IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-79900)

ON A

LOAN

IN THE AMOUNT OF (US$ 9.0 MILLION EQUIVALENT)

TO THE

REPUBLIC OF SEYCHELLES

FOR A

DEVELOPMENT POLICY OPERATION

October 04, 2011

Poverty Reduction and Economic Management Unit 1
AFCS4
Africa Region
CURRENCY EQUIVALENTS

Currency Unit = Seychelles Rupee
Seychelles Rupee 1.00 = US$ 0.083
US$ 1.00 = Seychelles Rupee 12.20
(Exchange Rate Effective November 1, 2011)

GOVERNMENT FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

DPL  Development Policy Loan
EFF  Extended Fund Facility
EC   European Commission
FIAS  Foreign Investment Advisory Service
GDP  Gross Domestic Product
GFS  Government Finance Statistics
IBRD  International Bank for Reconstruction and Development
IMF  International Monetary Fund
MEFP  Memorandum of Economic and Financial Policies
MDG  Millennium Development Goals
PD  Program Document
PEFA  Public Expenditure and Financial Accountability
PER  Public Expenditure Review
PFM  Public Financial Management
SLA  Seychelles Licensing Authority
SR  Seychelles Rupee
STC  Seychelles Trading Company Ltd.

Vice President:  Obiageli K. Ezekwesili
Country Director:  Haleh Bridi
Sector Manager:  John Panzer
Task Team Leader:  Tracey Lane
ICR Team Leader:  Sawkut Rojid
SEYCHELLES
DEVELOPMENT POLICY LOAN

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MAP
A. Basic Information

Country: Seychelles  Program Name: Development Policy Loan 2
Program ID: P120947  L/C/TF Number(s): IBRD-79900
ICR Date: 10/04/2011  ICR Type: Core ICR
Lending Instrument: DPL  Borrower: GOVERNMENT OF SEYCHELLES
Original Total Commitment: USD 9.00M  Disbursed Amount: USD 8.66M
Revised Amount: USD 9.00M

Implementing Agencies:
Cofinanciers and Other External Partners:

B. Key Dates

<table>
<thead>
<tr>
<th>Process</th>
<th>Date</th>
<th>Process</th>
<th>Original Date</th>
<th>Revised / Actual Date(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concept Review</td>
<td>06/21/2010</td>
<td>Effectiveness</td>
<td>12/14/2010</td>
<td>12/14/2010</td>
</tr>
<tr>
<td>Appraisal</td>
<td>09/13/2010</td>
<td>Restructuring(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approval</td>
<td>11/23/2010</td>
<td>Mid-term Review:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Closing</td>
<td>05/31/2011</td>
<td>05/31/2011</td>
</tr>
</tbody>
</table>

C. Ratings Summary

C.1 Performance Rating by ICR

Outcomes: Satisfactory
Risk to Development Outcome: Moderate
Bank Performance: Satisfactory
Borrower Performance: Highly satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Ratings</th>
<th>Borrower</th>
<th>Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality at Entry</td>
<td>Satisfactory</td>
<td>Government:</td>
<td>Highly satisfactory</td>
</tr>
<tr>
<td>Quality of Supervision</td>
<td>Satisfactory</td>
<td>Implementing Agency/Agencies:</td>
<td>Highly satisfactory</td>
</tr>
<tr>
<td>Overall Bank Performance:</td>
<td>Satisfactory</td>
<td>Overall Borrower Performance:</td>
<td>Highly satisfactory</td>
</tr>
</tbody>
</table>

C.3 Quality at Entry and Implementation Performance Indicators

<table>
<thead>
<tr>
<th>Implementation Performance</th>
<th>Indicators</th>
<th>QAG Assessments (if any)</th>
<th>Rating:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential Problem Program at any time</td>
<td>No</td>
<td>Quality at Entry (QEA):</td>
<td>None</td>
</tr>
</tbody>
</table>
(Yes/No):

Problem Program at any time (Yes/No): No
Quality of Supervision (QSA): None

DO rating before Closing/Inactive status:

D. Sector and Theme Codes

<table>
<thead>
<tr>
<th>Sector Code (as % of total Bank financing)</th>
<th>Original</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government administration</td>
<td>67</td>
<td>67</td>
</tr>
<tr>
<td>General industry and trade sector</td>
<td>33</td>
<td>33</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Theme Code (as % of total Bank financing)</th>
<th>Original</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative and civil service reform</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>Public expenditure, financial management and procurement</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Regulation and competition policy</td>
<td>33</td>
<td>33</td>
</tr>
</tbody>
</table>

E. Bank Staff

<table>
<thead>
<tr>
<th>Positions</th>
<th>At ICR</th>
<th>At Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice President:</td>
<td>Obiageli Katryn Ezekwesili</td>
<td>Obiageli Katryn Ezekwesili</td>
</tr>
<tr>
<td>Country Director:</td>
<td>Haleh Z. Bridi</td>
<td>Constantine Chikosi</td>
</tr>
<tr>
<td>Sector Manager:</td>
<td>John Panzer</td>
<td>John Panzer</td>
</tr>
<tr>
<td>Program Team Leader:</td>
<td>Sawkut Rojid</td>
<td>Tracey M. Lane</td>
</tr>
<tr>
<td>ICR Team Leader:</td>
<td>Sawkut Rojid</td>
<td>Sawkut Rojid</td>
</tr>
<tr>
<td>ICR Primary Author:</td>
<td>Sawkut Rojid</td>
<td>Sawkut Rojid</td>
</tr>
</tbody>
</table>

F. Results Framework Analysis

Program Development Objectives (from Project Appraisal Document)
The objective of the DPL was to assist the Republic of Seychelles to improve public sector effectiveness and the business environment.

Revised Program Development Objectives (if any, as approved by original approving authority)
Program Development Objectives were not revised
**Indicator 1:** The primary surplus remains positive and stabilizes

<table>
<thead>
<tr>
<th>Value (quantitative or Qualitative)</th>
<th>Baseline Value</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14.8 percent of GDP</td>
<td>7.40 percent of GDP</td>
<td>8.7 percent of GDP</td>
<td></td>
</tr>
</tbody>
</table>

**Date achieved:**
- 12/31/2009
- 12/31/2010
- 12/31/2010

**Comments (incl. % achievement):** Achieved. The primary surplus remained positive. It stood at 8.7% of GDP (revised figure).

**Indicator 2:** Comprehensiveness of information included in budget documentation improved

<table>
<thead>
<tr>
<th>Value (quantitative or Qualitative)</th>
<th>Baseline Value</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>D in question P1-6 of PEFA</td>
<td></td>
<td>C or better in question P1-6 of PEFA</td>
<td>A</td>
<td></td>
</tr>
</tbody>
</table>

**Date achieved:**
- 12/31/2008
- 05/31/2011
- 05/31/2011

**Comments (incl. % achievement):** Achieved. The budget documentation as submitted to legislature for FY2011 included 7 out of the 8 components required under P1-6.

**Indicator 3:** Deviation between original appropriated budget and aggregate actual expenditure falls

<table>
<thead>
<tr>
<th>Value (quantitative or Qualitative)</th>
<th>Baseline Value</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 percent</td>
<td></td>
<td>10 percent</td>
<td>5 percent</td>
<td></td>
</tr>
</tbody>
</table>

**Date achieved:**
- 12/31/2009
- 12/31/2010
- 12/31/2010

**Comments (incl. % achievement):** Achieved. The Government exceeded expectations in this indicator.

**Indicator 4:** The number of top-level staff that are integrated on the wage grid rises

<table>
<thead>
<tr>
<th>Value (quantitative or Qualitative)</th>
<th>Baseline Value</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>59</td>
<td></td>
<td>139</td>
<td>366</td>
<td></td>
</tr>
</tbody>
</table>

**Date achieved:**
- 08/31/2010
- 08/31/2011
- 08/31/2011

**Comments (incl. % achievement):** Achieved. The Government exceeded expectations in this indicator. The number of top-level staff per category is as follows: Category SG9: 178; Category SG10: 69; Category SG11: 56; and Category SG12: 63.

**Indicator 5:** Actual payments to Public Enterprises (as defined in the Public Enterprise Act) in 2010 are at or below budgeted amounts, and loans made in 2009 are repaid as due in 2010

<table>
<thead>
<tr>
<th>Value (quantitative or Qualitative)</th>
<th>Baseline Value</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Comments (incl. % achievement):**
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Value (quantitative or Qualitative)</th>
<th>Date achieved</th>
<th>Comments (incl. % achievement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 6</td>
<td>Revenues to the government from the commercial operations of L#Union Estate increase</td>
<td>SR 0 million</td>
<td>12/31/2009</td>
<td>Achieved. Revenue of 2 million was not paid to Government. In fact the Government has created a Trust Fund for projects at La Digue Island and the profits of the L#union Estate will be used to fund these projects.</td>
</tr>
<tr>
<td>Indicator 7</td>
<td>Time required to obtain or renew a license declines</td>
<td>68 percent of all license applications receiving a response within 14 days</td>
<td>09/30/2010</td>
<td>Achieved. The Government exceeded expectations in this indicator</td>
</tr>
<tr>
<td>Indicator 8</td>
<td>The number of economic activities legally requiring approval from the Seychelles Licensing Authority to start operations falls</td>
<td>180</td>
<td>09/30/2010</td>
<td>Achieved. The Licensing Act 2010 eliminated all unnecessary licenses.</td>
</tr>
<tr>
<td>Indicator 9</td>
<td>The number of economic investments legally requiring Seychelles Investment</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Bureau approval to start operations falls

<table>
<thead>
<tr>
<th>Value (quantitative or Qualitative)</th>
<th>26</th>
<th>0</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date achieved</td>
<td>09/30/2010</td>
<td>05/31/2011</td>
<td>05/31/2011</td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td>Achieved. Approval for operations to investment indeed fell in number. However, the target of zero was not attained, but will soon be attained.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(b) Intermediate Outcome Indicator(s)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline Value</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
</table>

G. Ratings of Program Performance in ISRs

<table>
<thead>
<tr>
<th>No.</th>
<th>Date ISR Archived</th>
<th>DO</th>
<th>IP</th>
<th>Actual Disbursements (USD millions)</th>
</tr>
</thead>
</table>

H. Restructuring (if any)
Not Applicable
1. Program Context, Development Objectives and Design
(This section is descriptive, taken from other documents, e.g., Program Document/ISR, not evaluative):

1. This ICR is prepared following the completion of the second DPL in Seychelles. This is a stand-alone, single tranche operation of US$9 million. This operation was designed as a stand-alone operation, to be consistent with the approach in the Bank’s Interim Strategy Note FY10-11 (ISN), and was designed to pave the way for a programmatic DPO in the future, depending on the Bank’s program in the new Country Partnership Strategy.

1.1 Context at Appraisal
(Brief summary of country, macroeconomic and structural/sector background, rationale for Bank assistance)

2. The Republic of Seychelles is a small and highly vulnerable middle income country. It has a population of around 90,000 and a per capita income of around US$ 9,028 (2009). The economy is predominantly service based. The two main economic sectors are tourism and fisheries, which together account for 30 percent of GDP and around 37 percent of employment. The financial and professional services sector account for 22.5 percent of GDP, manufacturing sector is 8 percent of GDP and a modest construction sector of 5 percent of GDP. Seychelles comprises 115 tropical islands spread over 1.37 million km² in the Indian Ocean. Habitation is on 10 of the islands, and around 90 percent of the population lives on the largest island, Mahé. The limited land, capital, and human resources restrict Seychelles’ ability to benefit from economies of scale in production and economic diversification. External trade accounts for 150 percent of GDP, and Seychelles relies on imports for oil, food, almost all raw materials, products, and specialized services. Concentration of economic activities and openness render the economy vulnerable to global economic shocks and terms-of-trade shocks.

3. The Seychelles has quality-of-life indicators comparable to European levels. It was ranked 57th out of 182 countries in the United Nation’s 2009 Human Development Index (the second highest African country), and has met the target for most of the eight Millennium Development Goals (MDGs). The primary net enrollment rate is 99 percent while the secondary net enrollment rate is 94 percent. However, despite having achieved universal education, there are critical issues in that sector as well. Learning outcomes have been disappointing, and skill gaps are increasingly visible as Seychelles further modernizes its economy. There is significant gender inequality, with boys underperforming girls, in learning achievements in mathematics and reading. Seychelles has better health outcome indicators than many European levels. The country’s life expectancy is 73 years, equal to that of Mauritius. However, challenges remain in that
sector. Contraceptive use remains low, at less than 50 percent. In fact, the use of modern contraceptive methods among women aged 15-49 declined from over 60 percent in 1996 to 36 percent in 2009.

4. **The Seychelles enjoys a stable political system and is a relatively young democracy.** A year after independence in 1976, a coup d’état established a one-party socialist state. In December 1991, President René of the Seychelles People’s Progressive Front announced a shift to multiparty pluralism. Seven presidential elections have been held since then and in the last Presidential election (May 2011), the incumbent president (James Michel) was reelected for another five-year term with a comfortable majority (55 percent of votes). Parliamentary election was held in September 2011, and the ruling party won all seats following the boycott of the main opposition party. With his new mandate, the President has renewed Seychelles’ commitment to continuing the basic direction of structural reforms, consolidating the economy, boosting productivity, and encouraging innovation, while giving special attention to the social sector.

5. **The Seychelles’ post-independence state-led development model, with its extremely generous welfare system built during the 1980s and 1990s, proved financially unsustainable, and by 2008, had to confront a debt crisis.** Under the early economic model, the public sector owned most of the corporations and productive resources and was heavily involved in economic activities, funded by borrowing. The state’s welfare system was extensive with elements of discretion and political interference. This model led to unsustainable financial and external imbalances. The global shock in 2007-08 led to depleted stocks of foreign exchange and was the catalyst for the debt crisis. The authorities sought the support of the IMF to initiate debt restructuring discussions with the Paris Club and other creditors, and launched a comprehensive stabilization reform program. A two year Stand-By Arrangement was negotiated with the IMF. The Bank also reengaged in Seychelles and supported the reform program with knowledge products and two DPOs (this ICR assesses the second DPO).

6. **Macro-economic stability has been achieved through the stabilization program.** The adjustment program aimed at liberalizing the exchange rate regime, consolidating fiscal policy and implementing sound monetary policy focused on maintaining low inflation. At appraisal, the macroeconomic framework was robust, as evidenced by low and stable inflation rates, stable exchange rate, growing international reserves, improved debt sustainability position, and good fiscal performance in 2010. The outcomes of the first DPL delivered in 2009, with the objective of supporting the Seychelles establish a stable macroeconomic environment and sustainable fiscal framework, was rated satisfactory by IEG. The Government met, and even exceeded the IMF program’s Extended Fund Facility (EFF) performance targets, at appraisal. The May 2010 IMF first review of the EFF concluded that the macroeconomic performance under
the program has been good, and that the economy has shown remarkable resilience to the domestic debt crisis in 2008 and the global financial crisis in 2009. The structural benchmarks of the EFF focus on: (a) improving public financial management; (b) reforming the tax system; (c) redefining the role and raising the performance of public enterprises; and (d) bolstering the financial system.

7. **The Seychelles emerged from a period of debt distress to debt sustainability with improved credit-worthiness.** Significant progress was achieved with debt restructuring. Agreements on approximately 88 percent of the eligible debt stock were secured at time of appraisal. Exceptional debt treatment under the Evian approach was granted by the Paris Club creditors in two tranches (July 2009 and July 2010) reducing the debt stock by 45 percent in nominal terms, and rescheduling the remaining debts. Deals with private creditors on equivalent terms to the Paris Club deal was agreed in January 2010 and several non Paris Club bilateral deals were concluded. Total public debt stocks have almost halved from a high of 136.7 percent of GDP in 2008 to an estimated 82.4 percent of GDP in 2010, and external debt stock has fallen from 82.8 percent of GDP to approximately 53.6 percent of GDP over the same period.

8. **Strong fiscal adjustment showed quite impressive results.** Primary surplus stood at 14.8 and 9.4 percent of GDP in 2009 and 2010. The reform program increased discipline in fiscal expenditure, broadened and simplified tax regime, and improved revenue administration. Structural reforms on the expenditure side included downsizing of the civil service in 2009 which resulted in the overall wage bill declining from 10.2 percent of GDP in 2007. The policy on subsidies was reviewed. Universal subsidies from Central Government to public entities were eliminated and replaced by a targeted safety net aimed to protect the most vulnerable households. Public financial management practices were improved, establishing binding ceilings and limiting intra-year rises in spending. A treasury single account was introduced to improve budget execution rates. Revenues exceeded original projections by 18 percent in 2010. The income tax base was broadened in 2010 with the introduction of a Personal Income Tax, which replaced social security contributions and removed special, sector-specific tax treatments. Revenue for 2010 was revised upwards by 1.1 percent of GDP.

9. **The economy successfully weathered the shocks of the global financial crisis.** Rebound in tourist arrivals and exceptionally high foreign direct investment (FDI) largely contributed to positive outcomes in 2009 and 2010. The economy grew at 6.2 percent in 2010, better than the level forecast in mid-2010. Tourism saw arrivals increased by 11
percent in 2010 compared to 2009. Monetary policy targeted reserves throughout 2010 and by the end of that year, the country’s net international reserves stood at US$182 million, bolstered by financial support from international organizations for the reform program.

10. The Bank’s assistance supporting reforms to consolidate achievements was crucial. Through DPL1, the Bank supported reforms which addressed fiscal policy deficiencies, public financial management, public administration and civil service reforms, public enterprise corporate governance, privatization of state owned enterprises, and social welfare programs. The outcome of DPL1 was rated as satisfactory by IEG. For enduring results, the Government continued the reform process with the support of this operation which builds on the achievements of DPL1, as shown in table 1.

<table>
<thead>
<tr>
<th>Areas of support common to both DPLs</th>
<th>Areas of support under DPL1</th>
<th>Areas of support under DPL2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Financial Management</td>
<td>The adoption of the standard Government Finance Statistics (GFS) classification for preparing and monitoring budget performance</td>
<td>The preparation of the Budget Strategy and Outlook Paper for the year 2011 which provided a medium-term budget framework consistent with the macroeconomic forecasts</td>
</tr>
<tr>
<td>Public Administration and Civil Service</td>
<td>Reducing excess staff, including the voluntary departure and early retirement schemes and the contracting out of non-core government functions</td>
<td>Contracting out process been expanded to cover all budget dependent institutions and non-core public functions</td>
</tr>
<tr>
<td>Public Enterprise</td>
<td>The restructuring of the Seychelles Marketing Board into 16 commercial units and the subsequent privatization of eight units and the liquidation six non-viable units; The elimination of all subsidies to the Seychelles Trading Corporation, and a sharp decline overall in subsidies to public enterprises</td>
<td>The establishment of the Public Enterprise Monitoring Division (PEMD), and staffing this division to oversee the implementation of the Public Enterprise Act; The restructuring of L’Union Estate to lease the commercial activities to private operators</td>
</tr>
<tr>
<td>Social Protection</td>
<td>The introduction of a new means-tested social welfare policy and the establishment of the Social Welfare Agency</td>
<td>----</td>
</tr>
<tr>
<td>Business Environment</td>
<td>--------</td>
<td>Approval of a revised Investment Bill to provide the framework for the promotion, regulation and protection of investors and investments; Enactment of the Licensing Act, 2010 to set out transparent procedures for the issuance and renewal of all licenses</td>
</tr>
</tbody>
</table>

1 The tourism sector was heavily affected by the global crisis in the second half of 2008. Tourism revenues declined by almost 30 percent in the third quarter of 2008 compared to the same period of 2007.
11. In line with the Seychelles ISN FY10-11, this operation builds on existing and new knowledge and provided financial support. The Bank initiated preparation of a second Public Expenditure Review (PER2) in 2010 to provide evidence based advisory services for the second operation. PER2 focused on measures to create a more efficient and affordable public sector, improve governance and oversight of the public enterprise sector, and improve labor market flexibility to absorb employees being retrenched as a result of the civil service reforms. The Bank also offered advice on establishing a means-tested social welfare system, and promoting private sector development. In addition, the Bank was able to offer financial support through this operation to finance the government’s budget, facilitating sound fiscal management. The DPL was a key component of the Bank’s Interim Strategy Note for Seychelles FY10-11, which was discussed by the World Bank’s Board of Directors on November 5, 2009. The Bank’s strategy was to support the government’s macroeconomic stabilization program in the short run and to initiate the structural reform process in line with the Seychelles longer-term economic recovery strategy. The DPL was fully consistent with this objective.

1.2 Original Program Development Objectives (PDO) and Key Indicators (as approved)

12. The objective of the DPL, as stated in the Project Document (PD) was to assist the Republic of Seychelles to improve public sector effectiveness and business environment. Measures to improve public sector effectiveness included the strengthening of budget management, creation of a more efficient civil service and public administration, reducing the role of the state in commercial areas and improving public corporate governance. Removal of administrative barriers to doing business would help improving the business environment.

13. The key performance indicators, as outlined in the program summary of the PD, are:

- The primary surplus remains positive and stabilizes
- Comprehensiveness of information included in budget documentation improved
- Deviation between original appropriated budget and aggregate actual expenditure falls
- The number of top-level staff that are integrated on the wage grid rises
- Actual payments to Public Enterprises (as defined in the Public Enterprise Act) in 2010 are at or below budgeted amounts, and loans made in 2009 are repaid as due in 2010
- Revenues to the government from the commercial operations of L#Union Estate increase
- Time required to obtain or renew a license declines
• The number of economic activities legally requiring approval from the Seychelles Licensing Authority to start operations falls
• The number of economic investments legally requiring Seychelles Investment Bureau approval to start operations falls

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and Reasons/Justification

14. The objectives were not revised.

1.4 Original Policy Areas Supported by the Program (as approved)

15. The operation supported civil service and public administration reforms, public financial management (PFM) reforms, public enterprise corporate governance reforms and business environment reforms.

16. To consolidate the gains achieved in the area PFM reforms, this operation supported the preparation of the Budget Strategy and Outlook Paper for the year 2011 which provided a medium-term budget framework consistent with the macroeconomic forecasts. The government also introduced a policy for re-classifying the broader public sector institutions according to their core functions and budget dependency in July 2010. The new classification ensured a consistent budgetary treatment and human resource rules and guidelines (including public sector pay policies) across budget dependent agencies. The Government continued implementation of public administration reforms, based on the Public Administration Reform Memorandum adopted in August 2009. Under this operation, the contracting out process been expanded to cover all budget dependent institutions and non-core public functions (school cleaning, and others). This operation supported the implementation of a simplified wage grid which eliminated the complex allowances system that was used to supplement low monthly salaries, thereby ensuring a significant improvement in transparency and fiscal management.

17. Under the public enterprise reform component the focus was on strengthening oversight of public enterprises to improve accountability and performance. This operation supported the establishment of the Public Enterprise Monitoring Division (PEMD), and staffing this division to oversee the implementation of the Public Enterprise Act. The division ensured that public enterprises have submitted their annual financial reports for presentation to the National Assembly, as required by the new act. The division introduced new corporate governance guidelines and developed a training course to improve the effectiveness of the Boards of Directors. The trainings are run in collaboration with the Seychelles Institute of Management. As part of the process of withdrawing from commercial activities, the authorities initiated the restructuring of L’Union Estate to lease the commercial activities to private operators.
The L'Union Estate was a fully-owned government company with a range of commercial activities including running a farm, and renting vacation chalets. A management contract with a private operator was signed in September 2010.

18. **Under the business environment component, the government embarked on several reforms to reduce the administrative barriers to doing business.** The Licensing Act, 2010 was enacted to set out transparent procedures for the issuance and renewal of all licenses. Most professional activities henceforth require just simple registration. The requirements for licensing in particular economic sectors are henceforth handled directly by the relevant authority. Oversight standards will be maintained by relevant professional bodies, technical ministries. This new legislation also includes an appeals procedure to provide fair and adequate recourse to applicants in the event of any adverse decisions. A revised Investment Bill was approved to provide the framework for the promotion, regulation and protection of investors and investments. The government has eliminated activities defined as “strategic,” “restricted,” or “sensitive” areas for foreigners. Immigration Decree was issued to eliminating the differential fee for permits issued outside of company quotas, and harmonizing all fees at the lowest rate as a first step towards reforming the work permit system to improve the timeliness and transparency.

1.5 Revised Policy Areas (if applicable)

19. The policy areas were not revised

1.6 Other significant changes
*(In design, scope and scale, implementation arrangements and schedule, and funding allocations)*

20. None

2. Key Factors Affecting Implementation and Outcomes

2.1 Program Performance *(supported by a table derived from a policy matrix)*

21. This operation was a single tranche operation which was disbursed on effectiveness. It supported the implementation of the second phase of the Seychelles Government’s comprehensive structural reform program. It focused on implementation of reforms to improve public sector effectiveness and to improve the business climate. Within these two board areas, the actions of this operation aimed to (i) strengthen budget management, (ii) create a more efficient civil service, (iii) reduce the role of the state in commercial areas of the economy, (iv) improve public corporate governance, and (v) remove administrative barriers to doing business. This operation contained six prior
actions in line with best practice. All the prior actions for this operation were fully met, as presented in table 2. The operation contained nine monitoring indicators, of which eight have been achieved, and one partly achieved, by the closing date of this operation, as shown in table 3. In fact, in four of the indicators (of which three related to strengthening of budget management), the actual results exceed the expected outcomes. These are marked by an ‘*’ in table 3.

Table 2: Program Prior Actions

<table>
<thead>
<tr>
<th>Operation objectives</th>
<th>Policy objectives</th>
<th>Policy action</th>
<th>Status</th>
</tr>
</thead>
</table>
| To improve public sector effectiveness | Strengthen budget management. | ➢ The Borrower has secured Cabinet approval for the Budget Strategy and Outlook Paper, 2011 indicating 2011 budget ceilings, consistent with the medium term macroeconomic model and fiscal projections.  
➤ The Borrower has pursuant to the Memorandum of Action: Public Administration and Public Sector reform Program, adopted the Reclassifying Public Bodies in Seychelles and Introducing a Standard Approach policy, categorizing public entities as regulatory, essential service-delivery or non-government service-delivery and defining new financing and accountability standards and mechanisms relative to such classifications. | Fulfilled |
| Create a more efficient civil service and public administration. | The Borrower has adopted a new wage grading structure to ensure consistency and transparency in the grading of staff, alignment of remuneration to skills and levels of responsibility and the retention of skilled workforce in the professional cadres of the public sector. | Fulfilled |
| Improve public enterprise corporate governance | The Borrower has pursuant to the Public Enterprise Monitoring Act, 2009 established and appointed staff of the Public Enterprise Monitoring Division of the Ministry of Finance, to oversee the implementation of the Act. | Fulfilled |
| To improve the business environment | Remove administrative barriers to doing business. | ➢ The Borrower has enacted the Licensing Act, 2010, providing for transparent procedures for the issuance and renewal of licenses, eliminating the number of commercial activities requiring ex ante licenses to operate, and streamlining the licensing procedures.  
➤ The Borrower has secured Cabinet approval of the Investment Bill, 2010 providing the framework for the promotion, regulation and protection of investors and investments, and establishing the Seychelles Investment Board to facilitate and promote investments. | Fulfilled |
Table 3: Program Monitoring Indicators

<table>
<thead>
<tr>
<th>Operation objectives</th>
<th>Policy objectives</th>
<th>Monitoring indicators</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>To improve public sector effectiveness</td>
<td>Strengthen budget management.</td>
<td>➢ The primary surplus remains positive and stabilizes</td>
<td>Achieved *</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Comprehensiveness of information included in budget documentation improved</td>
<td>Achieved *</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Deviation between original appropriated budget and aggregate actual expenditure falls</td>
<td>Achieved *</td>
</tr>
<tr>
<td>Create a more efficient civil service and public administration.</td>
<td></td>
<td>➢ The number of top-level staff that are integrated on the wage grid rises</td>
<td>Achieved *</td>
</tr>
<tr>
<td>Improve public enterprise corporate governance</td>
<td></td>
<td>➢ Actual payments to Public Enterprises (as defined in the Public Enterprise Act) in 2010 are at or below budgeted amounts, and loans made in 2009 are repaid as due in 2010</td>
<td>Achieved</td>
</tr>
<tr>
<td>Reduce the role of the state in commercial areas of the economy</td>
<td></td>
<td>➢ Revenues to the government from the commercial operations of L#Union Estate increase</td>
<td>Not Achieved</td>
</tr>
<tr>
<td>To improve the business environment</td>
<td>Remove administrative barriers to doing business.</td>
<td>➢ Time required to obtain or renew a license declines</td>
<td>Achieved</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ The number of economic activities legally requiring approval from the Seychelles Licensing Authority to start operations falls</td>
<td>Achieved</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ The number of economic investments legally requiring Seychelles Investment Bureau approval to start operations falls</td>
<td>Achieved</td>
</tr>
</tbody>
</table>

2.2 Major Factors Affecting Implementation:

22. Several factors contributed to the successful implementation and outcome of the operation. These factors are summarized into the following four sub-headings: (i) adequacy of Government’s commitment, (ii) soundness of the background analysis, (iii) assessment of the operation’s design, and (iv) risks identified at appraisal stage.

- Adequacy of Government’s commitment:

23. Commitment to economic reform was expressed at the highest level, by the President in his State of the Nation speech (February 2010) and the President’s National
Day speech (June 2010). Government’s reform priorities were expressed in the 2010 budget speech by the Minister of Finance (November 2009) as well as in the MEFP and Letter of Development Policy to DPL 2. The Government’s objectives were to consolidate macroeconomic stability; complete debt restructuring and achieve external sustainability, improve economic efficiency and raise growth through the implementation of a second generation of structural reforms. This operation was fully aligned with the Government’s reform priorities, and build on the previous operation following an incremental sequencing path to push the reforms deeper. The drive for reform came from the Ministry of Finance and was led by the Vice President and Minister of Finance. Therefore the reform agenda had the political backing at the highest level. The team of reformers showed strong capacity and commitment to attain the objectives set out.

- **Soundness of the background analysis:**

24. **The breadth and depth of knowledge base underpinned the policy areas supported by this operation.** Analytical works undertaken by the Bank and other partners helped to undertake evidence based policy dialogue with the authorities during the design of the operation, and the knowledge was used to shape the operation for greater impact. The analytical pieces produced prior to or during the design of the operation were guided by the reform priorities of the Government. The core analytical works that provided the underpinnings for this operation are the following:

   a. The Public Expenditure Review by the Bank in 2009 highlighted priority policy measures for public sector wage structure reforms and public expenditure management.

   b. The Public Expenditure Review 2 by the Bank in 2010 provided technical advice on how to improve governance of the public enterprise sector.

   c. The Strategy for Strengthening Budget Management in 2008 and the work on Further Steps towards Sound Fiscal Management in 2009 by the IMF informed the design of the component on improving public financial management.


   e. The Administrative Barriers to private Sector Development and Business Environment in the Seychelles by the Bank in 2009, the Review of the Policy, Regulatory and Administrative Environment for Investment in 2004 by the World Bank Group’s Foreign Investment Advisory Service (FIAS) and the unpublished World Bank’s Development Policy Review in 2005 were helpful in the design for the reform program to improve the business climate.
Taken together, these studies provided a strong analytical background for the design of the operation.

- **Assessment of the operation’s design:**

25. **This operation supported the continued progress and consolidation of reforms that started in 2009** and that was supported by the first DPL which was approved by the Board in November 2009. This operation, like the first one was well focused. It involved a few sectors and a few institutions. Although focused on a few areas, the complexity of policy areas supported by the operation was different and required different approaches of intervention. While reforms in public financial management were part of an on-going program, reforms to reduce the administrative barriers to doing business were new and necessitated change in the mindset of the agencies involved. While strengthening oversight of public enterprises to improve accountability and performance was welcomed and supported by the civil society, continued public administration reforms were politically sensitive. Overall, the operation was quite complex and required constant dialogue with the implementing agencies. The Bank also provided support through technical assistance in areas where capacity was limited. For example, the Bank provided assistance to the PEMD in drafting the Board Appointment and Remuneration Policies. Identifying and sequencing the building blocks for the reform agenda and building consensus in the process, was important. The process benefited from the fact that only a few partners were engaged in the country. Coordination among the partners was strong. All partners aligned their programs to the priority needs of the country, and were guided by the existing knowledge base. The design of the operation continues to be relevant in the current context. Capacity is still limited and the reform agenda should be focused, involving few ministries/agencies.

- **Risks identified at appraisal stage:**

26. **At appraisal stage, risks that could impact on the implementation of the reform program were identified and qualified into two categories: moderate and substantial.** The moderate risks were: (a) continued global economic recession leading to a fall in tourist arrivals and/or tourism revenues, (b) social and political tensions arising from vulnerable groups being adversely affected by the reform program, (c) unplanned emergency expenditure priorities emerging from the decline in capital investment in recent years; (d) increased piracy attacks in Seychelles waters reducing tourism and fishing activities; and (e) reduced ownership in the run up to 2011 elections and policy slippage. The risks rated as substantial were: (f) fiduciary risks, (g) lack of capacity to implement the reform program, and (h) risks of natural disasters. All the risks that were identified were relevant at the time of the design of the operation and the mitigation measures taken were adequate. The global economic environment remained uncertain
and global recovery prolonged and therefore the economy remained vulnerable to the global economic uncertainty. Also, the specificity and geographic position of the economy made it (and still makes it) vulnerable to climate change and piracy attacks. Since Presidential election was to take place at a time just after the economy was affected by the crisis, risks to policy slippage were high. Although, none of the risks identified at appraisal stage occurred during the implementation period, the country faced a serious drought just after the closing date of the operation and this had a significant fiscal impact – the government spent SR 100m on the purchase of desalination plants. These plants are extremely power-hungry, and have risen by over 10% fuel used for electricity generation on Mahe.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization:

27. The Program Development Objectives were clear and the aims of the different components were well described. These helped in formulating appropriate M&E indicators to follow up on the achievements of the objectives.

- **M&E Design:**

28. The Program Document for the operation included a policy matrix which linked policy actions to medium term expected outcomes (by 2012) and intermediate monitoring indicators, for each of the components. This matrix was prepared jointly by the Government and the Bank. Eight out of the nine monitoring indicators were output indicators. They were carefully crafted to be either directly linked to the prior actions or which would be a result following implementation of the prior actions. The remaining indicator was an outcome indicator which cannot be directly associated only with this operation. The indicator is ‘primary surplus remains positive and stabilizes’. The indicators identified were adequate to monitor progress toward the PDO. Data required for these monitoring indicators were the authorities’ own data and did not require DPL-specific survey.

- **M&E Implementation:**

29. The data used for M&E purposes were all official data collected from Government agencies (Ministry of Finance, Seychelles Licensing Authority, Seychelles Investment Bureau and the Department of Public Administration). Data from these institutions are highly reliable and very up to date. Data on PEFA assessment was obtained from the 2011 PEFA report. During the ICR process, gathering the monitoring indicators was not a challenge. The agencies already had the data and monitoring became a norm for some of these agencies.

- **M&E Utilization:**
30. There is no clear indication that the monitoring indicators were evaluated and used to inform further decision making and resource allocation during the period of the operation. However, agencies have mentioned that through the two DPOs, they have been exposed to the culture of monitoring and evaluation and understand its importance. The Minister of Finance explicitly mentioned that more fundamental economic and social changes is required to ensure fiscal sustainability and growth for the country, but this should be done through programs like the DPO from the Bank and EEF from the Fund because such programs provide the ability to monitor and measure success or failure, thereby providing useful information for decision making.

2.4 Expected Next Phase/Follow-up Operation (if any):

31. Following the successful completion the two DPOs, the Government has requested a programmatic series for the next three years. The new series will help deepen the reforms already underway. At this stage, preliminary discussions points out that the focus will be on: (i) strengthening public financial management, (ii) improve investment climate, (iii) strengthen social safety nets and (iv) improve governance and efficiency of selected state owned enterprises.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation
(To current country and global priorities, and Bank assistance strategy)

Overall rating: Satisfactory

32. This program is rated satisfactory as its objectives, design and implementation are consistent with Seychelles current development priorities, and its objectives were met, and in some cases exceeding expectations. As the results framework shows, significant results were achieved by the GOS in full and in some cases exceeded. In particular, (i) the ability of the government to deliver a primary surplus of 8.7 percent of GDP (above the target 7.4 percent) in fiscal year 2010 is impressive since the debt restructuring deals had largely been concluded the previous year, (ii) the movement from a PEFA P1-6 rating of a D to an A in 3 years is equally impressive, as is (iii) the fall in budget deviation rates from 16 percent to 5 percent - again over the target of 10 percent, and (iv) increase in the number of top-level staff that are integrated on the wage grid was 366 compared to the expected 139. The program development objectives, namely to improve public sector effectiveness and the business environment are as relevant currently as they were at the time of approval of the operation. These areas are
reflected in the draft Country Partnership Strategy 2012-2015\(^2\) and are also priority areas of reforms in the new request for a programmatic DPO series from the Government highlighting these two areas as areas of reform priorities.

33. **Objectives**: The operation’s objectives have been achieved and remain relevant in the current country context. The objectives set in this operation are consistent with the objectives of the Seychelles’s reform program and with the Bank’s Interim Strategy Note FY10-11. Both these documents recognize the importance of sound business environment to attract investment and boost private sector development, and an effective public sector to sustain social outcomes. These objectives continue to be relevant in the medium term. While business environment has improved, yet there are challenges ahead, as reflected by the Doing Business Indicators 2012 – the country is ranked at 103 out of the 183 countries rated, an improvement from 109 in 2011. Figure 1 shows the sub-categories, highlighting that improving business environment is still largely relevant. Improving public sector efficiency continues to be of high relevance for Seychelles in the current context, despite improvements have been achieved, as reflected by two indicators in the World Governance Indicators 2010 – Government effectiveness and regulatory quality (figure 2). In regulatory quality, Seychelles is ranked in the bottom third of countries worldwide while it is ranked in the bottom two thirds in terms of government effectiveness. In both these indicators, Seychelles have experienced improvements over the last few years.

![Figure 1: Seychelles ranking in Doing Business topics 2012](image)

*Source: Doing Business database

![Figure 2: Seychelles World Governance Indicators 2010](image)

\(^2\) The Country Partnership Strategy is currently under preparation and may go to Board in Q3 FY12
34. **Design:** The project design was consistent with the project objectives and such design remains relevant in the current context. Seychelles is a small economy with small pool of experts and lack of expertise in a few areas. There is also a lack of knowledge in a number of areas which makes decisions about reforms quite difficult. The program was well designed. It included a small number of reforms based on Seychelles-specific analysis in areas of reform priorities. The program was developed in close coordination with the IMF to ensure that it reflected the expertise of both institutions and complemented each other’s program for the benefit of the country. Taking into consideration the capacity constraints that the country face, this operation used incremental approach in dialogue and building capacity as the operation was moving ahead in the specific areas of reforms, namely PFM, business environment, and public sector efficiency. The operation concentrated on strengthening budget management, adopting a new wage grid, building institutional structure to improve governance in SOEs, creating transparent procedures for business and creating the legal framework for promoting, regulating and protecting investors and investments. Going forward, such a design will remain highly relevant as the country still lacks capacity and knowledge to embark on too many reforms at the same time. On capacity constraints, it should be noted that the authorities are upgrading skills in some areas (economic forecasting and PFM, for example) at a rapid pace, with the support of the IMF and other development partners.

35. **Implementation:** The implementation arrangements were relevant and continue to be relevant in the current context. The driving force for reforms came from the Ministry of Finance. Sector ministries and agencies in the country highlighted that this role should continue to be played by the Ministry of Finance as this ministry has the capacity of looking at the macro perspective and effectively plays the role of policy coordination within the Government. While the Ministry of Finance should continue to lead the reform process, the team of reformers may have to be expanded to include reform champions.
from sector ministries, as the reforms that the country will undertake in the medium term will be more at sector level and ownership may need to be at the sector level.

3.2 Achievement of Program Development Objectives

(Including brief discussion of causal linkages between policy actions supported by operations and outcomes)

Overall rating: Satisfactory

36. The operation has achieved its development objectives of improving public sector effectiveness and the business environment. The indicators measuring achievement with respect to these two overall objectives, as well as specific objectives within these two overall objectives are discussed below.

Objective 1: Improving public sector effectiveness - Satisfactory

37. In support to improving public sector effectiveness, this operation supported four prior actions and monitored achievement by six indicators. The reform areas comprised of (i) strengthening budget management, (ii) creating a more efficient civil service and public administration, (iii) improving public enterprise corporate governance, and (iv) reducing the role of the state in commercial areas of the economy. All the prior actions were met and most of the monitoring indicators were achieved.

- Strengthening budget management – Highly Satisfactory

38. This is the area where reforms have been the most successful, and is the result of longer engagement through DPL1, thorough TA and ESW by the Bank and the IMF, where political commitment was very strong in light of the huge fiscal correction required for debt sustainability, and where the capacity of reformers was the highest. The government has remained committed to reforms in this area and has requested further support in this area in the next operations. In this operation, the Government has exceeded all the targets in this area, and has implemented further reforms throughout 2011 even when the DPO was already presented to the Board in 2010.

39. This operation supported strengthening the credibility of the annual budget by ensuring that the expenditure framework is consistent with the macroeconomic framework, by documenting the revenue forecasts, projections of the macroeconomic indicators and the principal expenditure focus for 2011 budget. This prior action for this operation was the preparation of this document (Budget Strategy and Outlook Paper, 2011) and its approval by Cabinet. This approach has been adopted by the Government and the same principle of linking expenditure framework with macroeconomic framework will be adopted even for the 2012 budget. The monitoring indicator directly linked to this action was to improve comprehensiveness of information included in budget documentation. This has been largely achieved as reflected by an improved rating in the PEFA assessment in question PI-6 from a rating of D in 2008 to a rating of A in 2011. In addition to the detailed information on revenues and expenditures, the budget
The document now includes some of the macro-economic assumptions (including estimates of aggregate growth, inflation and exchange rate), fiscal deficit defined according to GFS, deficit financing and anticipated composition, debt stock, prior year’s budget outturn, current year’s revised budget, and explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs. The budget document can be further improved however by reporting on more macro-economic assumptions and by including the overview of financial assets (cash and bank balances, remittances, investments, advances and imprest) for the foregoing and current year.

40. The operation also supported reclassifying public bodies to ensure consistency in budget treatment and human resource rules and guidelines for all public sector institutions. This exercise was supported by the prior action of reclassifying of public bodies and introducing a standard approach policy, categorizing public entities as regulatory, essential service-delivery or non-government service-delivery and defining new financing and accountability standards and mechanisms relative to such classifications. The prior action has been met, the exercise was completed and the new definitions were used in the preparation of the 2011 budget. The same classification will also been used for the 2012 budget exercise, schedule for November 30 2011. There was no direct monitoring indicator linked to this prior action.

41. There were two monitoring indicator for the PFM component which cannot be directly linked to the actions supported by the operation, but which could be resulted partly due to the actions. These two indicators are (i) the primary surplus remains positive and stabilizes, and (ii) the deviation between original appropriated budget and aggregate actual expenditure falls. Both these indicators have been achieved. The primary surplus was positive in 2010 at 8.7 percent of GDP down from 14.8 percent in 2009. Revised estimates for 2011 (as of October 2011) show that primary balance for 2010 will also be positive at 4.5 percent of GDP and the forecast for the next three years are around 5 percent. The deviation between actual and appropriated expenditure fell and exceeded expectations. The deviation was 16 percent in 2009 and the expectation was that by 2010, the deviation would go down to 10 percent. However, actual deviation in 2010 went down to 5 percent and the same percentage is maintained in 2011 (as shown by October 2011 revised estimates).

- Creating a more efficient civil service and public administration - Highly Satisfactory

42. In 2009, the Government adopted a Public Administration Reform Memorandum which outlines its reform priorities in this area. The three major components of the memorandum were (i) the contracting out of non-core public functions with a view to increase efficiency and reduce the number of civil servants, (ii) the revision of the wage grid to ensure greater transparency in public sector wages, and (iii) rolling back the State
from commercial activities to increasing the role of the private sector reducing government’s contingent liabilities. While the first component was supported by the first development policy operation, this operation supported the second and third components. The third component is dealt with in the next section ‘reducing the role of the state in commercial areas of the economy’ below.

43. This operation supported the application of a new wage grid to dispose of the complex allowances system that was used to supplement low monthly salaries and thereby improve transparency and fiscal management. The prior action in support of this component was fulfilled. This component was directly monitored by an indicator on the number of top-level staff integrated on the wage grid. Again the result exceeded expectations. The number of top-level staff on the wage integrated in the wage grid in August 2010 was 59, and it was expected that this number will increase to 139 by August 2011. However, by this date, the top level staff integrated in the new wage grid increased to 366. The Department of Public Administration is monitoring integration into the wage grid by the different categories. The top level categories are defined in the new system by SG9, SG10, SG11 and SG12, and the number of staffs in each category by August 2011 was 178, 69, 56 and 63 respectively. The implementation of the new wage grid was within the fiscal framework and wages and salaries as a percentage of recurrent revenue has stabilized at a much lower level – 20% in 2011 compared to 70% in 2005, as shown in figure 3.

Figure 3: Wages and Salaries, 2005 - 2014

- Reducing the role of the state in commercial areas of the economy – Satisfactory

44. This operation continued to monitor progress on reduction of the role of the state in commercial areas, although not directly supporting by a prior action. This is to
continue monitoring an area that was supported by the previous operation, which included a sharp decline overall in subsidies to public enterprises. As monitoring indicator, this operation picked the achievement of reforms at L’Union Estate. The Government signed a management contract with a private operator and as a result discontinued to be directly involved in the commercial operation of the L’Union Estate. The Government was expected to receive revenue of SR 2 million by May 2011. However, the Government did not receive any revenue from the private operator. The restructuring process seems to have failed to be implemented as it was designed. In November 2011, the President announced the creation of a new funding body for La Digue island, aimed at raising funds and approving fund allocation for projects to develop the island, and this Trust Fund will be partly financed from the profits of L'Union Estate. At the time of preparation of this ICR, there was no clarity on this issue. It was not clear whether L’Union Estate is managed by the private sector and whether Government discontinued direct involvement in the commercial operations of L’Union Estate.

45. However, it should also be pointed out that L’Union Estate is not the only area of heavy government involvement in commercial areas. Heavily subsidized operations of the Housing Financial Corporation and the Development Bank of Seychelles limit greatly the ability of banks to expand into the mortgage loans and small business loans markets respectively. Also, the Government has side-tracked somewhat on the policy of elimination of subsidies to public entities, due to unforeseen but substantive losses made by Air Seychelles, and Government had to bail out the national carrier (soon after the closure of the operation). Help to the airline was originally provided though government-guaranteed loans from Nouvobanq, but government took over debt service almost immediately. Mounting losses in the second half of 2011 triggered additional subsidies. Total budget support to airline in 2011 will exceed 1% of GDP, and is projected to continue into 2012. Having said that, it is worthwhile point out that the commitment to eliminate subsidies to public entities is still strong, as besides Air Seychelles, the Government has not increased subsidies to any public entities in 2011 compared to the 2010 figures, as shown in table 4. Also, a stabilization fund (SR 50m) was created to subsidize prices for fuel and electricity through transfers, respectively, to SEYPEC and PUC. However, 2012 will see the elimination of the stabilization fund and, indeed, an expansion of targeted transfers to low-income households.
Table 4: Subsidies to Public Enterprises. 2007-2011

<table>
<thead>
<tr>
<th>Operating subsidies</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011 (Rev)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seychelles Investment Bureau</td>
<td>4,357</td>
<td>3,000</td>
<td>2,530</td>
<td>3,563</td>
<td>4,422</td>
</tr>
<tr>
<td>Islands Development Company</td>
<td>8,000</td>
<td>7,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Seychelles Public Transport Corporation</td>
<td>15,000</td>
<td>14,611</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Property Management Corporation</td>
<td>5,700</td>
<td>5,700</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Seychelles Institute of Management</td>
<td>8,421</td>
<td>9,221</td>
<td>8,344</td>
<td>6,460</td>
<td>0</td>
</tr>
<tr>
<td>Small Enterprise Promotion Agency</td>
<td>3,500</td>
<td>3,500</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Seychelles Broadcasting Corporation</td>
<td>25,000</td>
<td>35,500</td>
<td>32,500</td>
<td>37,820</td>
<td>48,977</td>
</tr>
<tr>
<td>L’Union Estate Company</td>
<td>1,799</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Public Utilities Corporation</td>
<td>77,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>SMB</td>
<td>68,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Indian Ocean Tuna Ltd</td>
<td>22,500</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Air Seychelles</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>122,243</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>239,277</td>
<td>78,532</td>
<td>47,502</td>
<td>47,843</td>
<td>175,642</td>
</tr>
<tr>
<td><strong>Subtotal % of GDP</strong></td>
<td>4.6</td>
<td>0.9</td>
<td>0.5</td>
<td>0.4</td>
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<td>Island Development Company</td>
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<td><strong>Subtotal</strong></td>
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<td><strong>Subtotal % of GDP</strong></td>
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<td>1.6</td>
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<td><strong>Total % of GDP (except A. Sey)</strong></td>
<td>5.1</td>
<td>1.3</td>
<td>1.6</td>
<td>3.8</td>
<td>2.11</td>
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- **Improving public enterprise corporate governance - Satisfactory**

46. This operation supported improving accountability and performance of SOEs through the establishment and operationalization of a Public Enterprise Monitoring Division (PEMD). The prior action related to this was fulfilled. While the division was established through the enactment of the Public Enterprise Monitoring Act, its
operationalization was not very smooth. The division has seen significant turmoil since the departure of the expatriate manager in April 2010, following internal disagreements within the Ministry on policy issues. Her replacement came 6 to 8 months later. The capacity of PEMD to monitor the performance of public enterprises and to provide advisory services to public institutions to prepare performance monitoring indicators has been strengthened by the recruitment of three financial officers in August 2011. However, the three staff that has recently been hired replaced the three staff that was hired at the beginning of the program, which left over the past 6 months. In general, the unit has received serious push-back from the companies (especially in a few well-known cases) and have had their authority reduced by the removal of the Banks from the Public Enterprise Law for dubious policy reasons.

47. However, besides the turmoil mentioned above in operationalizing the institutions, the passage of the Act and the creation of the PEMD were significant achievements, some progress has been made and these could not have been achieved without a strong institution that has high-level political support. The division has successfully introduced a Board Appointment Policy which is predicated on several factors including Board members collective responsibility for the long term success of the public enterprise, re-appointment of Board members at regular intervals subject to continued satisfactory performance, and formal, rigorous and transparent procedures for the appointment of new members. The division has also successfully introduced a Board Remuneration Policy which aligns the level of responsibility and work. The division will conduct a workshop, in November 2011 with the support of the Bank, with all financial officers of SOEs on developing monitoring indicators that will be used to assess performance as well as detect early warning signs of distress, if any. The associated monitoring indicator for this component has been achieved. The monitoring indicator had two components: (i) actual payments to public enterprises are at or below budgeted amounts (and the two agencies to monitor are the Public Utility Company (PUC) and the Seychelles Public Transport Company (SPTC)), and (ii) loans made in 2009 are repaid as due in 2010. Transfer to SPTC was above budgeted amount. While the budgeted amount was SR 3 million, actual transfer to SPTC was SR 12.5 million. The reason for an increase in transferred compared to the budgeted amount is simply because the Government received 12 buses and coaches as capital grants from the Peoples Republic of China and the SPTC had to pay duty on them, as the Ministry of Finance no longer has the discretion to waive duties on imports. Therefore the Government transferred an additional SR 9.5 million to SPTC for the latter to pay the duties. In an accounting sense, this transaction is just a transfer from Ministry of Finance to SPTC, which eventually got back to Ministry of Finance/ consolidated Fund. Transfer to PUC was also above budgeted amount (SR 336 million instead of SR 126.5 million). However additional funds were allocated to PUC due to the fact that the country received additional revenue
than budgeted and Government negotiated with IMF to allocate part of that revenue to urgent infrastructure. Thus PUC was given additional funds late 2010. Loans of SR330 million due in 2010 was repaid.

**Objective 2: Improving the business environment – Highly Satisfactory**

48. This operation supported improving the business environment through two prior actions and monitored achievement by three monitoring indicators. The reform areas comprised of reducing administrative barriers to doing business by setting out transparent procedures for issuance and renewal of licenses, reducing a number of unnecessary licenses, and redefining the role of the investment bureau by eliminating its role in approval process for new investments. The operation supported improving business environment through revisions of the legal framework by setting up the new Licenses Act 2010 and the revised Investment Bill 2010. As such, the number of applications which are responded within 14 days has increased from 65 percent to 100 percent. This is a highly successful outcome.

49. The number of economic activities legally requiring approval from Seychelles Licensing Authority declined from 180 in September 2010 to 26 in May 2011, and the number of economic investments legally requiring approval from Seychelles Investment Bureau (SIB) to start operation fell from 26 to 3. This is also remarkable achievement and in a short time span this number may come down to zero. The three activities that the SIB still grants approval are the following: (i) manufacturing industries, (ii) ICT activities, and (consultancy services. Manufacturing industries will be taken over by the department of industries for approval of the concept. This is because this department required submitting their plans to the planning authority. The approval for the concept is still required as it supports the request for land in most cases and it checks the compliance of the activity with relevant policy guidelines, regulations and legislation. Approval for ICT activities is still with SIB until DICT have their front office staff for same. For consultancy services as it is difficult for the Immigration department to issue Gainful Occupation Permit (GOP) without the letter from the Investment Bureau.

50. The Government’s reform program for the medium term includes a few specific areas of reforms which may improve the investment and business climate further. These include measures aimed to speed up procedures to start up and closing businesses, make the process of obtaining a construction permit faster and cheaper, (iii) speed up procedures for registering a business by allowing for more efficient and less costly transfer and registration of property titles, (iv) improve access to credit, (v) enhance efficiency in paying taxes by reducing administrative burdens on companies to comply with tax requirements, (v) enhance trading across borders by reducing the number of documents and time to trade, and (vi) strengthen procedures for the enforcement of contracts by streamlining the time, costs and procedures involved in enforcing a contract.
3.4 Justification of Overall Outcome Rating  
*(Combining relevance, achievement of PDOs)*  

Rating: Satisfactory  

51. The operation has achieved the Program Development Objectives set at the appraisal stage of the operation. However, the objective of improving public sector effectiveness is rated satisfactory while the objective of improving investment climate is rated highly satisfactory. Therefore, a combination of these two implies that achievement of program development objectives is satisfactory. The operation objectives, design, and implementation arrangements were relevant at the appraisal stage and continue to be relevant in the current context, and therefore rated highly satisfactory. High relevance and satisfactory achievement of objectives justifies an overall outcome rating of satisfactory for the operation.

52. The overall satisfactory rating is also based on consideration to the risks related to the continuity to the reform program towards the medium term development outcomes. As this is a single tranche stand-alone operation, several of the prior actions would require further follow-up actions to bring expected results in the medium term. The Bank will be supporting the Government’s reform program in the context of the CPS FY12-15, which is currently being drafted. The reform agenda of the Government is clear and is both deepening of the on-going reforms, and broadening areas of reforms. Advanced discussions with the Government portrays that while Government’s commitment to reforms is very high, the appetite for reforms in public enterprises is not very strong. The Government wants to move slowly and cautiously to ensure that it does not lose its political capital. Therefore, achievement of satisfactory outcomes is ensured as reforms seem to be sustainable, but it might take longer than expected in the area of public enterprises.

3.5 Overarching Themes, Other Outcomes and Impacts  
*(If any, where not previously covered or to amplify discussion above)*  

(a) Poverty Impacts, Gender Aspects, and Social Development  

53. Two components of this operation directly impact on the job market. The first one is the adoption of the wage grid which had the objective of retaining skilled workforce in the professional cadre in the public service. The second one is the improvement of business climate which in principle would have established more enterprises and created more jobs. Estimates as at September 2010 compared to March 2010 show that average number of total employees has increased from 43302 to 44365 by creating more than 1,000 jobs in the private sector. Most of these jobs have been created in the construction sector, wholesale and retail trade and accommodation and food service activities. There has also been an increased in average earnings from SR 6,178 to SR 6,704. The other
components that this operation supported may have had little impact on the labor market and may not have impacted on poverty directly.

(b) Institutional Change/Strengthening  
(particularly with reference to impacts on longer-term capacity and institutional development)

54. This operation helped in building capacity for a number of public agencies in Seychelles. At the Ministry of Finance the capacity to prepare more comprehensive budget documents including forecasts, ceilings and linking expenditure to macroeconomic framework, has been built. This exercise has force the forecasting division at the ministry to improve its internal capacity to ensure that it uses better approaches and tools to forecasts macroeconomic variables like GDP growth, inflation rates, exchange rate, interest rates, and unemployment. The forecasting division works in close collaboration with the statistical office in this exercise, and the Bank is supporting a capacity building exercise at the statistical office through the Statistical Capacity Building Trust Fund (STATCAP).

55. The capacity at the Ministry of Finance in monitoring budget execution has also been improved as the ministry is constantly monitoring deviations between allocated funds and actual expenditure for each ministry, departments and agencies on a monthly basis. This has been facilitated even more since the operation supported reclassifying of public bodies to ensure consistent budget treatment. The Ministry of Finance presents the results of these exercises during their monthly meetings chaired by the Minister of Finance. In case of high deviations, necessary measures are being undertaken to rectify the situation.

56. The capacity at the Department of Public Administration has improved at this department has the ability to simplify its wage system. The new wage grid was intended to attract and retain qualified and high-performing staff. Having gone through this exercise, the department is now confident that even the low level staffs can be brought into the new wage system which is much simpler, avoiding all the complex allowances. The department has already started to consolidate the bottom grades in the new wage grid.

57. This operation also improved capacity at the Ministry of Finance to monitor expenditure and efficiency of public enterprises, through the creation and making operational the Public Enterprise Monitoring Division. This division has successfully introduced an appointment policy and a remuneration policy for public enterprise board members. This division with the support of the Seychelles Institute of Management is dispensing course on governance to high cadres of SOEs in the country and will in November 2011 build capacity of all finance officers of SOEs to design monitoring indicators for their own enterprises.

(c) Other Unintended Outcomes and Impacts (positive or negative, if any)
3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops
(Optional for Core ICR, required for ILI, details in annexes)

59. There were no beneficiary survey and/or stakeholder workshop.

4. Assessment of Risk to Development Outcome

Overall rating: Moderate

60. The political risk is negligible to low. As highlighted in this document, Presidential election was to take during the implementation period of this operation and this could lead to policy slippage. However, reforms remained on track, despite the year 2011 also experienced Parliamentary elections. Further political risk is mitigated by Seychelles’ well established tradition of political stability, dialogue and social harmony.

61. The risk to move away from strengthening budget management is negligible to low. The Government, with the support of several development partners and the Fund is incrementally improving its budget management every year, and making its budget document more comprehensive and transparent. In this operation the Government included in its budget prepared its budget the issuance of binding sector ceilings. The budget unit at the Ministry of Finance is monitoring on a monthly basis variances between budget allocations and actual expenditure for all agencies and ministries. The Government has requested the support of the Bank to build institutional capacity to improve efficiency in budget allocation and monitoring. The Bank will assist with the implementation of the BOOST tool.

62. Risk to policy reversal in improving business environment is low. The Government is highly committed to accelerate private sector development in the country and is ready to facilitate that process as a priority in the reform agenda going forward. This operation has supported institutional and legal set up to eliminate unnecessary licenses and redefining the role of the investment board. The Government has requested support from the Bank and the IFC Advisory Services to support them in improving the environment for doing business in the country. Several committees have been set up under the chairmanship of the Vice President and the Ministry of Investment to ensure that the business climate is improved and all red tape are removed.

63. The risk to creating a more efficient civil service and public administration is moderate. The government adopted a Public Administration Reform Memorandum in 2009 and has over the last two years implemented the reforms intended, including politically sensitive reforms like contracting out of non-core public functions, implementation of a simplified wage grid which eliminated the complex allowances system, and eliminating non-core positions. Going forward, the Government has to
ensure that the new institutions in place are followed and more staffs are trained at the Department of Public Administration to ensure that reforms undertaken are sustained. The Bank is supporting in building capacity of the Department of Public Administration for change management, project management, and other areas needed to improve its effectiveness through an Institutional Development Fund. However, given that the country is out of the crisis situation, risks to deepening reforms in this area exist.

64. **Risk of policy reversal in the areas of public enterprise governance and reducing the role of the state in commercial areas of the economy is moderate.** The Government is committed to improve the policy and institutional base for the country to attract investment, improve competitiveness and create an efficient civil service. All these have been demonstrated by the ownership for reforms implemented, despite the financial crisis. The commitment to maintain the reform drive is still high, as evidenced by the request for a programmatic series of development policy operation starting this year, and an extension of the Extended Fund Facility from the IMF. However, the risk to sustainability of outcomes in the areas related to public enterprise reforms is moderate. Although the capacity for the Public Enterprise Monitoring Division has been strengthened with the recruitment of three finance officers in September 2011, it is not clear whether or not monitoring and evaluation will take place as expected, or even if it takes place, whether or not the recommendations will be implemented outright. However, the division is working with public enterprises to build capacity of officers and directors of these enterprises to adopt monitoring framework. The division has planned a workshop for November to build capacity of the SOEs to monitor financial performance, and the Bank will be supporting this workshop. The finance officers recruited has already started monitoring the monthly financial statements filed by the SOEs and are building capacity for those SOEs who cannot on their own produce these monthly statements. The division in collaboration with the Seychelles Institute of Management (SIM) is delivering courses for directors of the SOEs to ensure proper management. Such courses take place at the SIM 4 times a year, and also in house on request of the SOEs so that more people are trained at their own convenient time. Sixty directors have already been trained. The division has also successfully introduced Board Appointment and Remuneration Policies. The risk to reducing the role of the state in commercial areas of the economy is moderate. The Government has successfully reduced subsidies to state-owned enterprises and ended the monopoly rights of the former Seychelles Marketing Board. However, there are other areas of activities that the Government is still involved, for example housing finance, banking services and airline. Further reducing the role of the state in the economy may prove challenging, as people who benefit from the current regime may resist reforms that threaten their interests. However, outright privatization may not be the solution in any of these remaining institutions. There is a need for further analytical work to understand the model that would best suit the purpose they serve and build consensus to attain the most efficient structure.
65. **Economic risk related to external shocks is moderate.** The risk of external shocks associated with the uncertainties in the global economic environment is considerable and the economy remains vulnerable to these shocks given its large dependence for its tourism industry on the European market. The external environment may also affect aid and foreign investments in the economy and thus impact development outcome.

5. **Assessment of Bank and Borrower Performance**

*(Relating to design, implementation and outcome issues)*

5.1 Bank Performance

(a) **Bank Performance in Ensuring Quality at Entry**
*(i.e., performance through lending phase)*

Rating: Satisfactory

66. The Bank’s performance in identification was satisfactory. This operation continued to support the broad areas supported by the last operation but deepened reforms implementation. The areas of support are those that are identified by the Government as high reform priorities based on consultations with the IMF and other development partners, on available knowledge, and which are also highlighted in the ISN for the country. The Bank also realistically assessed the implementation capacity of the country and identified areas which could be successfully be reformed and continue to build capacity through technical assistance and dialogue for deeper and broader reforms, going forward. The Bank designed the reform program also based on consultation with other development partners to ensure that donors complement each other and keep the administrative costs for reforms low for the authorities.

67. The Bank’s performance in preparation was satisfactory. The design of the reform program was largely based on analytical pieces produced either by the Bank or other partners. These included Public Expenditure Reviews highlighting policy measures for public sector wage structure, public expenditure management, and governance of public enterprises; the Strategy for Strengthening Budget Management and the work on Further Steps Towards Sound Fiscal Management, and the Public Financial Management Performance report focusing on public financial management; the Administrative Barriers to private Sector Development and Business Environment in the Seychelles, the Review of the Policy Regulatory and Administrative Environment for Investment focusing on improving business environment. These economic and sector works were used in policy dialogue with the authorities to prepare the program.

68. The Bank’s performance in appraisal was satisfactory. At appraisal the team was constituted by staffs from the relevant sectors that were leading dialogue in their respective areas of expertise and also providing technical assistance to implementing agencies. The team assessed the risks that implementation of this program may face and
candidly highlighted same to the authorities and in the program document. The team also worked closely with the Government to identify mitigation measures so that the impact on the program can be limited in case risks occur, and also to ensure flexibility in case of serious impact.

(b) Quality of Supervision
(including M&E arrangements)
Rating: Satisfactory

69. This operation was a single-tranche operation that was approved based on fulfillment of the six prior actions. The team continued to be engaged with the authorities to follow up on implementation of reforms beyond just fulfilling the prior actions and also continued discussion to prepare for further reforms in any next operation. These discussions were important to ensure that the country continue to keep the reform momentum and policy reversal does not take place, more so as the country was already out of the crisis mode. In 2010, GDP grew by 6.2 percent and there were some indication of possible complacency. As Presidential election were scheduled towards the end of this operation, the team ensured through continuous discussions that the gains achieved in PFM reforms do not slip away.

(c) Justification of Rating for Overall Bank Performance
Rating: Satisfactory

70. The performance in ensuring quality at entry and at supervision is both rated satisfactory. Therefore the overall Bank performance is also satisfactory. The Bank team have responded to the request of the Government to support the authorities reform its priority areas, based on analytical work and maintained thorough and constant dialogue during supervision to ensure that the risk for policy slippage do not occur.

5.2 Borrower Performance

(a) Government Performance/ Implementing Agency or Agencies Performance/ Overall Borrower Performance
Rating: Highly Satisfactory

71. In this operation, the Government and implementing agency cannot be distinguished separately. Therefore the rating in this section should be considered as overall rating for the borrower. The Ministry of Finance was the coordinating body for the reform program and responsible for the management of the reforms. Several units under the Ministry of Finance were involved in the reform process.

72. Government’s commitment to reform was strong and the Vice President and Minister of Finance were leading the reform program with a team of champions, mostly from the Ministry of Finance and the Central Bank. The Government owns the reform program as the areas of reforms were the priority areas of the Government and the
Government was highly involved in the design of this operation which was based on analytical work and the Government very well understood the weaknesses in the economy. The President and the Vice President were very vocal about the need for reform and its benefits. They implemented an effective outreach strategy and on several occasions allowed the public to ask questions about the reform program, and this provides an opportunity to explain and get buy in from the generally public which was crucial to keep the reform momentum.

73. The Government’s commitment is demonstrated by the level of its achievement of almost all the monitoring indicators despite the country went through a Presidential election. The country also made good progress in implementing the IMF-supported Extended Fund Facility fulfilled and all end-June 2011 quantitative targets under the program were met. The Government also made effective use of development partners to support the reform agenda. The partners complemented the reform agenda of other partners and there were no duplication of resources towards the same reform.

6. Lessons Learned

(Both operation-specific and of wide general application)

73. The key lessons learned from this program pertain to: (i) strong Government commitment and ownership, (ii) selective focus of policy areas based on knowledge and provision of technical assistance and capacity building, (iii) effective outreach strategy, and (iv) simple monitoring indicators build M&E culture.

74. **Strong Government commitment and ownership drives reforms.** Commitment at the highest level to the reform program provides guidance to the implementing agencies on the direction that the Government is heading and this facilitates dialogue at technical level. Strong ownership of the reform program obtained though joint Bank-Government design of the program linked to the Government’s priority areas of reforms is crucial for fast and successful implementation and dealing with politically sensitive reforms. Alignment with Government priorities and incremental dialogue provides valuable weight to immediate and short term policy exigencies while building consensus for broader and bolder reforms. The incremental dialogue approach essentially helps the Government to identify and articulate country priorities and as such build the ground in terms of substance and sequencing for subsequent operations. In this operation, reforms to SOEs and removing barriers to business were such areas.

75. **Selective focus on policy areas based on strong analytical underpinnings helps in getting traction for reforms.** In a small country with limited implementation capability, the reform program should be guided by strong analytical work and focus on a few areas to ensure effective implementation. At the same time, the implementing agency should be provided with assistance to support reform implementation, while building capacity to enhance the agencies’ capability to undertake further reforms on their own.
Seychelles has a limited pool of expertise given its small population size and therefore unable to undertake analytical work in a variety of areas and design reforms strategies and even to a lesser extent implement these reforms. The local expertise has been complemented by international expertise during this operation and this is a model that has worked well and the Government has requested that this model be strengthened going forward. Proper assessment of the capacity of the implementing agency at the design stage helps in designing pragmatic time bound prior actions and the setting realistic targets and helps in pursuing incremental dialogue for further reform. Availability of knowledge helped to translate broad priorities into specific actions and guided in the design on monitoring indicators. Agreement on set of results and continued dialogue motivate agencies, but more importantly the champions to remain focus on the reform agenda.

76. **Effective outreach strategy provides stakeholders enough time to adjust to upcoming changes and helps build public support for reform.** The Government of Seychelles has a tradition of communicating to all the citizens through various media sources about the vision of the government, the actions that are being undertaken to achieve this vision and how possible negative impact is being mitigated. Many different types of media are involved in the communications efforts, including newspapers, television, radio, posting of information on government and social websites, and distribution of newsletters. The policy makers, including the President, attempts to explain the reform program and its implications during public gatherings. All these helped in preparing ahead of time of possible changes that could happen and limits public protests.

77. **Simple monitoring indicators build M&E culture.** Building the results framework jointly with the Government and using Government’s own data, keeping in mind the capacity of public agencies helps in developing the monitoring and evaluation culture, and creates the drive for benchmarking. In Seychelles, monitoring the number of top level staffs that are integrated in the wage grid has eventually developed into monitoring staffs at all the different levels in the wage grip and keeping track of changes. At the Seychelles investment Bureau, involvement in monitoring the number of days it takes to process application for licenses at the Licensing Authority and the involvement of the agency in the dialogue on removal of barriers to business has nurtured the desire to be better ranked in the Doing Business Indicators.

7. **Comments on Issues Raised by Borrower/Implementing Agencies/Partners**

(a) **Borrower/Implementing agencies**

(b) **Co financiers**
(c) Other partners and stakeholders
(e.g. NGOs/private sector/civil society)
## Annex 1 Bank Lending and Implementation Support/Supervision Processes

### (a) Task Team members

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<th>Unit</th>
<th>Responsibility/Specialty</th>
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<tbody>
<tr>
<td>Tracey Lane</td>
<td>Senior Economist</td>
<td>AFTP1</td>
<td>TTL</td>
</tr>
<tr>
<td>Tony Verheijen</td>
<td>Lead Public Sector Specialist</td>
<td>AFTPR</td>
<td>Public sector reforms</td>
</tr>
<tr>
<td>Dileep Wagle</td>
<td>Lead Private Sector Development Consultant</td>
<td>AFTFP</td>
<td>Private sector reform</td>
</tr>
<tr>
<td>Alex Berg</td>
<td>Manager</td>
<td>GCMCG</td>
<td>Corporate Governance reforms</td>
</tr>
<tr>
<td>Greta Mhanna</td>
<td>Voice Secondee</td>
<td></td>
<td>Tax issues</td>
</tr>
<tr>
<td>Stephen Mukaindo</td>
<td>Counsel</td>
<td>LEGAF</td>
<td></td>
</tr>
<tr>
<td>Luis Schwarz</td>
<td>Senior Finance Officer</td>
<td>CTRFC</td>
<td></td>
</tr>
<tr>
<td>Wendy Ayres</td>
<td>Consultant</td>
<td></td>
<td>M&amp;E, Results framework</td>
</tr>
<tr>
<td>Patrick Kabuya</td>
<td>Senior FM specialist</td>
<td>AFTFE</td>
<td></td>
</tr>
<tr>
<td>Frederik Wwamalwa</td>
<td>Research Analyst</td>
<td>AFTP2</td>
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### Supervision

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<tr>
<td>Sawkut Rojid</td>
<td>Economist</td>
<td>AFTP1</td>
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<td>All of the above</td>
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### (b) Staff Time and Cost

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Annex 2. Beneficiary Survey Results
(If any)

No beneficiary survey conducted

Annex 3. Stakeholder Workshop Report and Results
(If any)

No stakeholder workshop conducted

Annex 4. Summary of Borrower's ICR

1. Implementation of Development Policy Loan
In view of the major reforms that are being undertaken in Seychelles since the second half of 2008, the Government has worked closely with the World Bank to ensure that the desired effects of the listed policy actions in the DPL are being achieved.

The DPL measures are aimed at putting Seychelles on a sustainable development path through a stable macroeconomic environment and a sustainable fiscal framework. The Government of Seychelles continues to pursue the policy objectives set out in the DPL, and coupled with achievements on the front of fiscal discipline, sovereign debt re-structuring and others, are making great advances to achieving the DPL aims.

2. The Reforms

2.1 Civil service and public administration Reforms

Results of the Reforms

A new wage grading structure was adopted to ensure consistency and transparency in the grading of staff, alignment of remuneration to skills and levels of responsibility and the retention of skilled workforce in the professional cadres of the public sector. The reform also saw an increase in the number of top-level staff that was integrated on the wage grid.

Remaining Challenges

The integration of nominal roll and payroll remains outstanding.

The Bank’s Performance Appraisal

The Bank was helpful towards the achievement of reforms in this area of reform. The Public Expenditure Review, as well as the presence of a senior public sector specialist—courtesy of World Bank—provided the Government with a lot of guidance.
2.2 Public Financial Management (PFM) Reforms

Results of the Reforms

As a result of the reforms, the comprehensiveness of information included in budget documentation improved considerably. The 2011 Budget Strategy and Outlook Paper indicated the 2011 budget ceilings, which was consistent with the medium term macroeconomic model and fiscal projections. The primary balance continues to remain positive and stable. Deviation between original appropriated budget and aggregate actual expenditure falls.

In addition, The Borrower has pursuant to the Memorandum of Action: Public Administration and Public Sector reform Program, adopted the Reclassifying Public Bodies in Seychelles and Introducing a Standard Approach policy, categorizing public entities as regulatory, essential service-delivery or non-government service-delivery and defining new financing and accountability standards and mechanisms relative to such classifications.

Remaining Challenges

The main challenge continues to be the sustainability of the progress made so far amidst all the financial uncertainties the world economy is currently facing and the implementation of further reforms such as the chart of accounts, program based budgeting etc. Technical assistance would be required to ensure proper implementation.

The Bank’s Performance Appraisal

The Bank was helpful towards the achievement of reforms in this area of reform. The presence of consultants through technical assistance provided the Government with a lot of guidance and best practices.

2.3 Public Enterprise Corporate Governance Reforms

Results of the Reforms

As a result of the reform and pursuant to the Public Enterprise Monitoring Act, 2009 the Public Enterprise Monitoring Division of the Ministry of Finance was established, to oversee the implementation of the Act. The division has successfully introduced a Board Appointment Policy and a Board Remuneration Policy which aligns the level of responsibility and work. The capacity of PEMD to monitor the performance of public enterprises and to provide advisory services to public institutions to prepare performance monitoring indicators has been strengthened by the recruitment of three financial officers in August 2011.

Remaining Challenges
The development of monitoring indicators that will be used to assess performance as well as detect early warning signs of distress, if any remains outstanding. It is to be noted however that the World Bank will be assisting towards this process.

*The Bank’s Performance Appraisal*

The Bank was helpful towards the achievement of reforms in this area of reform. The Public Expenditure Revue, as well as the presence of consultants through technical assistance provided the Government with a lot of guidance and best practices.

*Appraisal of the Borrowers Performance*

2.4 *Business Environment Reforms*

*Results of the Reforms*

In 2010 saw the enactment of a new Licensing Act, which provided for transparent procedures for the issuance and renewal of licenses as well eliminating the number of commercial activities requiring ex ante licenses to operate, and streamlining the licensing procedures.

In addition to that the Seychelles Investment Act, 2010 was also enacted which provided the framework for the promotion, regulation and protection of investors and investments, and establishing the Seychelles Investment Board to facilitate and promote investments.

As a result of the reforms, there was a decline in the time required to obtain or renew a license and the number of economic activities legally requiring approval from the Seychelles Licensing Authority to start operations also reduced.

As for the economic investments, the number legally requiring Seychelles Investment Bureau approval to start operations also reduced.

*Remaining Challenges*

The most pressing challenge remains the creation of a conducive environment for private sector development where the private sector can play a vital role in the economy. Work is being done to ensure that the country further addresses existing barriers.

*The Bank’s Performance Appraisal*

The Bank was helpful towards the achievement of reforms in this area of reform. The Administrative Barriers to private Sector Development and Business Environment in the Seychelles by the Bank in 2009, as well as the presence of private sector development specialist provided the Government with a lot of guidance and best practices.
**Conclusion**

The conditions set out for the disbursement of the DPL have been maintained following its disbursement. This has been achieved as a result of the determination and continued commitment of Government towards achieving the aims of the disbursement, as well as assistance and support provided by multilateral partners such as the Bank, the IMF and the EU.

The Government recognizes the importance of sustainability and long-term macro-economic stability, and expresses its gratitude to the World Bank for the DPL which has helped with the achievement of these goals.

In view of the above the Government has requested a programmatic series for the next three years. The new series will help deepen the reforms already underway. Preliminary discussions are focusing on: (i) strengthening public financial management, (ii) improve investment climate, (iii) strengthen social safety nets and (iv) improve governance and efficiency of selected state owned enterprises.

**Annex 5. Comments of Co financiers and Other Partners/Stakeholders**

**Annex 6. List of Supporting Documents**

Seychelles Interim Strategy Note for fiscal 2009-11, October 5, 2009, Report 47418

Loan Agreement


Public Expenditure Review, March 1, 2011, Report 57113 – SC

Public Expenditure and Financial Accountability Assessment, 2011

Other project files, implementation supervision reports, aide memoirs, and back-to-office reports