

Report No. 12423-SEY

Republic of the Seychelles Poverty in Paradise

June 24, 1994

Population and Human Resources Division
Department III
Africa Region

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CURRENCY EQUIVALENT

Currency Unit = The Seychelles Rupee (SR)

The Seychelles Rupee has been pegged to the SDR since March, 1981 at the rate of SDR=SR7.22. Consequently, the exchange rate US dollar Seychelles Rupee has varied as follows:

U.S.\$1.00	=	SR.5.93 (1986)
U.S.\$1.00	=	SR.5.14 (1987)
U.S.\$1.00	=	SR.5.40 (1988)
U.S.\$1.00	=	SR.5.47 (1989)
U.S.\$1.00	=	SR.5.12 (1990)
U.S.\$1.00	=	SR.5.06 (1991)
U.S.\$1.00	=	SR.5.25 (1992)
U.S.\$1.00	=	SR.5.18 (1993)

GLOSSARY OF ABBREVIATIONS

COSPROH	Hotel and Tourism Authority
GDP	Gross Domestic Product
FES	Full Employment Scheme
SFA	The Seychelles Fishing Authority
SMB	The Seychelles Marketing Board

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EXECUTIVE SUMMARY

Overview

i. The Republic of the Seychelles is an archipelago of 40 volcanic and 75 coral islands in the South-West Indian Ocean, with a land area of 445 sq.km. and a population of about 70,000. The country's GNP per capita is estimated to be about \$5,480 in 1992. Despite this relatively high income, small population and strong Government commitment to social equity, in 1993 almost 20% of the population were estimated to be living in poverty, and almost 7% in absolute poverty. The distribution of income (proxied by reported expenditures) is highly unequal. The poverty measures above are based on reported expenditures which already include the impact of the Seychelles' generous and untargeted transfer programs. The transfer programs, which absorbed 5.5% of GDP in 1993, do not appear to have been very effective in eliminating poverty.

Poverty Profile

ii. The Government has shown a strong commitment to basic health and education. Social indicators are comparable to other countries at the Seychelles' income level, with under five mortality at 20 per thousand live births, total fertility rates at 2.7, and child malnutrition rates at 6%. Moreover, although the primary education gross enrollment ratio is 107%, that for secondary is only 63%, which is low for an upper middle-income country. The Government is moving to rectify this anomaly and has developed a National Human Resources Development Plan. The Seychelles also has a generous, broad-based transfer program which has helped eliminate some of the worst external manifestations of poverty.

iii. The country has made substantial progress in reducing poverty but poverty levels remain high for a country at the Seychelles income level and with the Seychelles high level of transfers. In 1992, an estimated 19% of the households were below the basic poverty line of R 900 per household per month in 1992 prices, compared to 31% in 1984. In 1992, 7% of the households were below the absolute poverty line of R.500 per household per month in 1992 prices compared to 12% in 1984. The basic poverty line was based on the cost of a market basket of food, clothing and shelter while the absolute poverty line was based on the cost of starchy staples and shelter. The estimates are based on the 1984 survey adjusted to 1992 prices

iv. The Government notes that the 1984 expenditure survey may have overestimated the proportion of poor in the Seychelles as the survey did not fully account for the informal sector and the effect of Government transfers such as pensions, social assistance and the Full Employment Scheme. This can be verified once the 1992 results are published. Another factor that may mitigate poverty is the matriarchal extended family and intra-family transfers.

v. Consumption patterns indicate that the poor devote a much larger proportion of their expenditures to food. Housing expenditures among the poor are primarily for rent, while among the non-poor for mortgage payments. The poor tended to devote proportionately more resources to clothing material. Poor households in the Seychelles tend to be predominantly headed by single mothers who dropped out of school to look after children, and did not acquire marketable skills. Many of these mothers started having children as teenagers and had several out of marriage by different partners.

Efficiency of Transfer Programs

vi. Transfers are inefficient, unable to avoid leakage outside target groups, and creating disincentive to seek work. The case for reforming them is strong. Furthermore, with public expenditures at 62% of GDP and revenues at 53% of GDP in 1993, these programs are financially unsustainable. Moving from the present broadly targeted programs to programs targeted to the poor could yield significant savings.

Towards a Re-Oriented Growth and Social Welfare Strategy

vii. The Seychelles can achieve sustained labor-using growth which would help reduce poverty to less than 8% and propel the country to higher social and economic development levels, provided that economic and social programs are re-oriented. The Government has already accepted the need to increase the role of the private sector in the economy and to make basic policy changes freeing up the economy. The growth strategy could be built on the following elements: (a) reducing the role of the State which presently dominates all productive sectors; (b) increasing competitiveness in terms of labor cost and labor quality; and (c) developing human resources, particularly marketable skills. Government regulations on economic activity should focus on preserving public safety and the country's pristine natural environment. The Government should increase investment in productivity-enhancing areas such as infrastructure and human resource development.

viii. These changes need to be accompanied by changes shifting social expenditures from short-term social support to long-term growth oriented programs. While social spending has been high, education spending has dropped below levels of other middle-income countries. Significant savings are possible from targeting social programs including transfer programs, while protecting those who need help. These savings could be channeled into priority social investments such as education which are needed both to stimulate growth and to help the poor acquire skills to benefit from growth. Early pregnancy needs to be discouraged through making family planning education and contraceptives available to girls reaching puberty. Males should be taught about their responsibilities to help raise their children. Transfer programs can be tailored so that (a) resources are not wasted on non-essentials; (b) labor market training is provided to those receiving transfers; and (c) incentives are given to start working, by phasing out transfers so that people do not lose all their benefits the moment they start working.

I. Introduction

1. The Seychelles is an archipelago of some 115 islands in the South-Western Indian Ocean with a land area of 445 sq. km. The main island of Mahe lies 1600 km east of Kenya. However, the country's spread-out location covers an exclusive economic zone of 1.3 million sq. km. allowing it access to vast fisheries and eventually deep-sea mining. Almost all of the country's 70,000 people live on Mahe and a couple of nearby islands. The pristine natural beauty of the country and its tropical beaches have made it a major tourist destination and the Seychelles is heavily dependent on tourism which directly and indirectly contributes 10% to 15% of GDP and two-thirds of foreign exchange receipts. This heavy dependence on tourism means that the country is susceptible to external events. For example, the fall in air travel due to the Gulf war (1991) led to a sharp fall in tourist arrivals and real GDP declined almost 3% while foreign exchange receipts fell by a fifth.

2. The Seychelles became independent in 1976 and opted for a parliamentary system. A year later, then Prime Minister Albert Rene assumed power in a bloodless coup d'etat and became President at the head of a single party Government. Towards the end of 1990, the Seychelles opted to switch to multi-party rule and a new constitution was drafted

	1980	1984	1986	1988	1989	1990	1991	1992	1993
GDP in Current Prices (SR Millions)	942	1,068	1,290	1,528	1,741	1,991	1,976	2,013	2,207
GDP in Constant 1992 Prices (SR Millions)	1,472	1,354	1,511	1,662	1,885	2,028	1,976	2,013	2,122
Real GDP Growth (% per year)		-2.0	5.8	5.0	13.4	7.6	-2.6	1.9	5.4
Public Expenditures (SR Millions)				933	1,192	1,177	1,131	1,235	1,318
Revenues (SR Millions)				725	852	989	962	1,098	1,123
Deficit (SR Millions)				207	340	188	170	137	196
Public Expenditures as % of GDP				56.1	63.2	58.1	57.3	61.4	62.1
Government Revenues as % of GDP				43.6	45.2	48.8	48.7	54.5	52.9
Budget Deficit as % of GDP				12.5	18.0	9.3	8.6	6.8	9.2

Source: Based on Seychelles: National Income and Expenditure, 1991 and World Bank Report No. 12070-SEY: Republic of the Seychelles. Public Sector Investment Program. An Instrument of Policy.

3. During most two decades of centrally planned economic management, the Seychelles enjoyed high-levels economic growth with generous external support and rapid growth in tourism. The state plays a predominant role in the economy controlling all sectors except banking. Tourism is dominated by state-owned facilities and those not owned by the state are subject to heavy regulation. This has been changing in the past two years as some hotels have been privatized. Other sectors are dominated by parastatals and marketing boards. Prices of imported basic goods and exchange rates are administered.

The data in Table 1 clearly demonstrates the predominant role of the state in the Seychelles. The state has crowded out the private sector, and the public sector accounts for 63% of formal sector employment. Tourism and related activities amount to from 10% to 15% of GDP. During the past sixteen years per capita income rose five-fold to U.S.\$5,480 (1992) and living standards approached those in higher middle-income countries. The relative success of public sector led development in the Seychelles can be attributed to: (a) the unusually small size of the country which allows close monitoring and frequent adjustments; (b) an effective public administration; (c) high per capita levels of external assistance; and (d) the country's attractiveness for tourists. Despite this past success, the Government is moving towards a greater role for the private sector because they feel that they have achieved a reasonable degree of welfare for the majority of the population and significantly reduced poverty; and because they recognize the limits of past growth strategy particularly in face of slowing external assistance and tourist flows.

4. As aid flows and tourism growth slowed down, in 1990, the authorities decided to switch to a development strategy which would allow the private sector to play a greater role in the economy. This change complements the move to political pluralism and is being made to tap the private sector's drive, to sustain and improve on the remarkable social and economic progress of the past. Despite this opening to the private sector, the state still dominates the economy and the regulatory environment continues to be difficult. The generous welfare programs also constrain development; for example, the tourism sector has difficulty attracting employees as many Seychellois prefer public jobs including Full Employment Scheme (FES) jobs.

II. Poverty Profile

A. Definition of Poverty Lines and Data Source

5. The poverty profile has been prepared from data in the 1984 household expenditure survey which questioned 862 households (about 7% of the population). Another survey has been carried out in 1992², but the authorities are reluctant to release the results before official publication. No major structural shifts or disasters have occurred in the Seychelles since 1984 and the income distribution found in the 1984 survey is unlikely to have changed significantly. Expenditures are used here to proxy income in keeping with recommended practice. This may cause some bias at the top end of the income distribution but it is generally considered safer to use expenditures rather

¹This is a program to provide work for those unable to get jobs.

²The Government notes that the 1984 expenditure survey may overestimate the proportion of poor in the Seychelles as the survey did not fully account for the informal sector and the effect of Government transfers such as pensions, social assistance and the Full Employment Scheme. This can be verified once the 1992 results are published. Another factor that may mitigate poverty is the matriarchical extended family and intra-family transfers.

than income in view of the inconsistency of income data for those outside the formal sector.

6. The poverty line has been set at R.900 per household per month in 1992 prices even though the minimum wage is R.1600. The line has been determined as the cost of a basic market basket of food, clothing and shelter, using data from the 1984 survey. An absolute poverty line has been set at R.500 per household per month in 1992 prices (equivalent to the cost of buying starchy staples and housing only). Both lines are constructed from 1984 survey results. The poverty line is equivalent to about US\$150 per month and the absolute poverty line is equivalent to about US\$90 per month.

B. Poverty Trends 1984-1993

Table 2: Evolution of Poverty 1984-93

Year	Percent of Population in Poverty	Percent of Population in Absolute Poverty
1984 (a)	30.7	11.6
1985(b)	27.3	10.1
1986	23.5	8.5
1987	23.7	8.4
1988	22.5	7.8
1989	21.1	7.1
1990	18.9	6.1
1991	20.1	6.7
1992	19.7	6.5
1993	18.5	6.0

(a) from Survey data.

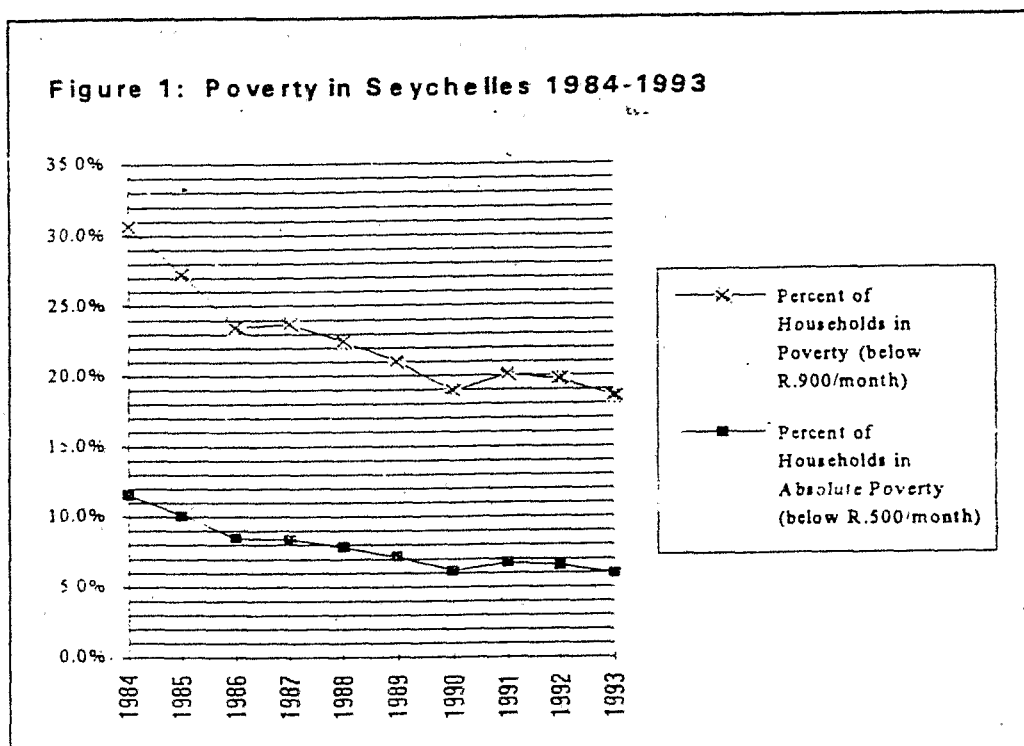
(b) 1984-93 projections.

Source Bank Staff Estimates (holding distribution constant and changing mean in line with per capita income).

7. The estimated poverty trends from 1984 to 1993 are given in Table 2 above. The 1984 survey found almost 31% of the population below the poverty line and about 12% of the population below the absolute poverty line as defined here. These rates are relatively high for a country at the Seychelles' income level. The distribution is highly unequal and the Gini Coefficient of inequality is estimated to be a high 0.47 compared with Mauritius at 0.39 in 1986.

8. It should be emphasized that these poverty estimates are based on reported household expenditures which should already reflect the high level of transfers. It is probable that without these transfers the situation would be worse. But, it is also possible that these transfers serve as a disincentive to accepting employment which could eventually help the poor to escape from poverty.

9. The estimates for poverty for the period 1985 to 1993 were made by assuming that income distribution did not change and that average expenditures grew at a rate equal to growth in per capita income. The country's rapid economic growth during the last decade (averaging 7.2% in real terms from 1982 to 1991) has helped to reduce poverty significantly, but with almost 19% of the population below the poverty line, poverty remains unacceptably high at the Seychelles' level of income. Once the Government releases the 1992 survey results, these findings can be checked.



Source: Bank Staff Estimates

10. The following definitions of poverty are used in this report:

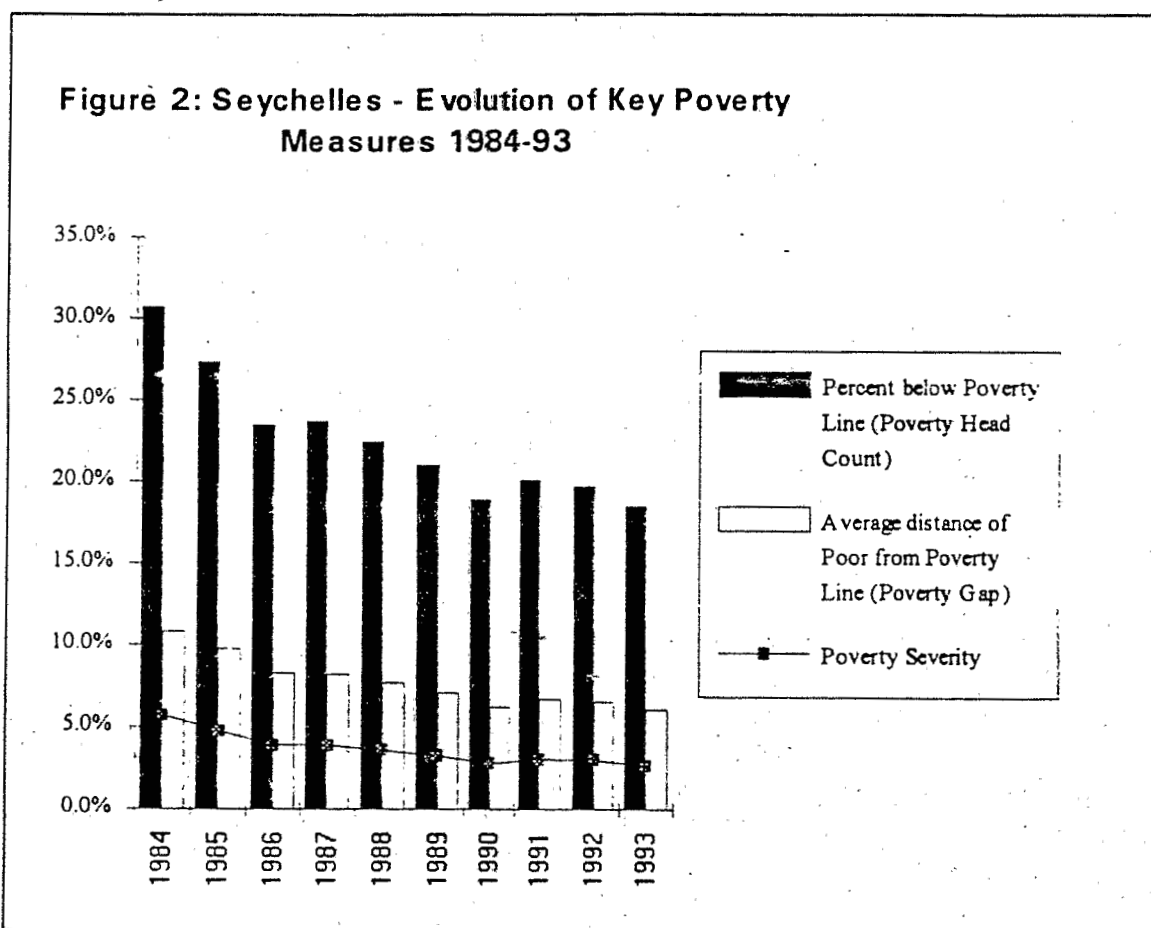
- *Poverty Head Count*: This measure is the proportion of the population below the poverty line.
- *Poverty Gap*: This measures the gap between the average expenditures of the population below the poverty line and the poverty line, expressed as a percentage of the poverty line.
- *Poverty Severity*: This measure can be used to calculate the percent of GDP that needs to be transferred to the poor to bring them up to the poverty line³, assuming that a perfectly targeted transfer were possible without leakage. This measure is not used to

³ Foster, J., J. Greer and E. Thorbecke. "A Class of Decomposable Poverty Measures." *Econometrica* 52: 721-766. 1984. For a technical description of the Index, see Annex B. This measure is used commonly in the Bank

measure the amount of transfers necessary. Its usefulness lies in the fact that, of the three poverty measures used here, this is the only one sensitive to income distribution among the poor.

11. The Poverty Index developed by Foster, Greer and Thorbecke⁴ was used because it can: (a) be adjusted to reflect the weight given to the depth of poverty; and (b) be used to approximately estimate the amount of transfer payments necessary to bring the consumption of the poor to the poverty line.

12. The poverty head count measures have been given in Table 2 above and Figure 1. All three poverty measures using the basic poverty line (R.900 per household per month) are given in Annex Table E and also shown in Figure 2.



Source: Bank Staff Estimates

⁴ When multiplied by poverty line and the population, the poverty index can be used to calculate the amount that needs to be transferred to the poor to bring them up to the poverty line. This divided by GDP will give percentage of GDP.

C. Consumption Patterns of the Poor and Non-Poor

13. During 1984, the average expenditure (in 1992 prices) of those below the poverty line was about R.800 while that of the non-poor was almost three and a half times higher at R.2708. Differences in spending patterns between the poor and non-poor are presented in Annex Tables A to D. The poor spent close to 50% on food (as against 40% for the non-poor). The poor also spent a greater proportion of their food expenditures on starchy staples. Alcohol consumption⁵ accounted for almost 14% of total expenditures for the poor and 21% for the non-poor.

14. While the poor spent proportionately less on housing than the non-poor, the latter spent a larger percentage on mortgage loan payments while the poor spent a larger percentage on rent. Kerosene accounted for a relatively larger share of energy expenditures by the poor. Clothing expenditures vary between the poor and non-poor with clothing material accounting for a larger proportion of expenditures by the poor. The most significant difference was for women's clothing for which the poor used only 5.5% of their expenditures on clothing and footwear and the non-poor used 15.7%.

D. Other Characteristics of Poor Households

15. Poor households tend to have the following characteristics: (a) female-headed households where the head-of-household participates in the Full-Employment Scheme; (b) households headed by a school drop-out (once again mostly women who leave school because of teenage pregnancy or early marriage); (c) other households headed by people without marketable skills; and (d) households headed by retired people on limited pensions.

16. A disproportionate number of women are unable to find jobs because they lack technical skills. In 1991, women represented 2,685 of the 4,442 unemployed and most of them participated in the Full-Employment Scheme where they accounted for 90% of the participants. These women head most of the poor households in the country. This paradoxical situation, in a country where society is matriarchal and women have a great many rights, may be explained by the responsibilities many women face as single parents. High teenage fertility rates force women to drop out of school to look after children. The fathers of the children are unwilling to take on shared responsibility primarily due to their youth, but societal mores also play a role.

17. Pregnancy rates among teenagers and other young women, at ages where they should be most amenable to formal education and skills training, are high and rising. The fertility rate among women 15-19 was 122 per thousand in 1990 as opposed to 60 per thousand in 1979. Among women 20-24, fertility rates have risen to 220 per thousand in 1990 from 148 per thousand in 1979. Most of these mothers end up heading households

⁵ This is based on the adjusted results from the 1984 survey. The method used for adjustment needs to be verified.

in poverty. Even though overall economic growth is reducing poverty, these societal trends work to increase poverty.

18. The high fertility problem is compounded by the high frequency of teenage mothers who produce children out-of-marriage by several partners, often in rapid succession. These women are highly unlikely to be married and usually become single heads-of-household with little prospect of improving their lot.

19. Few statistics are currently available on inter-island variations in poverty. Household expenditures in Praslin appear to be 81% of national average, while on North it is 140%. These are island averages based on sub-sets of a national sample, and the sample size for any island except Mahe is not large enough to be statistically representative. All urban areas are concentrated in a few districts around Victoria on Mahe (i.e. Mont-Fleuri, Saint-Louis, English River, Bel Air) and there is no clear border between rural and urban areas. However, comparisons among the districts based on the incidence of poverty and the related standards of living would be extremely useful for informing the direction of social policy.

E. Education and Health Indicators

20. Despite the above problems, the Seychelles has made significant progress and has very good social indicators. The under-five mortality rate is only 20 per thousand live births, life expectancy is 71 years, the total fertility rate has fallen to 2.7 and the child malnutrition rate is 6%. However, education coverage could be better; although the primary gross enrollment ratio is 107%, that at secondary level is only 63%. This secondary enrollment ratio is very low for a country at this level of income and restricts the Seychelles' development potential.

21. Health has traditionally been accorded high priority and this has resulted in significant and sustained improvements in the welfare of the people. The incidence of many infectious diseases has, for instance, been slashed; vaccine-preventable diseases have been virtually eliminated and child malnutrition is very low. In addition, health services are provided free of charge.

22. Diseases of the circulatory system are the biggest killer in the Seychelles. They accounted for 27% of all deaths in 1987, and 32% in 1991. Diarrhea was the most commonly reported disease in the Seychelles for the period 1980 to 1991. Other commonly reported diseases are urinary tract infection, chicken-pox, conjunctivitis and gonorrhoea (which has shown a decreasing trend since 1990). The Seychelles' disease profile is a mix of developed country and less developed country diseases. The incidence of diarrhea is very high for a middle income country.

F. Capacity to Monitor Poverty and to Execute Programs for the Poor

23. The Seychelles does a very good job of monitoring poverty through periodic surveys. There is also very good and frequent monitoring of unemployment, health conditions and other social indicators.

24. The Seychelles also runs various programs for the poor (Section III below). These are presently very poorly targeted and subject to waste. However, as the country is small and public administration relatively strong, there would be little problem in running targeted programs for the poor.

III. Efficiency of Transfer Programs

25. The Seychelles' society has a strong sense of solidarity and strongly believes in protecting the poorest. These societal support mechanisms combined with the Seychelles' generous transfer programs have helped to eliminate the most obvious outward manifestations of poverty. These programs include the following:

- The Full Employment Scheme (FES) is available to help the able-bodied unemployed; they must register as unemployed and report to work in order to receive R.40 per day. This scheme was initially intended to support the unemployed for only six months, but the limit has been ignored. The program has 2,800 participants (almost 10% of the labor-force and over 150% of the registered job-seekers) of whom 2,500 are women.
- Social assistance for the unemployed who cannot benefit from the Full Employment Scheme (FES) amounting to R.600 for the first adult, R.300 for the second adult and R.275 for each child (a woman with two children may earn R. 1150);
- Work Experience Program (WEP) is intended to help the unemployed get work skills and adjust to a work environment. This scheme supported 700 individuals.

26. The Seychelles' achievements have come at a very high cost through untargeted programs. These may not have been very effective in reducing poverty, as seen by the number of households whose reported expenditures⁶ still place them below the poverty line. A large proportion of the beneficiaries may be people who do not need assistance, but use it as a way to support themselves while waiting for the "perfect" job. Another part of these transfers is wasted, as witnessed by the large percentage of reported expenditures on alcohol (ranging from 14% to 21% of household expenditures), and may do little to improve the welfare of the vulnerable. Furthermore, these transfers may have acted to demotivate workers from accepting productive jobs. To remove this negative effect, while preserving support for those who really need help, transfer programs need to be targeted to the needy. Also, all persons on the FES should be required to register as job-seekers.

⁶ Presumably including the effect of transfers.

Table 3: Present Costs of Transfers and Estimated Savings Possible from Targeting
(Seychelles Rupees millions at 1992 Prices)

	1989	1990	1991	1992	1993
Present Cost of Transfers	75.6	85.1	96.7	100.0	115.3
Cost of Perfectly Targeted Transfers to bring Poor to Upper Poverty Line ⁷	4.7	4.1	4.5	4.4	4.0
Estimated Maximum Administrative Costs of Targeting	4.7	4.1	4.5	4.4	4.0
Estimated Cost of Targeted Transfer Program	9.4	8.1	9.0	8.8	8.1
Estimated Savings from Changing Type of Program	66.2	77.0	87.7	91.2	107.2
Present Program Cost as % Budget	5.9	7.1	8.6	8.1	9.1
Targeted Program Costs as % Budget	0.7	0.7	0.8	0.7	0.6
Potential Savings as % Budget	5.1	6.4	7.8	7.4	8.5
Present Program Cost as % GDP	4.0	4.2	4.9	5.0	5.5
Targeted Program Costs as % GDP	0.5	0.4	0.5	0.4	0.4
Savings as % GDP	3.5	3.8	4.4	4.5	5.1

Source: Bank Staff Estimates

27. The cost of present transfer programs and the possible savings from moving to a more tightly targeted program are shown in Table 3 above. The calculations in Table 3 are based on providing every household below the poverty line with access to at least R.900 per month in 1992 prices. The costs of administering such a targeted program have been assumed equal to the value of transfers themselves. This is quite high, and given the Seychelles' size and small population, the costs of targeting would probably be much lower. The possible savings are substantial and in 1993 could have been equal to over 5% of the GDP. The actual savings would be somewhat lower because the poor may already be receiving some transfers, and because some of the non-poor are only above the poverty line by virtue of receiving transfers and would thus need to be maintained on the list of beneficiaries.

28. The Seychelles has a budget deficit of close to 10% of GDP and it is already collecting over 50% of GDP in revenues. The fiscal deficits in the past have been sustained by foreign grants which have been getting less common. A further tax increase to cover the deficit would be highly undesirable as taxes already take in over half the GDP; indeed a tax reduction would be desirable. At the same time increased public investment is needed in productivity enhancing infrastructure and in education. Thus, the above levels of public transfers are not sustainable and the Seychelles needs to move to a narrowly targeted transfer program to help those most in need. The substantial savings from targeting transfers could be used to invest in infrastructure and education which would stimulate growth and help to reduce poverty.

⁷A perfectly targeted transfer program is one with no leakages of benefits outside the target group and no administrative costs. In practice the costs of transfer programs would be higher.

29. The targeted transfers could be combined with special training programs to give the beneficiaries labor market skills. A sliding scale reduction of welfare benefits could also be used to make it more attractive for those on welfare to make a transition to the labor force.

30. The Government's programs of untargeted transfers to households are fiscally unsustainable. It needs to move to a program of narrowly targeted transfers. Welfare recipients should be given training to make their skill endowment more attractive to the labor market. They should also be given incentives to go off welfare to the labor market by reducing benefits on a sliding scale as people earn income. An example is the type of food stamp program described above.

IV. Re-Orienting the Growth Strategy and Poverty Programs

A. Elements of a Growth Strategy

31. While the state-led growth strategy combined with large transfers to households has allowed the Seychelles to achieve significant progress in many areas, it is no longer sustainable. The large deficits were financed by foreign grants in the past but these grants have been getting less common, and with taxes at over 50% of GDP increased revenue would be counter-productive.

32. The external environment is now changing, and the Seychelles needs to reorient economic policies and re-examine its social programs. Private sector growth is needed not only to create jobs and increase output but also to increase the economy's tax base. The Government has already accepted the need to increase the role of the private sector in the economy and increase the competitiveness of the economy. Competitiveness can be enhanced either by addressing the parity of the Seychelles Rupee or by increasing productivity without fully compensating wage increases. Finally, the Government has developed a Human Resources Development Plan and should implement its recommendations.

33. These changes need to be accompanied by shifts in social expenditures from short-term social support to long-term growth oriented programs. Significant savings are possible from social programs while protecting those who need help. These savings could be channeled into priority social investments such as education which are needed both to stimulate growth and to help the poor acquire skills to benefit from growth.

34. A strategy to help the Seychelles move in 20 to 25 years to become an upper income country like Singapore and Bahamas has been proposed in a recent Bank study⁸. The Seychelles will need to achieve a modest sustainable GDP growth rate averaging 4% a year. It is essential that the Seychelles undertake a strategy to achieve sustained labor-using growth. Skills training of the work-force will also be necessary in order that the available labor force be absorbed. Between 1992 and 1995 about 3,000 persons will come into the labor market each year. The Government estimates that without adequate skills, 1,800 would be integrated in the working force and 1,200 will remain job-seekers. The main problem is the difficulty of matching the need for qualified people, about 10,000, with the existing supply of 7,000, because too many people leaving the educational system do not have the required skills. Lack of qualified personnel affects the following sectors in particular: health (doctors and nurses), education (teachers), finance (financial management, accounting) and construction.

35. Sustained labor-using growth can be achieved by: (a) reducing the role of the public sector; (b) increasing the export competitiveness of the economy by either increasing labor productivity or changing the parity of the Seychelles Rupee; and (c) developing human resources to reduce and/or eliminate the skills gap. These broad objectives need to be combined with specific strategies in key sectors: tourism, fisheries and industry.

36. The tourism sector is assumed to retain the policy of keeping the Seychelles as a destination for up-scale low-impact tourism. It requires new investment in hotels as the occupancy rates are at 92% of the 4,000 bed capacity for the four main tourist receiving islands. The bed capacity limit needs to be raised to make room for further investment in hotel infrastructure. Restrictions on private sector activities should be reduced to those directly intended to protect public safety and the Seychelles' unspoiled environment (which is the country's primary resource). This will encourage private sector investment in tourism infrastructure. The Government could also consider selling its investments in tourist infrastructure. Air access needs to be improved, and prices need to be varied to spread out arrivals over the year.

37. In the fisheries sector, Port Victoria has lost its competitiveness and it is no longer the main tuna port in the Indian Ocean. The issues of fees, stevedoring costs and productivity need to be addressed before the port can become competitive again. Artisanal and semi-industrial fishing should be improved through safer equipment and facilitation of private investment respectively. In the industrial sector, protection levels could be reduced and a greater private sector role should be encouraged.

⁸ See *Seychelles: Public Sector Investment Program - An Instrument of Policy Report* No. 12070-SEY, World Bank, Washington, 1994.

B. Regulatory Framework and Economic Environment

38. The Seychelles' development strategy has given a predominant role to the state with a view to preserving financial stability and assuring an equitable distribution of benefits while encouraging the development of tourism and off-shore services. Within the tourism sector the Government wanted to avoid mass-market tourism and encourage up-scale tourism. The state also hoped to reduce the growth of private monopolies by creating an active state presence in all sectors. This has resulted in state dominance in all sectors except banking. The public sector provides 63% of the modern sector jobs and public expenditure is over 60% of GDP while taxation takes in over 50% of GDP. As foreign grants have dried up in recent years, the state has to resort to increasing domestic bank borrowing to finance the deficit. This has tended to crowd out the private sector.

39. COSPROH (the Hotel and Tourism Authority) controls the tourism sector by: (a) owning and operating half the hotels and most major restaurants; (b) determining hotel tariffs and standards; and (c) controlling the marketing of goods used by the sector. Air Seychelles operates air services and through protocols with other carriers maintains control of air services and tariffs in and out of the country. The Seychelles Public Transport Corporation operates much of land transport. The Seychelles Fishing Authority controls fish processing while marketing is in the hands of the Seychelles Marketing Board (SMB). SMB had a predominant position in the past when it controlled all foreign and wholesale trade as well as domestic prices. Presently, it controls imports of all agriculture products and operates a number of industries. The Seychelles Industrial Development Corporation has had a predominant role in industry (mostly import substituting).

40. Regulations are pervasive in other parts of the economy. Prices are administered, as are exchange rates and interest rates. Foreign exchange is being rationed as foreign grant flows and tourism receipts have slumped. The state also regulates the number of hotel beds available and their rates in its attempt to avoid mass tourism. The public sector regulates all employment and wages. Militant public sector unions set standards which the private sector has to follow.

41. The above factors have tended to discourage private sector investment and slowed realization of the country's growth potential. State interventions have not been very efficient as witnessed by the high levels of transfers to parastatals. Labor market regulations and the standards set by public sector unions have tended to increase labor costs and discourage private sector hiring.

C. Human Resource Development Requirements for Growth Strategy

42. The quality of the labor force has to improve and the Government's immediate objectives for improvement of the education sector are:

- enhancing the quality of education;

- building and equipping sufficient schools in each of the ten regions to provide schooling for all children;
- investing in quality improvements in teacher training and provision of text-books and materials;
- providing socializing environments and influences to assist in the total development of adolescents;
- utilizing the specialized abilities of expatriates while moving towards localization of teaching staff; and
- broadening the secondary level curricula to create an awareness of the adult work-environment and to encourage training in vocational skills.

43. In the health sector, the Government's needs to better prioritize its use of resources by focusing on the following areas in the immediate future:

- improve immunization coverage;
- improve access to potable water;
- combat cardiovascular diseases through IEC to promote healthy dietary habits and reduced alcohol consumption; and
- improve IEC on sexually transmitted diseases.

44. Poverty in the Seychelles is closely tied to early pregnancy and single motherhood. Family planning education and contraceptives should be made available to school children reaching puberty. Male children in schools could be given more education on their responsibilities to help raise their children and be encouraged to look to suitable role models.

D. Public Expenditure Recommendations to Accompany the Growth Strategy

45. Public expenditures in the Seychelles have historically favored human resource development and protection of the poorest. Over 20% of public current expenditures were allocated to education, which is higher than in countries such as the Bahamas and Singapore, but this ratio has dropped over the last five years to about 13% which is in the low range for middle income countries. The overall share of social expenditures (including transfers to the poor) dropped from about 39% in 1988 to 33% in 1993, though the share of income support transfers remained at about 10% to 11%. Priority is being given to short term palliative measures instead of longer term education investments to help reduce poverty and sustain economic growth.

46. Health's share of public current expenditures rose from 7.2% in 1988 to 9.5% in 1992. It will probably need to increase further in response to the changing disease profile.

Table 4: Evolution of Public Expenditures 1988-93						
	1988	1989	1990	1991	1992	1993
Sector Expenditures in Millions of Rupees at Current Prices						
Education	141.8	143.6	140.0	128.6	140.1	143.6
Health	47.8	56.4	69.3	76.7	96.2	94.6
Employment Program & Related Transfers	70.0	75.6	85.1	96.7	100.0	115.3
Social Programs	(259.6)	(275.6)	(294.4)	(302.0)	(336.3)	(353.5)
Other Transfers	32.6	80.6	128.3	140.7	180.6	181.0
Interest on Public Debt	138.1	147.3	169.2	171.6	192.1	199.9
Defense	65.4	73.6	79.2	87.6	103.5	67.1
Other	171.2	162.8	154.8	168.6	202.2	277.2
Total Current Expenditures	666.9	739.9	825.9	870.5	1,014.7	1,078.7
Sector Shares %						
Education	21.3	19.4	17.0	14.8	13.8	13.3
Health	7.2	7.6	8.4	8.8	9.5	8.8
Employment Program & Related Transfers	10.5	10.2	10.3	11.1	9.9	10.7
Social Programs	(38.9)	(37.2)	(35.6)	(34.7)	(33.1)	(32.8)
Other Transfers	4.9	10.9	15.5	16.2	17.8	16.8
Interest on Public Debt	20.7	19.9	20.5	19.7	18.9	18.5
Defense	9.8	9.9	9.6	10.1	10.2	6.2
Other	25.7	22.0	18.7	19.4	19.9	25.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank staff estimates

47. The growth strategy in Section-A implies a changing pattern and level of public expenditures. Proposals for overall levels of public expenditures have been prepared in a Bank Report⁹. This report proposes that these expenditures be allocated with priority going to education in line with the country's recently adopted human resource development strategy. Increased shares should also go to public investment in productivity enhancing infrastructure, while expenditures on welfare programs could be reduced by targeting beneficiaries. These proposals, which are given in Table 5 below, are made assuming that the GDP share of public expenditures will drop from 59% (of which 49% current) in 1993 to 52% (of which 45% current) in 1994.

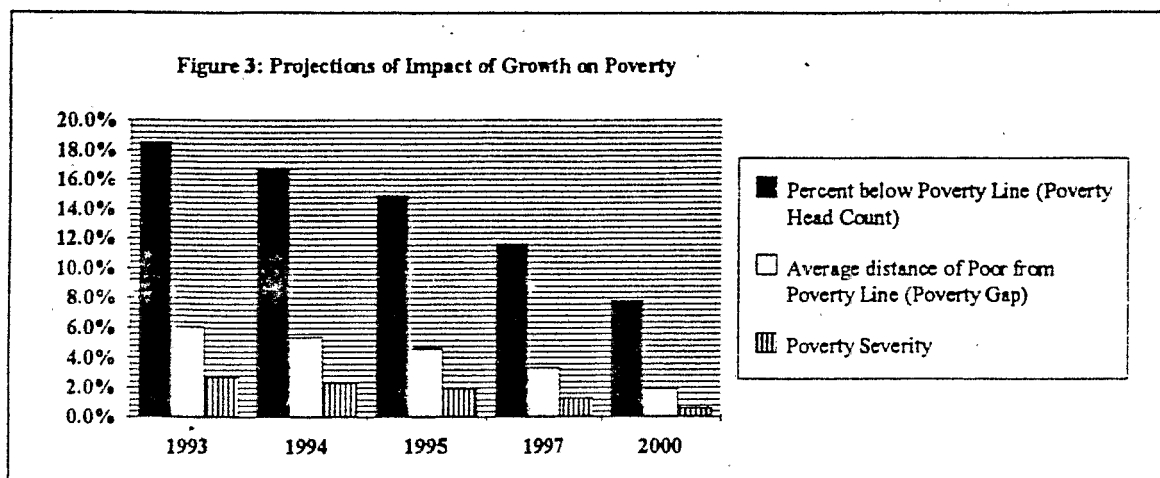
⁹ *Seychelles Public Investment Program*. World Bank Report No. 12423-SEY

Table 5: Proposed Allocation of Public Expenditures 1995-2000				
	1993	1995	1997	2000
Sector Expenditures in Millions of Rupees at 1993 Prices				
Education	143.6	186.7	247.9	337.5
Health	94.6	112.0	141.7	168.8
Employment Program & Related Transfers	115.3	112.0	113.3	101.3
Social Programs	(353.5)	(410.8)	(502.9)	(607.6)
Other Transfers	181.0	187.9	198.7	220.2
Interest on Public Debt	199.9	172.2	181.6	172.6
Other	344.3	473.9	533.4	687.3
Total Current Expenditures	1,078.7	1,244.7	1,416.6	1,687.7
Capital Expenditures	224.5	234.2	245.7	265.3
Total Expenditures	1,303.2	1,478.9	1,662.3	1,953.0
GDP at Current Prices	2,194.0	2,566.0	2,995.0	3,768.0
Sector Shares in % of Current Expenditures				
Education	13.3	15.0	17.5	20.0
Health	8.8	9.0	10.0	10.0
Employment Program & Related Transfers	10.7	9.0	8.0	6.0
Social Programs	(32.8)	(33.0)	(35.5)	(36.0)
Other Transfers	16.8	15.1	14.0	13.0
Interest on Public Debt	18.5	13.8	12.8	10.2
Other	31.9	38.1	38.1	40.7
TOTAL	100.0	100.0	100.0	100.0

E. Potential Impact of the Growth Strategy on Poverty in the Seychelles

48. The growth strategy proposed above can lead to significant reductions in poverty through economic growth. GDP projections for 1994-2000¹⁰ can be used to project the impact of growth on poverty. The results which are given in Figure 3 show significant potential for reductions in poverty. Data underlying Figure 3 can be found in Annex Table-F.

¹⁰ From Bank Report No. 12423-SEY cited earlier.



49. The above results are subject to adopting the recommendations of the overall strategy presented here. This includes: increasing the role of the private sector, reforming welfare programs; and investing heavily in human resource development. As shown above, adoption of such a strategy can reduce the proportion of the population below the poverty line from 18.5% in 1993 to 7.8% in 2000. Furthermore, a program of perfectly targeted transfers to bring the poor up to the poverty line, which would have cost 0.19% of GDP in 1993, would cost only 0.03% of GDP in 2000, if the strategy is adopted.

ANNEX TABLES

Table-A: Household Food and Non Food Cash Expenditures by Type and Poverty Level

(Seychelle Rupees at 1992 Prices)				
Expenditure Item	Poor		Non Poor	
	Expenditure/ Month	Percent	Expenditure/ Month	Percent
Starchy Foods	132.08	15.3	311.02	11.5
Fresh Fish	70.83	8.2	162.98	6.0
Meat and Other Fish	33.07	3.8	99.92	3.7
Dairy Foods	88.37	10.2	220.18	8.1
Vegetables	33.16	3.8	93.22	3.4
Fruits	3.50	0.4	9.68	0.4
Other Food	65.61	7.6	164.08	6.1
Soft Drinks	12.87	1.5	39.78	1.5
Total Food	(439.49)	(50.9)	(1,100.86)	(40.7)
Alcohol ¹¹	117.90	13.7	568.57	21.0
Tobacco	16.23	1.9	40.01	1.5
Clothing	25.84	3.0	95.75	3.5
Housing	84.09	9.7	309.54	11.4
Fuel and Water	71.64	8.3	200.37	7.4
Household Goods	8.13	0.9	47.81	1.8
Cleaning Materials	21.11	2.4	56.78	2.1
Toiletries	14.83	1.7	43.28	1.6
Medicines	3.73	0.4	9.66	0.4
Transport	29.97	3.5	113.88	4.2
Communication	10.02	1.2	32.12	1.2
Recreation	10.03	1.2	30.84	1.1
Other Items	9.71	1.1	58.54	2.2
Total Non Food	(423.23)	(49.1)	(1,607.15)	(59.3)
Total Expenditure	862.72	100.0	2,708.01	100.0

Source: Bank Staff Estimates based on *Household Expenditure Survey 1984*, Statistics Section, Mahe

¹¹ These are based on adjusted figures reported in *Household Expenditure Survey 1984*, Statistics Section, Mahe and need to be verified.

Table-B: Household Food and Non Food Home Consumption by Type and Poverty Level

(Seychelles Rupees in 1992 Prices)				
Expenditure Item	Poor		Non Poor	
	Expenditures/Month	Percent	Expenditures/Month	Percent
Starchy Foods	0.11	0.8	1.98	5.9
Fresh Fish	5.11	35.3	11.24	33.7
Meat and Othr Fish	1.54	10.6	4.70	14.1
Dairy Foods	0.79	5.5	1.34	4.0
Vegetables	2.44	16.8	5.91	17.7
Fruits	1.31	9.0	2.70	8.1
Other Food	0.66	4.6	1.18	3.5
Soft Drinks	0.25	1.7	0.05	0.1
Total Food	(12.21)	(84.3)	(29.10)	(87.2)
Alcohol	0.66	4.6	1.15	3.4
Tobacco	0.03	0.2	0.09	0.3
Clothing	0.94	6.5	1.72	5.2
Housing	0.00	0.0	0.00	0.0
Fuel and Water	0.28	1.9	0.34	1.0
Household Goods	0.11	0.8	0.14	0.4
Cleaning Materials	0.04	0.3	0.07	0.2
Toiletries	0.00	0.0	0.00	0.0
Medicines	0.08	0.6	0.10	0.3
Transport	0.07	0.5	0.23	0.7
Communication	0.00	0.0	0.00	0.0
Recreation	0.07	0.5	0.43	1.3
Other Items	0.00	0.0	0.00	0.0
Total Non Food	(2.28)	(15.7)	(4.27)	(12.8)
Total Expenditure	14.49	100.0	33.37	100.0

Source: Bank Staff Estimates based on *Household Expenditure Survey 1984*, Statistics Section, Mahe. Home consumption is defined as things consumed by the household from own production such as fish by fishermen, vegetables etc..

Table-C: Housing and Fuel Expenditures by Type and Poverty Level
(Seychelles Rupees in 1992 Prices)

Expenditure Item	Poor		Non-Poor	
	Expenditure/Month	Percent	Expenditure/Month	Percent
Rent Payments	45.61	30.2	160.57	27.0
Loan Payments	33.05	21.9	166.86	28.0
House Repairs (Material)	5.25	3.5	29.25	4.9
House Repairs (Labour)	0.19	0.1	2.53	0.4
Total Housing	(84.09)	(55.7)	(359.21)	(60.3)
Electricity Bills	37.23	23.0	138.02	23.2
Kerosine	18.13	11.2	48.56	8.2
Water Bill	8.83	5.5	30.81	5.2
Batteries	2.43	1.5	6.99	1.2
Candles	2.64	1.6	6.19	1.0
Matches and Lighters	1.33	0.8	3.00	0.5
Charcoal	0.60	0.4	1.27	0.2
Gas	0.42	0.3	1.22	0.2
Wood	0.02	0.0	0.35	0.1
Total Fuel	(71.64)	(44.3)	(236.41)	(39.7)
Total Housing & Fuel	155.73	100.0	595.62	100.0

Source: Bank Staff Estimates based on *Household Expenditure Survey 1984*, Statistics Section, Mahe

Table-D: Expenditures on Clothing and Personal Goods by Type and Poverty Level
(Seychelles Rupees in 1992 Prices)

Expenditure Item	Expenditures/Month	Percent	Expenditures/Month	Percent
Clothing (Men)	4.21	16.3	14.35	12.9
Clothing Material	8.28	32.0	25.03	22.5
Footwear	5.34	20.7	26.01	23.4
Children's Clothing	2.29	8.9	7.8	7.0
Clothing (Women)	1.41	5.5	17.34	15.6
Personal Goods	1.58	6.1	9.96	9.0
Flipflops/Plastic Shoes	0.99	3.8	3.13	2.8
Clothing (Baby)	0.39	1.5	1.89	1.7
Clothing Repairs	0.84	3.2	4.24	3.8
Jewellery	0.51	2.0	1.28	1.2
Total Clothing	25.84	100.0	111.03	100.0

Source: Bank Staff Estimates based on *Household Expenditure Survey 1984*, Statistics Section, Mahe

Table E: Seychelles: Evolution of Poverty Indices 1984-1993

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Percent below Poverty Line (Poverty Head Count)	30.7	27.3	23.5	23.7	22.5	21.05	18.9	20.1	19.7	18.5
Average distance of Poor from Poverty Line (Poverty Gap) as Percent of Poverty Line	10.8	9.78	8.29	8.24	7.72	7.108	6.24	6.73	6.58	6.08
Poverty Severity in Percent	5.74	4.78	3.94	3.91	3.62	3.28	2.81	3.07	2.99	2.72
Estimated GDP Growth Rate	8.01	10.3	1.24	4.38	5.32	10.29	7.59	-2.76	2.08	4.82

Source: Bank Staff Estimates based on *Household Expenditure Survey 1984*, Statistics Section, Mahe

Table F: Seychelles: Potential for Poverty Reduction with Sustained Growth

	1993	1994	1995	1997	2000
Percent below Poverty Line (Poverty Head Count)	18.5	16.8	14.9	11.7	7.8
Average distance of Poor from Poverty Line (Poverty Gap) as Percent of Poverty Line	6.1	5.4	4.6	3.4	1.9
Poverty Severity in Percent	2.7	2.3	2.0	1.3	0.6
Average Expenditures per month per household in 1992 Prices	2,506	2,793	2,994	3,433	4,204
Transfers Required to bring Poor to Poverty Line in 1992 Prices	4.0	3.5	3.0	2.0	1.0
Above Transfers as % GDP	0.19	0.15	0.12	0.07	0.03
Population	70,152	70,783	71,420	72,712	74,693
GDP in R. million in 1992 Prices	2,110	2,372	2,566	2,995	3,768

Source: Bank Staff Estimates based on *Household Expenditure Survey 1984*, Statistics Section, Mahe