



Seychelles Conference 2013:

***From Stabilization to Sustained Growth: Five Years
of Successful Reforms and the Challenges Ahead***

Victoria, October 31, 2013

**Addressing Macro-Fiscal Risks from State-Owned Enterprises
in Seychelles**

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Roadmap and Introduction

PART 1 – Financial Performance Analysis of State-Owned Enterprises (SOEs)

- ❖ Profitability
- ❖ Cash-Flow

PART 2 – SOEs and the Government

- ❖ Dividends, Subsidies and Transfers
- ❖ Development Grants
- ❖ Debt of SOEs

PART 3 – Broad Assessment of SOEs

- ❖ Good practices for benchmarking performance of SOEs
- ❖ Risk Assessment of SOEs in Seychelles (benchmarked against scorecard)
- ❖ Going Forward - Policy Implications

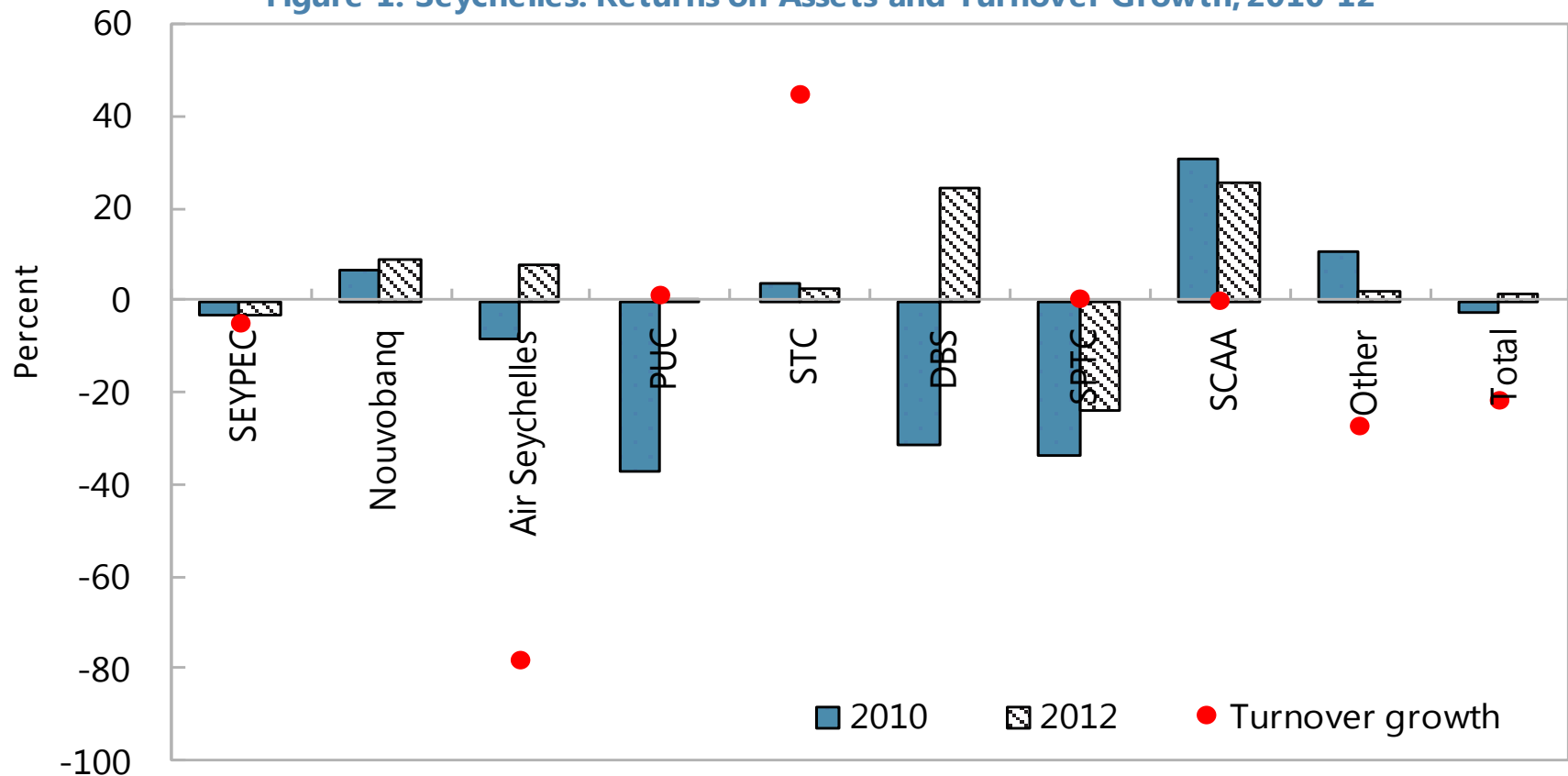


PART 1

FINANCIAL PERFORMANCE ANALYSIS OF STATE-OWNED ENTERPRISES

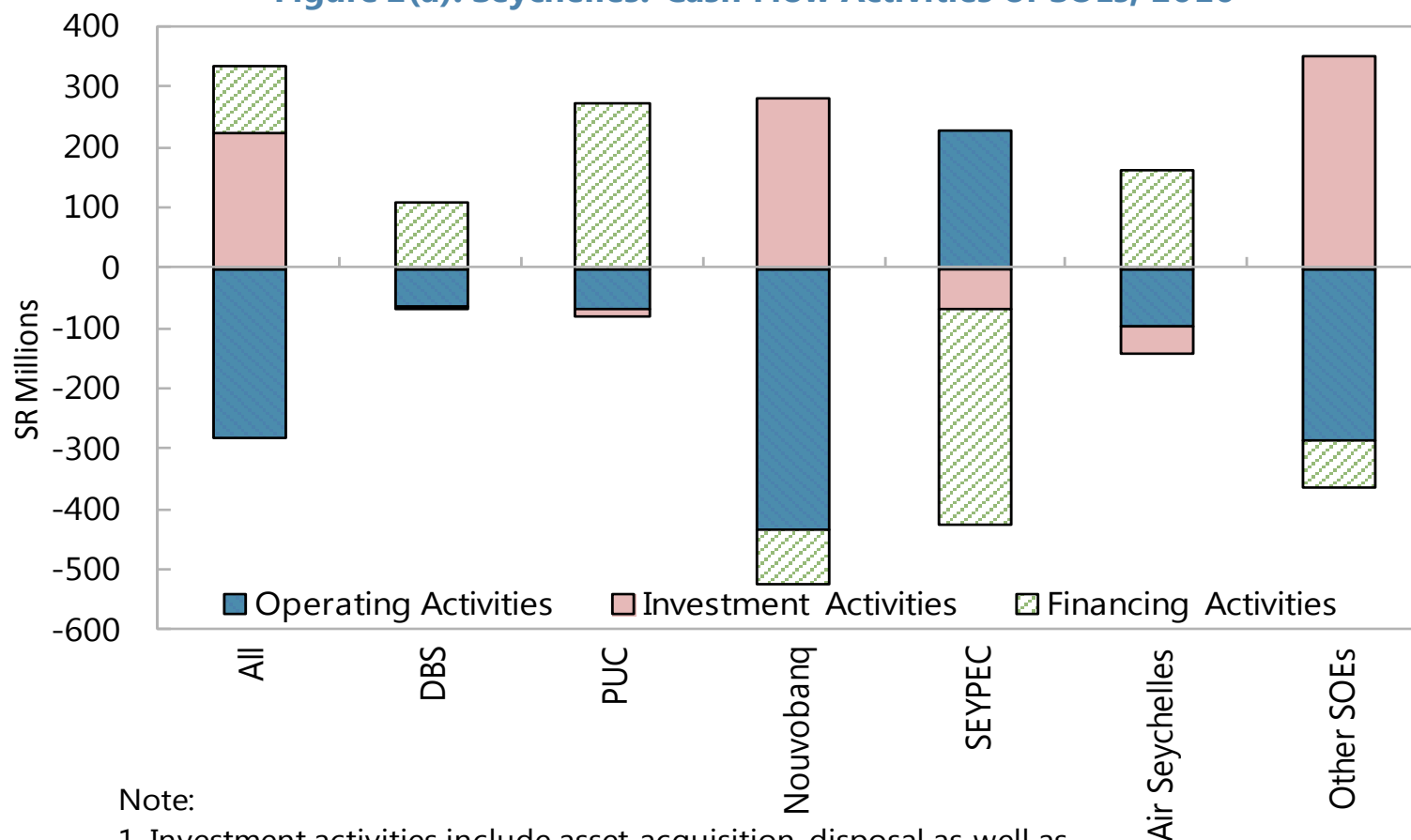
Profitability indicators show an improvement in performance since 2010, although the situation for some SOEs (e.g., SEYPEC and SPTC) continues to warrant attention.

Figure 1. Seychelles. Returns on Assets and Turnover Growth, 2010-12



Many SOEs were making operating losses in 2010 and have represented a net drain on resources of the government through their Quasi-Fiscal Activities (QFA).....

Figure 2(a). Seychelles. Cash Flow Activities of SOEs, 2010



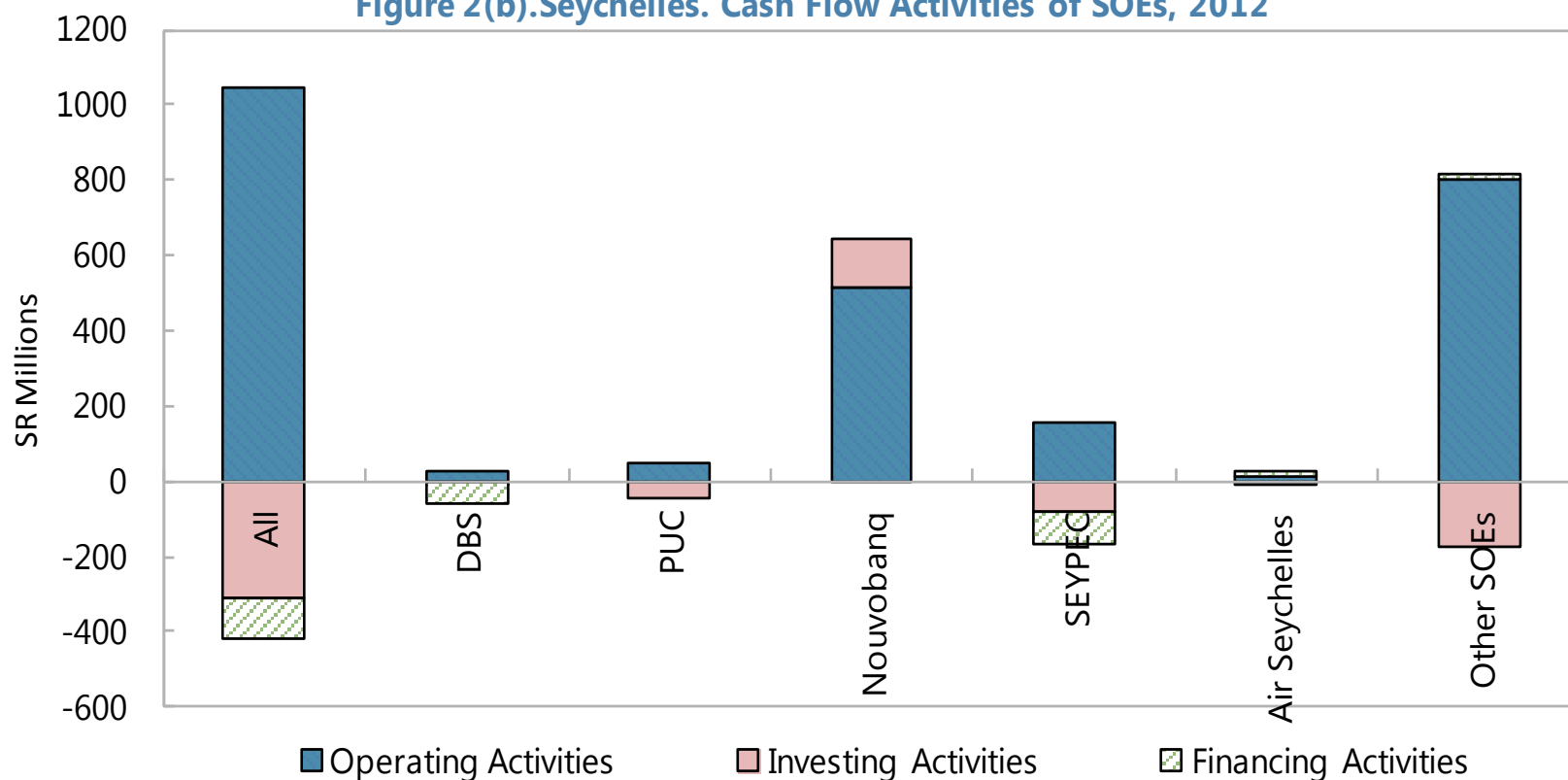
Note:

1. Investment activities include asset acquisition, disposal as well as development grants from the government
2. Financing activities include borrowings and debt repayments



...but in 2012, the overall cash flow situation improved with most SOEs posting positive operating activities.

Figure 2(b).Seychelles. Cash Flow Activities of SOEs, 2012



Note:

1. Investment activities include asset acquisition, disposal and development grants
2. Financing activities include borrowings and debt repayments.

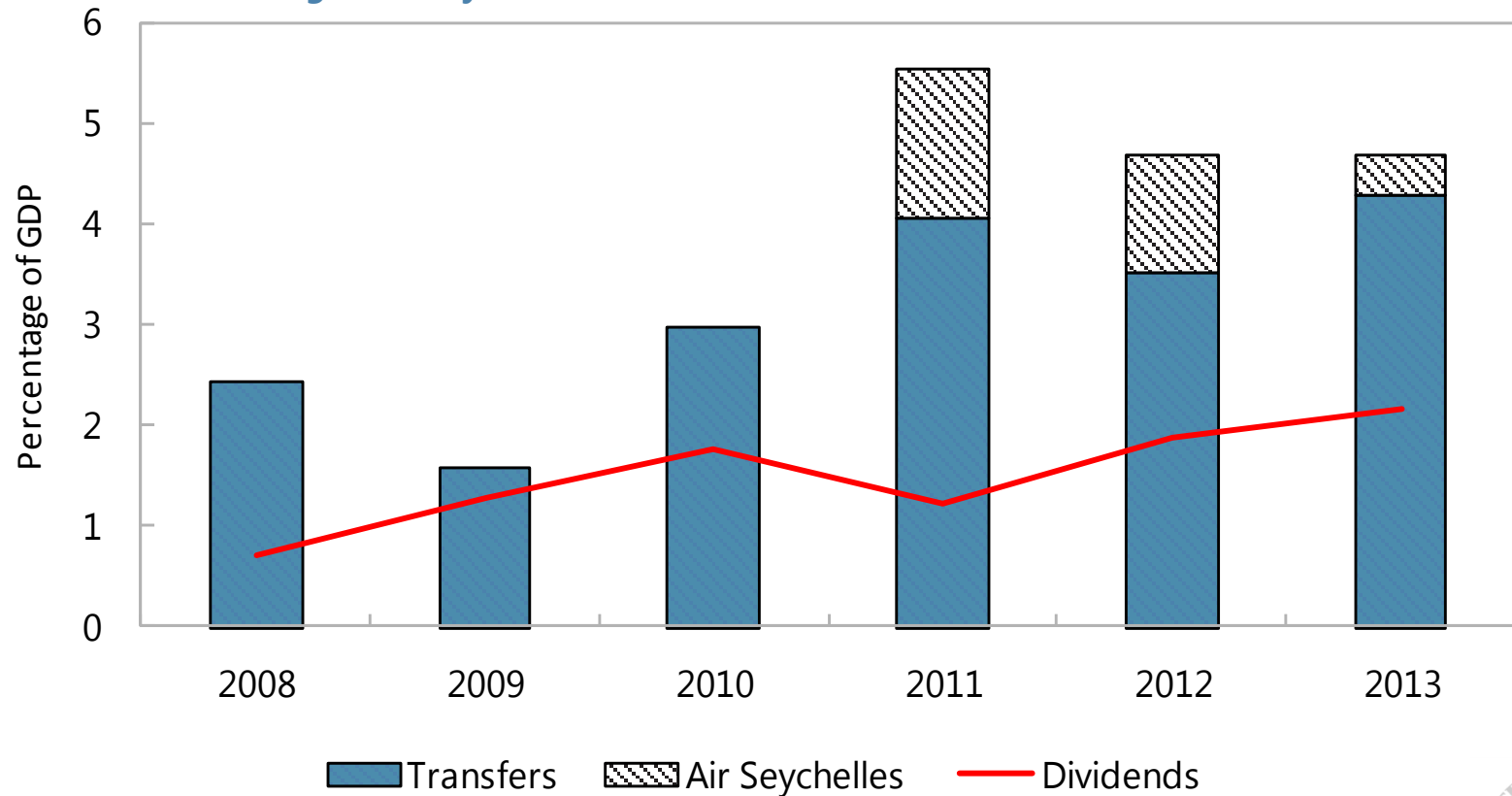


PART 2

STATE-OWNED ENTERPRISES AND THE GOVERNMENT

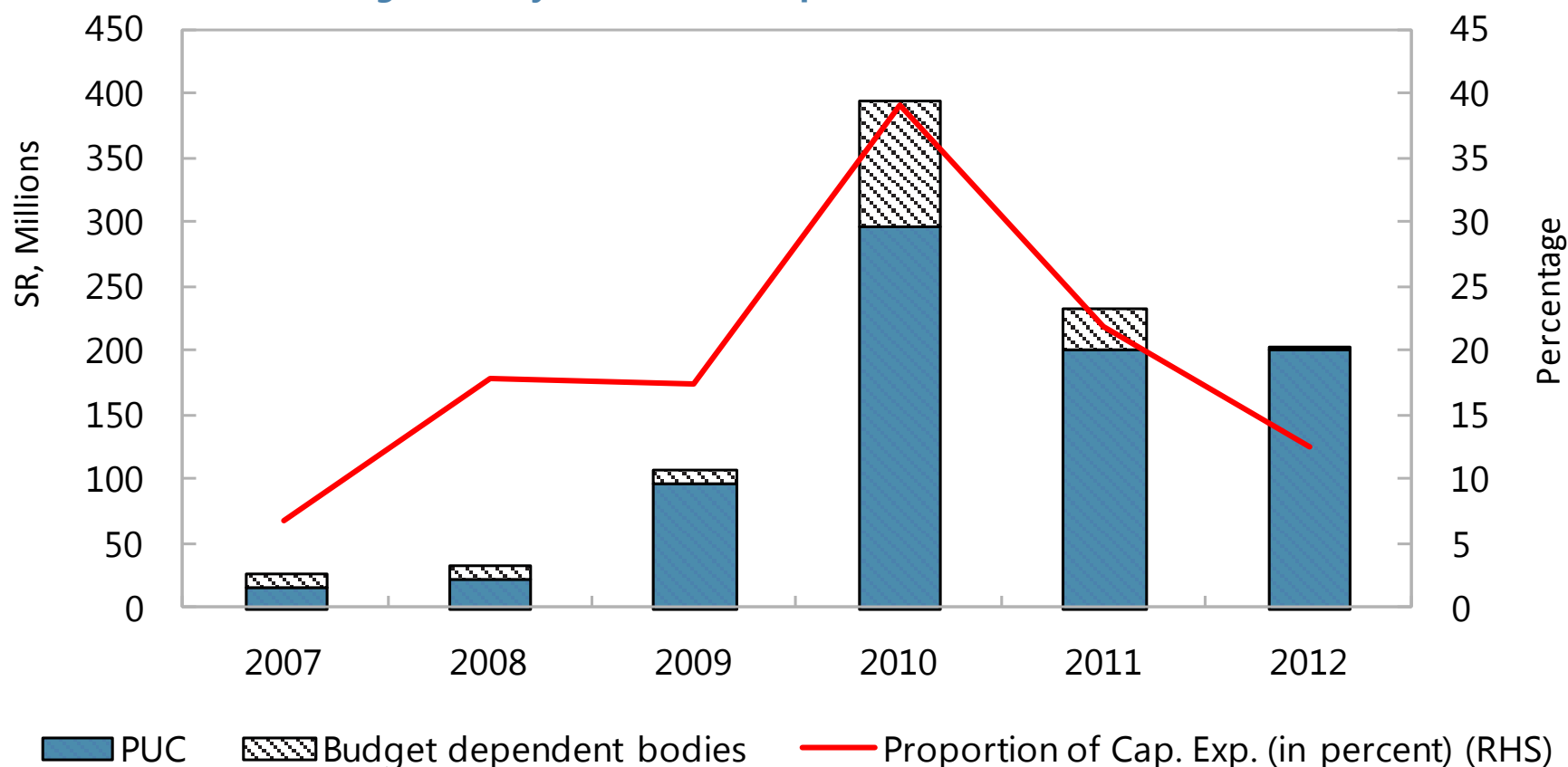
Dividends paid to the government averaged less than 2 percent of GDP in the 2008-13 period whereas subsidies and transfers received from the government have averaged over 4 percent of GDP annually over the same period.

Figure 3. Seychelles - Dividends & Total Transfers, 2008-2013



Government support also takes the form of development grants designed to cover investment needs (e.g., PUC) and various loans and restructurings.

Figure 4: Seychelles - Development Grants, 2007-2012



As of June 2013, total debt of SOEs accounted for over 10 percent of GDP (excluding debt of PUC).

- ❖ Government loan guarantees (explicit and implicit guarantees) pose contingent liabilities.
- ❖ Past loans taken by government: Air Seychelles (1.5 percent) and DBS (0.6 percent)

Table 1. Seychelles. Debt as of Quarter 3 of 2013

SOE	Currency	Amount in SR millions	As percent of GDP
SEYPEC	EUR, USD, SR	1125.8	7.4
PUC ¹		115.7	0.8
STC	SR	61.0	0.4
IDC	SR	7.5	0.0
HFC	SR	129.6	0.8
DBS	SR	260.8	1.7

Source: PEMC

¹ Loan disbursed in third quarter of 2013



PART 3

BROADER ASSESSMENT OF STATE-OWNED ENTERPRISES

Risk Assessment of SOEs in Seychelles (benchmarked against Good Practices scorecard):

- ❖ **Appropriate tariffs** – Tariffs on medium-term path to full economic cost recovery, but not there now.
- ❖ **Regulation** – Electricity (SEC) largely independent (room for improvement). No independent regulation for water.
- ❖ **Governance and Monitoring** – Two bodies SSI and PEMC but roles and capacity still under development, including for enforcement. Governance audits to be developed.
- ❖ **Performance contracts and incentives** – Air Seychelles through partial privatization and management contract. Incentives and contracts not fully established for other SOEs.
- ❖ **Sector strategy and legislation** - Water master plan established. For electricity not clear if a master plan has been discussed and approved nationally.
- ❖ **Targeted assistance** - Cross-subsidies in tariffs currently commonplace. Activities in which some SOEs have monopolies cross-subsidize contestable activities.
- ❖ **Corporatization with safeguards** - Some commercial SOEs are planning on expanding activities in competitive markets.



Going Forward - Policy Implications :

- ❖ **Fully implement recommendations of consultants on tariff adjustments according to best-practice.**
- ❖ **Enhance monitoring** by giving it the authority to identify and monitor contingent liabilities of SOEs on an ex-ante basis and to enforce any policy recommendations that are appropriate to tackle these risks.
- ❖ **Enhance transparency** in information dissemination about the financial state of public enterprises to third parties through publication of the financial results of SOEs in a website.
- ❖ **Consider risks of model** currently adopted by some commercial public enterprises seeking to expand activities.
- ❖ **Strengthen governance** - more separation of management and Boards? Governance audits.





Thank you.
(end of presentation)