



Report Number : ICRR0020792

1. Project Data

Country
Seychelles

Practice Area(Lead)
Macroeconomics, Trade and Investment

Programmatic DPL
Planned Operations: 3

Approved Operations: 3

Operation ID
P125202

Operation Name
SC-Sustainability&Competitiveness (FY13)

L/C/TF Number(s)
IBRD-81900

Closing Date (Original)
30-Jun-2013

Total Financing (USD)
7,000,000.00

Bank Approval Date
20-Sep-2012

Closing Date (Actual)
30-Jun-2013

IBRD/IDA (USD)

Co-financing (USD)

Original Commitment

7,000,000.00

0.00

Revised Commitment

7,000,000.00

0.00

Actual

7,000,000.00

0.00

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Operation ID
P132425

Operation Name
Sustainability and Competitiveness DPL 2 (P132425)



L/C/TF Number(s) IBRD-81900,IBRD-82960	Closing Date (Original) 30-Jun-2014	Total Financing (USD) 7,000,000.00
Bank Approval Date 26-Sep-2013	Closing Date (Actual) 30-Jun-2014	
	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	7,000,000.00	0.00
Revised Commitment	7,000,000.00	0.00
Actual	7,363,826.11	0.00

Operation ID
P146567

Operation Name
Sustainability and Competitiveness DPL 3 (P146567)

L/C/TF Number(s) IBRD-81900,IBRD-84370	Closing Date (Original) 31-Dec-2015	Total Financing (USD) 7,000,000.00
Bank Approval Date 26-Sep-2014	Closing Date (Actual) 31-Dec-2015	
	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	7,000,000.00	0.00
Revised Commitment	7,000,000.00	0.00
Actual	7,000,000.00	0.00

2. Program Objectives and Policy Areas

a. Objectives

The objectives of the Sustainability and Competitiveness Development Policy Loan (DPL) series were: “to improve fiscal sustainability and to enhance private sector competitiveness. To achieve these objectives, this series assists the government to implement reforms that will: (i) improve the business climate; (ii) enhance



transparency; (iii) improve public financial management (PFM); (iv) improve targeting of social assistance; and (v) increase fiscal controls in public enterprises” (Program Document, First DPL, p. 24; Second DPL, p. 18; Third DPL, p. 1).

b. Pillars/Policy Areas

The DPL series supported the following two policy areas as follows:

(a) Pillar 1: Enhance Private Sector Competitiveness. This pillar sought to: (i) improve the private sector business environment, and (ii) improve transparency in key economic sectors, including petroleum and fisheries sectors.

(b) Pillar 2: Improve Fiscal Sustainability. This pillar aimed at: (i) improving expenditure efficiency, (ii) improving targeting, automation and M&E framework in the social protection system, and (iii) ensuring the cost recovery and long-term financial sustainability of utilities.

c. Comments on Program Cost, Financing, and Dates

This was a programmatic series of three single-tranche DPLs.

Costs: The total program cost for the three DPLs was US\$21.0 million at appraisal. This amount was entirely disbursed.

Financing: The DPL program was financed by IBRD.

Co-financing: There was no co-financing for the DPL series.

Dates: The first DPL was approved on September 20, 2012 in the amount of US\$7.0 million, made effective on November 22, 2012, and closed on June 30, 2013. The second DPL was approved for US\$7.0 million on September 26, 2013, made effective on December 17, 2013, and closed on schedule on June 30, 2014. The third DPL was approved for US\$7.0 million on September 26, 2014, made effective on December 31, 2014, and closed on schedule on December 31, 2015.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The objectives of the DPL series were consistent with the Medium-Term National Development Strategy of the



Government, which acknowledged the need to: (i) improve the business climate to enhance the private sector-led growth, and (ii) improve further the management of public finances.

The policy reforms supported by DPL series were also consistent with the World Bank Group's Country Program and Strategy for FY12-FY15, discussed by the Board on April 3, 2012, and the most recent one available. The DPL series was the principal instrument identified for supporting the government's reform program, which envisaged three annual DPLs over 2012-14, aligned with the budget cycle, which was the government's primary vehicle for introducing the new policy initiatives. Since the implementation of the prior two DPL operations took place in a macroeconomic crisis context following the 2008 debt default, they offered limited lessons to new DPL series. This new DPL series focused on realizing the long-term reform agenda of the Government and the strategy of the Bank to support this reform agenda. The Bank is in the process of preparing a new Country Partnership Framework, expected to be completed by June 2018.

Rating

High

b. Relevance of Design

There was a clear statement of objectives, linked in a convincing causal chain from funding to intermediate and final outcomes. Prior actions supporting improvements in company registration, commercial courts, insolvency legislation, housing finance, mediation, taxation, and more public disclosure of key information on the petroleum and fisheries sectors – could be expected to enhance the private sector business environment, contributing to improved competitiveness. Likewise, prior actions supporting improved efficiency of public expenditure, social protection, and cost recovery from utilities could be expected to improve the fragile fiscal position and high levels of public debt, through more efficient and effective use of public resources, contributing to fiscal sustainability.

2012 was the right time to implement long-term policy reforms as the country recovered from the macro-economic crisis in 2008. Also, since seismic data indicate that oil may be available, strong institutions were needed capable of ensuring that the petroleum sector is successfully managed, and that resources due to the government are properly accounted for.

Rating

High

4. Achievement of Objectives (Efficacy)

Objective 1



Objective

Enhance Private Sector Competitiveness

Rationale

Efficacy of the objective is assessed against five target results, which were selected based on the experience of prior Bank operations, the International Monetary Fund (IMF) program under the Extended Fund Facility, and the Bank's analytical work and technical assistance.

- **Reduction in the number of days for the business registration:** Although the government introduced several legislative and administrative amendments to simplify the business registration process, only a marginal improvement was realized in reducing the overall number of days for registration. By the end of the third DPL operation in December 2015, the registration process was shortened only by 7 days from the baseline number of 39 days to 32 days. It was well short of meeting the target of 3 days. This indicator was not met.
- **Increase in the percentage of online business tax filing:** The target was to increase the percentage of businesses filing their income taxes online from the base line of less than 1% to more than 5% at the end of the program. The Seychelles Revenue Commission SRC has implemented e-filing for submission of tax returns. It was short in meeting the target as the percentage of businesses filing taxes online has increased only to 3.7% in 2015 and 3.5% in 2016. Thus, the target was partially met.
- **Increase in the number of commercial cases resolved at the commercial court within 12 months:** To achieve this target, the government has established and started to operate a commercial division at the Supreme Court. As of December 2015, 97 cases were completed, while 91 cases were pending. The percentage of commercial cases resolved at the commercial court within 12 months as a share of cases lodged increased from no cases resolved in 2011 to 52% as of December 2015, but it did not reach target of 85%. As such, this indicator is partly met.
- **Increase in the number of approved housing loans using the new subsidy policy:** The new housing subsidy policy was approved to target subsidy payments to low-income households. As of December 31, 2016, a total of 555 new mortgage loans were approved, exceeding the target of 195 loans.
- **More public disclosure of key information in the petroleum and fisheries sectors:** The progress towards increasing the transparency of these two key economic sectors was mixed. The Government of the Seychelles (GoS) adopted the Extractive Industries Transparency Initiative principles to strengthen transparency in financial reporting in the petroleum sector, and the 2015 annual progress report was submitted to the Initiative. For the fisheries sector, the Fishing Authority started to disclose its information on its public web site; however, its quarterly reporting on its website has not been updated regularly. The GoS worked towards increasing the transparency of the sector, as the GoS supported a global Fisheries Transparency Initiative.

For each result area under this objective, quantitative baseline values were defined and the quantitative targets with the clear deadline have been set at the beginning of each DPL series with a clear causal relationship linking each result area and the achievement of the PDO targets, and enhancing private sector



competitiveness. The rating reflects the situation that one target was exceeded, and the other four were only partially achieved. Slower than expected progress can be explained by capacity constraints, and implementation challenges greater than anticipated.

Rating
Modest

Objective 2

Objective

Improving Fiscal Sustainability

Rationale

Efficacy of achieving this objective is assessed against five target results, reported in the ICR. Achievements towards program targets were described as follows:

- **Reduction in the difference in voted and executed budget:** The outcome target under this policy reform was exceeded as of December 31, 2015. After the adoption of a new Public Financial Management Act, the difference between voted and executed expenditures decreased to 0.5% in 2015 from the baseline number of 4.2% in 2011, exceeding the 2.5% target set for the DPL series.
- **Increase in the submission of the audited financial statements by public enterprises:** The outcome target for this policy reform also exceeded the target set by the DPL. In 2015, 95% of public enterprises (20 out of 21) had submitted their audited financial statements, exceeding the 60% target.
- **Reduction in the share of ineligible beneficiaries:** With the substantial reduction of ineligible beneficiaries, the outcome indicator exceeded the target. The share of ineligible beneficiaries of welfare assistance has been reduced from 33% to 12.6%, surpassing 20% target of the program. This was the result of the approval of a new regulation by the Cabinet of GoS that limited sick leave payments by the government to 15 days per person and per year.
- **Stabilization of the spending on reformed social assistance programs:** The target was to maintain spending on the social assistance program at 1.1% of GDP in 2015, in line with the baseline of 1.1% of GDP in 2011. In 2015, the GoS adopted new regulations that limit the government contributions to sick leave payments and shift part of that cost to the employer. With this new regulation in place, the total budget of the social assistance program, including government spending on sickness benefit, home careers, and social welfare assistance, accounted for 1.2% of GDP (2015), representing a minor 0.1 percentage point increase from the baseline of 1.1% of GDP, effectively meeting the target.
- **Increase in contribution revenues to the Seychelles Pension Fund (SPF):** Progress towards



achieving this objective was satisfactory. In 2015, the contribution to the SPF increased to 1.8% of GDP, surpassing the SPF contribution target of 1.1%. To improve financial sustainability of the SPF, the government has increased the contribution rate by 1% from 3% to 4%, effective from 2014.

- **Reduction in operating losses incurred by the Public Utility Company (PUC):** The target was to eliminate the operating losses of PUC by the end of the third DPL. This indicator has been met as PUC has been profitable since 2012. PUC also succeeded in erasing all its past accumulated losses. The DPL series supported the government in introducing new policies for: (i) passing on to consumers at least 70% of future increases in fuel prices, and (ii) adopting quarterly automatic tariff adjustments to reflect changes in key variables like the exchange rate and fuel prices.

For each of the six result areas, time-bound qualitative targets and baselines have been set at the beginning of each DPL operation to measure the progress of the policy reforms that aimed at improving fiscal sustainability. The ICR presented the achievements of these targets. The casual relationship between PDO targets and PDO objectives was clear as the achievement of each indicator led to an improvement in fiscal sustainability. Since the results framework was used as a monitoring tool and the basis for the continuous policy dialogue by the government and the Bank to measure the progress of policy reforms against agreed target indicators, the validity of the PDO-level targets in the results framework was high. All the target indicators have been achieved or exceeded.

Rating
Substantial

5. Outcome

IEG rates the outcome of DPL series Moderately Satisfactory. The relevance of the objectives and design were both rated high as the program was designed to support the government's Medium-Term Development Strategy. The relevance of the first objective was rated modest as progress was made to improve the business climate, but the program was short in meeting target indicators. The relevance of the second objective was rated substantial as the program supported improvements in public finance management and all targets were either met or exceeded. During the implementation of the DPL series, the macroeconomic framework remained acceptable as the government had remained focused on economic stability with the support of successive IMF programs of Standby Arrangements and Extended Fund Facilities. Fiscal performance was also sound during the DPL series as the GOS managed well its public expenditures and public debts. In this context, the



macroeconomic framework was conducive to implement policy reforms envisaged under the DPL series.

a. Outcome Rating

Moderately Satisfactory

6. Rationale for Risk to Development Outcome Rating

The risk to development outcome is modest. With the completion of three DPL operations and other capacity development support by the IMF and other development partners, the GoS advanced its reform agenda and demonstrated its strong commitment to policy reforms. These reforms will result in private sector-led growth and improved public financial management. As noted in the ICR, rising political competition could pose challenges in advancing reforms in potentially sensitive area. However, the latest IMF report on Seychelles does not refer to any political risk - <https://www.imf.org/en/News/Articles/2017/09/27/pr17372-imf-staff-completes-mission-to-the-seychelles>.

Despite the progress it has made through a wide range of policy reforms since the 2008 crisis, Seychelles is a small island economy that remains highly vulnerable to any major external economic shocks or any major natural disasters. Although Seychelles has been spared up to now any major natural disaster, a future disaster may lead to significant economic damages to the island economy. Preparation for such a natural disaster has been one of the main policy issues discussed between the Bank and GoS during the policy dialogue as part of DPL series. On August 29, 2014, the Bank approved a US\$7 million Disaster Risk Management Development Policy Loan (P148861) with a Catastrophe Deferred Drawdown Option.

a. Risk to Development Outcome Rating

Modest

7. Assessment of Bank Performance

a. Quality-at-Entry

The program design was satisfactory as its objectives, prior actions, and target indicators were built on experience from the Bank's prior operations and were supported by the Bank's analytic work and technical assistance. The alignment between the objectives of the DPL series and the GoS's reform agenda led to the ownership of these reforms by the government. The Bank also closely consulted with the African Development Bank, United Nations Development Program, IMF, and the European Union to ensure there was a harmonized approach, and that the burden on the government of working with multiple donors was reduced. Both the DPL series and the government's medium-term strategy focused on improving the investment climate and enhancing public finance management. The analytic work and technical assistance of the Bank that laid the foundation for developing the government's reform agenda included Public Expenditure Reviews, a strategy for strengthening budget management, a Public Financial Management Performance report, a review of Administrative Barriers to Private Sector Development and Business Environment in the Seychelles, and a Review of the Policy Regulatory and Administrative Environment.



Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

Since the Bank did not have a representative office in the country, the Bank monitored the progress of the policy reforms through regular supervision missions that took place twice a year. The Bank's supervision missions prepared aide memoires to document issues during the supervision missions. The Bank team made sure that staff and specialists were available for consultations and advice on all policy and technical areas where the Bank was engaged. In the areas of common interest, the Bank team worked with the IMF.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

The Ministry of Finance, Trade, and Economic Planning (MOFTEP) was responsible for the overall implementation of the DPL series as the implementing agency. With support from the President's office, the MOFTEP took full ownership of the program development and implementation and worked closely with the Bank team in the design and implementation of this program. MOFTEP also took responsibility for the overall supervision and monitoring of the program and furnished relevant documents to the Bank to validate the program's progress. The commitment and ownership of the government towards the policy reforms was evident with the successful completion of all prior actions for each of the DPL operations.

The policy reform targets under two objectives were reasonable and achievable during the period set at the beginning of each DPL series. The Bank supported the design and implementation of these targets with Advisory Services and Analytics.

Government Performance Rating

Satisfactory

b. Implementing Agency Performance

The MOFTEP was the implementing agency to coordinate and implement the DPL series, there is no separate assessment for implementing agency performance.



Implementing Agency Performance Rating

Satisfactory

Overall Borrower Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The M&E design was relevant for the DPL series. As per the ICR, the results framework was used as a monitoring tool by both the GoS and the Bank. The indicators under the program were relevant to measure the progress of the policy reforms, and they had baselines and targets that were easy to monitor. The MOFTEP was the key Government institution to oversee the coordination of the reporting of the performance indicators through their regular consultations with line ministries, departments, and agencies involved to the policy reforms under the DPO series. The PDO targets are valid as the achievement of these targets can be measured from publicly available information sources such as World Bank Doing Business indicators.

The ICR provides sufficient evidence that the prior actions supported under the DPL series contributed to the outcomes achieved in each results area. In the results framework, the PDO-level indicators have ex-ante quantitative targets and deadlines to measure the achievement of targets.

b. M&E Implementation

As the Bank does not have a country office in Seychelles, project monitoring by the Bank was carried out through visiting missions. Twice a year, the Bank and the GoS reviewed the progress of the DPL program. Although no formal ISRs were prepared, the Bank supervision teams produced aide-memoires to document the progress towards the policy reforms.

c. M&E Utilization

The ICR reported that the GoS collected the appropriate data to monitor the achievement of the program indicators. The Bank team evaluated progress during supervision missions and M&E data were used to choose prior actions for subsequent DPLs. The M&E information with respect to the progress of the program was also used in the consultation between the government and the Bank for further shaping and improving public sector governance.

M&E Quality Rating

Substantial



10. Other Issues

a. Environmental and Social Effects

The ICR did not report on environmental and social effects.

b. Fiduciary Compliance

The ICR did not report any fiduciary issues.

c. Unintended impacts (Positive or Negative)

The ICR noted that there were no significant other unintended outcomes or impacts.

d. Other

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Modest	Modest	---
Bank Performance	Satisfactory	Satisfactory	---
Borrower Performance	Satisfactory	Satisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

IEG concurs with the main findings and lessons in the ICR, inter alia:



- (i) Small island settings are particularly challenging for information technology enabled reforms. In the case of Seychelles, capacity and connectivity gaps delayed and made difficult system development and adoption.
- (ii) The quality of the Bank's overall engagement is crucial, including how various instruments such as analytical work, policy-based lending, technical assistance and investment operations, along with the work of other partners, reinforce and complement each other.
- (iii) Progress is possible in small countries with limited capacity using cross-sectoral DPL series, as long as care is given in defining appropriately scaled targets.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is well-written, concise, and articulate on the results of the reform program and the role of the Bank to support these policy changes. Although the ICR articulated the achievement of the DPL series, it has limited information on the Bank's supervision missions. Since no formal ISRs were prepared to document the implementation of the program, the ICR could have been improved by including more information on the Bank's supervision missions and the interactions between the Bank team and the government counterparts on the dynamics of policy dialogues. Also, the ICR could have provided more information on M&E implementation.

a. Quality of ICR Rating

Substantial