Cluster Country Program Evaluation on Small States

Seychelles Country Case Study (FY07–15)
Enhancing Competitiveness and Private Sector Development

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CLUSTER COUNTRY PROGRAM EVALUATION ON SMALL STATES

Seychelles Country Case Study (FY07–15)
Enhancing Competitiveness and Private Sector Development

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Abbreviations and Acronyms

AAA	analytic and advisory services
AfDB	African Development Bank
CEO	chief executive officer
CPS	country partnership strategy
DPL	development policy loan
DPO	development policy operation
DRM	disaster risk management
EEZ	exclusive economic zone
EFF	Extended Fund Facility
EU	European Union
FDI	foreign direct investment
FY	fiscal year
GDP	gross domestic product
GNI	gross national income
HFC	Housing Finance Corporation
IBRD	International Bank of Reconstruction and Development
ICT	information and communications technology
IFC	International Finance Corporation
IMF	International Monetary Fund
LME	large marine ecosystem
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
MTNDS	medium-term national development strategy
NLTA	nonlending technical assistance
OECD	Organisation for Economic Co-operation and Development
PBB	performance-based budgeting
PEMC	Public Enterprise Monitoring Commission
PFM	public financial management
RAS	Reimbursable Advisory Services
SFA	Seychelles Fishing Authority
SMB	State Marketing Board
SME	small- and medium-size enterprise
SOE	state-owned enterprise
STC	Seychelles Trading Company
SWIOFish	South West Indian Ocean Fisheries Governance and Shared Growth
SWIOFP	South West Indian Ocean Fisheries Project
TA	technical assistance
UNDP	United Nations Development Programme

All dollar amounts are U.S. dollars unless otherwise indicated.

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Summary

Highlights

Between 1976 and the mid-2000s, Seychelles had transformed itself from a poor subsistence economy into a high middle income country with low levels of poverty and many social indicators comparable to Organisation for Economic Co-operation and Development (OECD) countries. However, this growth could not be sustained and faced with a growing international financial crisis, severe shortages of foreign exchange resulted in the government defaulting in its international payment obligations in 2008. Starting that year, the government began implementing a radical program of macroeconomic stabilization and structural reforms. The centerpiece of these reforms was a strong fiscal adjustment to reduce the burden of external debt and a progressive dismantling of the role of the state in allocating resources. These reforms were supported by the Standby and Extended Fund Facility (EFF) arrangements of the International Monetary Fund (IMF), and by the Bank through a series of development policy loans (DPLs). Seychelles also benefited from debt relief provided by other official and private international creditors. As a result of the reforms, macroeconomic imbalances were corrected, the role of markets was enhanced, and economic growth restored. However, some important measures such as privatization or SOE reforms (to improve their governance) were stalled or progressing at a very slow pace and there are increasing pressures to reverse some key reforms (such as reducing the size of government)

The Bank played an important role in Seychelles' successful turn-around. Its support was mainly in the form of a series of DPLs, which was complemented by demand-driven analytic and advisory services (AAA) and capacity building initiatives. The Bank's strategy was fully consistent with the government's reform agenda and addressed the twin challenges of vulnerability and lack of competitiveness in the context of shrinking fiscal space. The Bank made a valuable contribution to the design of a targeted social safety net which was an important complement to the stabilization program and helped to sustain the reform program. The Bank's program was well harmonized with the work of the other development partners. In particular, there was excellent cooperation between the Bank and the IMF in the design of the reform programs. The Bank's strategy was selective and flexible in response to changing external conditions or government priorities. But perhaps the Bank was too accommodating when important reforms such as privatization of state owned enterprises were stalled and state-owned enterprise (SOE) reforms were proceeding very slowly. In addition to the two Public Expenditure Reviews which included chapters on public administration and public enterprise governance, a political economy analysis of these important reforms could have helped inform and better address the reasons that led to a slow pace of the SOE reforms. The Bank Group supported several areas for enhancing competitiveness and outcomes were moderately satisfactory. Its interventions helped liberalize the incentive framework. The regulatory framework for private businesses was also simplified and legislation adopted to ease entry and exit of firms. However, limited progress was made in the later years, in promoting privatization and in SOE reforms. The Bank played a useful role in making the fisheries sector more transparent in order to improve its performance and strengthen accountability. Bank

interventions in the energy and water sectors were instrumental in rationalizing tariffs to support the viability of the public utility company and enhance its ability to provide reliable supply. Bank involvement in the financial sector was largely confined to housing finance segment and in developing a leasing law to facilitate access to credit to small- and medium-size enterprises (SMEs). Going forward, a fresh impetus to reforms is required. These must accelerate reforms of state enterprises, including privatization; reforms in air, port, and information and communications technology (ICT) infrastructure to improve connectivity; skills development; and continuing reforms in governance to enhance transparency and accountability.

At independence in 1976, Seychelles was a poor subsistence level economy with huge disparities in wealth. Through the 1980s and 1990s Seychelles followed a socialist-type model of development characterized by a dominant role of the state in the economy and the establishment of a generous welfare system. This orientation paid rich dividends. Pumped by high levels of public spending, including on infrastructure, the economy grew strongly led by growth of tourism and fisheries. By the early 2000s, Seychelles had surpassed all countries sub-Saharan Africa in terms of both per capita gross domestic product (GDP) and human development indices.

However, this model of development proved to be unsustainable. Severe shortages of foreign exchange plagued the economy and in 2008, as the international financial crisis erupted, the country was forced to default on its international debt obligations. Following the default, the country embarked on a drastic course correction involving tough measures to cut back public spending, and economic reforms to roll back the role of the state in the economy and increase the role of competitive markets in resource allocation.

These reforms, which were supported by the IMF and the World Bank and benefitted from generous debt relief from other private and official creditors, were largely successful in restoring macroeconomic imbalances and allowing the resumption of growth. However, the external environment remains fragile and renewed pressures to reverse the tide of reforms, including fiscal restraint, could derail progress unless they are strongly resisted and further reforms implemented.

Bank's Contribution

The Bank played an important role in Seychelles' recovery. It responded quickly to the government's request for assistance in helping design the reform program. Over the years the Bank's support has largely been provided in the form of a series of DPLs, complemented by demand driven AAA and capacity building initiatives (including in pubic financial management, design of social protection programs, health, education, fisheries and energy sectors, among others). The Bank also managed some Trust Fund operations, including in the areas of renewable energy and energy conservation. Since its reengagement in 2010, the activities of the International Finance Corporation (IFC) have been limited and confined largely to the energy sector (mainly for promoting renewable energy and energy efficiency) and the financial sector (mainly for development of leasing). The Multilateral Investment Guarantee Agency (MIGA) has no active projects in Seychelles.

Assessment of the Bank Group's Overall Strategy and Program for Enhancing Competitiveness

BANK GROUP OVERALL STRATEGY

There was close alignment between the government's objectives and the Bank's strategy and program. There was also a clear focus in the program, especially in the initial years. The main priority was to restore macroeconomic stability and allow markets (and the private sector) a dominant role in allocating resources. With respect to the former, the Bank made an important contribution by helping the government design and implement a program of targeted subsidies to protect the most vulnerable from the cuts in universal subsidies necessitated by the stabilization program. With respect to the latter, the Bank program supported government's efforts to liberalize the incentive framework and improve the business environment for the private sector. In later years, even as the reform agenda widened, the Bank resisted the temptation to intervene in every important area, deferring to other development partners (for example, the European Union [EU] in the education sector).

The Bank's program was well harmonized with other donors' activities. In particular, the close collaboration with the IMF in the design of the reform program was acknowledged by the authorities as an important reason for its successful implementation. In particular, both institutions provided valuable support to the government in negotiating generous debt relief from other creditors.

The Bank was flexible in implementing its program and responded timely, quickly and appropriately to external economic shocks (such as the longer than anticipated slowdown in European markets) and natural disasters (floods in 2013). In other areas, though, such as the privatization and SOE reforms, Bank flexibility in adjusting the pace of the program lacked strong underpinnings. The Bank conducted two useful public expenditure reviews in 2009 and 2011 that provided some guidance on public administration and public enterprise governance. But in view of the very slow pace of SOE restructuring, a deeper analysis of the political-economy underpinnings of reform ownership and constraints could have fostered an understanding of critical bottlenecks and whether the Bank should continue to risk 'reform capital' on SOE restructuring.

The emphasis on social protection and the fisheries sector in the Bank's program was consistent with the Bank Group's twin corporate goals, adopted in 2013, of reducing poverty and promoting shared prosperity.

The Bank's program addressed the concerns of vulnerability (to external economic shocks and natural disasters) and competitiveness and private sector development that inform the Bank's agenda across small states. However, in some sectors, less attention was paid to address issues of lack of transparency, favoritism and abuse of power to which small states (where everyone knows everyone else) are particularly vulnerable. While the Bank's program sought to increase transparency in some areas (such as in public financial management, fisheries), a more comprehensive approach to subject government decision making to public scrutiny may be desirable to curb arbitrariness.

THE BANK GROUP'S PROGRAM FOR ENHANCING COMPETITIVENESS

The Bank Group supported several areas for enhancing competitiveness. With respect to the incentive regime, significant progress was made in the early years of reform to enhance the role of market forces and reduce state intervention in resource allocation. The foreign exchange regime was liberalized, prices were largely decontrolled and interest rates liberalized. Competition from imports was enhanced by maintaining low-import tariffs and reducing non-tariff barriers by modernizing customs clearance procedures and simplifying procedures for export and import permits. Tax reforms were implemented to make the playing field more even by eliminating various exemptions.

The regulatory framework for private businesses was also simplified and efforts made to accelerate settlement of commercial disputes. A new Licensing Act (2010) was enacted providing for more transparent procedures and eliminating the number of commercial activities requiring ex ante licenses to operate. A new Investment Code (2010) was adopted providing a modern framework for the promotion, regulation and protection of investors and investments. The Seychelles Investment Board was established to facilitate and promote investments. Registration was simplified by implementing an on-line one-stop shop for starting a business. To further save on time and cost, registration of property titles was computerized and a system put in place allowing electronic payment of taxes. A new Insolvency Act was adopted which establishes a modern framework to save viable businesses and enable non-viable businesses to exit the market quickly. The Bank also supported reform to accelerate the process of settling commercial disputes, including through the establishment of a specialized commercial division and the set-up of a new mediation framework.

However the impact on the ground of these reforms is yet to be felt in any significant way. Seychelles only slightly improved on its rank in terms of the Ease of Doing Business Index from 84 (out of 175 countries) in 2006 to 85 (out of 189 countries) in 2014. Anecdotal evidence presented to the IEG mission suggested that notwithstanding formal rules to the contrary, there remains substantial intervention by the state (and powerful politicians) in economic activities in informal ways. This arbitrariness remains a constraint to private sector development which would need to be addressed by promoting greater transparency in government interactions and by strengthening independent institutions that can check arbitrariness. More could have been done in this regard.

The Bank program aimed at reducing the state's role in the economy and improving the efficiency of SOE through state enterprise reform, privatization, and governance reform.

In the early years, efforts were made to shrink the role of the state by transferring some of the non-core functions performed by state agencies on to the private sector. While this effort was successful in eliminating a large number of government jobs (some of which got transferred to the private sector), it also resulted in deterioration in the quality of some of the services provided, and pressures to reverse the policy in some cases.

The Bank supported the restructuring of the former State Marketing Board, a state trading conglomerate and supplier of basic consumer goods. Follow up privatizations of the majority state-owned Seychelles Savings Bank and Nouvobanq did not take place as planned, and the original privatization agenda appears to have been abandoned in favor of improving the governance and oversight of state enterprises.

The Bank's program to improve corporate governance in SOEs focused on creating a legal and institutional framework for better monitoring and assessment of SOE performance. The Public Enterprise Monitoring Act (2009) was amended to give more autonomy to the enterprise board whose responsibilities were also clearly defined. An independent Public Enterprise Monitoring Commission (PEMC) was created with responsibility for monitoring financial, governance, and transparency issues in relation to public enterprises. Also, to improve government oversight of investments made by public enterprises, a high-level committee was formed to review all potential public projects of a magnitude greater than SR25 million and assess their macroeconomic and fiscal risks. While these are useful first steps, the more important measures to reward good performers and penalize poor ones are still pending. There is no evidence so far to suggest that state enterprises face a 'perform or perish' environment necessary to improve their performance.

Bank Group interventions in the financial sector were limited to the housing finance segment and leasing. In the housing finance area, the Bank supported reforms to reduce the role of the state-owned Housing Finance Corporation (HFC) and increase the role of private banks in housing finance. A new housing finance strategy that increased private participation in housing finance and reduced untargeted housing subsidies is being implemented. The Bank provided TA to develop a system of 'smart' subsidies targeted to low income households. It is still too early to tell if these changes will incentivize private banks to enter the housing finance market and anecdotal evidence suggests they remain reluctant. With IFC support, a Financial Leasing law designed to ease access to finance, especially for SMEs, was passed in November 2013. However, the enabling regulations which will allow leasing companies to be formed are yet to be adopted.

The Bank was not a major player in infrastructure, except in the electricity and water sectors where its interventions supported tariff adjustments to improve the financial viability of the public utility corporation and encourage energy (and water) conservation. Based on the recommendations of a study funded through the RAS, the government adopted an automatic mechanism to adjust price movements in line with key variables like the exchange rate and fuel prices on a quarterly basis. The government also approved a tariff rebalancing program that seeks to align electricity and water tariffs to cost-recovery levels over eight and ten years, respectively. To ensure long run sustainability, the Bank supported the enactment of an Energy Act 2012 which provided a roadmap to help remove crosssubsidization gradually across the various client groups and gradually increase tariffs to cost-recovery levels over 7 years starting in mid-2013. This Act also establishes the Seychelles Energy Commission to regulate the electricity sector, license electricity activities, tender and award contracts to independent power producers, and determine tariffs and charges.

The Bank's program also sought to assist the government in pursuing its goal of diversifying its energy mix by promoting private sector participation in renewable energy. Through a grant from the Small Island Developing State DOCK Support Program (SIDS-DOCK), the Bank supported the preparation of grid codes, feed-in tariffs, and model energy supply purchase agreements. Some parts of this work (such as the grid penetration component) were useful while some other parts (such as preparation of grid codes) were too generic to be of use. The IFC's initiative, through the Seychelles Energy Efficiency and Renewable Energy Project, to promote efficient use of energy in households by incentivizing commercial banks to lend for purchase of energy efficient household appliances was unsuccessful.

Given the large share of the fisheries sector in GDP, exports and employment, its importance for food security, and a significant involvement of the private sector, the Bank's program sought to improve the sector's performance by promoting public disclosure of all fishing agreements, fishing and aquaculture licenses, and authorizations that were issued (and will be issued in the future) to foreign and national entities. As a result, this information is now public. The measures to mandate full disclosure of details of fishing agreements and publication of key statistics on the sector should enable more informed management decisions to be made and also maintain public pressure to ensure that sector decisions are made consistent with the interests of the public. However, this presupposes that there is adequate institutional capacity in the sector to understand what the data are revealing and to design policies in line with emerging data. This may not be the case, and the Bank may need to do much more in terms of capacity building in the SFA and other sector institutions to ensure that the sector is managed more efficiently.

Conclusions and Lessons

Based on its contribution to various dimensions, the Bank Group's performance in enhancing competitiveness is assessed as moderately successful[1]. While the share of net inflows of foreign direct investment (FDI) in GDP has fallen over the period, the share of domestic private investment has increased. Other positive trends include the increased market share of exports to the competitive European market, and growing share of world tourism arrivals. The strong growth of exports of ICT services is another positive trend suggesting some success in diversification. However, the ease of doing business between 2006 and 2014 only slightly improved, and there was a decline in its ranking according to the Global Competitiveness Index between 2012–13 and 2014–15.

On a broader level, the Bank's strategy and program were in line with the priorities of the government. The Bank's program complemented the work of other development partners. Its close partnership with the IMF in the design of the reform program was cited by authorities as an important reason for its success. Consistent with the priorities of small states, the Bank's program addressed the two critical pillars of enhancing competitiveness and reducing vulnerability. It was selective in its interventions and not overly ambitious. The Bank's program was timely, flexible and responsive to the changing external economic environment as well as the government's requests for specific kinds of assistance (in terms of AAA for example. However, the Bank was perhaps too accommodating when it came to policy slippages. In recent years, it could have pressed harder on some of the issues (such as SOE reforms) that are important for enhancing competitiveness.

LESSONS

Lesson 1: It would be desirable for the Bank to be prepared to maintain at least a minimum technical presence even when the policy dialogue is unsatisfactory. Technical staff may have the opportunity to engage with policy makers that needs support and confidence in pursuing good policies which alone they couldn't do. This may open the door for an earlier reengagement to adopt a more sustainable fiscal trajectory before the country descends into crippling debt and bankruptcy.

Lesson 2: The Bank could make a greater effort at understanding political economy issues, including identifying individuals who are championing or opposing politically contentious reforms so that these are reflected in assessing political challenges and opportunities for key reforms. This political economy analysis would be timely after Seychelles' "closely fought" Presidential elections in December 2015, and would help frame the new CPF, notably to (i) prioritize the reform agenda; (ii) gauge the degree of ownership for different reforms, and interests working for and against reforms within government and outside; and (iii) suggest entry points and ways to neutralize or compensate those opposing key reforms. This analysis would be updated as and when important political developments (such as fresh elections or major cabinet reshuffles) occurred. Naturally, any such analysis would require the Bank to interact with stakeholders including trade unions and opposition parties.

Lesson 3: The Bank needs to remain selective in the choice of areas to focus upon, given the limited resources at its disposal. Fiscal restraint will remain an important macro compulsion in the medium term and the Bank could provide useful inputs in improving the quality of public spending, including public investment. Given its dependence on international trade and services, improving the quality of infrastructure to enhance connectivity with the rest of the world in one obvious priority area for Seychelles to which the Bank can contribute. Improving quality of education and skills is another important area where other DPs are taking the lead. It would be judicious for the Bank to keep a close eye on the results of these efforts and offer any expertise it has to further these efforts. It would be wise for the Bank to continue to take a pro-active stance in promoting trade, investment and exchange of ideas at the regional level.

Lesson 4: The Bank needs to remain flexible in the design of its program and be prepared to modify it in size and substance if the external environment changes or priorities of the government change. However, slippages in implementation of policy conditionality are to be accommodated only in exceptional circumstances. This is important to ensure the Bank keeps its credibility. Prior actions and targeted outcome in DPLs needs to be precisely worded and crafted to ensure that there is a clear logical chain between the prior action and the ultimate objective of reform and also that this chain is aligned with the programmatic cycle of the DPL.

Lesson 5: Wherever possible, the Bank could press for increased transparency and accountability in government and help promote reforms that break the "cycle of fraternity" which often plague institutions in small states. So far the Bank's emphasis has been largely in the area of public finance management. As noted by several stakeholders, including former policy makers, the Bank's appetite to challenge the government to deepen reforms during the second wave of reform was weak. They felt the Bank should place greater emphasis on good governance. Bank agenda to foster accountability should be widened to include other areas (e.g., selection of the chief executive officers [CEOs] of public sector bodies) where the government may be tempted to dispense favors to its favorites or penalize opponents. The role of independent watch-dog bodies such as the press and the judiciary will be important to hold the government to account, and the Bank should support any efforts to strengthen their role.

Lesson 6: It would be desirable for the Bank to look beyond standard prescriptions in designing SOE reforms, including privatization in small states where the capacity of the private sector may be very thin. It is therefore important to first assess the readiness of the private sector to take on responsibilities of a retreating state and to re-calibrate the planned speed of transition based on this assessment. At the same time, the Bank should be prepared to strengthen design joint interventions, including support for institutions that can provide hand-holding services to the private sector in the initial years.

1. Country Context and Purpose of the Evaluation

1.1 Like Mauritius, the Seychelles story of recent years is one of successful transformation, but of a different kind. In 2006–07, the country was in crisis, unable to pay its foreign creditors and faced with severe shortages of foreign exchange and essential commodities. Tough policies were implemented, the crisis was overcome, shortages disappeared, and the country is on a fragile, but more stable, path of economic recovery and growth. This transformation from crisis to recovery was made possible by another equally important paradigm shift: the economy was transformed from one which was principally directed by the state and where markets had a very limited role, to one where market forces dominate (though the state remains an important player). What was remarkable was that this transformation, which entailed severe hardships on some of the population in the short term, happened without social strife.

1.2 These developments could not have happened without the strong and sustained support of the IMF and the World Bank, and the debt relief provided by official and private international creditors. This combination of the government's firm resolve to implement policy changes, the citizens' acceptance of the necessity for change, and the timely support from international creditors contributed to Seychelles' economic recovery from the brink of disaster.

1.3 This Country Case Study evaluates the World Bank Group's activities that seek to improve competitiveness over FY07–15. This evaluation is part of a cluster of country evaluations of small states, also including the OECS countries, selected Pacific islands, Cabo-Verde, Djibouti and Mauritius.

Seychelles Development Challenges

COUNTRY BACKGROUND

1.4 Seychelles gained its independence from the United Kingdom in 1976. It is a small island economy in the middle of Indian Ocean with a population of 88,000 people.[1] The island is vulnerable to natural disasters including floods, rising sea level, and tsunami. In recent years, it has also been vulnerable to piracy in the Indian Ocean region. Seychellois descend from a mix of French, African, Indian, Chinese, and Middle East ancestries, and speak a Creole language, although English and French are also the official languages.

1.5 Following a coup soon after independence, Seychelles became a one party socialist state. Though the country moved to a multi-party system in 1993, political power has remained in the hands of the same ruling elite for almost the entire period since independence.[2] Until the crisis in 2007, Seychelles followed a state-led socialist oriented economic program. Since then, market forces play a much larger role in resource allocation, though the state remains an important player.

1.6 "Seychelles is a high income country (with a per capita gross national income of $14,100 in 2014) with many social indicators comparable to those in OECD countries.[3] Its economy is predominantly service-based and largely dependent on the tourism sector and fisheries.[4] Seychelles has the second-largest tuna cannery in the world. Bunkering (the re-export of fuel) and fuel storage are profitable activities. Seychelles relies on imports for almost all raw materials, products, and specialized services, and is therefore highly vulnerable to external shocks. Initial oil exploration efforts have yielded successful results, and if fruitful this could be a huge boost for the economy.

ECONOMIC DEVELOPMENTS

1.7 At independence in 1976, Seychelles was a poor subsistence level economy with huge disparities in wealth. Partly in response to the poverty and inequity, through the 1980s and 1990s Seychelles followed a socialist-type model of development characterized by a dominant role of the state in the economy and the establishment of a generous welfare system. This orientation paid rich dividends. Pumped by high levels of public spending, including on infrastructure, the economy grew strongly led by growth of tourism and fisheries. At the same time, the generous welfare system, financed by buoyant tax revenues and domestic borrowing, ensured that benefits of growth translated into benefits (such as universal primary education and access to health care services, generous welfare payments and subsidies) for most of the population. Economic growth averaged 6 percent during the second half of the 1980s and 5 percent during the 1990s. By the early 2000s, Seychelles had surpassed all countries sub-Saharan Africa in terms of both per capita GDP and human development indices.[5]

1.8 But these gains were unsustainable. The government's expansionary fiscal stance led to shortages of foreign exchange which persisted even as exchange restrictions were tightened. These shortages had an adverse impact on growth. Despite periodic (but short lived) efforts at partial reforms and expenditure restraint, the country continued to accumulate external debt (and arrears) to finance high levels of public spending (on social programs, wages, support to public enterprises).[6] By 2008, as oil prices tripled and revenues from tourism contracted due to the global financial crisis, foreign exchange shortages intensified. Essential commodities, including medicines were in short supply, and the country defaulted on a coupon payment on a $230 million bond. Growth plummeted to -1.3 percent in 2008 after averaging 7.5 percent during 2005–07.

1.9 Following the default, the government embarked on a comprehensive economic reform program supported by an IMF Standby Arrangement in November 2008.[7] The Standby was replaced in Dec 2009 by a four-year arrangement under the Extended Fund Facility, which was followed by a successor EFF arrangement that expires in end 2017. The Bank provided funds through a series of development policy operations (DPOs) in support of these reforms. In April 2009, the Paris Club creditors granted a face-value debt reduction of 45 percent, followed by an agreement on similar terms with other private creditors in January 2010. Several non-Paris Club bilateral deals were also concluded.

1.10 The reform program was implemented successfully. Foreign exchange restrictions were removed and the exchange rate was allowed to be market determined.[8] Price controls were lifted and interest rates set free. New market driven monetary instruments to control liquidity were introduced. Tight fiscal policies with positive primary surpluses were maintained throughout the period. However, expenditures on social programs were maintained to cushion the impact of the reforms on the population, including those whose jobs were eliminated. The government also introduced a new social welfare system replacing universal subsidies with means tested welfare benefits. The primary budget surplus averaged 7.2 percent of GDP per year during 2009–14.[9]

1.11 After the initial shock, the economy recovered quickly. Growth was restored and macroeconomic imbalances progressively corrected. Led by a strong surge in FDI (mainly tourism related) and the recovery of tourism, GDP growth averaged almost 5 percent during 2009–14. The spike in prices following the devaluation was quickly dampened by the tightening of monetary policy and the fiscal adjustment.[10] The external position also improved significantly allowing for a modest build-up of reserves from about 0.6 months of imports in 2009 to 4 months of imports by 2014. As a result of the restructuring of external debt that was initiated in 2009, and the sustained primary surpluses achieved since then, the level of total public debt (which was almost 124 percent of GDP in 2009) was brought down to 65 percent in 2014.

POVERTY, UNEMPLOYMENT, INEQUALITY, AND MDGS

1.12 With a gross national income per capita of $14,100 in 2014, Seychelles is classified as a high-income country. Poverty in Seychelles is relatively low, with less than 2 percent of the population living on less than $2 per day.

1.13 Seychelles has already achieved most of the Millennium Development Goals (MDGs), especially for education, health, poverty eradication, and the environment.

1.14 Gross enrollment in primary and secondary education is high (above 100 percent). Education is free to the secondary level and subsidized at the tertiary level.

1.15 Seychelles has better indicators of health outcomes (such as life expectancy and child mortality rates) than many other small island states.[11] It ranked 71st out of 187 countries in terms of the 2013 Human Development Index of the United Nations Development Programme (UNDP), but its score has remained stagnant between 2005 and 2013.[12]

EMERGING ECONOMIC CHALLENGES

1.16 The consistent implementation of a tough macroeconomic stabilization program, and debt relief, was responsible for a turn-around in economic fortunes in a remarkably short period of time. However, the economic recovery remains highly fragile, vulnerable to policy slippages, external economic shocks and natural disasters.

1.17 To sustain the gains achieved in the recent years, the country will have to maintain its tight fiscal stance by ensuring that government expenditures stay within tight limits. More fiscal space must be assured to build resilience to external shocks. In particular, pressures to expand public sector employment (and wages) and transfers to state enterprises pose a real and continuing threat to fiscal consolidation.

1.18 Within this over-arching framework, the policy emphasis will have to shift toward a real structural transformation of the economy. The state continues to be an important player in the economy, exercising its control through formal and informal mechanisms. To give the private sector more space, privatization must be accelerated wherever strategic interests are not involved and SOE reforms implemented to introduce greater accountability in functioning. Ample room still exists for improving the regulatory environment for business and the quality of essential infrastructure. The government also needs to place a greater focus on improving the quality of education and skills, which are likely to emerge as the most important constraint to competitiveness and diversified growth in the medium term.

1.19 Given the country's open-ness and its vulnerability to natural calamities, a robust safety net will remain a priority to protect the vulnerable from the inevitable shocks to which a small open island economy is prone. Reforms to improve the efficiency of social sector spending and delivery of essential public services, and reforms in the social assistance programs for targeted groups (including the poor and the elderly, but also those most affected by natural disasters) will have to remain a priority. Reforming the pension system is a priority.

1.20 Seychelles scores only about average in terms of governance indicators on corruption and transparency. More reforms are necessary to ensure that public institutions function transparently and there is lesser and lesser scope for discretionary interventions by the state, formally and informally, in the economy. The role of non-state watch-dog institutions like an independent judiciary and media needs to be strengthened.

Evaluation Objectives and Report Structure

1.21 Seychelles joined the International Bank for Reconstruction and Development (IBRD) in 1980, the International Finance Corporation (IFC) in 1981, and Multilateral Investment Guarantee Agency (MIGA) in 1992. Between 1980 and 2009, only two IBRD loans for a total of $10.7 million were approved: one loan in FY86 to finance port improvement and rehabilitation of the road network on the main island; and another loan in FY93 on transport in Praslin Island (the second most important tourism destination in Seychelles) and the environment. Following payment arrears, IBRD loans were put into non-accrual status in August 2002. Seychelles repaid both loans in full in October 2006. Thereafter, initial Bank support in 2007 was to deal with the aftermath of the 2004 Tsunami and for regional fisheries.[13] After 2009, the bulk of Bank lending has been in the form of budget support financing for economic reforms. Lending has been accompanied by AAA and local capacity building, financed partly by RAS and grant funding from Trust Funds.

EVALUATION OBJECTIVES

1.22 This Country Case Study evaluates the World Bank Group's operations in Seychelles from FY07–15. It covers one interim Strategy Note (FY09–11), one on going Country Partnership Strategy (CPS) for FY12–15, which was been further extended until FY16 in the 2014 CPS Progress Report to align with the elections of early 2016.

1.23 As noted earlier, this report is part of the cluster country program evaluation for small states (see approach paper). Each country program evaluation assesses whether the Bank Group assistance supported relevant objectives; if it achieved them effectively and efficiently; and whether institutional development impact was achieved in a sustainable way. The approach paper has defined two main broad pillars that will guide the evaluation to assess how Bank activities contributed to (1) improve macro/environmental/social resilience and (2) foster sustainable and inclusive growth.

1.24 In additional to a group of islands that were selected in the Caribbean (the OECS countries) and in the Pacific, four African Countries have been selected for this evaluation, namely Mauritius, Seychelles, Djibouti and Cabo Verde. These country case studies provide an assessment of selected part of the Bank program over the evaluation period. These country case studies provide an assessment of selected part of the Bank program over the evaluation period. The case studies on Mauritius, Seychelles and Cabo Verde seek to assess how Bank activities foster sustainable and inclusive growth (Pillar 2) while the Djibouti case study reviews measures that were implemented to improve social and environmental resilience (under Pillar 1). The main objective of this report is therefore to assess the contribution of the Bank's assistance program in Seychelles during FY07–15 in enhancing competiveness and promoting private sector development. This is only one part of the Bank's assistance program in Seychelles during this period. The Bank's role in strengthening the macro, social (in particular the important part the Bank played to strengthen social protection) and environmental resilience (pillar1) is not evaluated in this report. A short summary of Bank contribution under Pillar 1 is provided in appendix D.

REPORT STRUCTURE

1.25 Chapter 1 provides a brief introduction to the economy and recent economic developments, including progress in reducing poverty and meeting MDGs. Key challenges are highlighted. It also includes a brief description of the Bank's role in the country thus far, and presents the evaluation objective and structure of the report.

1.26 Chapter 2 describes the Bank's Country Strategy since 2009. (Details on the operational programs are provided in appendix B.) The rest of the chapter gives a broad assessment of bank activities at a "macro level to discuss the relevance of Bank objectives and design (notably in light of specific features of small states, the political economy, capacity constraints), the flexibility of the strategy to allow for unforeseen events, the harmonization with the plans and programs of other DPs; the adequacy of the monitoring framework. These are some of the issues addressed in this chapter.

1.27 Chapter 3 describes and evaluates the Bank's contribution to enhancing competitiveness and promoting the private sector. It includes the Bank's role in liberalizing markets and increasing competition through foreign competition; promoting domestic competition by enlarging the space for private sector through privatization and facilitating entry of new businesses; improving competiveness of SOEs through better governance; improving availability and quality of essential infrastructure; facilitating access to credit; and improving the performance of the fisheries sector. For each of these areas, various sections of the chapter describe what was done through Bank interventions, and assess to what extent these interventions were successful in delivering what they set out to achieve. Based on this analysis, the chapter reviews the overall macro impact on competitiveness of all these interventions and to what extent they have contributed to improved export performance and increased private investment in the economy.

1.28 Chapter 4 summarizes the conclusions and provides some broad lessons from the Seychelles experience and a set of lessons.

[1] Seychelles comprises 115 tropical islands (455.3 kilometers in land area) spread over 1.4 million square kilometers in one of the world's major tuna fishing grounds. Only 10 of the islands are inhabited. Around 90 percent of the population lives on the largest island Mahe (60 percent is urbanized), where the capital, Victoria, and the main fishing port are located.

[2] A first multi-party presidential election took place in 1993 in which the incumbent president, who had ruled the country since the coup, Mr. France Albert Rene of the People's Progressive Front, won. He governed the country under a new constitution till April 2004 when he stepped down and appointed James Alix Michel as the interim President. Michel was elected in 2006 for a five-year term, and re-elected for another 5-year term in the last elections held in May 2011. Parliamentary election was held end September 2011 which was boycotted by the Opposition parties. The ruling party won almost all seats.

[3] It has met most of the targets for the eight MDGs.

[4] Tourism accounted for 25 percent of GDP (and employment) and 70 percent of foreign exchange earnings in 2012. Tuna fishing and processing alone accounted for 5 percent of GDP. Only 2.2 percent of the land area is arable.

[5] In 2003, per capita GDP in Seychelles was $8,404 compared to the sub-Saharan average of $505 (and Mauritius $4,588). In 2000, with an HDI score of 0.743 it ranked 56th out of 158 countries according to the UNDP's Human Development Index, ahead of Mauritius (ranked 71st with a score of 0.686). Seychelles performed better than most comparator countries in the region in terms of health and education indices. Source: *Seychelles: How Classic Policies Restored Sustainability* (World Bank, 2013); *Human Dev Report* (UNDP, 2014, table 2).

[6] According to the World Bank's PER (2009), between 2000 and 2005 public expenditure in Seychelles was about 20 percent higher than could be justified by per capita income. By end 2005, external arrears had risen from the equivalent of $54 million in end 2001 (9 percent of GDP) to $184 million (25 percent of GDP). Public external debt increased to 72 percent of GDP by 2007 from 47 percent in end 2005.

[7] The main elements of the program included: (i) full liberalization of the exchange rate regime; (ii) tighter fiscal policy and good governance; (iii) tighter monetary policy; (iv) replacement of universal subsidies with a targeted social safety net; (v) public sector reform to improve government efficiency, particularly in health and education services; (vi) removal of constraints to private sector development and greater support to private sector investment; and (vii) a debt workout aimed at putting public debt back on a sustainable path.

[8] The immediate effect was a 55 percent devaluation of the currency against the U.S. dollar after which it stabilized. The initial depreciation in November 2008 was passed through to prices, with inflation jumping to 24 percent in that month and finishing the year at 63 percent on a December-to-December basis.

[9] In the initial years, government expenditures were reduced by slashing indirect product subsidies (electricity, water, gas), down-sizing the public sector, and restraining growth of public sector wages. In 2009, the number of civil servants declined by 15 percent. Tax revenues were enhanced by removing a large number of exemptions, broadening the tax base, and improving revenue administration. Source for data: IMF Reports 2013, 2014, 2015.

[10] Inflation declined sharply to the low single digits and averaged 7.5 percent per year during 2009–14.

[11] For instance, the country's life expectancy at birth is 73 years, equal to that of Mauritius. The maternal health MDG is largely achieved. Infant mortality was at 14 per 1,000 live births in 2010. For many years the Seychelles has recorded zero maternal mortality; births attended by skilled health staff hovers between 99 and 100 percent; and proportion of women receiving prenatal care has consistently been over 99 percent. Source: CPS, para. 19.

[12] The HDI index moved from 0.743 in 2000 to 0.757 in 2005 and 0.756 in 2013. In the same period, Mauritius improved its score from 0.686 in 2000 to 0.771 in 2013. It ranked 63rd in 2013.

[13] The Tsunami Emergency Grant for Rehabilitation of Fish Processing Quay (TF090482, $1.96 million) assisted the fishing authority in rehabilitating the fish processing quay in the aftermath of the tsunami, and helped to restore the livelihood of selected local communities and fishing businesses. The Strengthening the Capacity of the Seychelles Fishing Authority to Undertake Tsunami Ecosystem Impact Assessment Project (TF09042 1 -SEY, $368,000) was for strengthening the Seychelles Fishing Authority to identify ecosystem changes attributable to the tsunami and determine how these changes reflect in the catches by artisanal and industrial fleets. Both these projects were funded by grants from the Japan Social Development Fund.

2. The Bank's Country Partnership Strategy

2.1 The Bank's re-engagement with Seychelles began in 2007 with the signing of two grant agreements for rehabilitation of infrastructure and fisheries seriously damaged by the 2004 tsunami. Apart from these projects, Bank interventions during 2007–09 were mainly in terms of AAA to assess the economic situation in the country and for identifying needs for building of capacity in the Ministry of Finance.

2.2 The Interim Strategy Note (November 2009) defined the Bank's strategy for FY10 and FY11. The Bank's strategy during FY12–15 was articulated in the

2.3 Country Partnership Strategy Paper (April 2012). The CPS Progress Report (November 2014) reviewed the implementation of the program and broadened the scope of CPS objectives to address emerging priorities in the government's program, including enhancing regional integration, addressing infrastructure gaps, and improving the ability to cope with natural disasters. The CPS period was also extended till 2016 to coincide with the electoral calendar.

Context

2.4 By 2006–07 the economy was facing a macroeconomic crisis manifested in growing public debt and severe foreign exchange shortages. The government recognized the need for deep macroeconomic and structural reforms and initiated preparatory work on defining the parameters of the reform program. Active Bank re-engagement with Seychelles began in the run-up to preparation and the subsequent adoption and implementation of the IMF supported macroeconomic stabilization program in late 2008. During this time, the Bank provided advice for better public financial management, including assistance in developing better systems for budget planning and implementation and the preparation of a medium term economic framework. Recognizing that any stabilization program would involve sharp cuts in public spending, the Bank was requested to help design a program of social spending that would protect the most vulnerable for these cuts. The Bank was also requested to support the government in its negotiations with other international creditors.

2.5 The adoption of the one year stabilization program in November 2008 was followed by a series of IMF backed stabilization cum reform programs which continue till date.[1] These programs, which were jointly developed by IMF and the World Bank, defined the government's reform priorities in this period.[2]

The World Bank's Strategy and Program

Objectives and Strategy

2.6 Over FY10–11, the ISN had three main objectives. The first objective was to support the comprehensive macroeconomic stabilization program that was being implemented by the government. This entailed developing the analytic tools and strategies for addressing income volatility and improving fiscal policy. The second objective was to help remove constraints to private sector development and improve public sector governance, including strengthening the civil service and other institutions to manage the transition to a new kind of economy. The third objective related to the longer-term challenge of climate change vulnerability and disaster risk management. The ISN was expected to inform the development of a longer-term World Bank engagement aligned with the evolving reform program and "Seychelles Strategy 2017" to the extent possible.

2.7 Over FY12–16, the Bank's objectives were aligned with the draft Seychelles Medium-Term National Development Strategy 2013–17 (MTNDS), which presented the vision and goals for the country. The core aim of the MTNDS was to reduce Seychelles' vulnerability and to provide the basis for long term sustainable development.[3] Consistent with its new Africa Strategy, the Bank's strategic approach in Seychelles was structured around two pillars and one basic foundation. The two pillars were (i) Competitiveness and Employment; and (ii) Vulnerability and Resilience. The basic foundation was Governance and Public Sector Capacity. The Bank's program was focused on strengthening these three areas. Under the first pillar, the Bank's program addressed some of the major constraints to competitiveness and the growth of the private sector including the limited role of markets in resource allocation and a burdensome regulatory environment for business. Under the second pillar the Bank sought to create more fiscal space to cushion the impact of external shocks and improve the social protection programs to reduce the vulnerability of the poor and disadvantaged. The Bank also helped support the strengthening of the government's disaster and risk management policy and institutional capabilities. Finally, the Bank supported the strengthening of public sector capacity in a wide range of areas to provide better governance and public services.

THE BANK'S PROGRAM

2.8 The Bank's assistance program was largely centered on a series of DPOs which provided an appropriate umbrella for the reforms the government sought to implement during this period. A large body of analytic and advisory services AAA was undertaken to provide the analytic underpinning for the reforms. Technical assistance and capacity building were embedded in some of the operations and also provided as stand-alone activities. Trust Fund resources were utilized in some areas.[4]

2.9 Since its re-engagement in 2010, the IFC's activities have been limited and confined largely to the energy sector (mainly for promoting renewable energy and energy efficiency) and the financial sector (mainly for development of leasing).[5] The MIGA has no active projects in Seychelles.

2.10 The description of the operational program of the Bank Group, including the list of projects and AAA that were implemented during the period is provided in appendix B.

Broad Assessment of Strategy and Program

RELEVANCE OF BANK GROUP OBJECTIVES

2.11 There was close alignment between the government's objectives and the Bank's strategy and program. There was also a clear focus in the program, especially in the initial years. The main priority was to restore macroeconomic stability and allow markets a dominant role in allocating resources. The Bank made an important contribution by helping the government design and implement a program of targeted subsidies to protect the most vulnerable from the cuts in social spending necessitated by the stabilization program. The Bank also provided its expertise in the design of the government's Voluntary Departure Scheme which allowed the government to shed almost 3000 employees from the public sector. This support from the Bank was appreciated by the authorities who saw them as instrumental in maintaining public support for the reforms. In later years, while fiscal control remained central to reforms, other structural reforms consistent with the government's MTDS that addressed medium term challenges for sustainable development got increasing prominence as well. These included private sector development, infrastructure development, reform of SOEs, reform of social programs, natural disaster management etc. The CPS program supported a sub-set of these challenges, based on its areas of competence and the program of other donor partners.

2.12 In principle, the Bank's strategy was aligned with the Bank Group's twin corporate goals of reducing extreme poverty and increasing shared prosperity. While poverty was very low in Seychelles, the concern was that cuts in public spending necessitated by the stabilization program would force more people into poverty. To prevent this outcome and to sustain public support for the program, a key element in the Bank's program was to establish a program of targeted social assistance and strengthen the institutional capacity to implement social assistance programs. The reforms toward targeted social assistance were also expected to improve income distribution.[6] Improving the effectiveness of social assistance programs and strengthening institutional capacity in this area have remained a core element of the Bank's program. Substantial TA was provided and policy notes prepared to spell out the rationale for reforms and build domestic consensus. This assistance was greatly appreciated. The Bank's program to improve fisheries management was also expected to support the livelihood and food security of those most vulnerable.

2.13 Poverty reduction and employment generation were also the rationale for reforms aimed at enhancing competitiveness and promoting private sector development. To the extent these reforms succeeded in eliciting private investment, they were expected to generate employment and incomes. However, the impact of these policies on income distribution is not clear: to the extent growth takes place more in sectors such as ICT that are more skilled-labor intensive, income distribution may well be adversely affected.

MEETING SPECIFIC SMALL STATES CHALLENGES

2.14 Seychelles is extremely vulnerable to external shocks. It is a very open economy (imports are 90 percent of its GDP) and vulnerable to commodity price shocks. Its economy is highly dependent on tourism and tuna exports, making it vulnerable to a global slow-down, particularly in Europe. Already high level of public debt adds to the vulnerability as it limits the country's ability to borrow if need arises. The country is also vulnerable to climate change and natural calamities, such as floods and rising sea levels.[7]

2.15 Addressing these vulnerabilities was one of the two pillars of the Bank's CPS. To reduce macroeconomic vulnerabilities, the Bank's program was anchored to a stabilization program whose main objective was to generate primary fiscal surpluses to reduce the burden of public debt and accumulate resources to finance unforeseen contingencies. The program was also geared to accumulate levels of international reserves that would provide adequate cover for external economic shocks. Thanks in part to external assistance, in both respects, progress was made.[8] Also to reduce macro vulnerabilities, the Bank's program for enhancing competitiveness was expected to facilitate greater diversification of production and trade. Though this has not yet happened in any substantial way and the economy remains highly dependent on tourism and exports of tuna, the increasing share of exports of ICT services is a positive trend.

2.16 Social resilience was promoted in the Bank's program through the establishment of a targeted program of social assistance and reforms to improve their effectiveness. The fact that social support was maintained for the tough austerity program the government implemented suggests some success in this regard. With respect to resilience from natural disasters and climate change, the Bank supported reforms to improve the government's disaster risk management (DRM) policy and enhance its capacity to efficiently respond to disasters.

2.17 Apart from promoting reforms that improve resilience, the Bank provided considerable financial support to enable the country to shore up budget resources and to build sufficient buffers. Following the 2013 tropical cyclone Felleng, in addition to the programmed series of DPLs during FY10–15, an additional DPL with CAT-DDO amounting to $7 million was added to the program to help meet Seychelles' need for immediate, liquid assets in the aftermath of a catastrophic disaster. The 2014 CAT DDO gave impetus to the DRM reform agenda by incentivizing the government to adopt a number of measures that were prepared in 2011 through environment grants but had not been endorsed (e.g., contingency plans, DRM act). But clearly, the ultimate proof of its efficacy will be in the implementation of these measures. During implementation, the lending program was enhanced in response to continuing adverse external developments.

MONITORING PROGRAM IMPLEMENTATION

2.18 The Results Framework presented in the CPS Progress Report to monitor program implementation had about 22 milestones/process indicators covering 11 CPS outcomes for the two the two pillars and one basic foundation of the strategy. This was not unreasonable. Also, appropriately, many of the milestones were concrete actions on the ground with measurable outcomes. For the most part the matrix covered the policy areas highlighted by the Bank's strategy. However, there was nothing in the matrix in the area of SOE reform, a critical area not just for the budget but also for improving the competitiveness of the economy.

BUILDING FLEXIBILITY IN THE STRATEGY

2.19 The Bank's program was flexible. The size of the program was timely increased to create contingency financing in case of a natural disaster emergency and to address weaknesses in the government's disaster management system. The Bank was also prepared to respond positively to the initiatives in support of promoting regional trade and investment which would benefit Seychelles. The Bank's AAA program had sufficient flexibility to allow the Bank to respond quickly to requests from the government for help in thinking through various policy options (for example on pension reforms). This flexibility was well appreciated and should remain an important element in the Bank's work.

2.20 However, the Bank was too flexible in some areas of policy design and implementation and targeted results in these areas are yet to be achieved. One such area was reform aiming at liberalizing the incentives framework, notably through privatization and SOE reforms. In this case, the rationale for change was not entirely clear and lacked stronger underpinnings. While we do not question the need for flexibility in adjusting the pace of the privatization program or SOE reforms, it is not clear why the whole privatization program was shelved and why the SOE reforms are progressing so slowly. Two public expenditure reviews conducted in 2009 and 2011 provided broad guidance on these issues. But in face of the slow implementation of the program a capacity assessment and political economy discussion could have provided useful input to understand the bottlenecks in privatization and SOE reforms and assess the relevance of design of the program supported by the Bank over the past years. Indeed, some stakeholders questioned the Bank's appetite to challenge the government during the second wave of reforms. For example, one former policy maker noted that though the World Bank was instrumental in promoting institutional reforms, over the past two years there has been limited change to carry them out except for fiscal/monetary policies. They noted that: "the attitude of civil service looks like we go back to the old way. We forgot about the need to be lean. We still do business as usual despite the law, and we go back to the old days." Several examples were given to the mission related to this: the CEO feeling political allegiance after appointment by the President; violation of the procurement law for big infrastructure projects; incomplete reform of the STC which creates unfair competition for the private sector. Recent Bank documents and discussions with the country team do not convey this sense of a not so rosy relationship with the client on the implementation of some policies supported during the first wave of reforms.

ADDRESSING CAPACITY LIMITATIONS

2.21 The Bank recognized that weak institutional capacity was an important risk to program implementation, and tailored AAA including TA for capacity building was an important component of the Bank's program. Even before lending was resumed in FY10, the Bank's experts provided TA to the ministry of finance in preparing the 2008 budget and in designing a program for targeting subsidies to the poor. Subsequently TA was provided in the context of the DPLs, or separately financed by Trust Funds. Some of the important capacity building initiatives included: strengthening the capacity building at the Ministry of Finance to design and implement performance-based budgeting (PBB); strengthening capacity to monitor SOE performance; strengthening of the National Statistical Bureau; strengthening institutional capacity for disaster preparedness and response; and strengthening institutional capacity of social protection agencies.

2.22 The government also used the Reimbursable Advisory Services of the Bank (RAS) to fund some of its priority needs in capacity building, for example in the development of the PBB to improve public financial management, and in the design of the social protection programs. A policy note on public expenditures in the health sector was also produced under the RAS which was of immense use to the authorities.

2.23 Useful analytic work was also undertaken by the Bank, often at the express request of the government. As early as 2008 at the request of the government, the Bank financed an independent assessment of the tuna cannery factory (IOT) where the government was a minority partner. Based on this assessment the government was able to re-negotiate the terms with the private partner. This successful intervention by the Bank enhanced its credibility as an independent expert. In 2013, the government requested the Bank to undertake a damage and loss assessment following the floods. This work was also highly appreciated and led to the Bank's deeper involvement in disaster risk management. Other Policy notes prepared by the Bank at government's request (such as the one on health expenditures mentioned above) were useful tools that the government utilized to inform stakeholders about the need for reforms and their likely impact, which helped in consensus building. By and large, this assistance was greatly appreciated and there is some willingness to pay for such services if they are made available.

ADDRESSING GENDER ISSUES

2.24 Seychelles society is largely matriarchal, and women enjoy the same legal, political, economic, and social rights as men. There is no officially sanctioned discrimination in employment, women are well represented in business, and inheritance laws do not discriminate against women. The participation of women in decision making processes is quite good and improving. There is little or no difference between net primary/secondary enrollment rates for male and female children; the Gender Parity Index was close to 1 in 2008 (World Development Indicators).

2.25 The Bank's engagement under the CPS program was to have a particular focus on gender. Capacity was to be developed in government agencies including the Statistics Bureau to collect and analyze gender-disaggregated data on various issues. The Bank also proposed to undertake a gender-disaggregated analysis on earnings and productivity gaps, which would suggest policy interventions at a later date. The Bank would provide support in developing appropriate activation measures for programs for single mothers. The Bank's support for professionalizing fisheries was also expected to have a positive impact on the large number of women who are artisanal fishers. In actual fact, little seems to have been done. There is no mention of gender in the CPS Progress Report (November 2014). The gender-disaggregated study was dropped.

HARMONIZING DONOR SUPPORT

2.26 The Seychelles experience demonstrates the benefits that accrue from good cooperation among development partners. Throughout the period, there was close collaboration between the IMF and the Bank which served the country well. A Joint Management Action Plan ensured complementarity in Bank and IMF activities. The Bank provided critical inputs in the stabilization and reform programs supported by the IMF's Standby and EFF arrangements. These inputs included strengthening PFM and the design of a program of targeted subsidies to replace universal subsidies. They played an important role in maintaining the integrity of the program and helped maintain social support. Conversely, the IMF's macro framework and its debt sustainability analysis were important inputs in determining the size and composition of the Bank's assistance. The close collaboration between the IMF and the Bank was also valuable in getting a good debt relief package from other official and private creditors.

2.27 Other multilateral development partners that are active include the African Development Bank, European Union (EU), and the UNDP. Their areas of work do sometimes overlap with the Bank's.[9] The Bank's strategic approach took account of the areas of engagement by other partners, and in areas where other donors were taking the lead, the Bank stepped in as a partner as and when required. Coordination is ensured by the Ministry of Finance, with allocates responsibilities to the development partners in different sectors. There have not been any major problems thus far, but it remains to be seen how the present arrangements will ensure that critical issues such as in education and skill acquisition and infrastructure do not get short-changed because of multiple donor involvement.

Conclusion

2.28 Overall, the Bank's strategy and program were in line with the priorities of the government. The Bank's program complemented the work of other development partners. Its close partnership with the IMF in the design of the reform program was cited by authorities as an important reason for its success. Consistent with the priorities of small states, the Bank's program addressed the two critical pillars of enhancing competitiveness and reducing vulnerability. It was selective in its interventions and not overly ambitious. The Bank's program was also flexible and responsive to the changing external economic environment as well as the government's requests for specific kinds of assistance (in terms of AAA for example). It was also timely. However, the Bank was perhaps too accommodating when it came policy slippages. It could have pressed harder on some of the issues (such as privatization and SOE reform) that are important for enhancing competitiveness. Going forward, the Bank should pay greater attention to enhancing transparency in all government actions and strengthen the capacities of institutions to force accountability and check abuse of power.

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[1] The on- year Standby Arrangement was followed by a 4-year EFF that ended in Dec 2013. A successor 4-year EFF came into effect thereafter which ends in December 2017.

[2] In 2006, the government presented a new development orientation in its *Seychelles Strategy 2017*, emphasizing the facilitating role of the state in the economy and assigning a greater role for the private sector. However, this program lacked an implementation strategy and became redundant after the IMF's program was adopted in end 2008. In 2012, a New Medium Term National Development Strategy (MTNDS) was adopted. The objective was to reduce Seychelles' vulnerabilities to external shocks and lay the basis for sustainable growth by increasing public investment and establishing a well targeted social safety net, within a sustainable fiscal framework. It emphasized the importance of improving the investment climate for private business; the quality of education and skills of the work force; as well as better infrastructure such as ICT. These priorities were reflected in the reform programs backed by the IMF and the Bank over the years.

[3] The five main goals of the MTNDS are: (i) to address development planning for vital infrastructure and utility needs; (ii) to develop a strong human resource base by improving basic education and productivity; (iii) to improve economic infrastructure through modernized ICT infrastructure (including greater connectivity and bandwidth); (iv) to improve food security and the business and investment environment by creating a transparent, predictable trading system and diversifying the economy (by developing the services sector); and (v) to further develop national statistics to improve evidence-based policy making. However, it would be fair to say that the main operative document setting out the government's program was the IMF program articulated in the 2008 Standby Arrangement and the subsequent EFFs.

[4] These included: the Financial Sector Reform and Strengthening Initiative, the Extractive Industries Technical Advisory Facility, and SIDS DOCK respectively supporting housing finance, the hydrocarbon sector, and the renewable energy sector. In the area of housing finance, the assistance focused on developing a "smart" subsidy system. In the hydrocarbon sector, the assistance was to review the Petroleum Acts with respect to tax and fiscal regime. In the area of renewable energy, the focus was on development of a grid code, the design of feed-in tariffs, and the preparation of power purchase agreements for renewable energy.

[5] In 2010 IFC made a commitment for a $20 million senior loan in a hotel project. However, due to issues associated with the lease of the land, no disbursements took place. Earlier, in 2004, the IFC's FIAS reviewed the policy, regulatory and administrative environment for investment in Seychelles and issued a report. In April 2006, IFC approved a $10 million loan to Nouvobanq, the country's leading bank, but IFC cancelled the credit line because Nouvobanq was unable to comply with the disbursement conditions.

[6] Simulations suggest that the proposed reforms would increase the share of the first quintile among the beneficiaries and reduce the share of the others.

[7] It is estimated that between 1980 and 2013, the impact of natural disasters totaled $40.1 million, affecting 21,328 people. The most recent Damage, Loss and Needs Assessment (DaLA) from tropical cyclone Felleng carried out by the government in January 2013 estimated recovery and reconstruction needs at $30.3 million.

[8] International reserves had reached a level equivalent to 3.8 months of imports by 2013, up from less than 0.5 months in 2008. Given Seychelles' unusual conditions—extremely open, tourism-dependent, remote island micro-state, with a flexible exchange rate—the adequate reserve coverage range is higher than generally recommended by reserve metrics. Reserves equivalent to about 4 months of imports are considered desirable for Seychelles by the IMF. Funds equivalent to 0.5 percent of GDP were accumulated for contingencies.

[9] For example, the African Development Bank provided support, including a budget support operation, to enhance the environment for private sector activity. The UNDP provides the government with support to develop and strengthen the capacity of institutions and individuals in the public sector and civil society to promote good governance, environmental protection, energy efficiency, water resource management, climate change adaptation, and poverty alleviation. The EU supports the government's PFM reform agenda and the education sector, through a sector budget support operation.

3. Evaluation of World Bank Group's Assistance in Enhancing Competitiveness and Private Sector Development

3.1 The Bank's program was mapped into two areas: first, what did the Bank do to improve the country's resilience and second, what did the Bank do to enhance competitiveness and private sector development for generating sustainable economic growth and jobs creation (see appendix C). These areas are very similar to the pillars of the CPS.[1] The rest of the chapter is devoted to a description and evaluation of the Bank's support to enhance competitiveness and promote private sector development (Pillar 2). It also provides an overall assessment of the macro impact (on exports, foreign and private investment) of the reforms undertaken during the period to enhance competitiveness and promote private sector development. Throughout this evaluation, it must be remembered that the government's reform program and the Bank's support was implemented in a difficult external environment of adverse terms of trade shocks, the global financial crisis and a slow-down of the world economy, especially Europe which is one of the country's main export markets. These adverse conditions would have a negative impact on some of the macro indicators used in this evaluation (such as growth of exports, FDI flows, and growth of new businesses).

3.2 Given the need for access to global markets, small economies generally need a higher degree of openness and responsiveness to international markets than do larger states, where businesses can achieve economies of scale through domestic markets. This requires a high degree of resource mobility and competitiveness, which relies not only on a liberal trade regime, but also on an improved business environment, access to credit, and quality and affordable infrastructure especially transport and communication.

3.3 Most of these areas were part of the reform program that the Bank supported. The Bank supported reforms (i) liberalizing the incentives framework (facilitating trade, privatization and SOE reforms); (ii) promoting a business-friendly environment, (iii) fostering financial sector regulation; (iv) improving the delivery of infrastructure services (energy); and (v) supporting fisheries.

Liberalizing the Incentive Framework

PROMOTING EFFICIENT TRADE AND MONETARY POLICIES

3.4 A key element of the reform program initiated in 2008 was to reduce the role of the state in the economy. At the time of the Bank's re-engagement with Seychelles, not only did the government play a dominant role in the economy through direct administrative interventions in allocation of resources (for example foreign exchange), but it was also a major player in manufacturing, distribution, and trade through a large number of state-owned enterprises (SOEs). The emphasis on reforms was therefore on reducing the role of the state by (i) allowing market forces to play a larger role in the allocation of scarce resources; (ii) privatizing state-owned banks and enterprises.

3.5 Significant progress was made in the early years of reform to enhance the role of market forces and reduce state intervention in resource allocation. The foreign exchange regime was liberalized, prices were largely decontrolled and interest rates liberalized. Competition from imports was enhanced by maintaining low-import tariffs and reducing non-tariff barriers by modernizing customs clearance procedures and simplifying procedures for export and import permits. An online import and export permit application system was introduced to facilitate international trade. Tax reforms were implemented to make the playing field more even by eliminating various exemptions.

ASSESSMENT

3.6 Post 2008-09, the incentive regime was transformed completely, with market mechanisms replacing state interventions in allocation of resources, including foreign exchange. This was a clear paradigm shift and the Bank made a positive contribution. It may be noted, however, that some of these reforms (such as the foreign exchange liberalization, decontrol of prices and interest rates) were part of the IMF's Standby Arrangement and were put in place even before the Bank's first DPL were approved (November 2009). Even the trade policy reforms were not an explicit objective in the Bank's policy-lending program. Nevertheless, the Bank was an important behind-the-scenes player during the preparation of the Standby and there was close collaboration between the two institutions. For this reason, the Bank's contribution was positive.

REDUCING THE STATE'S ROLE IN THE ECONOMY THROUGH PRIVATIZATION AND STATE ENTERPRISE REFORM

3.7 Restructuring Public Sector: In the early years, efforts were made to shrink the role of the state by transferring some of the non-core functions performed by state agencies on to the private sector. The proximate reason for this reform was to reduce government spending by cutting back public sector employment. While this effort was successful, it also resulted in deterioration in the quality of some of the public services provided by the state, and pressures to reverse the policy in some cases.[2] The Bank then produced in 2009 and 2011 two public expenditure reviews that provided some guidance and good practice on public administration reform and SOE governance.

3.8 Privatization: Privatization of SOEs was an important component of the government's strategy to reduce the state's role in the economy. The Bank supported the government's plan to privatize the government's holdings in commercially-oriented SOEs and public sector banks. To this end, the Bank's program supported the restructuring of the former State Marketing Board (SMB), a state trading conglomerate and supplier of basic consumer goods. Under the first DPL, the SMB was restructured into 16 commercial units. Eight commercially viable units were sold off, and all non-viable units were liquidated. The remaining units were combined into an umbrella company still owned by the government called Seychelles Trading Corporation (STC).

3.9 The restructuring and partial privatization of the SMB was supposed to be first in a series of privatization of state owned commercial enterprises and banks.

3.10 However, the proposed privatization of the majority state-owned Seychelles Savings Bank and Nouvobanq did not take place as planned, and privatization does not appear to be part of the government's reform agenda anymore. Instead, the focus shifted to improving the governance and oversight of state enterprises, and on reducing their reliance on budget transfers. The Bank supported this effort.

3.11 SOE Reform: The Bank's support for SOE reform centered on establishing an appropriate legal framework and institutional mechanism to improve corporate governance and enable the government to monitor and assess the performance of SOEs, based on information prepared in line with international accounting practices. The Public Enterprise Monitoring Act (2009) was amended to give more autonomy to the enterprise board whose responsibilities were also clearly defined. More authority was given to the ministries (but not to the board) in selecting CEOs and less to the President. All public enterprises were required to adopt International Accounting Standards within a three-year timeframe, to ensure the quality of reporting and facilitate monitoring.

3.12 An independent Public Enterprise Monitoring Commission (PEMC) was created. This commission was responsible for monitoring financial, governance, and transparency issues in relation to public enterprises. Each public enterprise was required to submit an annual report on its operations to the Minister of Finance, the responsible Minister, and the PEMC, with a copy of its annual audited accounts and any report by the auditors on its management and accounting practices three months after year end.[3] It was also mandatory for public enterprises to report on four standard performance targets each year, based upon which PEMC would design a set of specific basic metrics to be used as benchmarks to measure performance. Also, to improve government oversight of investments made by public enterprises, a high-level committee was formed to review all potential public projects of a magnitude greater than SR 25 million and assess their macroeconomic and fiscal risks. The Bank also provided assistance to senior management teams (SMTs) of up to 14 public enterprises on developing a "Statement of Corporate Intent."

ASSESSMENT

3.13 The initial efforts to off-load inessential functions from the state was laudable. However, the policy was implemented quickly, without sufficient strategic planning or functional review of the ministries or state agencies to help identify their role and core functions. The ongoing functional review, undertaken in the second phase of the reform process, is progressing very slowly in part due to lack of capacity of line ministry.[4] The World Bank provided TA on capacity building for staff in the department of public administration and Ministry of Finance to carry out the impact of the reform but one interlocutor noted that the technical quality of this TA was very poor. The policy was also flawed because it assumed that the private sector had the capacity to take over the functions that were hived-off. This was not always the case (see note 2). An informed assessment of the state of readiness of the private sector, and what was needed to strengthen its abilities to take on additional roles, would help calibrate the speed of the proposed transition.

3.14 After a promising start with the restructuring of the SMB, the privatization program has not gone far. The proposed privatization of other commercial public enterprises and some commercial banks with majority state ownership was not pursued. In the 2009 PER, the bank noted that while "the ongoing reforms measures are both necessary and appropriate, and represent 'quick win' measures, it is important that future reform steps be based on a more strategic approach to public sector reform." The report provided some guidance on what could be the core function of the government. This analysis, together with the recommendations on SOE restructuring provided in the second PER (2011) were to inform the second wave of reform. The 2011 PER recommended though that the government divest those companies where continued ownership does not serve any public policy goals. Some interlocutors consider the Bank have acquiesced too readily with the shelving of the program of privatization that were on the list of the first wave of reform. The evaluation team is not arguing that privatization was the way to go but it is not clear why the Bank acquiesced readily with the "seemingly indefinite shelving" of some of these companies as well as the lack of development of a privatization strategy.[5] Beyond the two PERs that provided broad guidance and good practice, the team didn't find any quantitative and qualitative analysis done by the Bank or the government about the costs and benefits of the privatization program done in the first wave of reforms. If the reasons were not entirely political, what changed during the period to explain that the privatization process of those potential candidates was put on hold? If after the crisis, there were no more champions willing to spend their political capacity on SOE privatization, the Bank should have explained this before moving forward. Perhaps a deeper engagement in this critical area would have helped identify why the government was reluctant to pursue its own program, and whether the speed and privatization strategy could have been modified to keep the program on the government's reform agenda.

3.15 SOE reforms have a rightful place in efforts to improve efficiency and competitiveness; however Bank support did not achieve very much over the past few years in improving corporate governance and market discipline. Bank's program to improve corporate governance in SOEs focused on creating a legal and institutional framework for better monitoring and assessment of SOE performance. However, it is not clear how this information will be used to reward good performance and penalize poor performers. There is no evidence to suggest that state enterprises face a 'perform or perish' environment necessary to improve their performance.[6] For example, one of the aims of the reform of SOEs was to reduce their burden on the budget. There was some progress in the early years of the reforms, but there have been slippages. State support for public enterprises still remains substantial. Transfers from the central budget to the public sector were cut from 5.5 percent of GDP in 2007 to 1.6 percent in 2009, but they have gone up significantly since then to 4.4 percent in 2014. Overall, the Bank's support in supporting these reforms was weak.

Promoting a Business Friendly Environment

IMPROVING THE REGULATORY ENVIRONMENT FOR BUSINESS

3.16 For an upper middle income country, Seychelles ranked a relatively low 84th out of 175 countries in the 2007 Doing Business Report. Seychelles ranked particularly poorly in getting credit (ranked 159 out of 175 countries) and closing a business (ranked 151), but it ranked badly in other areas as well including employing labor (84th), trading across boundaries (81st), enforcing contracts (73rd) and dealing with licenses (69th).

3.17 The Bank supported a number of initiatives to make it easier and less burdensome to start and operate a business. A new Licensing Act (2010) was enacted providing for transparent procedures for the issuance and renewal of licenses, streamlining licensing procedures and eliminating the number of commercial activities requiring ex ante licenses to operate.[7] As a result, the time it takes to obtain a new license or renew an old one has been shortened. A new Investment Code (2010) was adopted providing a modern framework for the promotion, regulation and protection of investors and investments. The Seychelles Investment Board was established to facilitate and promote investments.[8] Registration was simplified by implementing an on-line one-stop shop for starting a business, and the Company Act was amended to make it optional (rather than obligatory) for notaries or other third party intermediaries to participate in the registration process. To further save on time and cost, registration of property titles was computerized and a system put in place allowing electronic payment of taxes. Reforms were also undertaken to rationalize the legal framework for exit. A new Insolvency Act was adopted which establishes a modern framework to save viable businesses and enable non-viable businesses to exit the market quickly.

3.18 Private investment was also constrained by the slow pace at which commercial disputes were settled in the court system. To accelerate the process, the Bank supported the establishment of a specialized commercial division within the Supreme Court. New Commercial List rules were laid out with the objective of speeding up the hearing process by setting up time bound procedures for commercial disputes. An online case management system was also introduced to track progress in all active cases. To reduce the pressures of litigation on the court system, the Bank also encouraged alternative dispute resolution mechanisms such as mediation. A new mediation framework was put in place with new rules of mediation, a rigorous procedure for referral to independent third party mediators for out-of-court dispute resolution, and a code of conduct for mediators.

ASSESSMENT

3.19 These reforms were no doubt steps in the right direction. But their impact on the ground is yet to be felt in any significant way. While the registration process for new businesses may have been simplified, according to the Doing Business Reports, it still takes the same number of days (38) and procedures (9) to start a business in 2014 as it did in 2006.[9] There is no improvement in the time it takes (33 days) to register property. In some areas, the environment has deteriorated. Enforcing contracts has become a longer process: it now takes 915 days (2014) compared to 720 days in 2006. Resolving insolvency took 2 years in 2014, unchanged since 2012 (the first year this data was reported). The one area where significant progress was made was in trading across boundaries. Both the cost of exporting and importing came down substantially between 2007 and 2014. The Bank did not address regulatory issues preventing access to credit and electricity where Seychelles does very poorly compared to other countries.[10] Overall, regulatory reforms have not improved significantly Seychelles' ranking among countries: its rank in terms of the composite Ease of Doing Business Index stagnated from 84 (out of 175 countries) in 2006 to 85 (out of 189 countries) in in 2014.[11]

3.20 Anecdotal evidence presented to the IEG mission also suggested that notwithstanding formal rules to the contrary, there remains substantial intervention by the state (and powerful politicians) in economic activities in informal ways. Such non-transparent interventions are used to block entry of new enterprises or banks that are not favored by the ruling dispensation; or they may be used to subvert sanctions against enterprises in favor. This arbitrariness remains a constraint to private sector development which needs to be addressed by promoting greater transparency in government interactions and by strengthening independent institutions that can check arbitrariness. More could have been done in this regard and overall bank contribution in improving the regulatory environment was negligible.

IMPROVING LABOR MARKET AND LAND REGISTRATION

3.21 Though difficulties in 'employing workers' including hiring and firing rules and regulations were cited as important constraints to private sector development, and some ad-hoc measures were implemented to reduce shortages of skilled workers, comprehensive reforms in labor market policies were not prominent either in the government's program or in the Bank's.[12]

3.22 The Bank was fully aware of the need for improving the quality and skills of the labor force for improving long term competitiveness of the economy. However the Bank was not a player in the education sector or in skills development. Among development partners, the lead was taken by the EU which has an education budget support operation to help in the preparation and the implementation of the Education Medium Term Strategy (with a focus on both basic and post-basic education up to the secondary level) to improve the alignment between the country's training and manpower needs in an evolving national, regional and international environment.

3.23 To facilitate land transactions, land registration was computerized. A new Land Registration Act is pending. Given the very limited role of the Bank in this area, no assessment is made.

Strengthening the Financial Sector

3.24 The financial system is small and underdeveloped.[13] While indicators of financial sector stability and soundness have improved since 2010, limited access to credit and high lending spreads, reflecting perceived risks of lending to the private sector and limited competition continue to be issues. Other challenges include weak skills for serving micro-enterprise needs and limited/doubtful capacity at commercial banks to serve the micro and small enterprise segment, insufficient incentives for banks to look for lending opportunities, and a lack of a coherent vision and strategy for developing the integrated financial sector.

3.25 The Bank has played a very limited role in sector reforms thus far. Its role was largely limited to the housing finance segment, where it supported reforms to reduce the role of the state-owned Housing Finance Corporation (which made more than 75 percent of housing loans in 2012–13) and increase the role of private banks in housing finance. Following technical assistance from the World Bank in 2010 to develop a restructuring framework, HFC's property management functions were spun off to a separate entity.[14] In December 2011 a new housing finance strategy that increased private participation in housing finance and reduced untargeted housing subsidies, was approved and is being implemented.[15] The government also provided tax incentives to encourage commercial banks to participate in the Home Saving Scheme and extend mortgage financing.

3.26 With IFC support, a Financial Leasing law designed to ease access to finance, especially for SMEs, was passed in November 2013. However, the enabling regulations, which will allow leasing companies to be formed, are yet to be adopted. With the support of the Bank's Financial

Sector Reform and Strengthening Initiative initiative, the authorities have developed a Financial Sector Development Implementation Plan, focusing on improving private sector access to credit. The Bank may assist in its implementation.

ASSESSMENT

3.27 Access to finance was a critical constraint to private sector development, yet the Bank's program had very little in this area. Seychelles ranked poorly among countries in 'getting credit' before reforms were initiated, and it still remains at the bottom end of the Doing Business rankings in 2014. The reform of housing subsidies was important for its fiscal impact, but it is not clear if by itself it is likely to attract private commercial banks into mortgage finance.[16] There is little evidence of this so far. The Bank's contribution in this sector was negligible.

Improving Infrastructure Services

3.28 The Bank's role was largely confined to the energy sector. The Bank's program aimed to support the government's efforts to improve financial sustainability of the public utilities by reforming utility tariffs while encouraging increased energy efficiency and a shift toward renewable energy. Progress has been made in improving the financial viability of the Public Utilities Corporation (PUC). Based on the recommendations of a study funded through the RAS, the government adopted an automatic mechanism to adjust price movements in line with key variables like the exchange rate and fuel prices on a quarterly basis. As a result, PUC losses decreased by nearly 90 percent between 2011 and 2012. To help ensure the long-term sustainability of utilities, the government also approved a tariff rebalancing program that seeks to align electricity and water tariffs to cost-recovery levels over eight and ten years, respectively. To ensure long run sustainability, the Bank supported the enactment of an Energy Act 2012 which provided a roadmap to help remove cross-subsidization gradually across the various client groups and gradually increase tariffs to cost-recovery levels over 7 years starting in mid-2013.

3.29 This act also deals with the establishment of an energy commission, whose role will be to regulate the electricity sector, license electricity activities, tender and award contracts to independent power producers, and determine tariffs and charges.

3.30 The Bank's program also sought to assist the government in pursuing its goal of diversifying its energy mix by promoting private sector participation in renewable energy. Through a grant from the Small Island Developing State DOCK Support Program (SIDS-DOCK), the Bank supported the preparation of grid penetration and codes, feed-in tariffs, and model energy supply purchase agreements. To promote efficient use of energy in households, through the Seychelles Energy Efficiency and Renewable Energy Project, the IFC helped develop an incentive program for commercial banks to extend low interest loans (with government guarantees) to households to acquire solar heaters and other household energy efficiency equipment. The Bank did not play any role in other infrastructure sectors such as transport or ICT.

ASSESSMENT

3.31 The Bank's involvement in infrastructure was limited but useful. The RAS funded study on utility pricing was valuable and the implementation of its recommendations were important to ensure the long-run financial viability of the utility provider, thus strengthening its ability to provide reliable electricity (and water and sanitation) in the medium term. The reform of tariffs is also expected to reduce wasteful use of electricity, contributing to improved supply conditions. The study financed by the SIDS-DOCK grant was useful in parts. According to interlocutors, while the grid penetration component of the study was useful a first step in estimating how much of renewable energy could be put on the grid, the grid code component was too generic and did not provide country specific recommendations. The Purchasing Power Agreement template could also be useful after some tweaking to make it more applicable to Seychelles. The IFC's initiative to incentivize commercial banks to lend to households for purchase of energy efficient equipment did not have many takers and the government (with UNDP) is in the process of reviewing the usefulness of the scheme. There was a sense that this initiative was not fully thought through and was largely supply driven. Overall, the Bank's contribution was small but positive.

Fostering Fisheries Development

3.32 Fisheries (along with tourism) are one of the most important sectors in Seychelles accounting for roughly 30 percent of GDP. Licenses fees for industrial tuna fishing provide the government with a substantial source of revenue.[17] The Indian Ocean Tuna factory (IOT), in which the government owns a minority stake, is the largest single employer in the country with a workforce of over 2,500 workers. Fisheries is of critical importance to the country's commercial balance: in 2012, the value of exports of consumable fish and fish products constituted 93 percent of the total value of domestic exports. Artisanal fisheries account for the vast majority of domestic catches of fish, which is critical to the food security of the population and the livelihood of coastal fishermen. The management of Seychelles marine ecosystems and fisheries is hampered by insufficient legal and institutional frameworks, human capacity and infrastructure. Weak governance and a poor investment climate also limit domestic and foreign investment and contribute to poor sector growth.

3.33 Fisheries also have a significant regional dimension. They are a regional public good, whose health and sustainability require regional coordination to limit negative and enhance positive externalities yielded by national activities. Regional coordination is needed to avoid conflicts and suboptimal sectorial investments, and to promote equitable distribution of wealth. Furthermore, several technical aspects of the sector are regional in nature, and their implementation would benefit from economies of scale if managed at a regional level (monitoring, control and surveillance, safety at sea, etc.). The Bank's program sought to address both the national and regional dimensions.

3.34 In 2008, in the context of the fiscal pressures at the time, the Bank was requested by the government to provide an independent assessment of the majority partner's claim that without the subsidies it had been receiving from the government until that time, IOT's operations were not financially viable. The Bank funded report contradicted this claim and helped the government re-negotiate its agreement with the private partner on fair terms. This assistance from the Bank was highly appreciated and helped build its credibility in the sector.

3.35 At the national level, the Bank promoted better management and governance of the fisheries sector by supporting data collection and its transparent reporting so that policy makers and civil society becomes fully aware of who the major domestic and foreign players are, and the financial nature of their engagement in fishing in Seychelles. Thus under the DPL series on Competitiveness and Sustainability (FY13–15), the authorities made public all Seychelles-flagged fishing vessels, and the contents of all fishing agreements, fishing and aquaculture licenses, and authorizations that were issued to foreign and national entities. As a result, in 2012, a list of Seychelles-flagged fishing vessels was published and revealed the existence of 22 locally flagged vessels that were largely unknown outside the fisheries administration. The first publication of fishing agreement and license information in 2013 further enhanced discussions of the sector's contribution to the national economy and government revenues. Based on this information and with the support of the Bank, the government is analyzing the fisheries value chain to identify ways to increasingly harness the sector's economic potential.

3.36 Moreover, the Seychelles Fisheries Authority (SFA) has made operational the basic modules of a Fisheries Information System and discloses quarterly key information and regular statistical bulletins on its website. These disclosures can be expected to foster the participation of civil society and other stakeholders in the debate and design of sound policies related to efficient allocation of access to fisheries, the best use of Seychelles' fisheries resources, and their sustainable management. Disclosure would also create a level playing field for the operators in the sector and signatories to fishing agreements. It could secure public revenue collection, deter corruption (and perceptions of corruption), curb illegal fishing, and gradually optimize resource rents.

3.37 At the regional level, Seychelles participated in the South West Indian Ocean Fisheries Project (SWIOFP) whose objective was to promote the environmentally sustainable use of fish resources through adoption by countries riparian to the Southwest Indian Ocean of a Large Marine Ecosystem (LME)-based approach to fisheries management in the Agulhas and Somali LMEs that recognizes the importance of preserving biodiversity (FY07; closed FY13). The SWIOFP provided financing to support regional and national fisheries resource management initiatives, within the scope of the Project, and strengthened the framework within which the governments and relevant institutions could collaborate more effectively to plan and manage such resources. The Implementation Completion and Results Report rated project performance as moderately satisfactory.

3.38 Building on the results of the SWIOFP project, the South West Indian Ocean Fisheries Governance and Shared Growth (SWIOFish) series of projects were designed to build to develop sustainable fisheries resource management through strengthening governance capacity to manage fisheries, providing investments to harness sustainable fisheries to national economies and strengthen further regional cooperation. The Bank is at an early stage of preparing a fisheries development and shared growth World Bank and Global Environment Facility lending operation for Seychelles (SWIOFish3), as part of the regional SWIOFish series of projects, which adopts a regional and long term approach to supporting the South West Indian Ocean countries in sustainably developing their fisheries sector. The objective is to enhance the contribution of marine fish resources to the country's social, environmental, and economic objectives. Apart from the regional dimensions of the project, the three main 'national' components of this proposed operation are: (i) expanding the coverage of sustainable-use marine protected areas and their monitoring with a view to improving the management of the country's maritime space; (ii) addressing key institutional constraints to support the countries' management of its vast exclusive economic zone (EEZ) and foster sustainable fisheries, including supporting the preparation of fleet management and development plan and promoting and developing co-management of fisheries as a key policy and management tool; and supporting the creation of a Fisheries Economic Intelligence Unit to produce and analyze key fisheries and marine environment statistics.; and (iii) sustainable development of the blue economy by facilitating the expansion of value-chains and promote synergies with other value chains (e.g., tourism); creating the enabling environment for the development of aquaculture; and facilitating a sustainable, economically-sound port development process; and (iv) increase the sanitary monitoring capacity. The project also hopes to promote adoption of more environmentally sustainable practices by the private sector in the seafood and fisheries sector.

ASSESSMENT

3.39 The Bank's approach in the sector has been sensible, combining both regional and national dimensions to address economic and environmental issues in the sector that are sometimes best addressed regionally. However, it is still too early to assess the impact of the Bank's specific interventions in the sector. The measures to mandate full disclosure of details of fishing agreements and publication of key statistics on the sector should enable more informed management decisions to be made and also maintain public pressure to ensure that sector decisions are made consistent with the interests of the public. However, this pre-supposes that there is adequate institutional capacity in the sector to understand what the data are revealing and to design policies in line with emerging data. This may not be the case, and the Bank may need to do much more in terms of capacity building in the SFA and other sector institutions, including the Ministry in charge of fisheries. Overall, the Bank's contribution to fisheries development was small but positive.

Overall Assessment

3.40 What was the overall impact of the reforms to enhance competitiveness and promote private sector development? Is the economy any more competitive than it was before the reforms, and how it is reflected in the performance of macro indicators such as exports and private investment, domestic and foreign?

EASE OF DOING BUSINESS

3.41 The regulatory environment improved in some respects (for example in trading across boundaries), but may have deteriorated in some other areas (such as enforcement of contracts). In terms of the composite 'Ease of Doing Business' indicator, Seychelles' rank improved to 85 (out of 189 countries) in 2014 compared to its rank of 84 out of 175 countries in 2006. Though the rankings in the two years are not strictly comparable because of methodological difference, it is not likely that significant advances were made.[18]

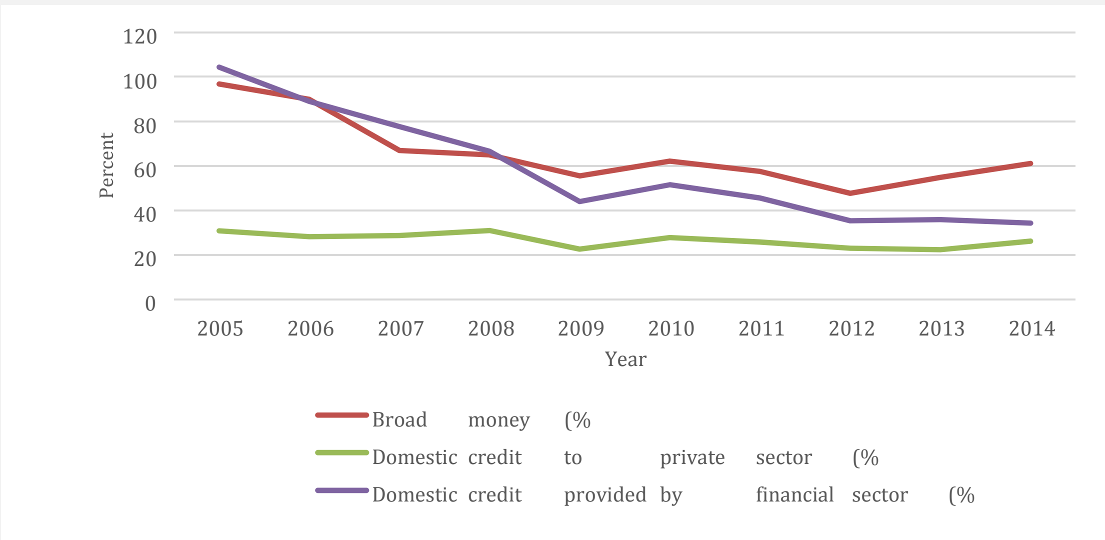
COMPETITIVENESS

3.42 According to the WEF's Global Competitiveness Index, Seychelles ranked a lowly 92 out of 144 countries in 2014–15, with a competitiveness score of 3.91. In 2012–13 (the first year for which data on Seychelles is reported), Seychelles ranked 76 (out of 144 countries) with a competitiveness score of 4.1. Thus, according to this indicator, Seychelles' competitiveness has declined in recent years.[19]

ACCESS TO CREDIT AND FINANCIAL DEEPENING

3.43 Financial sector reforms did not contribute to financial deepening during this period. In fact, the share of broad money in GDP actually fell from 62.5 percent in 2007–09 to 54.6 percent in 2012–14. The performance of the banking system in terms of credit is also disappointing. The share of credit provided by the financial sector in GDP declined from 62.7 percent in 2007–09 to 35.2 percent in 2012–14. The share of credit to the private sector in GDP also fell from 27.4 percent in 2007–09 to 23.9 percent in 2012–14.

Figure 3.1. Seychelles Financial Deepening; 2005–14



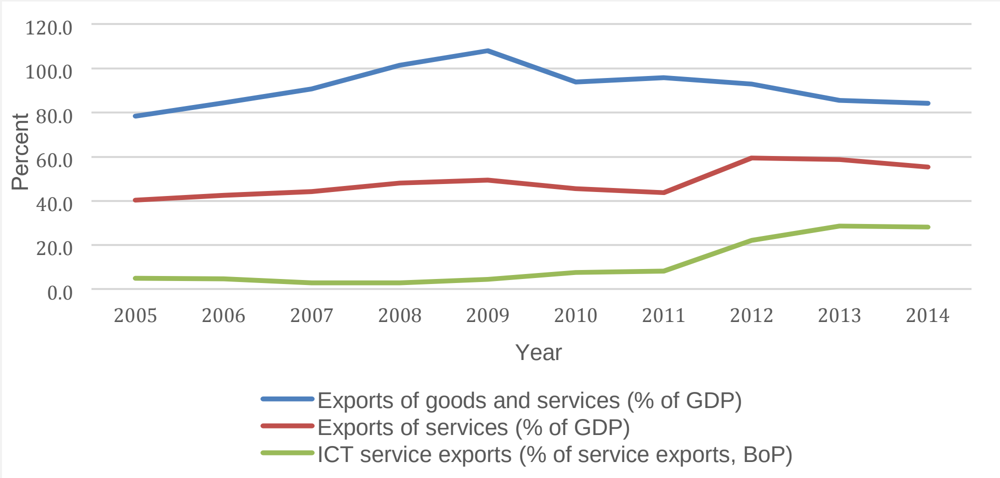
Source: IMF IFS (September 2015) and World Bank WDI (October 2015).

3.44 Clearly, reforms did not succeed in improving availability of credit, confirming the perceptions from the Investment Climate assessment and the Doing Business Surveys. These results are also strikingly different from the positive trends in Mauritius during the same period.

EXPORT PERFORMANCE

3.45 The performance of exports has fluctuated over the years and their strong performance in any one year cannot be taken to mean that they are competitive.[20] But overall, the share of exports of goods and services in GDP increased from an average of 92 percent of GDP during 2007–09 to 101 percent during 2012–14. However, the increase occurred only for the service exports. The share of merchandise exports in GDP dropped from about 45 percent during 2007–09 to 43 percent during 2012–14. The share of exports of services on the other hand, increased in the same period from 47 percent to about 58 percent. One silver lining has been the big increase in exports of ICT services, whose share in total export of services increased from 3.3 percent in 2007–09 to 26 percent in 2012–13.

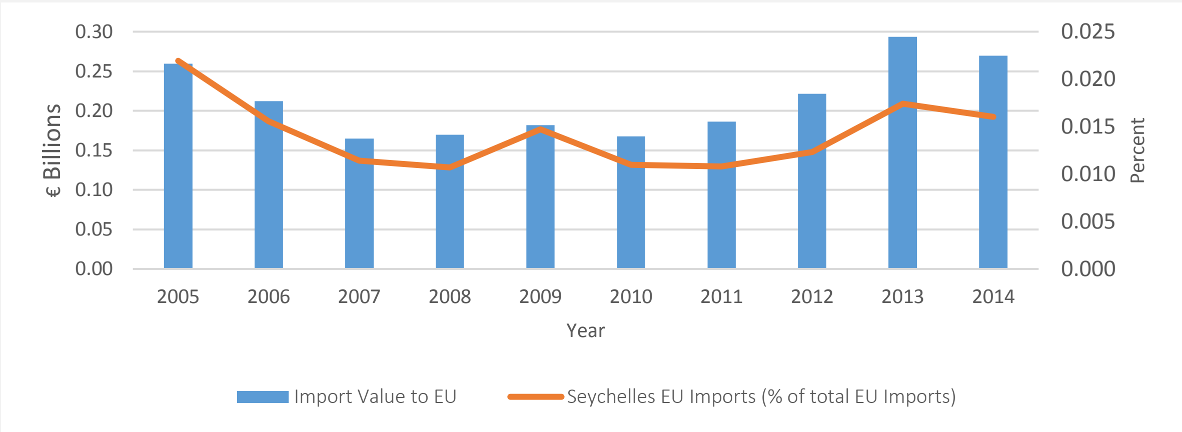
Figure 3.2. Seychelles Exports of Goods and Services, 2005–14



Source: IMF IFS (Sept 2015) and World Bank WDI (Oct 2015).

3.46 Another positive trend is that the market share of exports from Seychelles to EU countries has increased in recent years.[21] Seychelles remains competitive in the tourism sector, especially high end tourism. Its share in world tourism arrivals has been growing gradually time.

Figure 3.3. Market Share of Seychelles Exports in European Imports, 2005–14

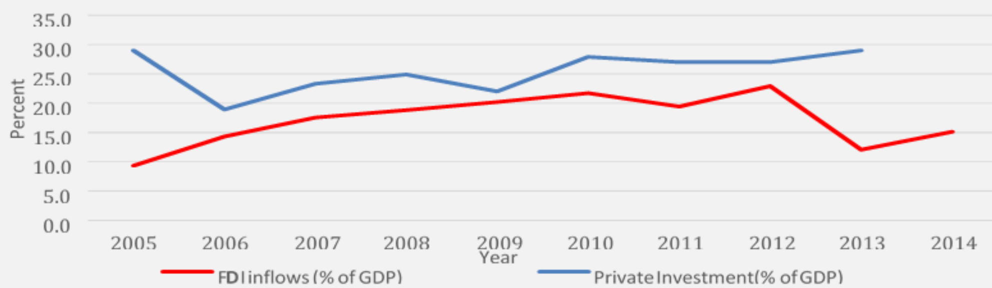


Source: IMF Eurostat.

INVESTMENT PERFORMANCE

3.47 The share of FDI in GDP has declined over the period, from an average of 18.8 percent in 2007–09 to 16.7 percent during 2012–14. This is consistent with the observation that there has not been a substantial improvement in the business climate.[22] However, domestic private investment has risen sharply in the same period. The different response of private domestic and foreign investors to changes in the business environment would need to be further investigated in the Seychelles forthcoming SCD.

Figure 3.4. FDI and Private Investment in Seychelles; 2005–14



Source: World Bank WDI and IEG calculations based on data from IMF Staff reports.
Note: Private investment data for 2012 and 2013 are based on IMF estimates.

Conclusion: Overall Ranking of Bank's Performance

3.48 The Bank's performance in different dimensions for enhancing competitiveness is summarized in the table below. The macroimpact of the reforms also presents a mixed picture. There was a disappointing FDI response and financial sector deepening did not happen. However, on the plus side domestic private investment picked up and Seychelles increased its market share in the competitive European market, and high end tourism and travel remained highly competitive. Exports of ICT services, a new area of growth, was booming. Based on these assessments, the Bank made a positive but small contribution to enhancing competitiveness.

Table 3.1. Summary Assessment for Pillar 2 – Improving Competitiveness

World Bank Group Objectives	Outcome Assessment, FY05–15
Promoting Efficient Trade and Monetary Policies	Area of strength
Promoting Privatization and SOE reforms	Negligible
Strengthening the financial sector	Negligible
Improving Infrastructure Services (Energy)	Positive but small
Fisheries	Positive but small

[1] As noted in Chapter 2, the Bank's strategic approach in Seychelles was structured around two pillars and one basic foundation. The two pillars were (i) Competitiveness and Employment; and (ii) Vulnerability and Resilience. The basic foundation was Governance and Public Sector Capacity. Areas covered under the foundation of governance and public sector capacity of the CPS were divided between the two pillars defined in the approach paper, depending on their likely impact.

[2] For example, prior to the reforms the Ministry of Health was providing laundry and catering services for its hospitals. These activities were transferred to the private sector. However, private operators were unable to provide the quality of service at the scale required (for example, sterilization of hospital laundry, or nutrition requirement in meals).

[3] Twelve SEs (out of 21) had submitted their audited financial statements for their last completed fiscal year to the Ministry of Finance and the commission by June 2014. This was a prior action for the Third Competitiveness and Sustainability DPL (FY2014).

[4] There is also a lack of policy analyst within the country to provide support to line ministries.

[5] This was one recommendation of the 2011 PER (para 4.42)

[6] Source: IMF reports.

[7] For example, under the new Act, the Seychelles Licensing Authority was to issue licenses for 27 activities, rather than the 180 economic activities under the previous Act.

[8] By repealing the 2005 code, the government eliminated activities defined as "strategic," "restricted," or "sensitive" areas for foreigners.

[9] No doubt, the registration of simple businesses now takes only 24 hours compared to 10 days it took in the past. But other procedures to start a business including obtaining license and certifications for public health, fire safety etc. still take considerable time and effort.

[10] In terms of getting electricity and credit, Seychelles ranked 130 and 171 out of 189 countries in 2014.

[11] By way of comparison, Mauritius' rank improved from 32 (out of 175 countries) in 2006 to 28 (out of 189 countries) in 2014.

[12] For example, new streamlined regulations were put in place to obtain gainful occupational permits for expatriate workers. Fees for gainful occupational permits were also harmonized across all commercial sectors.

[13] The ratio of domestic credit to GDP is 36.4 percent in Seychelles compared to 87.8 percent in Mauritius.

[14] The approval of a new finance strategy was a prior action under the first Sustainability and Competitiveness DPL (2013). Subsequently, the functions of HFC were split into two distinct operations. HFC continues to maintain the function of offering housing finance, while the function of managing social (rental) housing has been transferred to the Property Management Company, which has an autonomous executive management structure.

[15] The Bank provided TA to develop a system of 'smart' subsidies targeted to low income households. The reformed subsidy takes the form of a cash grant, available to first-time buyers earning less than SR 20,000 per month, paid as a down payment on a mortgage loan to build or buy a house. The subsidy amount decreases steadily as income level rises. To benefit from this scheme, the grant recipients must have contributed a minimum 10 percent of the value of the loan toward the Home Saving Scheme.

[16] The IEG mission was given the impression that commercial banks still prefer to lend to the HFC (for on-lending to home buyers) rather than to home buyers directly.

[17] During 2009, SCR55.6 million and another SCR100 million in European Union (EU) fishing agreements were collected.

[18] By way of comparison, during the same period Mauritius improved its ranking from 32/175 to 28/189.

[19] The index is a composite of 12 aspects that influence competitiveness in an economy including quality of institutions, macroeconomic management, infrastructure, health and primary education of population, higher education and training, goods market efficiency, labor market efficiency, financial market development,

technological readiness, market size, business sophistication, and innovation. The Global Competitiveness Score allows for comparing a country's progress without reference to other countries. In contrast to Seychelles, Mauritius improved its competitiveness score slightly from 4.2 in 2006–07 to 4.5 in 2014–15. Its ranking improved from 55 out of 125 countries in 2006–07 to 39 out of 144 countries in 2014–15. Switzerland, the top rated country in 2014–15 had a score of 5.7 (out of a maximum score of 7).

[20] The strong growth of merchandise exports of close to 26 percent in 2013 was followed by a decline of 5 percent in 2014 and a likely fall by another 5 percent in 2015. The same trend was evident in tourism. Source: IMF Report (July 2015).

[21] The share of imports from Seychelles in total imports of EU countries rose from about 1.1 percent in 2007–08 to about 1.65 percent during 2013–14, almost a 50 percent increase. Source: WTO data.

[22] This result is in sharp contrast to the improved FDI performance in Mauritius during the same period.

4. Conclusions and Lessons

Conclusions

4.1 When Seychelles became independent in 1976, it was a poor subsistence economy with significant disparities in income and wealth. By the mid-2000s, it had become a high middle income country with low levels of poverty and many social indicators comparable to OECD countries. This progress was achieved largely by following an economic model where the state played a dominant role in allocating resources and controlling economic activity. It was also predicated on large public spending, including on welfare programs, increasingly financed through external borrowing.

4.2 This model became increasingly difficult to sustain. The worsening of the international financial crisis in 2008 forced the government to default on its international payment obligations, and to recognize the need for fundamental structural reforms. Starting in 2008 the government began implementing a radical program of macroeconomic stabilization and structural reforms. The centerpiece of these reforms was a strong fiscal adjustment to reduce the burden of external debt and a progressive dismantling of the role of the state in allocating resources. These reforms were supported by the IMF's Standby and EFF arrangements, and by the Bank through a series of DPLs. Seychelles also benefited from debt relief provided by other official and private international creditors. As a result of the reforms, macroeconomic imbalances were corrected, the role of markets was enhanced, and economic growth restored.[1] However, as the crisis abates, pressures to increase wasteful public spending are rising which could threaten macroeconomic stability once again. Moreover, critical reforms aimed at improving public sector (including SOEs) governance and performance, and insulating the private sector from arbitrary and non-transparent interventions from the state need to be pursued with greater vigor.

4.3 The Bank was a valuable partner in Seychelles' reforms. It acted quickly and effectively on the government's request for assistance at the time of the 2008 crisis, and helped in designing a targeted social safety net to protect the poor from the sharp cuts in universal subsidies needed as part of the IMF's stabilization program at the time. It also played a big role in assisting Seychelles in its negotiations with other international creditors. Since then, the Bank has supported the country's ongoing reforms largely through a series of DPOs, backed by analytic reporting and some capacity building. The reliance on DPOs was appropriate given the need for wide-ranging reforms and the clearly expressed preference of the government to avoid long disbursement procedures. In line with the government's priorities, the Bank's strategy, sought to strengthen fiscal consolidation and sustainability, enhance competiveness and private sector development, and improve the economy's resilience to external shocks. The Bank played an important role in designing the social protection programs, which was a key element in maintaining public support for the reforms and is a key to their medium term sustainability. The Bank's program was well harmonized with the work of the other development partners. In particular, there was excellent cooperation between the Bank and the IMF in the design of the reform programs, with each institution contributing in their areas of expertise. The Bank's strategy was flexible and when additional resources were required to strengthen the financial buffer against natural calamities (as after the tropical cyclone Felleng in 2013), this was provided by the Bank. But perhaps the Bank was too flexible when it came to assessing progress in important areas of reform. The shelving of the privatization agenda and the slow pace of public sector reform, including SOE reform are two examples where the Bank could have pushed harder. In supporting the second wave of reform, the Bank could also pay greater attention to enhancing transparency in all government actions and strengthen the capacities of institutions to force accountability and check abuse of power

4.4 The Bank Group supported several areas for enhancing competitiveness. Its interventions helped liberalize the incentive framework. The regulatory framework for private businesses was also simplified and efforts made to accelerate settlement of commercial disputes. However, very limited progress was made in promoting privatization, and though state intervention in private businesses has been significantly scaled down on paper, anecdotal evidence suggests that arbitrary interference is not uncommon. Bank interventions in the financial sector were weak and limited to the housing finance segment and to developing a leasing law to facilitate access to credit to SMEs. The Bank was not a major player in infrastructure, where its interventions were confined to help improve long term financial viability of the electricity provider and strengthen its ability to provide reliable power. Likewise, the Bank did not play much of a role in the education sector and skills development, given the active role of the EU in this area.

4.5 The macro impact of the reforms was mixed. The global indices for competitiveness and ease of doing business have shown only a marginal improvement at best, and FDI inflows (as a share of GDP) have fallen during the period. On the positive side, the market share of exports from Seychelles to the competitive European market has increased and the tourism sector remains highly competitive. The rapidly increasing share of ICT services in total services exports also points to a successful diversification. Overall, the Bank's performance in enhancing competitiveness was positive but small (see table 3.1.)

Lessons

4.6 Based on the research carried out for this evaluation, the following lessons can be drawn regarding the operational and strategic dimensions of Bank Group engagement in Seychelles.

4.7 For over 12 years, Seychelles didn't pay its dues to the World Bank, and just participated in Spring Meetings. As one interlocutor noted, "the door was closed" and there was no interaction with the authorities. It was the willingness and ability of the Bank to respond positively to the government's request for assistance in 2007, following years of dis-engagement that earned the Bank enormous goodwill that continues to this day.[2]

4.8 Close collaboration between the IMF and the Bank in the design of the reform program in Seychelles was a big reason for its success. This cooperation allowed expertise in the two institutions to work together to design a program that was fiscally and socially sustainable. Similar cooperation may be sought with other development partners that have expertise and experience to offer.

4.9 Another reason for the success of the program was the out-reach efforts of the public officials, starting from the top leadership of the government. This effort went a long way in explaining the rationale for reforms to the public, and to explain how the government planned to ameliorate the impact on the poor. The Bank can play an important role in this out-reach by doing some of it directly, or providing the government with relevant material on Seychelles and other countries.

4.10 The Bank's work would benefit from a more informed assessment of the political situation. Though Seychelles is a multi-party democracy and has had free and fair elections, power has remained largely with one party and ruling elite. While on paper there are checks and balances (in the form of a free press and an independent judiciary), the reality on the ground is often different. In these circumstances, a nuanced assessment of the political compulsions of the government and ruling elite, and how these can change over time would prove invaluable in understanding the real reasons why some reforms were blocked or slowed down (such as privatization, SOE reforms). It would also be useful for the Bank to identify, for every politically contentious reform, those individuals within the government who are championing the reforms and those that oppose it. This would help assess the chances for implementation and could also provide some clues to un-blocking the resistance.

4.11 Compared to some other countries (for example Mauritius), the Bank's program in Seychelles was more focused and more in line with what it could deliver given the resources at its disposal. The program was also flexible, allowing the Bank to respond to legitimate needs when circumstances change. However, the Bank was sometimes guilty of being too flexible in re-aligning its program to policy slippages. The shelving of the privatization program sent a wrong signal about the government commitment to increase the space for private sector in commercial activities, yet this does not seem to have elicited a strong response from the Bank. Perhaps the Bank could have made a greater effort to understand why the government was freezing its own program and whether other solutions were feasible. Also, the Bank could have been more forthright when the spirit of reforms is violated, as in reported instances when the new procurement law was ignored and large contracts were awarded without tendering.

4.12 For the most part, the Bank's program in Seychelles was conventional, seeking to maintain a stable macro framework and get market forces to play a greater role while improving the quality of public spending on essential public goods. By and large this approach worked. But it did not address some country-specific issues adequately, which could have improved outcomes. For example, as already suggested there is a need to look beyond laws and rules and regulations on paper to the reality on the ground. While laws may have been amended to remove the state from many of the activities of the private sector, arbitrary interventions to reward or harm private investors were not uncommon when their business threatened to hurt powerful vested interests in the ruling elite. The Bank does not seem to have paid much attention to these factors and to include them in its policy dialogue with the government. Similarly, with the Bank's blessings, institutions were created to promote competition (such as the Office of Fair Trade) but they simply did not have the technical capacity or political backing to either identify non-competitive behavior or to act against obvious cases which involved favorites of the ruling elite. The Bank should be forthright and unequivocal in its assessments and continue to emphasize increased transparency at all levels of government and seek to strengthen the independence of other non-state actors (for example judiciary, media, Parliament) that can identify and act against abuse of state power. It should also build in-country demand for good governance by stepping up efforts to reach out to Parliament and civil society, including the press.

4.13 A second area where the Bank needs to look beyond standard prescriptions is the readiness of the private sector to take on the responsibilities of a retreating state. In the initial years of the reform program, to reduce the state's role in economy a number of activities undertaken by state agencies were off-loaded to the private sector.[3] However, it soon became apparent that the private sector was simply unable to provide the quality of service required, causing much hardship to the population. An informed assessment of the readiness of the private sector, and support for strengthening its abilities, may help calibrate the planned speed of transition from the state to the private sector.[3]

4.14 Despite its status as a high middle income country, local capacity in most government agencies and outside government (including the private sector) is lagging behind what is required to manage a modern economy. Awareness of international experience is also limited. The Bank is best placed to provide such assistance. While there is huge demand within the country for such assistance, the RAS and other mechanisms were found either too costly or too limited to meet the needs of the country. TA involving hands-on support from experienced hands in the actual implementation of reforms was as important, if not more important, than designing programs and policies. TA involving peer reviewing by Bank staff of work done in line ministries could also be an important source for knowledge transfer. Equally important, the Bank could foster inter-regional exchange of ideas and best practices by partnering with regional institutions such as the Regional Multidisciplinary Center of Excellence in Mauritius, the Indian Ocean Commission, and the Common Market for Eastern and Southern Africa.

4.15 Taking the above findings into account, we have developed six lessons regarding operational and strategic dimensions of Bank group engagement in Seychelles.

4.16 **Lesson 1: It would be desirable for the Bank to maintain at least a minimum technical presence even when the policy dialogue is unsatisfactory.** Technical staff may have the opportunity to engage with policy makers that need support and confidence in pursuing good policies which alone they couldn't do. This may open the door for an earlier reengagement to adopt a more sustainable fiscal trajectory before the country descends into crippling debt and bankruptcy.

4.17 **Lesson 2: The Bank could make a greater effort at understanding political economy issues, including identifying individuals who are championing or opposing politically contentious reforms so that these are reflected in assessing political challenges and opportunities for key reforms.** This political economy analysis would be timely after Seychelles' "closely fought" Presidential elections in December 2015, and would help frame the new CPF, notably to (i) prioritize the reform agenda; (ii) gauge the degree of ownership for different reforms and interests working for and against reforms within government and outside; and (iii) suggest entry points and ways to neutralize or compensate those opposing key reforms. This analysis would be updated as and when important political developments (such as fresh elections or major cabinet reshuffles) occurred. Naturally, any such analysis would require the Bank to interact with stakeholders including trade unions and opposition parties.

4.18 **Lesson 3: It would be judicious for the Bank to remain selective in the choice of areas to focus upon, given the limited resources at its disposal.** Fiscal restraint will remain an important macro compulsion in the medium term and the Bank could provide useful inputs in improving the quality of public spending, including public investment. Given its dependence on international trade and services, improving the quality of infrastructure to enhance connectivity with the rest of the world in one obvious priority area for Seychelles to which the Bank can contribute. Improving quality of education and skills is another important area where other DPs are taking the lead. It would be wise for the Bank to keep a close eye on the results of these efforts and offer any expertise it has to further these efforts. The Bank should continue to take a pro-active stance in promoting trade, investment and exchange of ideas at the regional level.

4.19 **Lesson 4: The Bank needs to remain flexible in the design of its program and be prepared to modify it in size and substance if the external environment changes or priorities of the government change.** However, slippages in implementation of policy conditionality should only be accommodated in exceptional circumstances. This is important to ensure the Bank keeps its credibility. Prior actions and targeted outcome in DPLs needs to be precisely worded and crafted to ensure that there is a clear logical chain between the prior action and the ultimate objective of reform and also that this chain is aligned with the programmatic cycle of the DPL.

4.20 **Lesson 5: Wherever possible, the Bank could press for increased transparency and accountability in government and help promote reforms that break the "cycle of fraternity" which often plague institutions in small states.** So far the Bank's emphasis has been largely in the area of public finance management. As noted by several stakeholders, including former policy makers, the Bank appetite to challenge the government to deepen reforms during the second wave of reforms was weak. They felt the Bank should place greater emphasis on good governance. Bank agenda to foster accountability should be widened to include other areas (e.g., selection of CEOs of public sector bodies) where the government may be tempted to dispense favors to its favorites or penalize opponents. The role of independent watch-dog bodies such as the press and the judiciary will be important to hold the government to account, and the Bank should support any efforts to strengthen their role.

4.21 **Lesson 6: It would be desirable for the Bank to look beyond standard prescriptions in designing SOE reforms, including privatization in small states where the capacity of the private sector may be very thin.** It is therefore important to first assess the readiness of the private sector to take on responsibilities of a retreating state and to recalibrate the planned speed of transition based on this assessment. At the same time, the Bank should be prepared to strengthen design joint interventions, including support for institutions that can provide hand-holding services to the private sector in the initial years.

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[1] The level of public debt (which was almost 129 percent of GDP in 2009) was brought down to 65 percent in 2014. GDP growth averaged 5 percent per year during 2009–14.

[2] The country economist went on mission in 2007 to start working with the authorities on fiscal issues at a time when the country was still under sanction.

[3] For example, laundry and catering services were hived-off from hospitals. However, the private sector simply did not have the ability to deliver these services of the quality required.

Appendix A. Seychelles Economic and Social Indicators, 2005–14

Series Name	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Growth and inflation										
GDP growth (annual %)	9.0	9.4	10.4	-2.1	-1.1	5.9	7.9	6.0	6.6	3.3
GDP per capita growth (annual %)	8.5	7.2	9.9	-4.3	-1.5	3.0	10.8	5.0	4.7	1.5
GNI per capita, PPP (current international $)	16,020	17,690	18,380	17,630	17,880	18,840	20,990	22,800	24,320	24,780
GNI per capita, Atlas method (current US$)	11,140	12,580	12,270	11,130	10,220	10,190	11,060	12,200	13,540	14,100
Inflation, consumer prices (annual %)	0.9	-0.4	5.3	37.0	31.8	-2.4	2.6	7.1	4.3	1.4
Composition of GDP										
Agriculture, value added (% of GDP)	3.3	3.0	2.7	2.6	2.3	2.3	2.2	2.0	2.5	2.3
Industry, value added (% of GDP)	16.4	16.2	16.1	15.6	14.0	14.0	13.7	13.3	12.9	12.3
Services, etc., value added (% of GDP)	63.2	65.9	67.9	67.6	68.4	66.9	66.8	67.9	70.2	71.1
External Accounts										
Exports of goods and services (% of GDP)	78.3	84.4	90.6	101.4	108.0	93.8	95.8	92.8	85.5	83.1
Imports of goods and services (% of GDP)	100.0	100.5	91.8	112.1	117.0	108.1	111.4	109.4	92.8	98.2
Current account balance (% of GDP)	-18.9	-13.2	-18.8	-27.2	-22.4	-22.1	-28.3	-14.5	-11.8	-22.0
Total reserves in months of imports	0.7	1.3	0.5	0.7	2.2	2.9	2.7	2.4	3.1	3.3
External debt stocks (% of GNI)	—	—	—	—	—	—	—	—	—	—
Present value of external debt (% of GNI)	—	—	—	—	—	—	—	—	—	—
Total debt service (% of GNI)	—	—	—	—	—	—	—	—	—	—
Other macroeconomic indicators										
Gross fixed capital formation (% of GDP)	—	30.4	29.0	26.9	27.3	36.6	35.0	37.4	37.9	37.3
Gross fixed capital formation, private sector (% of GDP)	—	22.8	23.6	24.9	22.0	28.0	27.0	27.0	29.0	31.0
Gross savings (% of GDP)	—	19.6	18.1	7.1	12.5	17.2	13.1	17.5	26.5	16.3
Gross domestic savings (% of GDP)	—	14.3	27.8	16.2	18.2	22.3	19.4	20.7	30.5	22.2
Fiscal accounts										
Cash surplus/deficit (% of GDP)	2.4	2.2	-5.3	7.0	3.9	1.4	5.5	4.8	—	—
General government final consumption expenditure (% of GDP)	34.6	39.5	35.3	27.4	28.9	27.3	27.4	25.7	26.6	25.7

Series Name	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gross national expenditure (% of GDP)	—	116.2	101.2	110.7	109.0	114.3	115.6	116.6	107.4	115.1
Revenue, excluding grants (% of GDP)	43.1	47.3	35.7	34.8	33.0	35.1	35.5	34.1	—	—
Social indicators										
Health expenditure, public (% of GDP)	3.6	3.5	3.1	2.4	2.4	3.2	3.2	4.2	3.7	—
Out-of-pocket health expenditure (% of private expenditure on health)	97.2	83.7	72.9	71.0	67.7	38.1	88.2	35.4	36.8	—
Life expectancy at birth, total (years)	72.1	72.2	73.2	73.2	73.0	73.2	72.7	74.2	74.2	—
Immunization, DPT (% of children ages 12–23 months)	99.0	99.0	99.0	99.0	99.0	99.0	99.0	98.0	98.0	99.0
Improved sanitation facilities (% of population with access)	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4
Improved water source (% of population with access)	95.7	95.7	95.7	95.7	95.7	95.7	95.7	95.7	95.7	95.7
Mortality rate, infant (per 1,000 live births)	12.3	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.1	11.9
Gross enrollment ratio, pre-primary, both sexes (%)	103.5	—	100.5	103.5	105.2	109.8	109.6	113.5	111.5	—
Gross enrollment ratio, primary, both sexes (%)	112.8	—	107.9	106.0	104.6	106.2	106.9	107.7	108.3	—
Gross enrollment ratio, secondary, both sexes (%)	85.0	—	81.5	78.1	77.2	74.8	76.0	79.5	71.7	—
Gross enrollment ratio, tertiary, both sexes (%)	—	—	—	—	—	—	2.5	1.3	3.3	—
Population, total	82,900	84,600	85,033	86,956	87,298	89,770	87,441	88,303	89,900	91,526
Population growth (annual %)	0.5	2.0	0.5	2.2	0.4	2.8	-2.6	1.0	1.8	1.8
Urban population (% of total)	51.1	51.3	51.5	51.8	52.0	52.3	52.6	52.9	53.2	53.6
Population, female (% of total)	50.0	49.8	49.6	49.3	49.1	49.0	49.0	49.0	49.1	49.2
Poverty headcount ratio at national poverty lines (% of population)	—	37.8	—	—	—	—	—	—	—	—
Fixed telephone subscriptions (per 100 people)	24.6	23.4	25.5	24.8	28.8	24.2	30.4	22.7	23.4	22.7
Unemployment, total (% of total labor force) (national estimate)	5.5	—	—	—	—	—	4.1	—	—	—

Source: World Development Indicators database. Retrieved November 2015.
Note: DPT = diphtheria, pertussis, and tetanus; GDP = gross domestic product; GNI = gross national income; ILO = International Labour Organization; PPP = purchasing power parity.

Appendix B. World Bank Group Operational Program in Seychelles FY07–15

Summary of Bank Activities

LENDING

FY12–15

1. As planned, the Bank approved three Sustainability and Competitiveness DPOs, each of $7 million. These operations supported reforms to strengthen fiscal sustainability, enhance competitiveness, strengthen the economy's resilience to shocks, and develop institutional capacities in the public sector.

2. However, during the course of implementation of the CPS, the planned lending program was considerably enhanced. To provide additional financial buffer against natural disaster, the lending program for FY15 was increased by the inclusion of a development policy loan (DPL) with a Catastrophe Deferred Drawdown Option (CAT-DDO)[1] of $7 million. A regional DPO of $5 million in support of dismantling regional trade barriers was also added to the program.[2] The CPS period was also extended to FY16 with the inclusion of a second Regional DPO (also of $5 million) and a fourth Sustainability and Competitiveness DPL (of $4 million).

AAA

3. Substantial AAA was implemented by the Bank during this period, largely according to plan, but adjusted as required in response to specific requests by the government. The Bank provided TA under a Reimbursable Agreement for Advisory Services framework. In social protection, the Bank supported government efforts to improve efficiency in service delivery and provided TA in support of reforms in social protection. The Bank is also providing assistance to improve statistical capacity at the Ministry of Education and Ministry of Health, through the development of a BOOST dataset for these two sector ministries, and for capacity building for a National Health Account. In the public enterprise area, the Bank supported drafting of the Board Appointment and Remuneration Policies. To improve the statistical system, Bank support focused on building capacity for generating National Accounts and the Tourism Satellite Account. TA was also provided to improve the business regulatory environment. Analytical work that shaped the government's ongoing reform agenda includes 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.

FY10–11

4. As planned, the Bank approved two DPOs of $9 million each. The first DPO (FY10) supported a stable and sustainable fiscal adjustment underpinned by public administration and civil service reform. It also supported reforms to reduce the state's role in commercial

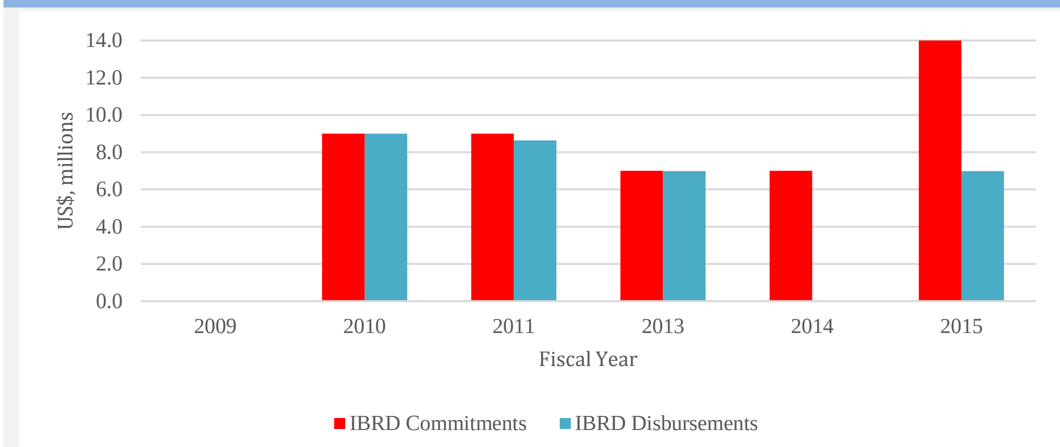
activities and strengthen the social assistance system through improved targeting. The second DPO (FY11) supported reforms to improve public sector effectiveness and the business environment.

5. The Bank also implemented four Trust Fund grants (for $4.5 million), largely for capacity building. These included the National Disaster Preparedness and Response Project ($900,000) for early warning systems and strengthening the capacity for disaster preparedness and response; the Transport Infrastructure Project ($1,960,000) to finance the repair of one of three artisanal fishing quays damaged by the December 2004 tsunami; Public Administration Reform and Fiscal Impact Capacity Building Project ($425,800) to enhance capacity to effectively manage the implementation of the Public Sector Reform Program; and Building Statistical Capacity Project ($376,200) to improve the organizational structure of the National Statistics Bureau and build its capacity to develop and produce new economic data series as part of the National Strategy for the Development of Statistics.

Detailed Portfolio Analysis

6. World Bank Group financing commitments delivered over the evaluation period amounted to about $70 million. From FY07–15 the World Bank Group committed a total of $46 million in IBRD loans, $3.8 million in trust fund grants, and about $20 million in net commitments by the IFC. IBRD disbursements during this period amounted to about $32 million.

Figure B.1. IBRD Commitments and Disbursements to Seychelles, FY09–15



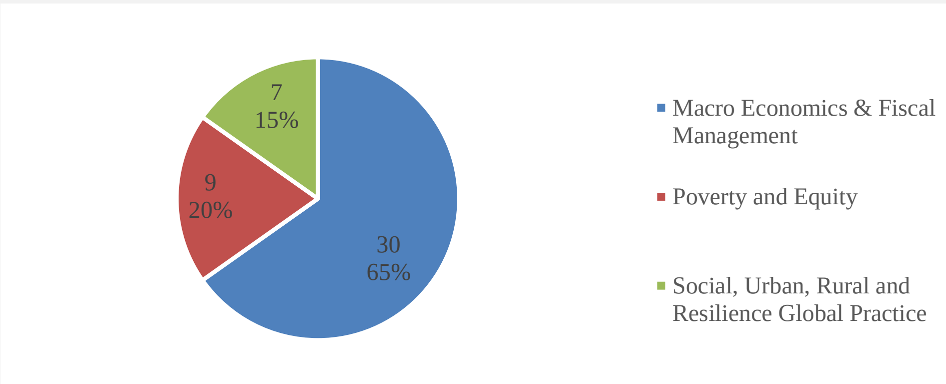
Source: World Bank Business Intelligence database.

7. IBRD financing for the implementation of reforms materialized largely as envisaged in the country strategies, and was delivered exclusively through Development Policy operations. Both the FY09–11 ISN and the FY12–15 CPS proposed a series of Development Policy Operations (DPOs) as the main lending vehicle of support for the implementation of reforms. Accordingly, an initial series of two $9 million operations were approved in FY10 and FY11. These were followed by a series of three $7 million programmatic DPOs in FY13,

14 and FY15 (figure B.1). The Bank also approved in FY15, a $7 million Disaster Risk Management DPL with a Catastrophe Deferred Drawdown Option. The main objective of this operation is to strengthen the government's Disaster Risk Management policy and to provide access to contingent financing that would address immediate needs in the event of a disaster.[3] Trust fund support mobilized during the period helped to reinforce the Bank's engagement and was deployed in activities that included; the rehabilitation of the fish processing quay in in the main fishing port of Victoria, mainstreaming disaster risk reduction into national plans, strengthening the regulatory framework for renewable energy systems, enhancing the capacity to manage the implementation of public sector reform, and enhancing transparency in the oil sector.

8. The sectoral focus of the Bank's financing commitments was well aligned with the objectives of the DPL series and mostly focused in the area of economic policy. The sector composition of IBRD's lending portfolio greatly reflected the Bank's objectives and was mostly concentrated in the area of economic policy, with commitments classified under the macroeconomics and fiscal management practice, accounting for more than half of total commitments (Fig. 2). Other key areas of engagement included; building resilience and reducing poverty.

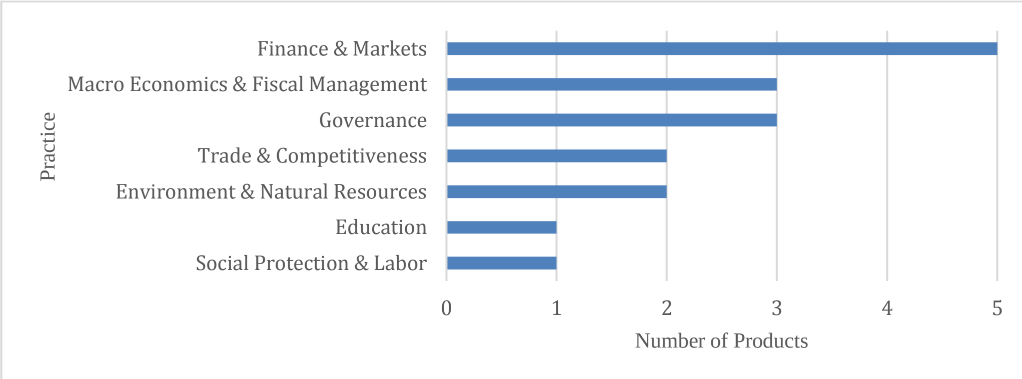
Figure B.2. Sector Allocations of IBRD Commitments to Seychelles (US$, millions)



Source: World Bank Business Intelligence database.

9. A range of knowledge products and technical assistance helped inform key areas of the Bank's engagement and also contributed to building capacity. Between FY07 and FY15, the Bank delivered a total of 17 Analytical and Advisory service Activities (AAA); 12 of which were in the form of nonlending technical assistance (NLTA). About $2.5 million in Bank (administrative) budget and $0.5 million trust fund finance was spent on delivering the AAA products. Key analytic reports delivered during the period included; a fiscal Public Expenditure Review with a focus on social sectors and civil service, a report on the administrative barriers to private sector development, a report on management of the tuna industry, and a social protection study. Non-lending technical assistance was instrumental in building capacity in areas such as disaster risk management, private sector development, and insurance regulation.

Figure B.3. Number of AAA Products by Practice, FY07–15



Source: World Bank Business Intelligence database.

10. Trust fund resources and a Reimbursable Agreement for Advisory Services arrangement were instrumental in the delivery of the Bank's AAA activities. Overall, about 16 percent of the total cost of AAA delivery during the period, was provided by trust funds, notably from the Financial Sector Reform and Strengthening Initiative and the Global Facility for Disaster Reduction and Recovery (GFDRR). In addition, under a Reimbursable Agreement for Advisory Services agreement, the Bank was able to deliver technical assistance in three key areas: social protection, public enterprise, and health financing. In social protection, the Bank supported government efforts to improve efficiency in service delivery and advised on policy options with respect to enhancing the targeting system. In health financing, the Bank was involved in building capacity for National Health Accounts and in the public enterprise area, the Bank supported drafting of the Board Appointment and Remuneration Policies.

Investments by the International Finance Corporation

11. IFC support to Seychelles was delivered primarily through advisory services. IFC reengaged with the Republic of Seychelles in 2010 and in the same year approved a $20 million investment to help facilitate the development of tourism on the island.4 However, due to issues associated with the lease of the land, disbursement did not take place. Through its advisory services work, IFC supported the Central Bank during the preparation of legislation on financial leasing which was ultimately passed in November 2013. The new legal framework is designed to ease access to finance especially for SMEs and is expected to achieve completion with the issuance of supplementary regulations, further to which, the Central Bank of Seychelles will start processing applications for authorization/licensing of financial leasing entities. Through the Seychelles Energy Efficiency and Renewable Energy Project, IFC supported the government's effort to develop an incentive program for commercial banks to extend credit to households for the acquisition of solar heaters and other household energy efficiency equipment. IFC also undertook a preliminary assessment of the government's proposed port modernization project, with a view to attracting private

investment in alliance with a strong port operator under a Public-Private Partnership (PPP) scheme.

12. There were no MIGA guarantees provided to Seychelles during the evaluation period.

Portfolio Performance and Risk

13. IEG validations during the evaluation period were limited to assessments of the first series of two DPLs. The assessments resulted in satisfactory development outcome ratings for both projects which is a much better performance than the average for Sub-Saharan Africa (65 percent) and for the Bank as a whole (70 percent). The satisfactory outcome rating for the DPL series was attributed to factors that included (i) a well-designed communication strategy that helped build public support for reforms, and (ii) the selective inclusion into the reform program, of only policy areas underpinned by knowledge, partnerships and consultation.

14. IEG's review of closed projects also found a moderate risk to development outcome in one (50 percent) of the two instances where risk was assessed. The assessed risks assessed stemmed from two main factors: (i) the economy's vulnerability to external shocks associated with the uncertainties in the global economic environment, and (ii) uncertainty regarding the ability of the government to maintain macroeconomic stability, keep up the momentum of reforms and, address capacity constraints. The assessment concluded that a negative external environment would affect tourism, aid and foreign investments in the economy and thus impact development outcomes.

15. The riskiness of the Bank's Seychelles portfolio under implementation remained below average for most of the evaluation period. For the entire evaluation period, no Bank operations in Seychelles (and none of the commitments) were considered to be at risk. This was in contrast to an average of 26 percent of projects and 27 percent of commitments at risk in AFR, and a World Bank average of 23 percent of projects and 19 percent of commitments at risk over the same period.

Table B.1. Seychelles—List of World Bank Approved Projects, FY07–15

Proj ID	Project Name	Agreement Type	Fiscal Year	Project Status	Len Instrument Type	Rev Closing Date	Practice	Total Project Commitment (US$, millions)	IBRD Commitment (US$, millions)	Trust Fund Commitment Amount (US$, millions)	IEG Outcome Rating
P106471	SC-Transport Infrastructure ERL (FY07)	RETF	2007	Closed	INVESTMENT	06/30/2011	Transport and ICT	2.0	0.0	2.0	
P111474	SC:GFDR National Disaster Preparedness Prj	RETF	2008	Closed	INVESTMENT	09/30/2012	Environment and Natural Resources	0.9	0.0	0.9	
P112358	SC:PAR and fiscal impact reform	IDF	2010	Closed	#	08/25/2013	MFM	0.4	0.0	0.4	
P114822	SC DPL	IBRD	2010	Closed	ADJUSTMENT	05/31/2010	Poverty and Equity	9.0	9.0	0.0	Satisfactory
P120947	SC-DPL 2	IBRD	2011	Closed	ADJUSTMENT	05/31/2011	MFM	9.0	9.0	0.0	Satisfactory

Proj ID	Project Name	Agreement Type	Fiscal Year	Project Status	Len Instrument Type	Rev Closing Date	Practice	Total Project Commitment (US$, millions)	IBRD Commitment (US$, millions)	Trust Fund Commitment Amount (US$, millions)	IEG Outcome Rating
P125202	SC-Sustainability and Competitiveness (FY13)	IBRD	2013	Closed	ADJUSTMENT	06/30/2013	MFM	7.0	7.0	0.0	
P132425	Sustainability and Competitiveness DPL 2	IBRD	2014	Closed	ADJUSTMENT	06/30/2014	MFM	7.0	7.0	0.0	
P143254	SC-Feed-in Tariff and Grid Co	RETF	2013	Closed	INVESTMENT	08/31/2014	Energy and Extractives	0.3	0.0	0.3	
P146567	Sustainability and Competitiveness DPL 3	IBRD	2015	Active	ADJUSTMENT	12/31/2015	MFM	7.0	7.0	0.0	
P148861	SC-DPL with a Cat DDO	IBRD	2015	Active	ADJUSTMENT	09/30/2017	SURR	7.0	7.0	0.0	
P150595	Seychelles: EITI Implementation	RETF	2015	Active	INVESTMENT	12/31/2015	Energy and Extractives	0.2	0.0	0.2	
Total								**49.8**	**46.0**	**3.8**	

Source: Business Intelligence database.
Note: MFM = Macroeconomics and Fiscal Management, SURR = Social, Urban, Rural, and Resilience Global Practice.

Table B.2. Number and Total Commitment Amount of IBRD commitments, FY07–15 (US$, millions)

Practice	2010		2011		2013		2014		2015		Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Macroeconomics and Fiscal Management	—	—	1	9	1	7	1	7	1	7	5	30
Poverty	1	9	—	—	—	—	—	—	—	—	1	9
Social, Urban, Rural, and Resilience Global Practice	—	—	—	—	—	—	—	—	1	7	1	7
Total	**1**	**9**	**1**	**9**	**1**	**7**	**1**	**7**	**3**	**14**	**7**	**46.0**

Source: Business Intelligence database.
Note: There were no IBRD commitments between FY07 and FY09.

Table B.3. IEG Project Ratings for Seychelles, Exit FY07–15

Exit FY	Proj ID	Project Name	Net Commitment Amount ($M)	Approval FY	IEG Outcome rating	IEG Risk to development objective Rating	IEG Bank Quality at entry	IEG Bank Supervision
2010	P114822	SC DPL	9.0	2010	Satisfactory	NEGLIGIBLE TO LOW	SATISFACTORY	SATISFACTORY
2011	P120947	SC-DPL 2	8.7	2011	Satisfactory	MODERATE	SATISFACTORY	SATISFACTORY

Source: Business Intelligence database.

Table B.4. Bank Budget by Cost Structure Category, FY07–15 (US$, thousands and percent)

World Bank Global Practice	Total	Project Supervision	Lending	AAA	Country Program Support
Agriculture	74		74		
Education	28			28	
Energy and Extractives	40	26	1	13	
Environment and Natural Resources	173	32	19	121	
Finance and Markets	180			180	
Governance	690		22	668	
Macroeconomics and Fiscal Management	2,908	36	875	1,998	
Not assigned	534	71	67		395
Other	531				531
Poverty and Equity	265	30	167	68	
Social Protection and Labor	119			119	
Social, Urban, Rural and Resilience Global Practice	178	5	171	2	
Trade and Competitiveness	269			269	
Transport and ICT	66	60	6		
Total	**6,053**	**260**	**1,402**	**3,465**	**926**
Cost structure (percent)					
Agriculture	100	0	100	0	0
Education	100	0	0	100	0
Energy and Extractives	100	66	1	33	0
Environment and Natural Resources	100	19	11	70	0
Finance and Markets	100	0	0	100	0
Governance	100	0	3	97	0
Macroeconomics and Fiscal Management	100	1	30	69	0
Not assigned	100	13	13	0	74
Other	100	0	0	0	100
Poverty and Equity	100	11	63	26	0
Social Protection and Labor	100	0	0	100	0
Social, Urban, Rural and Resilience Global Practice	100	3	96	1	0
Trade and Competitiveness	100	0	0	100	0
Transport and ICT	100	91	9	0	0
Total	**100**	**4**	**23**	**57**	**15**

Source: World Bank Business Intelligence database as of November 23, 2015.

Table B.5. Total Net Disbursements of Official Development Assistance and Official Aid, 2005–2013 (US$, millions)

Donor(s)	2005	2006	2007	2008	2009	2010	2011	2012	2013	Cumulative 2005–13	Percentage of total disbursed 2005–13
France	5.01	2.52	0.67	2.93	2.31	10.48	2.39	1.56	4.13	32	15
Japan	1.26	1.91	0.76	1.62	9.06	9.57	1.24	1.75	0.55	27.72	13
Italy				0.05		8.31				8.36	4
Belgium	0.55	2.02				1.02		0.01		3.6	2
Australia	0.01	0.05					0.88	0.51	1.82	3.27	2
Canada	0.78	0.23	0.51	0.24	0.21					1.97	1
United Kingdom	0.02	0.02	-0.86	0.07	0.06	0.04	0.07	1.81	0.48	1.71	1
Germany	0.09	0.07	0.08	0.06	0.08	0.52	0.58	0.02	0.03	1.53	1
Spain						-0.77	1.66			0.89	0
United States	0.01	0.11	0.14	0.01	0.01	0.01	0.02	0.03	0.23	0.57	0
New Zealand	0.01		0.03	0.03	0.05	0.06	0.05	0.04	0.02	0.29	0
Korea	0.03	0.02	0.08	0.01		0.01	0.02	0.1		0.27	0
Portugal		0.19								0.19	0
Sweden								0.17		0.17	0
Switzerland	0.16									0.16	0
Greece	0.01	0.01	0.05	0.01			0.02	0.02		0.12	0
Austria			0.03							0.03	0
Slovenia								0.01		0.01	0
Denmark							-0.29			-0.29	0
DAC -Total	**7.94**	**7.15**	**1.49**	**5.03**	**11.78**	**29.25**	**6.64**	**6.03**	**7.26**	**82.57**	**38**
EU Institutions	1.4	4.4	0.8	0.74	11.98	4.62	6.39	14.23	10.32	54.88	25
GEF			6	6.17	0.9	3.38	1.42	2.05		19.92	9
BADEA	2.77	1.25	-0.09	-0.14	-1	2.36	2.4	1.54	0.92	10.01	5
UNTA	1.05	0.46	0.95	0.44						2.9	1
OFID	1.36	0.99	0.54	0.03	-0.31	-0.31		-0.31	-0.31	1.68	1
WHO							0.55	0.47	0.58	1.6	1
IAEA		0.01	0.05	0.18	0.13	0.22	0.16	0.16	0.17	1.08	1
AfDB (African Dev. Bank)							0.09	0.42	0.4	0.91	0
UNFPA	0.05	0.04	0.03	0.09	0.05	0.11	-0.01	0.05	0.06	0.47	0
UNDP							0.07	0.02	0.04	0.13	0
UNAIDS		0.02	0.04							0.06	0
IFAD					-0.12					-0.12	0
AfDF (African Dev.Fund)			-0.43	-0.2	-0.7	-0.72	-0.75	-0.74	-0.74	-4.28	-2
Multilateral institutions total	**6.63**	**7.17**	**7.89**	**7.31**	**10.93**	**9.66**	**10.32**	**17.89**	**11.44**	**89.24**	**41**
United Arab Emirates	2		2.06			17.44	5.86	12.21	7.22	46.79	22
Turkey				0.11			0.01	0.01	0.06	0.19	0
Cyprus	0.02	0.01	0.02	0.05	0.03					0.13	0
Israel	0.02	0.01		0.02	0.01	0.01	0.01	0.02	0.03	0.13	0
Thailand					0.01			0.01	0.02	0.04	0
Romania								0.01		0.01	0
Russia								0.01		0.01	0
Kuwait (KFAED)	0.12	-0.7	-0.42			-0.33	-0.74	-0.6	-0.64	-3.31	-2

Donor(s)	2005	2006	2007	2008	2009	2010	2011	2012	2013	Cumulative 2005–13	Percentage of total disbursed 2005–13
Non-DAC TOTAL	**2.16**	**-0.68**	**1.66**	**0.18**	**0.05**	**17.12**	**5.14**	**11.67**	**6.69**	**43.99**	**20**
Overall Total	**16.73**	**13.64**	**11.04**	**12.52**	**22.76**	**56.03**	**22.1**	**35.59**	**25.39**	**215.8**	**100**

Source: Organisation for Economic Co-operation and Development (OECD); data extracted on November 23, 2015 from OECD Stat.
Note: DAC = Development Assistance Committee; EU = European Union; GFATM = Global Fund to Fight AIDS, Tuberculosis, and Malaria; IAEA = International Atomic Energy Agency.

Table B.6. Analytical and Advisory Services Support to Seychelles, FY07–15

Proj ID	Project Name	Fiscal year	Prod Line	Practice	AAA Cost (Bank Budget) (US$, thousands)	AAA Cost (Trust Fund) (US$, thousands)	Total Cost of AAA (US$, thousands)
P107376	Seychelles: Business Environment Update	FY09	ESW	Finance and Markets	130	0	130
P107923	Seychelles Fiscal PER	FY09	ESW	Governance	148	0	148
P079619	SC PER /SOES AND EMPLOYMENT	FY10	ESW	Governance	84	0	84
P123612	Seychelles #9023 Review of Pub Owned FIs	FY11	NLTA	Finance and Markets	0	149	149
P118247	Tuna Industry Management	FY11	NLTA	Environment and Natural Resources	110	0	110
P112525	SC-FBS TAP	FY12	NLTA	Governance	233	0	233
P125775	SC-FBS Social Protection	FY13	NLTA	Macroeconomics and Fiscal Management	320	0	320
P127102	SC-Social Protection	FY13	NLTA	Social Protection and Labor	119	0	119
P125204	Seychelles #10040 Stren. Insurance Reg	FY14	NLTA	Finance and Markets	0	99	99
P145337	Seychelles Disaster Risk Management	FY14	NLTA	Environment and Natural Resources	0	74	74
P132465	SC-Programmatic Public Expenditure Rev	FY15	ESW	Macroeconomics and Fiscal Management	178	0	178
P151778	SC-PPP Outsourcing and PSD dialogue	FY15	ESW	Trade and Competitiveness	37	0	37
P123351	SC-PSD Reforms	FY15	NLTA	Trade and Competitiveness	232	0	232
P130867	Seychelles #10254 Housing Finance	FY15	NLTA	Finance and Markets	0	160	160
P130899	Sustainability and competitiveness TA	FY15	NLTA	Macroeconomics and Fiscal Management	745	0	745
P149436	StAR - Study of the Seychelles OFC	FY15	NLTA	Finance and Markets	123	0	123
P153239	JIT support for ECD	FY15	NLTA	Education	28	0	28
Total					**2,487**	**482**	**2,969**

Source: World Bank Business Intelligence database.

[1] The DPL with CAT-DDO supported the government's efforts to strengthen its institutional capacity to plan for and cope with natural disasters. The contingent financing for disaster response provided by the CAT-DDO served as an important element of Seychelles' national disaster risk financing strategy to manage the impact of natural disasters without compromising fiscal stability and other development objectives.

[2] The regional DPO (Accelerated Program for Economic Integration) supports an initiative by five African countries (Malawi, Mauritius, Mozambique, Seychelles, and Zambia) to eliminate trade barriers fragmenting the African market and promote deeper regional integration. The project is currently stalled because of differences in perspectives of the countries involved.

[3] The development policy loan with a Catastrophe Deferred Drawdown Option (Cat DDO) is a contingent credit line that provides immediate liquidity to IBRD member countries in the aftermath of a natural disaster. In response to widespread flooding in early 2013, the government sought Bank Group support for strengthening

the technical capacity for DRM and put in place a disaster risk financing strategy. The contingent financing for disaster response provided by the CAT-DDO serves as an important element of Seychelles' national disaster risk financing strategy to manage the impact of natural disasters without compromising fiscal stability and other development objectives.

[4] The $20 million investment involved financing the development of a hotel resort on the island.

Appendix C. World Bank Group Program Organized along the Evaluation Pillars

Pillar 1—Strengthening Resilience

1.1 Strengthening Fiscal and Debt Sustainability and Public Sector Performance

The Bank Group sought to help make progress on the objectives/outcomes detailed below.

Objectives/Outcomes Sought	Associated Indicator(s)
Strengthened budget management practices adopted.	•Full inclusion of recurrent costs of capital into the recurrent budget by 2015 compared to no linkages in 2011. •Reduction in the difference between budgeted and executed budget from 4.2% in December 2011 to 2.5% by December 2015. •Full adoption of Program and Performance based budgeting by 2017.
government expenditure on health as a share of total health expenditure falls from 87% (2009 baseline) to 80% by 2016.	•Development of sustainable health financing strategy.
Strengthened capacity of National Bureau of Statistics to provide economic and demographic data.	•Quarterly National Accounts report is released to the public by 2014.
Macroeconomic stabilization: fiscal adjustment, civil service reform	•Maintain fiscal targets. •GFS budget classification adopted. •Budget of line ministries include sector ceilings. •Public sector downsized by at least 12.5 percent and staffing rationalized in education and health.

What instruments did the Bank Group use in seeking to help make progress on these objectives/outcomes?[1]

Lending Operation	Analytical Work	Nonlending Technical Assistance
PAR and fiscal impact reform (P112358; 2014;$0.43M)	SC-Debt Mgmt Study (P090908; FY06)	Seychelles #9023 Review of Pub Owned FIs (P123612; FY11)
SC-DPL 2 (P120947; 2011;$9M)	SC-Programmatic Public Expenditure Rev (P132465; FY15)	
SC-Sustainability and Competitiveness (FY13) (P125202; 2013;$7M)	SC PER /SOES AND EMPLOYMENT (P079619; FY10)	

Lending Operation	Analytical Work	Nonlending Technical Assistance
Sustainability and Competitiveness DPL 2 (P132425; 2014;$7M)	Seychelles Fiscal PER (P107923; FY09)	
Sustainability and Competitiveness DPL 3 (P146567; 2016;$7M)		
SC DPL (P114822; 2010;$9M)		

1.2 Strengthening Environmental and Disaster Risk Management and Climate Change

The Bank Group sought to help make progress on the objectives/outcomes detailed below.

Objectives/Outcomes Sought	Associated Indicator(s)
Addressing the impact of climate change and infrastructure	•Improved disaster risk management capacity and restored infrastructure affected by the 2004 tsunami.
Strengthened institutional/legal framework for disaster risk	•National DRM Act adopted by the National Assembly and updated DRM Policy approved by the Cabinet of Ministers.

What instruments did the Bank Group use in seeking to help make progress on these objectives/outcomes?

Lending Operation	Analytical Work	Nonlending Technical Assistance
SC-GEF NGO Mgmt Nature Rsrvs SIL (FY04) (P070457; 2008; $0.814M)		Seychelles Disaster Risk Management (P145337; FY14)
SC:GFDR National Disaster Preparedness Prj (P111474; 2013;$0.9M)		
SC-DPL with a Cat DDO (P148861; 2018;$7M)		

1.3 Enhancing Human Capital and Social Resilience

The Bank Group sought to help make progress on the objectives/outcomes detailed below.

Objectives/Outcomes Sought	Associated Indicator(s)
Safety net system operationalized.	
Improved targeting, administration and financial sustainability of the social protection system.	•Multiple agencies providing welfare assistance merged into a single Agency for Social Protection by 2012. •A single robust social protection Management Information System (MIS) in place by 2013. •The pension contribution rate is increased to 5% by 2014 from 3% in 2011.

What instruments did the Bank Group use in seeking to help make progress on these objectives/outcomes?

Lending Operation	Analytical Work	Nonlending Technical Assistance
SC-Sustainability and Competitiveness (FY13) (P125202; 2013;$7M)		SC-FBS Social Protection (P125775; FY13)
Sustainability and Competitiveness DPL 2 (P132425; 2014;$7M)		SC-FBS TAP (P112525; FY12)
Sustainability and Competitiveness DPL 3 (P146567; 2016;$7M)		SC-Social Protection (P127102; FY13)
SC DPL (P114822; 2010;$9M)		

Pillar 2—Enhancing Competitiveness

2.1 Strengthening the Domestic Financial Sector

There were no objectives under this pillar.

What instruments did the Bank Group use in seeking to help make progress on these objectives/outcomes?

Lending Operation	Analytical Work	Nonlending Technical Assistance
IFC Investment - Nouvobanq - Seychelles International Mercantile Banking Corp. Ltd. (20424; FY06; $10M)		

2.2 Strengthening the Legal and Regulatory Framework, Sector Linkages, and Value Chains for Private Business

The Bank Group sought to help make progress on the objectives/outcomes detailed below.

Objectives/Outcomes Sought	Associated Indicator(s)
Reduced time and cost to start a business.	• Number of days to register business falls from 39 in 2011 to 1 in 2016. • An online system for registration of companies is set up by 2016.
Increased competition and a reduced role for the public sector in the housing finance market.	• Government has approved a housing subsidy policy that better targets low-income households in need of assistance. • Housing Finance Company (HFC) has been reformed to address challenges related to its conflicting mandates.
Adoption of a modern legislative framework for insolvency and alternative dispute resolution.	• Commercial Division at the Supreme court established and operational by 2013. • The backlog of commercial cases registered by December 2011 is processed by December 2016.
Removing constraints to private sector development and supporting private sector investment	• Business licensing process streamlined. • Privatization program ongoing.

	• Promoting FDI through a MIGA guarantee. • Improved operations of tuna cannery.

What instruments did the Bank Group use in seeking to help make progress on these objectives/outcomes?

Lending Operation	Analytical Work	Nonlending Technical Assistance
SC-DPL 2 (P120947; 2011;$9M)	Seychelles: Business Environment Update (P107376; FY09)	Tuna Industry Management (P118247; FY11)
SC-Sustainability and Competitiveness (FY13) (P125202; 2013;$7M)		SC: PSD and Tourism TA (P119899; FY11)
Sustainability and Competitiveness DPL 2 (P132425; 2014;$7M)		Seychelles #10040 Stren. Insurance Reg (P125204; FY14)
Sustainability and Competitiveness DPL 3 (P146567; 2016;$7M)		IFC AS -Administrative Barriers (537765; FY06)
SC DPL (P114822; 2010;$9M)		
IFC Investment – Universal II (resort hotel) (28604; FY10; $20M)		

2.3 Improving Infrastructure Service Delivery

The Bank Group sought to help make progress on the objectives/outcomes detailed below.

Objectives/Outcomes Sought	Associated Indicator(s)
Electricity tariffs and regulatory framework are revised to encourage efficiency, reduce losses and promote renewable energy.	•Market based utility rates applied by 2014 compared to ad hoc subsidized rates in 2011. •Grid Codes and Feed in Tariffs for renewable energy are in place by 2016.
Increased transparency and strengthened regulation in thepetroleum sector.	•Petroleum Regulatory Authority is established and petroleum legislation revised by 2014. •EITI report submitted to EITI Secretariat for evaluation by end

What instruments did the Bank Group use in seeking to help make progress on these objectives/outcomes?

Lending Operation	Analytical Work	Nonlending Technical Assistance
SC-Feed-in Tariff and Grid Co (P143254; 2015;$0.28M)		
SC-Transport Infrastructure ERL (FY07) (P106471; 2011;$2M)		

[1] Includes operations approved before the evaluation period but active during any part of the evaluation period.

Appendix D. Short Summary of Bank Contribution under Pillar 1 – Improving Resilience

Seychelles: Bank's Contribution to Strengthening Resilience

Macroeconomic Resilience: objective was to create adequate fiscal space and international reserves to meet emergencies by improving public financial management, reducing wasteful public expenditures and transfers to SEs including Public Utilities.

- reduction by 12.5 percent in public sector employment by voluntary retirement schemes and early departures to cut public spending.
- adoption of new wage grading system to align remuneration to skills and responsibilities of civil servants.
- enactment of new Public Procurement Act 2008 to bring greater transparency in public procurement. A National Tender Board was established to administer the policy.
- initiation of pilot PBBs in two ministries in 2015, with a full rollout planned for 2017.
- adoption of Public Enterprise Monitoring Commission Act (2013) establishing a commission to monitor performance of SEs based on up-to-date audited financial statements, to ensure accountability to Parliament and better corporate governance.
- adoption of tariff rebalancing program to increase electricity and water tariffs to cost recovery levels, to strengthen financial autonomy of Public Utilities and reduce their claims on the budget

Social Resilience: objective was to improve the safety net for the poor by better targeting of social benefits, expanded coverage and improved efficiency in implementation of the programs to discourage work shirking. Pension reforms were geared to ensure long run sustainability.

- introduction of targeted cash assistance program for the poor, establishment of Social Welfare Agency to administer program and strengthening of its capacities.
- strengthening of the social protection system by :limiting discretion in determining level and duration of social assistance; including all incomes in calculating benefits; inclusion of mental health related disabilities for disability payments; implementing revised regulations for certification of disability and sickness benefits, consistent with WHO classification of functioning; tightened monitoring and control of medical doctors certifying sick leave as well as workers on sick leave; limiting sick leave payments by government to 15 days per person per year; consolidation of Home Careers and Family Support Programs into one means tested program.
- increase in Pension contribution rate to Pension Fund from 3 to 4 percent, shared equally between employees and employers. Limit yearly increase in pension benefits to CPI, and no more than 5 percent.
- implementation of new regulations strengthening link between level and duration of contributions to pension benefits from the Pension Fund.

Resilience to Natural Disaster: the objective was to improve the government's capacity for disaster management and response.

- adoption by the National Assembly of the Disaster Management Act, which provides a legal framework for disaster risk management including both a national disaster risk management plan and an integrated emergency management system.
- adoption by Cabinet of updated policy for disaster risk management which establishes a fully functional early warning system, increases preparedness through updated sector contingency plans, and provides for the carrying out of information dissemination activities.
- establishment of a historic loss and damage database in collaboration with the United Nations International Strategy for Disaster Reduction and the Indian Ocean Commission, which is updated annually and fully accessible to all.