has taken this recommendation on board, and as and when a foreign coach contracts ends, no replacement is being done and hence post is localized or deleted; foreign coaches have reduced considerably, only two remain on the payroll.

Ministry of Environment, Natural Resources And Transport

Department of Environment

The Department of Environment is part of the Ministry of Environment, Natural Resources and Transport; a Department of strategic importance to the Seychellois economy both in terms of external grant income and because the attraction of the Seychelles to tourists is to a large extent the still pristine nature of many of the islands. It is for these reasons that the reduction in staff size has been carefully considered.

The Department previous to the streamlining exercise employed some 304 staff, or around 3 percent of the active public service, and is divided in three divisions, Nature and Conservation, Pollution Control and Environmental Impact and Climate and Environmental Services. Following the reforms the Department has retained 192 staff; with the introduction of the VDS program 39 staff of the low and unskilled cadres exited the service as well as 5 administrative staff and 5 staff from technical fields, hence, 49 left through the VDS program and the remaining staff have been transferred to the newly created Agencies and Trust.

Whilst there is a need to streamline given the structural adjustment program, the Department at the same time urgently needs professional staff in key areas such as Environmental Impact Assessment, Inspections and Environment Engineering, where severe staff shortages pose considerable risks to the Seychellois environment and, by extension, the economy. In addition the staffing profile in the Conservation Department would need to be upgraded to staff of at least MA/MSc level, up from the current A/O level, in order to effectively engage with international NGOs that monitor international agreements. Both these issues are still need to be addressed given the budgetary restrictions and the unavailability of graduates in the country.

Structural Reforms

Considering the strategic priorities of the Seychelles and recalling the strategic direction of government - from service provision to facilitator, certain functions of the Department are to be handled by a different system of management:

The National Park Unit within Forestry (21 posts) has been transferred to the **National**

Park Authority (operational, currently as the Seychelles Centre for Marine Research Technology-Marine Parks Authority [SCMRT-MPA]); a separate, self-financing service that will raise all their funds from the existing Marine National Parks.

The National Botanical Garden Trust has been composed from posts from the botanical garden and biodiversity center (52 posts) transferred from the Nature and Conservation Division. The Trust will function along the same principle as the National Park Authority, but this has to be undertaken within the full period of the adjustment program before it becomes self-financing.

Landscape and Waste Management Agency has been created from the SWAC and Waste Management Units (22 posts) of the Environment Department.

The **Wetlands Unit** previously had 9 posts of which 7 posts of Field Workers, these posts no longer exist: 3 posts have been deleted under the VDS, 2 vacant posts have been deleted, and 2 posts were transferred to the newly created Landscape & Waste Management Agency.

Policy Issues

The Forestry Section, which deals with planting, harvesting and marketing of high end timber (Mahogany and Santol), should be handled under a concession (forestry exploitation), however, for such the assistance of FAO technical expertise has been sought to study the issue carefully before a final decision is made.

All the harvesting of timber activities are undertaken by private timber merchants and this will now be done by a competitive tendering process and the successful bidder will harvest the timber in a particular area at a set price. Government officials will simply assess the wood for harvesting, set the reserve price and monitor exploitation. This new approach should tackle the existing loopholes in the system.

The Department is currently planning to charge fees for the internal review of EIA studies, which covers its operational cost for producing these reports. The revenue generated will go towards the consolidated funds in the Ministry of Finance. As for the meteorological services, setting charges for its services is currently under consideration, but once it is operation, as is usually the case the money will be recouped by the Ministry of Finance.

Natural Resources Department

In the functional review of the Natural Resources Department it was decided to leave production in the hands of the private sector, and the Department would limit its functions to formulating, coordinating, monitoring and evaluating the implementation of policies and regulatory instruments.

The Government has set up an Agency to take on the role of service provision, the **Seychelles Agriculture Agency (SAA)**. It has an establishment that operates managerially and budgetary separate; and is established as a statutory body under a Board of Directors.

Prior to the restructuring the Department of Natural Resources had a total of 313 posts and with the establishment of the Seychelles Agricultural Agency 213 posts were transferred. **The Department now has only nine posts.**

Transport Land Division

The Transport Department of the Ministry of Environment, Agriculture and Fisheries, and Transport **maintains only the mandate for policy formulation and planning** to provide for a safe, reliable, affordable and convenient Land Transportation System for the social and economical well being of the entire population; that safely supports the requirements of sustainable national development.

To ensure service provision there is the new establishment created by the Land Transport Authority Act that sets up a statutory body in the form of an Authority the **Seychelles Land Transport Agency (SLTA)**. The **Land Transport Division** previously had 161 posts and 118 were transferred to the Seychelles Land Transport Agency.

The **Seychelles Maritime Administration** was restructured but shed only one post, hence from 10 to 9.

The **Transport Department** now shares the same Principal Secretary with the Natural Resources Department, and each **has a total of 9 posts.**

Department of Police

Since the PER mission there has been a change in the post of the Commissioner of Police. The new Commissioner together with a special working group set up by the President will now require some time to acquaint themselves with the functioning of the Department and the problems faced both by and in the police force before particular attention can be given to the required reforms as addressed in the World Bank report. At a later stage the new Commissioner of Police will be in a better position to examine and respond to the World Bank recommendations.

The Health Sector

With the Voluntary Departure Scheme and Early Retirement Scheme the workforce has been reduced to 1640. Re-organization and re-scheduling of work has also helped to achieve a further reduction. The present salary on offer is not sufficient to attract Medical professionals even from third-world countries. The government is now looking more towards cheaper alternatives through recruiting these under bilateral co-operation agreements with other countries such as Cuba, Morocco, Egypt. Even when the salaries may not be less like in the case of Morocco the sending party meets the costs of airfares.

The Health Workforce including Public Health Department to date stands as follows:

| No. | % of Total |
|-----------------------------|------------|
| Physicians | 75 |
| Consultants | 15 |
| Dentists | 13 |
| Pharmacists | 4 |
| Other Medical Professionals | 223 |
| Para-Medicals | 389 |
| Nurses | 440 |
| Ancillaries staff | 481 |
| TOTAL | 1640 |

There are plans to reduce further Ancillaries staff with the planned reduction of Health Centers and outposts. We do not have student nurses on our payroll. The NIHSS which trains nurses falls under the Ministry of Education. Physicians have been reduced from 91 to 72. We plan to recruit more specialists now that we are upgrading our Specialized Secondary and Tertiary Care. It is difficult to entice Seychellois Physicians to return to work in Seychelles with the present salary structure for medical professionals, more so now with the reduced value of the rupee. One option is to allow private practice by public service doctors. On this point we do not agree that this will constitute a problem of patients jumping the queue. There are systems which can be put in place to monitor this and other problems of conflict of interest which may come up. However this is one good incentive to help retain Seychellois Medical professionals.⁷⁶

Rationalization of Environmental Health Officers A total of 23 vacant posts were deleted 15 officers opted for the voluntary departure scheme. The reduction is 38, with only 17 posts remaining.

Utilization of Health Care: The Regionalization of physician consultations has started with three Health Centers no longer providing such services. Following the completion of the Beau Vallon Health Center the Glacis one will no longer provide such services. Later

⁷⁶ To note that the figure given to IMF/World Bank was not correct, the total nursing staff including Nursing Assistants was 421 not 670. There were 220 Nurses and 221 Nursing Assistants. However, 16 Nursing Assistant exited on VDS and 26 vacant posts deleted, that is a total reduction of 42 posts.

on when the new Anse Royale Hospital cum Health Center is completed, two other Health Centers which now provide for Consultations twice a week will also stop the service. The need for the Anse Aux Pins Health Center (which is not entirely suited for the purpose and needs repair and renovation) will also be considered when the Anse Royale Hospital is completed. The situation is being closely monitored and indications are that further reduction and phasing out is possible without the service being affected. The SMB Health Center no longer exists.

Utilization. There has been a reduction in hospitals which is being completed by end of March. The number of beds in Baie Ste Anne Hospital on Praslin has been reduced from 35 to 20. Logan Hospital La Digue has been reduced from 15 to 8. (**Reduction 22 beds**). The Ante-Natal ward in Victoria Hospital (24 beds) now has only 13 beds reserved for patients who lose their babies and for psychological reasons cannot be placed in Maternity where there are mothers with live babies. The other space has been used for other purposes. **Reduction 11 beds.** The ante-natal clinics for patients with no complications will be de-centralized completely as and when the Regional Health Centers are ready. Presently the English River Health Center does its own ante-natal clinics and Anse Boileau and Anse Royale will start and finally Beau Vallon. This will also ensure full utilization of the midwives in Community Care. The number of stays hospital stay after giving birth will be reduced and the patients will be followed up at district level. Part of the Male Medical Ward (the rear bay with **6 beds**) is being closed and will be rented to a Private NGO. A Cardio Unit – 6 beds - has been created on part of the Female Medical Ward (which now has low occupancy rate) so both male and female cardio patients can be hospitalized there to increase occupancy on that ward. The **12 beds** on front bay of Male Surgical ward will be used as Day Unit for minor surgical day cases such Ophthalmology cases such as cataract removal, Orthopedic cases and other minor surgery. The Gynecological bay (**12 beds**) on the Female Surgical Ward will also be turned into a Day Unit only as there is no need for these gynecology patients in that unit to remain overnight in hospital. **Reduction 24 beds.** Surgical Unit will now be reviewing its protocols for admission in an attempt to reduce hospital days. With this reduction in surgical beds, the physicians will have to manage their admissions for non-emergency cases when the wards are fully occupied. This means a total reduction of **63 beds**.

With the planned de-centralization of Specialist Outpatients services such minor surgical procedures may also be done in the Regional Health Centers.

Specialized Treatment Overseas: Clear policies, guidelines and selection criteria are being laid down for patients referred for overseas treatment. This includes Means testing before final approval is given. The Health Services aims to upgrade its specialized care both through acquiring better and more modern equipment and training of its Specialists as well as bringing in qualified specialists as locums to perform procedures in Seychelles when the equipment and facilities are in place. This is already the case for some Orthopedic Surgery like hip and knee replacements, Child Orthopedic Surgery, Maxillo-facial surgery, Plastic Surgery, Vascular Surgery and Neurological Surgery. Government now plans to have a contract with the new Private Hospital for Heart Surgery. Cancer patients for Radiotherapy and Surgery will still have to go overseas. New negotiations

took place last year with the MIOT Hospital which was considered to be giving better value for money than Apollo in India. We also have a contract with MMM where we send patients requiring vascular surgery.

Co-Payments: Co-payments have already been introduced for services like Ambulance, De-compression chamber, Physiotherapy, Rehabilitation Aids such wheelchairs, frames, walking sticks. Patients are now required to pay for any non-formulary medicines. The proposal for a co-payment in Pharmaceuticals as a Prescription fee is still under consideration by government.

Inefficiency in Health Care Spending: All contracts which are outsourced are being reviewed and some have been put on public tender to assess the response. The provision of food for the whole complex at North East Point which includes 250 patients has been tendered with the use of the kitchen facilities there. Should the recommended bidder be approved by the Board this will mean a reduction from R135 to R80 per day per head. Security Services and maintenance have also been outsourced. Although we have published tenders for laundry Services we only got the bid from the present contractor. Other operators are either too small or cannot mix Health Services laundry with their other clients' laundry such as the airline.

Streamline And Consolidate Job Positions: The Department of Administration is working on this. It is recommended that all Health Technicians for example are grouped into one common cadre.

1. **Reduction of operating costs:** There has already been a big reduction in operating costs such as for fuel, electricity and telephone. Even with the increase in fuel prices and electricity costs which means that there is no apparent decrease in the amount paid, the units of electricity and petrol consumed have decreased. The telephone costs for 2008 and part of 2009 has seen a reduction of more than 40%. Further reductions are being made using the cheaper options on offer by the telecom companies.
2. **Reduction in Pharmaceutical costs:** There has been a remarkable reduction in costs of drugs/medicines as pointed in the report.
The removal of GST on Medicines should now also make it more affordable for patients to go to the private sector.
The introduction of a Prescription fee is still being considered by the government. This would reduce wastage and abuse further.
3. The Health Services will monitor the changes for any adverse effects as recommended by the IMF and World Bank.

Reduction in Non-Medical Spending

A total of 147 staff have exited the service, 99 through the VDS and 48 through Early Retirement Scheme, and this mostly in support services.

Some services have been contracted out to the private sector including Security, ground maintenance and the maintenance of buildings.

Reductions have been made in telephone costs through different cost-cutting exercises. New tenders have been published for the provision of food and laundry services in order to source cheaper suppliers.

An Oxygen Plant has been purchased and this will mean a reduction in cost for oxygen and medical air supplies.

Transport costs have been reduced through the introduction of better controls; pooling and sharing of all Transport of the Health Department and the Agency and no more rental of cars and buses.

Ministry of Employment and the National Human Resource Development Council

Employment Department

The Ministry is made up of one Department (Employment Department) and one autonomous body the, National Human Resources Development Council (NHRDC).

The Productivity Unit under the Principal Secretary's Secretariat remains and the Planning Research and Information is a unit and not a Department.

Future Plans: the intention is to turn it into a Section eventually, once the direction is settled.

The PS's secretariat also has the Cooperation Unit and the IAEA Unit (International Atomic Energy Agency). The IAEA Unit is currently working closely with the Ministry of Foreign Affairs for the setting up of the regulatory legal instruments and authority which is to be based within the structures of the Employment Department.

Future Plans: eventually, the IAEA unit will integrate the Labor Inspection Section. However, for direction it now remains under the purview of the PS.

There are actually 4 Sections; we do not have Divisions except for the newly created Employment Tribunal headed by a Tribunal Secretary, a post pitched at DG level.

We have for other Sections headed by Directors reporting directly to the PS; they are
Industrial Relations Section
Labor Inspectorate Section
Employment Service Section and

Finance and Administration Section

At this juncture we have no intention of increasing the number of people in the Productivity Unit. We have two posts; a research officer and a support staff. The Productivity Unit serves as the secretariat for a multi agency team made up actors from both public and private sectors, NGOs as well from workers and employer organizations. Future Plans: it is envisaged in the long run to transform the Unit into a fully fledged body similar to the Singapore model.

National Human Resource Development Council (NHRDC)

The National Human Resource Development Council (NHRDC) is mainly a strategy setting institution, that has 18 staff as one exited through the VDS program.

One significant functional change during the first phase of the reforms is the transfer of responsibility from the Ministry of Education to the Council of the International Training Unit and the Fund. A scholarship Review Committee has been set up to review the criteria for the award of scholarships and the findings of the committee will be reported in two months.

The comments on the governance of the Council have been noted and appropriate action will follow.

Ministry of National Development

Introduction

The Ministry of National Development employs 263 staff in the core ministry. It has three departments, each headed by a Principal Secretary: the Housing Department, the Land and Industries Department, the Information, Communications and Technology Department (55 staff), and a Division for Corporate Services headed by a Director General. It has two semi-autonomous organizations that report directly to the Minister; the Planning Authority (29 staff) and the Seychelles Investment Bureau (13 staff).

Structural Reforms

Short Term Action: 08/09: The structural reforms have brought about a change in the way the ministry operates. The Housing Management Department has been merged with the Land Management Department hence merging the administrative processes for both housing and land allocation, this main Department is headed by just one Principal Secretary.

Medium Term Action: 09/2010

The recommendation to place the Planning Authority and the SIB under the Department, and the merger of the land planning and land management and development divisions and

the staffing of Corporate Services is an exercise that will be discussed with the Department of Public Administration shortly.

In terms of this ministry has disproportionately small HR and Finance units, and it would be important that staffing up these units be considered, in the context of the earlier discussion on systemic functions.

The Ministry has begun to examine the feasibility of relocating the portfolio responsibilities for Investment to the Seychelles Investment Bureau and that of Industries to its autonomous agency the Seychelles ENPA, while maintaining the mandate for all such policy matters.

The ICT department operates largely separately from the remainder of the ministry, and was recently transferred from the Vice President's Office. Higher authorities have yet to decide whether this portfolio, which cross-cuts all sectors, will be relocated centrally.

The contracting out land surveying relies on a full costing exercise of this function, and the assistance of the World Bank would be appreciated.

Policy Issues

The function on state housing is dictated by the national policy of the Government which is, "to ensure an adequate supply of housing and basic services for all, on a sustainable basis, land, material and financial resources should be planned and managed in such a way that every Seychellois family can confidently aspire to its own house within the parameters of its own means or state help" (SPPF Manifesto), hence the focus of direct provision of housing, and any reforms would mean a complete review of this policy.

Ministry of Finance

Government is looking into the possibilities of privatizing the **Postal Services**. Currently the 2009 Budget of the Postal Services stands at SR 8,939,610 but the total receipts projected from Postal Services is SR 11,808,000. The moves for privatization might take place under the medium to long phase; as the World Bank has aptly put it, 'making the postal service's self sufficient may take 2-3 years.

The Ministry has established a **Parastatal Monitoring Unit**, and this Unit once adequately staffed and trained would be the appropriate body to regulate, set guidelines, monitor and inspect commercial enterprises where Government has some stake. *This is an area where the World Bank could assist the Ministry with capacity building.*

As proposed by the World Bank, a reform of **budget preparation and execution procedures**, with an integrated budget preparation process (integrating capital and current expenditure budgeting), would significantly enhance the effectiveness of the central support function of the ministry. Similar to DPA, the development of manuals and guidelines on budget preparation and capital budgeting, for line ministries, would benefit

everyone and this should be complimented with a well targeted training program on budget management; *this too is an area where the World Bank could assist.*

Department of Public Administration

A previous report has been sent on action DPA intends to take with regard the Public Sector and the Department itself.

The Administration Division has 33 active staff, of which half are cleaners and security guards. On the one hand, it is to be noted that DPA has a building of its own to maintain, especially so, given that it rents out its national hall; most meetings of importance are held here. To note, the security of the building is undertaken by DPA's own security guards on a shift system. On the other hand, DPA has learnt from the experience of other organizations who have attempted to contract-out cleaning and security services and have found it to be too expensive. Outsourced security services leave much to be desired, but never-the-less with reforms in place most of the cleaners work part-time. Amongst others, the remaining staff takes care of centralized services such as gratuity, compensation, pensions, Government office accommodation, expatriates passages and housing allowance for graduates. The Administrative Division has lost 3 Administrative staff to VDS and several staff members have resigned during the year 2008 and have not been replaced in an effort to reduce on staffing. The remaining posts are vacant of which 2 will be used to strengthen the Management Audit Unit.

The Public Sector Support Division is in the process of setting up the Management Audit Unit and a first audit was conducted on the Seychelles Tourism Board. The Management Audit Unit is in dire need of management analysts that are efficient in structural reforms, human resource administration and budget management, notably conducting MBE. The setting up of the professional course on the Public Sector Orders is gaining momentum and it is through the retraining of public administration practitioners that DPA hopes to get some people to help with the management audits. Specific moves towards a professional Public Management Audit Unit are as follows:

Short Term Action: 08/09.

Management Audit Unit: The procedures and process are being set up, posts have been made available but help is required to develop the services it is to provide.

IT Data Base: DPA is placing all personnel and establishment data currently on hand in the HRIS data base.

Medium Term Action: 09/2010

Management Audit Unit: The assistance of the World Bank is required with the strengthening of the capacity of management audit staff.

Management Audit: audits have begun in selected organizations to (i) determine compliance to Government Orders, and (ii) test the performance capacity and ability of the Mgt audit staff.

IT Data Base: Networking, that is, linking the HRIS data base with other organizations so that any staff movements and establishment changes can be done in by the organization (delegated authority) and monitored by the PSSD Desk Officers.

Long Term Action: 2010/2011

The Management Audit Unit: produces a comprehensive report on the Public Sector Reforms and this could be complimented by one from the Budget management Unit in Finance.

IT Data Base: Establish a link between the HRM-and the Payroll, linking the HRIS with Treasury. Talks will begin on its planning in mid-February DPA/ICT/MOF.

Downsizing

The following table shows the reduction of 24 staff taking into consideration the implementation of the exit schemes:

Technical Cadres – 5. Administrative Cadre – 8. Low and unskilled – 11

Through the Voluntary Departure Scheme

| Organizations | Technical Cadres | Administrative Cadre | Low and un-skilled | TOTAL |
|--|-------------------------|-----------------------------|---------------------------|--------------|
| President's Office. Office of the President. Information & Public Relations Department, | nil | 3 | 2 | 5 |
| Vice President's Office | nil | nil | nil | nil |
| Department of Public Administration. | 3 | nil | 3 | 6 |
| Department of Internal Affairs. | 5 | 1 | 7 | 13 |
| Department of Legal Affairs. | nil | nil | nil | nil |
| Department of Police. | 55 | 8 | 2 | 65 |
| Ministry of Finance. | 8 | 1 | 8 | 17 |
| Revenue Commission, (MOF) | 14 | nil | 9 | 23 |
| Ministry of Foreign Affairs. | nil | 3 | 3 | 6 |
| Min of National Dev. Planning Authority Information, Communication & Tech Dept. | 5 | 8 | 11 | 24 |
| Natural Resources Department, (MENRT) | 5 | 9 | 29 | 43 |
| Transport Department, (MENRT) | 4 | nil | 6 | 10 |
| Environment Department, (MENRT) | 5 | 5 | 39 | 49 |
| Community Development Dept. (MCDYSC) | nil | 9 | 385 | 394 |
| Youth, Sports & Culture Dept. (MCDYSC) | 15 | 14 | 43 | 72 |
| Ministry of Education. | 8 | 14 | 110 | 132 |
| Ministry of Health & Social Development. | 26 | 12 | 15 | 53 |
| Health Services Authority | 44 | 6 | 49 | 99 |
| Employment Department, (MEHRD) | 2 | 3 | 2 | 7 |
| National Arts Council | | | 2 | 2 |
| National Sports Council | 12 | 2 | 13 | 27 |
| TOTAL | 210 | 100 | 737 | 1047 |

Overall URS Financed Staff employed in various Ministries

| 800 Beautification initiative staff and 207 URS absorbed in 2006. | |
|--|---|
| World Bank Recommendation | Government Action |
| Overall URS financed staff in various ministries - potential reduction of 203. | 452 low skilled workers exited on VDS, including those recruited on URS but excluding Beautification. |
| Beautification initiative staff/URS in the Department of Community Development - potential reduction-550 | Beautification initiative - 283 exited on VDS, from 2006 up to 2008 a number left and so 417 posts were deleted, that is there is now a total reduction of 700 beautification posts, as a 100 Beautification staff have been retained until privatization of waste management takes place in communities. |

Support Staff, Low and Unskilled Workers - Potential Reduction of 1127

| World Bank Recommendation | Government Action |
|---|--|
| Potential Reduction in Education - 330 | 110 workers exited on VDS and 107 vacant posts deleted. |
| Potential Reduction in Health - 247 | 64 workers exited on VDS and 25 vacant posts deleted. (HSA & MHSD) |
| Potential Reduction in Other Ministries - 550 | 561 workers exited on VDS. |
| <p>Summary: So far a total of 813 Support Staff/ Low and Unskilled workers posts have been deleted.</p> <p>Further cuts are possible upon finalization of the reforms of the outstanding departments/ministries.</p> | |

THE FISCAL IMPACT

| Organisation | VDS Payment in December 08(including accrued leave) | Amount on VDS for March 2009 | December 2008 Payroll | January 2009 payroll |
|--|--|---|--|---|
| PRESIDENT'S OFFICE Risk & Disaster Management Administrative Dept. Public Relation & Info. Dept. | 56,690.80 9,675.00 50,610.24 | 42,887.50 9,675.00 45,125.00 | 109,534.00 356,472.00 205,183.00 | 54,005.00 334,103.00 188,062.00 |
| Department of Legal Affairs | | | 272,493.66 | 228,578.11 |
| Department of Police | 1,200,458.90 | 1,096,460.53 | 5,530,749.56 | 5,012,954.73 |
| VICE-PRESIDENT'S OFFICE Office of the Vice-President Dept. of Public Admin Dept. of Internal Affairs | 182,180.64 288,852.79 | 156,870.00 251,207.40 | 38,954.00 456,718.27 845,866.66 | 37,110.00 385,401.85 777,906.41 |
| MINISTRY OF FINANCE Min Of Finance Sey. Revenue. Commission | 356,361.95 712,256.03 | 356,361.95 621,779.38 | 1,175,069.00 1,732,842.63 | 845,360.00 1,341,632.03 |
| MINISTRY OF ENVIRONMENT, NATURAL RESOURCES, AND TRANSPORT Environment Department Natural Resources Dept. Transport Department | 704,453.58 948,589.18 200,060.40 | 672,098.63 868,202.98 177,495.50 | 1,591,682.94 1,193,675.72 875,953.03 | 1,308,804.78 *188,939.21 * |
| MINISTRY OF HEALTH AND SOCIAL DEVELOPMENT Ministers Secretariat Social Services Dept. Health Dept. Health Services Agency | 595,395.77 250,942.55 1,658,531.84 | 537,689.75 208,800.00 1,361,682.00 | 45,050.00 1,004,620.39 952,762.99 9,155,164.46 | 43,250.00 765,984.86 813,623.34 8,311,044.05 |
| MINISTRY OF EDUCATION | 2,230,450.24 | 2,134,121.55 | 14,256,870.36 | 13,492,015.07 |
| MINISTRY OF NATIONAL DEVELOPMENT National Development Dept. Planning Authority Info. Tech. and Com. Dept. | 379,892.70 10,275.00 11,943.85 | 325,562.25 10,275.00 11,943.85 | 1,153,000.56 178,574.54 434,432.23 | 962,614.60 163,950.00 371,654.48 |
| MINISTRY OF COMMUNITY DEVELOPMENT, YOUTH SPORT AND CULTURE Youth, Sport & Culture Dept Community Dev. Dept National Sport Council National Arts Council | 1,184,567.40 4,634,413.28 365,721.33 24,898.05 | 974,684.75 3,909,115.02 381,971.33 23,156.25 | 2,237,476.54 3,195,477.72 782,037.02 110,848.87 | 1,487,212.11 1,761,583.53 610,251.54 85,714.81 |
| MINISTRY OF EMPLOYMENT AND HUMAN RESOURCES DEVELOPMENT Employment Dept | 124,807.95 | 104,489.75 | 441,254.99 | 366,166.36 |
| MINISTRY OF FOREIGN AFFAIRS | 54,037.50 | 47,737.50 | 764,163.95 | 674,537.68 |
| GRAND TOTAL | 16,236,066.97 | 14,329,392.87 | 49,051,879.09 | 40,612,459.55 |

* This reflects the merger of Transport and Natural Resources Department as of January 2009.

SUMMARY AND IMPACT OVER THREE YEARS

| YEAR | PAYROLL TOTAL | ESTIMATED YEARLY SALARY | VDS PAYMENTS | ESTIMATED TOTAL (YEARLY SALARY + VDS PAYMENTS) |
|------|-------------------------|-------------------------|---------------|--|
| 2008 | DEC: 49,051,879.09 | 588,622,549.08 | 16,236,066.97 | 604,858,616.05 |
| 2009 | JAN: 40,612,459.55 | 487,349,514.60 | 14,329,392.87 | 501,678,907.47 |
| 2010 | JAN 2009: 40,612,459.55 | 487,349,514.60 | NIL | 487,349,514.60 |

Estimated Fiscal Impact

The first savings on the wage bill was established through the Manpower Budget Exercises undertaken in February 2008, in ministries and departments. This exercise allowed the MBE teams to verify how the budget allocation was being handled and where deficits were found a streamlining exercise took place to enable the organisation's establishment to fit within the financial resources allocated. The MBE revealed that a number of organisations were operating with a **deficit totalling approximately SR17, 797,000.00**. The **surplus amounted to SR13, 767,000.00**, which **reduced the deficit to SR4.0million** on the Personnel Emoluments Budget.

As a measure to reduce the number of employees in the employment of government an Early Retirement Scheme (55 – 59yrs) was introduced on the 1st January 2008 and this was followed by the Voluntary Departure Scheme in October 2008. All posts occupied by persons who exited under these schemes were abolished.

The **VDS scheme** has brought a reduction of SR8, 439,419.54 per month in the wage bill giving a **total savings of SR101, 273,034 per year**. Of the total VDS, one third were from Community Development exiting with a salary package of SR3125, using this as a guide, the total VDS for low and unskilled cadres amounts to a saving of SR27,637,500.00 for the year, excluding those exiting in parastatal bodies.

Those exiting the service in 2009, have benefits due payment by the end of March amounting to SR14, 329, 392.87, this means that by the **end of 2009 the savings will be SR86, 943, 641.00**.

The benefits paid for those exiting the service will have costed government SR30, 565, 459.84 although this does not take into consideration the pension payments or those exiting the service in parastatal organizations.

It is to be remembered that in **November 2008 an increment of SR 500 and SR450** was given to all full time employees with a personal salary of SR2200 – 3000 and those with a personal salary higher than SR3000, respectively. For these increments the Ministry of Finance did not disburse additional funds hence part of the saving of the exit schemes

will be used to absorb the increase in salaries in November, in ministries and departments.

Hence the **total wage bill for 2010 for ministries and departments** for existing employees will be **reduced by SR101, 273,034**, due to the exit of 1047 government employees.

As of **September 2008** Government (Min/Dept) had a total of **8,987 occupied posts** with the departure of 1047 VDs and 200 Early Retirement, **the civil service is left with a total of 7740 posts** and this does not include vacant posts have been deleted .

Public Sector Wage Reforms

A Commonwealth Secretariat Salary Expert has begun a comprehensive exercise to review the government's salary structure. Following a market research his proposal provides two scenarios of wage grid and scope of applicability. Work on the components of the salary structure has reached min-point as the job evaluation exercise that began in November, on the common cadre posts; is completed and the exercise will resume in January 2009 for the evaluation of all closed cadre posts. The work under way will incorporate allowances currently paid out such as, those in schemes of service, periodic allowances, and inducements; once taken into account in the job evaluation exercise these allowances will be stopped leaving only those unpredictable such as overtime.

The main tasks that need to be undertaken, before the review of the salary structure is completed, have to do with policy and process issues.

- Benchmark jobs and criteria for defining classification parameters.
- Rationalize job titles and career ladders.
- Establish what constitutes the minimum educational requirement for each job/position.
- Transfer jobs and job incumbents onto the new salary structure.
- Cost the implementation of the new salary structure, and based on an indicative implementation cost, devise the implementation strategy.
- Revise schemes of service and salary administration policies.

Overall Conclusions

The report shows that in this short period since the reforms have been launched significant progress has been made with regard streamlining either through post reduction (cuts and freezing), exit schemes (VDS & Early Retirement) and the introduction of rationalization measures (out-sourcing, privatization) and in certain departments functional reviews. To calculate the real total savings on the wage bill, the actual salary of those exiting must be added to all vacant posts deleted, excluding organizations with a deficit.

Suffice to say that a number of organizations still have a long way to go in introducing significant reform measures, and further functional reviews will have to be carried out to

promote the role of government as a facilitating body and consolidate administrative and regulatory structures, and improved communication with the public.

As a measure to control the size of Government establishments and reduce on Public Sector expenditure, the Department of Public Administration issued a Circular reminding all Ministries and Departments that the freeze on new recruitment is still in force, and this extended to include budget dependent Public Sector Agencies; recruitment in essential areas are to be referred to DPA. Furthermore, all balance of funds resulting from the abolition of posts of employees who had left the public service on 31st December under the voluntary departure scheme and whose pay is to cease with effect from 31st March 2009, is not be committed for recruitment or for use for any other purpose; the Ministry of Finance will recall the money.

In an effort to further streamline Government the function of national government should be limited to national policy formulation that will guide line ministries in the formulation of sector policy. Planning, inspection, management of national programs and projects, national security and foreign policy are the crucial elements of central government. Capacity development, ICT technical support, legal advice and services, International Cooperation... are services that should be centralized for a more coordinated, efficient and effective Government.

Functions essential to the Seychellois economy, such as Human Resource and budget management; monitoring, control and audit functions performed by the Ministry of Finance and the Department of Public Administration need to be reinforced in terms of staffing and capacity development.

