

# PROJECT COMPLETION REPORT OF POLICY BASED LENDING OPERATION

## A. PROGRAMME DATA AND KEY DATES

### I. BASIC INFORMATION

Project Number	Project Name	Country (ies)	
P-SC-KA0-001	Economic and Governance Reforms Program (EGRP)	Republic of Seychelles (hereafter referred to as "Seychelles")	
ID Number of all Lending Instrument(s)		Department	Environmental Classification
2000130004230		OSGE	3
Original Commitment Amount	Amount Cancelled	Amount Disbursed	Percent Disbursed
EUR 15,000,000	0	EUR 15,000,000	100%
Borrower			
Government of Seychelles (GoS)			
Executing Agency(ies) [List the main Ministries, Project Implementation Units, Agencies and civil society organizations responsible for implementing project activities.]			
The Ministry of Finance (MoF) was responsible for implementing program activities.			
Co-financers and other External Partners [List all other sources and amounts of financing, technical assistance or other resources used in this project]			
There were no co-financers. The World Bank was the only other Development Partner with a budget support program (of USD 18 million) at the time of the Bank's EGRP.			

### II. KEY DATES

Project Concept Note Cleared by Ops. Com.	Appraisal Report Cleared	Board Approval	
25/03/2009	08/06/2009	20/07/2009	
Restructuring(s)			
	Original Date (MM/DD/YY)	Actual Date (MM/DD/YY)	Difference in months
EFFECTIVENESS	24/09/2009	11/11/2009	2.0
MID-TERM REVIEW	Not applicable	Not applicable	
CLOSING	31/12/2010	31/12/2010	0.0

	Expected Disbursement Date (MM/DD/YY)	Actual Disbursement Date (MM/DD/YY)	Waivers
TRANCHE 1:	15/10/2009	20/11/2009	Not applicable
TRANCHE 2	15/07/2010	15/12/2010	Not applicable

### III. RATINGS SUMMARY

Insert notes from the relevant tables in the different sections of the PCR. For example, please insert the “Overall Output score” in Section D.I. in the “Achievement of Outputs” box below.

CRITERIA	SUB-CRITERIA	RATING
PROGRAMME OUTCOME	Achievement of Outputs <i>(insert score from Section D.I.)</i>	3.0
	Achievement of Outcomes <i>(insert score from Section D.II)</i>	3.0
	Timeliness <i>(insert score from Section F.4)</i>	4.0
	<b>OVERALL PROGRAMME OUTCOME</b> <i>[Score is calculated as an average of the ratings]</i>	<b>3.3</b>
BANK PERFORMANCE	Design and Readiness <i>(insert score from Section I.I)</i>	3.5
	Supervision <i>(insert score from Section I.I)</i>	3.0
	<b>OVERALL BANK PERFORMANCE</b> <i>[Score is calculated as an average of the ratings]</i>	<b>3.3</b>
BORROWER PERFORMANCE	Design and Readiness <i>(insert score from Section I.I)</i>	3.7
	Implementation <i>(insert score from Section I.I)</i>	3.7
	<b>OVERALL BORROWER PERFORMANCE</b> <i>[Score is calculated as an average of the ratings]</i>	<b>3.7</b>

### IV. RESPONSIBLE BANK STAFF

POSITIONS	AT APPROVAL	AT COMPLETION
Regional Director	Ms. Diaretou GAYE	Mr. Isaac LOBE-NDOUMBE
Sector Director	Mr. Gabriel NEGATU	Mr. Gabriel NEGATU
Sector Manager	Mr. Carlos SANTISO	Serge N'guessan (Officer-in-Charge)
Task Manager	Ms. Shirley CHINIEN Mr. Emanuele SANTI	Ms. Shirley CHINIEN
PCR Team Leader		Ms. Shirley CHINIEN

## B. PROGRAMME CONTEXT

Summarize the Bank-supported programme of which this project forms a part. State:

- the macroeconomic rationale for fast -disbursing assistance to the country,
- the policy or reform focus of the programme and its relationship to the PRSP or other relevant government strategies,
- the outcomes of earlier PBLs, in particular earlier operations within the same programme, if any,
- any technical assistance or institutional support project intended to complement this operation.

Please cite relevant sources. Comment on the strength and coherence of the rationale for Bank assistance. Highlight any changes in the programme context that have favourably or unfavorably affected results.

[300 words maximum. Any additional narrative about the programme's origin, if needed, must be placed in Annex 5: Programme Narrative]

Macroeconomic Rationale: Until 2008, Seychelles' social policy coupled with the incentives for investment in the tourism and fishing sectors, enabled the country to achieve high growth rates (annual growth rate during 2005-2007 averaged over 7%) and meet most of the Millennium Development Goals (MDGs). However, these achievements masked the serious underlying macroeconomic imbalances that were threatening the longer-term sustainability of the gains made in the past. By October 2008, Seychelles' economy was weakened such that the country defaulted on its foreign debt. Thereafter, the GoS launched a comprehensive macroeconomic and financial reform program. However, in spite of the strong resolve by the Government to implement its reform program, it was evident that its own funds would not be sufficient to close its budgetary financing gap. Hence, access to quick-disbursing finance was of critical importance for Seychelles to support its reform agenda and debt re-profiling efforts.

Policy Focus of the Program: The EGRP's focus was on strengthening PFM, and enhancing private sector development. Thus, there was an intrinsic link between the Bank's operation and the GoS's 2008-2010 reform program. The latter had four main thrusts: (i) achieving full convertibility of the Seychelles Rupee (SCR) and introducing a market-determined floating exchange rate; (ii) adopting a comprehensive debt restructuring strategy; (iii) reducing the role of the State in economic activity, through a public sector reform program and promoting private sector development, and (iv) reinforcing Public Finance Management (PFM) reforms and strengthening economic and financial governance.

Earlier PBLs: The EGRP was the first Bank's Policy Based Loan to the Seychelles.

Technical Assistance/Institutional Support Project: During the time of the EGRP's appraisal, it was concluded that the Seychelles needed complementary technical assistance in light of its limited human resources capacity (in terms of numbers) versus a comprehensive and ambitious reform program to implement at the time. However, given that it is an ADB -only country and that the MIC Grant Facility makes provision only for studies, it was not possible for the Bank to provide this complementary support. However, discussions were held with the IMF and the World Bank to ensure that the relevant TA was provided to the Seychelles.

## C. PROGRAMME OBJECTIVES AND LOGICAL FRAMEWORK

1. State the specific Development Objective(s) of this operation (as set out in the appraisal report)			
Achieve sustainable macroeconomic stabilization in order to rebalance the economy.			
2. State how each policy action and/or tranche release condition contributes to achieving the Programme Development Objectives.			
All tranche release conditions were critical for achieving the Program's development objectives.			
<u>First tranche disbursement conditions:</u>			
<p>(a) Submission by the Government of the Financial Institutions Act (Amendment) Bill to the National Assembly: The enactment of a new Financial Institutions Act was critical for bringing about the eventual rebalancing of the economy. Decades of state-controlled financial and credit markets biased credit orientation towards the public sector. This undermined the soundness of the financial institutions, but also hindered the private sector's access to credit and increased the cost of credit. The new Act aims at strengthening the stability, accountability and transparency of the financial system.</p> <p>(b) Submission by the Government of a new Public Procurement Act to the National Assembly: Before 2008, the country had no specific procurement legislation. Instead there was a set of Ministerial Circulars and financial instructions with a component relating to public procurement, which was the basis to guide procurements. The Government was aware that this method of was inadequate and that without an Act defining public procurement process, public resources were not necessarily being used optimally. For instance, prior to the Act, accountability throughout the procurement process was not clearly defined.</p>			
<u>Second tranche disbursement conditions:</u>			
<p>(a) Submission by the Government of the 2010 Annual Borrowing plan to the National Assembly and</p> <p>(b) Submission by the Government of a medium-term debt strategy to the National Assembly: In the past, Seychelles was able to finance its large budget deficits and maintain a generous social welfare system by contracting domestic and foreign debt. However, this resulted in an unsustainable debt situation and thus improving public debt management was a critical element to rebalance the economy, at the time of the EGRP. Both the Medium-Term Debt Strategy and the Annual Borrowing Plan served as part of the guiding strategic documents for preparation of the 2010 and 2011 budgets.</p> <p>(c) Submission by the Government of the 2010 Budget on the basis of a medium-term fiscal framework (MTFF): a country's budget credibility is one of the critical elements to ensuring overall economic stability. Prior to 2009, the budget formulation and execution was an incremental, bottom-up, approach and lacked a firm anchor within a macroeconomic framework. Over the years, aggregate expenditure often exceeded the original approved budget mainly due to the fact that: (i) macroeconomic assumptions underpinning budget preparation were not prepared systematically nor used in a consistent manner and (ii) budgets did not include sector ceilings and thus ministries often exceeded their allocations. However, the 2010 budget was formulated on the basis on the MTFF and variance between planned and actual expenditure has decreased significantly.</p> <p>(d) Submission by the Government of the Investment Code (Amendment) Bill to the National Assembly: The Government was aware, at the time of the EGRP that there was an urgent need to introduce a number of legal, regulatory, and institutional reforms to improve the business climate. The Investment Code of 2005 was outdated and was not adequate to inducing private-sector investment (foreign and domestic).</p>			
3. Provide a brief assessment (up to two sentences) of the <u>programme objectives</u> along the following 3 dimensions. Insert a working score, using the scoring scale provided in Appendix 1.			
PROGRAMME OBJECTIVES DIMENSIONS		ASSESSMENT	WORKING SCORE
RELEVANT	a) Relevant to the country's	The operation was fully relevant to the country's	4.0

	development priorities	development priorities	
ACHIEVABLE	b) Objectives could in principle be achieved with the programme inputs and in the expected timeframe	The objectives could in principle be achieved in the expected timeframe. Although the program input (financing) was sufficient, there should also have been complementary TA by the Bank to support the GoS, whose resources were stretched to the maximum during this critical period of reforms.	3.0
CONSISTENT	c) Consistent with the Bank's country strategy paper	The EGRP was fully consistent with the Bank's interim strategy note, whose overarching strategic pillar was to support the reform program to achieve sustainable growth.	4.0

4. Lay out the programme logical framework. State the expected outputs and outcomes for each action, and the indicators for measuring progress. Add additional rows if needed.

COMPONENTS	OUTPUTS	OUTCOMES	INDICATORS TO BE MEASURED
Policy Area 1 Strengthening PFM	<i>Output 1:</i> Design MTF	budget formulation and execution are improved	2010 budget designed using MTF
	<i>Output 2:</i> train 3 budget officers in use of new preparation methods		Number of budget officers trained
	<i>Output 3:</i> set up a macroeconomic forecasting unit		macroeconomic forecasting unit is set up and operational
	<i>Output 4:</i> introduce a Treasury Single Account (TSA)	Budget oversight and transparency are reinforced	TSA adopted
	<i>Output 5:</i> Approval of the Audit Act (Amendment) Bill by GoS		Audit (Amendment) Bill is approved by GoS and submitted to the National Assembly
	<i>Output 6:</i> Financial audits of 7 public entities		Audits of Air Seychelles, SEYPEC, PUC, SPTC, SCAA, IDC and Novobanq completed
	<i>Output 7:</i> Prepare standardized tender bidding documents in the context of new Procurement Act	Public procurement is more efficient and transparent	Bidding documents are approved and used for all new procurement
	<i>Output 8:</i> set up procurement oversight unit website		All contracts awarded are published on the website
	<i>Output 9:</i> negotiate and reach an agreement with external commercial creditors on debt relief terms	Public debt management is improved	Debt relief agreement reached
	<i>Output 10:</i> Limit the contracting of new public external debt		Total new external public debt contracted is <USD 35 million in 2010
	<i>Output 11:</i> Approval of the annual borrowing plan for budget years by GoS		Draft annual borrowing plan is approved by GoS for 2010 and 2011 budgets
	<i>Output 12:</i> Prepare medium-term debt strategy		Strategy is available
Policy Area 2 Enhancing	<i>Output 1:</i> Approval of the Investment Code (Amendment) Bill by GoS	Business climate is improved	Investment Code (Amendment) Bill is approved by the GoS
	<i>Output 2:</i> Approval of the Financial		Financial Institutions (Amendment)

Private sector development	Institutions Act (Amendment) Bill by GoS		Bill is approved by the GoS and submitted to the National Assembly
	Output 3: Review of the Employment Act in collaboration with private sector representatives		Employment Act (Amendment) Bill is approved by the GoS and submitted to the National Assembly
	Output 4: Prepare the Licensing Act (Amendment) Bill		Draft Licensing Act (Amendment) Bill is ready

5. For each of the programme matrix's dimensions, provide a brief assessment (up to two sentences) of the extent to which programme matrix's design met the following criteria. Insert a working score, using the scoring scale provided in Appendix 1. If no log. frame exists, score this section as a 1 (one)

PROGRAMME LOG. FRAME DIMENSIONS		ASSESSMENT	WORKING SCORE
LOGICAL	a) Presents a logical causal chain for achieving the development objectives	The logical framework format at the time of the design of the EGRP did not factor in the causal chain for PBOs. But this causal chain was defined within the Operations Policy Matrix	2.0
MEASURABLE	b) Expresses objectives and outcomes in a way that is measurable and quantifiable	Not all the outcomes were expressed in such a way to be measurable and quantifiable. In addition, the logframe did not explicitly present the target dates for implementation of the policy actions. It was assumed that outcomes would be achieved by end 2009 and end 2010	2.0
THOROUGH	c) States the risks and key assumptions	The risks and assumptions were well-defined and clearly stated within the logical framework. They related primarily to the GoS's commitment to implementing the reform program.	4.0

## D. OUTPUTS AND OUTCOMES

### I. ACHIEVEMENT OF OUTPUTS

In the table below, assess the achievement of actual VS. expected outputs for each major action. Import the expected outputs from the log. frame in Section C. Score the extent to which the expected outputs were achieved. The overall score must be calculated as the average of working scores. Override the calculated score, if desired, and provide justification.

MAJOR POLICY REFORMS		Working Score
Expected Outputs	Actual Outputs	
1) Design MTF	Formulation of 2010 budget using the MTF	4.0
2) Train 3 budget officers in use new preparation methods	3 budget officers received training within the EGRP program period	4.0
3) Set up a macroeconomic forecasting unit	Ministry of Finance, the unit is undertaking macroeconomic forecasting and fiscal planning. Instead of setting up a forecasting unit a Financial	3.0

	Analysis Branch was set up to assess the viability of capital investment projects	
4) Introduce a Treasury Single Account (TSA)	A TSA has been introduced since 2009	4.0
5) Approval of the Audit Act (Amendment) Bill by GoS	Audit Act (Amendment) Bill has been enacted	4.0
6) Financial audits of 7 public entities	Audits were carried out for Air Seychelles, SEYPEC, PUC, SPTC, SCAA, IDC and Novobanq	4.0
7) Prepare standardized tender bidding documents in the context of new Procurement Act	Standard tender bidding documents have been prepared. However, it is yet to be used by all Ministries (as at end of EGRP, the Ministries of Education and Health were the ones using these documents)	3.0
8) Set up procurement oversight unit website	The POU does not yet have its own website. All ongoing tenders are posted on the GoS's portal as well as the COMESA website. After contracts have been awarded, they are published in the national newspaper called 'The Nation'.	2.0
9) Negotiate and reach an agreement with external commercial creditors on debt relief terms	The GoS has concluded debt relief terms with over 70% of its commercial creditors.	3.0
10) Limit the contracting of new public external debt	The borrowing threshold of USD 35 million for 2010, earmarked within the EGRP was subsequently revised upwards under the IMF EFF in light of the country's notable performance	3.0
11) Approval of the annual borrowing plan for budget years by GoS	The annual borrowing plan for 2010 was approved by the GoS in the context of the 2010 budget.	4.0
12) Prepare medium-term debt strategy	The medium-term debt strategy was approved in the context of the 2010 Budget speech	4.0
13) Approval of the Investment Code (Amendment) Bill by GoS	There were certain delays in the preparation of the Bill since a new Ministry of Investment was established. However, the Investment Code (Amendment) Bill was enacted in Sept. 2010	3.0
14) Approval of the Financial Institutions Act (Amendment) Bill by GoS	Financial Institutions act ratified by Parliament	4.0
15) Review of the Employment Act in collaboration with private sector representatives	The draft Employment (Amendment) Bill was not available at the time of the post-evaluation of the EGRP	1.0
16) Prepare the Licensing Act (Amendment) Bill	Licensing Act (Amendment) Bill has been duly reviewed and revisions made to the Act accordingly	4.0
OVERALL OUTPUT SCORE [Score is calculated as the average of working scores]		3.0

Check here to override the calculated score

**Provide justification for over-riding the calculated score**

Not applicable since the calculated score was not changed.

Insert the new score or re-enter the calculated score

Not applicable

## II. ACHIEVEMENT OF OUTCOMES

1. Using available monitoring data, assess the achievement of expected outcomes. Import the expected outcomes from the log frame in Section C. Score the extent to which the expected outcomes were achieved or are likely to be achieved. The overall outcome score must be calculated as an average of the working scores. Override the calculated score, if desired, and

provide justification.		
OUTCOMES		Working Score
Expected	Actual	
budget formulation and execution are improved	The 2010 budget has been formulated on the basis of the MTFF The TSA, which is a unified bank account that consolidates government liquidity, has improved GoS's cash management	4.0
Budget oversight and transparency are reinforced	The Audit Act has been approved and makes provision for further independence of the Office of the Auditor General (OAG). However, at the time of the post-evaluation of the EGRP, the Act was yet to be operationalized at the OAG.	3.0
Public procurement is more efficient and transparent	Contracts awarded are all posted on the Procurement Oversight Unit website	3.0
Public debt management is improved	Introduction of a medium-term debt strategy and annual borrowing plans has enabled the GoS to judiciously project threshold for loan amount required for the 2010 and 2011 budget	4.0
Business climate is improved	The legal framework has been reviewed (e.g. Financial Institutions Act, Investment Code and Licensing Act). However, at the time of post-evaluation of the EGRP private sector actors indicated that the changes brought to the various laws was yet to be clearly explained to domestic and foreign investors.	3.0
OVERALL OUTCOME SCORE [Score is calculated as the average of working scores]		3.0

Check here to override the calculated score

**Provide justification for over-riding the calculated score**

Not applicable since the calculated score was not changed.

Insert the new score or re-enter the calculated score

Not applicable

**2. Poverty and social impact.** Comment on the program's actual or expected effect on poverty, gender, access to public service, inclusion of vulnerable groups and other key social dimensions.

The assessment of the EGRP in terms of poverty and social impact needs to be put into a broader perspective that the Seychelles remains to date one of the countries in Africa with the most notable achievements in terms of social development. The Island has met its targets for most of the MDGs. Moreover, the most recent national household expenditure survey of 2006/2007 indicates that around 13% of Seychellois are living below the national poverty line of SCR 50 (around USD 3.50) per day. Such notable results on the social front are due to Seychelles' comprehensive welfare system, introduced since 1977.

In the context of the GoS's 2008-2010 reform program, the GoS acknowledged that universal social security assistance was unsustainable. In this context, in the second half of 2008, Government moved from a universal to a targeted welfare system and a Welfare Agency was established. This Agency has improved targeting only of the most vulnerable groups of the Seychellois population. In addition, in November 2008 the GoS introduced a Voluntary Departure Scheme (VDS). The VDS had as objective to streamline the public sector in order to facilitate growth of the private sector. As at end March 2009, 3,300 employees (17% of the civil service employees) opted for the VDS.

3. Risks to sustained achievement of outcomes. State the factors that affect, or could affect, the long-run or sustained achievement of program outcomes. Summarize the current macroeconomic framework, which should be described in more detail in Annex 3. Indicate if any new action or follow-up operation is recommended to help sustain outcomes.

Risks to sustained achievement of outcomes: The key risk that remains for sustaining achieved outcomes is the lack of qualified/skilled manpower that the Seychelles faces. During the implementation of the reform program 2008-2010, the country benefitted from substantial technical assistance in various areas due to this lack of capacity. The risk is that a void may be created once this technical assistance is completed with negative consequences for the implementation of the country's overall reform program. In this context, since mid-2010, the GoS has introduced an incentive package to make it attractive for Seychellois graduates to return to the country for employment in the civil service.

Macroeconomic Framework (refer to Annex 3 for further details): The latest macroeconomic assessment carried out by the IMF in March 2011 concludes that "*progress continues to be made by the Seychelles authorities in their reform program*". It is projected that real GDP is likely to have exceeded 6% and the Consumer Price Index (CPI) inflation was almost nil. In terms of external debt, following the country's successful restructuring of most of its public external debt, this has been almost halved to 48.7% of GDP as at end 2010. Moreover, in terms of domestic revenue mobilization, the modernization of tax systems continues, including implementation of steps to introduce the Value-added tax (VAT) in mid-2012.

## E. PROGRAMME DESIGN AND READINESS FOR IMPLEMENTATION

1. State the extent to which the Bank and the Borrower ensured the programme was commensurate with the Borrower's capacity to implement by designing it appropriately and by putting in place the necessary implementation arrangements. Consider all major design aspects, such as:

- extent to which lessons learned from previous policy-based lending operations in the country were taken into account (please cite key PCRs),
- the extent to which the project was informed by robust analytical work (please cite key documents),
- rationale for the selection of conditionalities (number, theme, prior or post approval conditions),
- how well Bank and Borrower assessed the capacity of the implementing agencies,
- scope of consultations and partnerships, and
- provisions made for technical assistance.

[300 words maximum. Any additional narrative about implementation should be included at Annex 5: Programme Narrative]

Lessons learned from previous PBL operations in the Seychelles: As indicated earlier in this Report, the EGRP was the Bank's first general budget support operation in the country. It is to be noted that this operation served to re-activate the Bank's financial cooperation with the country. Prior to this, all ongoing operations were cancelled at the request of the Government, following the imposition of sanctions in 2000 in view of the arrears situation. However, lessons were drawn from budget support operations undertaken in other regional MIC countries (e.g. Lesotho and Botswana).

Robust analytical work to inform the EGRP's design: The design of the Bank's budget support loan was guided by the following analytical work: (i) Seychelles' Macroeconomic Plan (AfDB study, July 1999); (ii) "State of Good Governance in the Republic of Seychelles" (UNECA, 2007); (iii) "A Strategy for Strengthening Budget Management (IMF, 2008); (iv) the "Seychelles Public Financial Management Performance Report" (EC financing, 2008); and (v) the IMF Article IV Consultation and a Standby Arrangement Staff Report (2008). In addition the following Bank's documents were also used: (i) the Bank's 2009-2010 Seychelles Interim Strategy Note (February 2009); and (ii) the Bank's Country Project Portfolio Review Report (CPPR) for Seychelles (1998);.

Rationale for the selection of conditions: The conditions were selected to ensure consistency with the two components of the program (strengthening PFM and enhancing private sector development). Thereafter, the choice of conditions was narrowed down on the basis of the expected outcomes of the program: One condition was selected for 'improved budget formulation process and execution'; one condition for 'reinforced budget oversight and transparency'; one condition for 'improved efficiency and transparency in public procurement'; two conditions for 'improved debt management' and one condition for 'improved business climate'.

Assessment of the capacity by the Bank and the Borrower of the Implementing Agency (MoF): A candid assessment of the capacity of the implementing agency (MoF) at the time of appraisal and it was concluded that technical assistance would be required notably in debt management as well as in the formulation and use of the MTEF and MTEFF. Although the Bank was not able to provide such technical assistance, the other development partners (in particular the IMF) provided the necessary technical support to the MoF.

2. For each dimension of programme design and readiness for implementation, provide a brief assessment (up to two sentences). Insert a working score, using the scoring scale provided in Appendix 1.

PROGRAMME DESIGN AND READINESS FOR IMPLEMENTATION DIMENSIONS		ASSESSMENT	WORKING SCORE	
REALISM	a) Programme conditionality is matched with country capacity and political commitment.	The conditionality framework was realistic and targeted areas which were critical for the GoS's implementation of its reform program.	4	
RISK ASSESSMENT AND MITIGATION	b) Programme design includes adequate risk analysis and mitigation measures.	It is deemed by both the Borrower and the Bank that the risks to the Program were adequately defined and pragmatic mitigation measures put in place.	4	
USE OF COUNTRY SYSTEMS	c) Financial management, procurement, monitoring and/or other systems are based on those already in use by government and/or other partners.	All country systems were used.	4	
For the following dimensions, provide separate working scores for Bank performance and Borrower performance:			WORKING SCORE	
			Bank	Borrower
CLARITY	d) Responsibilities for programme implementation were clearly defined.	Responsibilities for program implementation were clearly defined and discussed with the MoF. In addition, the Operations Policy matrix includes the responsible agency/Ministry for each policy action.	4	4
MONITORING READINESS	e) Monitoring indicators and monitoring plan were agreed upon before project launch.	Monitoring indicators were agreed upon and recorded in the Logical framework and the Operations Policy Matrix.	4	4
BASELINE DATA	f) Baseline data were available or were	Baseline data were available during	4	4

	collected during project design.	the program design		
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## F. IMPLEMENTATION

1. State the major characteristics of programme implementation with reference to:

- timing of tranche releases,
- waivers of conditions or triggers, if any,
- effectiveness of Bank supervision,
- participation of field office in continuous supervision/ in donor coordination arrangements and in ensuring effective policy dialogue, and
- effectiveness of Borrower oversight.

Comment on the rationale for any waivers of tranche release conditions. [200 words maximum]. [Any additional narrative about implementation should be included at Annex 5: Project Narrative.]

Timing of tranches: It is to be noted that each tranche amounted to EUR7.5 million. The 1<sup>st</sup> tranche was scheduled to be disbursed in September 2009. However, due to delays in the entry into force of the loan, the tranche was disbursed in December 2009. As regards the second tranche, its disbursement was scheduled for July 2010. In this case, the tranche was disbursed in October 2010 given that the GoS took longer than initially envisaged in fulfilling the condition relating to the presentation of the Investment (Amendment) Bill to Parliament.

Waivers of conditions or triggers: the GoS fulfilled all conditions satisfactorily and no waivers were required.

Effectiveness of Bank supervision: the Bank's program was effectively covered from July 2009 to December 2010. In this context, only one supervision was carried out (in July 2010). However, it is to be noted that regular dialogue was maintained with the authorities and by the Regional dept. (OREA) when on mission to assess progress in the policy actions supported by the EGRP.

Effectiveness of Borrower oversight: throughout the program life cycle, the Bank considers that the effectiveness of Borrower oversight is commendable. Regular updates were sent by the Borrower to the program task manager on progress achieved in implementing the policy actions, as defined in the Program Appraisal Report's Operations Policy Matrix. In addition, the relevant audit reports of the Government's annual financial statements were submitted on time and deemed to be satisfactory by the Bank.

2. Comment on the role of other partners (e.g. other International Financial Institutions, donors, UN agencies, etc.). Assess the effectiveness of co-financing arrangements and of donor coordination, if applicable.

The collaboration and role of other development partners, in particular the IMF and the World Bank, has been of paramount importance for the Bank (and other development partners' intervention in the Seychelles). Following a positive assessment of the GoS's reform program, the IMF approved a two-year Stand-by Arrangement (SBA) in November 2008. This triggered a positive chain reaction by other development partners, including the Bank and the World Bank.

Interventions of the key development partners, including the Bank were planned in a concerted and coordinated manner to ensure synergy and complementarity. Indeed, the areas of focus of the Bank's Program complemented efforts undertaken by the IMF and World Bank, as part of an agreed division of labor. To this end, a joint AfDB/World Bank preparation mission was carried out in January 2009 and coordinated with the EC. During the appraisal mission in April/May 2009, an IMF mission was carrying out the second review of the SBA.

3. Harmonization and Alignment. State whether the Bank made explicit efforts to adhere to the following Paris Declaration

Principles:	
Aid flows were aligned to national priorities	Yes.
Capacity was strengthened by coordinated support	Yes. As indicated earlier, although the Bank did not have the relevant financing window to provide Technical Assistance, other development partners (in particular the IMF) provided the necessary technical support to the MoF.
Parallel PIU was avoided	Not applicable.
Aid was more predictable	Yes.
Common aid arrangements were used	Yes. The Bank and the World Bank both channeled their respective program resources through the general budget support instrument.
Missions were conducted jointly with other partners	Yes. As indicated in Section F.2. of this Report, a joint AfDB/World Bank preparation mission was carried out in January 2009 and coordinated with the EC. During the appraisal mission in April/May 2009, an IMF mission was carrying out the second review of the SBA.
Analytic work was undertaken jointly with other partners.	No analytical work was undertaken by the Bank prior to the design of the EGRP. However, the Bank took into account the work undertaken notably by the IMF, the EU and UNECA in the design of the program.

4. For each dimension of programme implementation, assess the extent to which the following criteria were met. Provide a brief assessment (up to two sentences) and insert a working score, using the scoring scale provided in Appendix 1.

PROGRAMME IMPLEMENTATION DIMENSIONS		ASSESSMENT		WORKING SCORE
TIMELINESS	a) Extent of project adherence to the original closing date. If the number on the right is: below 12, 4 is scored; between 12.1 to 24, 3 is scored; between 24.1 to 36, 2 is scored; beyond 36.1, 1 is scored.	Difference in months between original closing date and currently expected closing date		4
		0		
BANK PERFORMANCE	b) Bank enforced:			
	Environmental Safeguards (if applicable)	Not applicable		Not applicable
	Fiduciary Requirements	This was deemed to be fully satisfactory at the time of appraisal. It was evaluated through the 2008 Public Expenditure and Financial Accountability Assessment (PEFA). This assessment indicated that there is a fairly sound fiduciary environment since the country obtained satisfactory overall scores.		4
	Conditions and Triggers	All conditions were satisfactorily met.		4

	c) Bank provided quality supervision in the form of skills mix and practicality of solutions	Although one field supervision was carried out (in light of the short duration of the program), Bank staff kept regular dialogue with the authorities and where required, the necessary solutions were provided	3
	d) Bank provided quality management oversight	The Bank ensured regular communication and follow-up with the MoF	4
BORROWER PERFORMANCE	d) Borrower complied with:		
	Environmental Safeguards (if applicable)	Not applicable	Not applicable
	Fiduciary Requirements	The GoS has made and continues to make notable efforts in strengthening the country's fiduciary environment. Indeed part of the 2008-2010 reform program focused notably on	4
	Conditions and Triggers	All conditions were satisfactorily met.	3
	e) Borrower was responsive to Bank supervision findings and recommendations	The Borrower ensure that regular contact was kept with the Bank staff in order to apprise on progress made on the country's reform program and specific policy actions therein supported by the EGRP	4
	f) Borrower collected and used monitoring information for decision making	The MoF's efforts in collecting and using monitoring information for decision-making has been notable. This has indeed led the GoS to rapidly put in place the 2 <sup>nd</sup> phase of its reform program.	4

## G. COMPLETION

1. IS THE PCR DELIVERED ON A TIMELY BASIS, IN COMPLIANCE WITH BANK POLICY?			
Date project reached 98% disb. Rate (or closing date if applicable)	Date PCR was sent to pcr@afdb.org  MM/DD/YY	Difference in months	WORKING SCORE if the difference is 6 months or less, a 4 is scored. If the difference is 6.1 or more, a 1 is scored
20/12/2010	20/06/2011	6.0	4.0
2. Briefly describe the PCR Process. Describe the Borrower's and co-financers' involvement in producing the document. Highlight any major differences of opinion concerning the assessments made in this PCR. Describe the team composition and confirm whether a site visit was undertaken. Mention any major collaboration from other development partners. State the extent of field office involvement in producing the report. Indicate whether comments from Peer Reviewers were received on time (provide names and positions of Peer Reviewers) [100 words maximum]			

The information presented in this Report is based on extensive discussions held with Government officials and program beneficiaries (in particular the different ministries and the private sector). In addition, the most recent IMF assessment (March 2011) was used to obtain the latest macroeconomic data.

A mission was undertaken for the PCR. The team comprised the Program Task Manager (Ms. S. Chinien, OSGE), the AfDB Country Economist for the Seychelles (Ms. P. Kariuki, based in UGFO) and the alternate AfDB country economist (Mr. R. Walker, based in KEFO).

The peer reviewers, who made very constructive contributions in improving the quality of the PCR, are: Mr. M. MALLBERG (OSGE.2), Mr. K. GEBRE-SELASSIE (OSGE.1), and Ms. T. NGORORANO (OSGE.1).

## H. LESSONS LEARNED

Summarize key lessons for the Bank and the Borrower suggested by the programme's outcomes.

[250 words maximum. Any additional narrative about lessons learned, if needed, must be placed in Annex 5: Project Narrative]

There are several key lessons to be learned from the EGRP, as follows:

### A. Program Design experience:

- ⇒ Program duration: the EGRP was effectively over 1 year and 5 months. This program duration was taken to ensure alignment to the GoS's 2008-2010 reform program. Future budget support operations should allow for a 3-year period since the 2008-2010 was a heavily frontloaded reform program which will not be the case for the 2<sup>nd</sup> generation of reforms that the country is embarking on.
- ⇒ Choice of program intervention areas: the overall success of the EGRP can be partly attributed to the fact that the focus of the program was geared toward key elements of the GoS's reform program (e.g. debt management and improving the business climate).
- ⇒ Conditionality framework: The program ensured that the selected conditions focused on areas which were a priority for the GoS.
- ⇒ Collaboration with development partners from the PCN stage: Although there is no formal coordination mechanism nor a performance assessment framework (PAF), development partners, including the Bank collectively based themselves on the GoS's reform program in order to ensure a division of labor and this helped in avoiding duplication in reporting and allowed for the GoS to be supported by the key Development Partners (IMF, the AfDB and the World Bank) in various key areas of their reform program.

### B. Operational experience:

- ⇒ Country dialogue: The regular and intensive country dialogue between the Bank and the Seychelles has been instrumental in the success of the program. This is a critical factor, which should be taken into account for any future budget support operation.
- ⇒ Supervisions: There is need to undertake more than one supervision even in the Seychelles, where the Government continues to be firmly committed to implement its reform agenda. This is linked to the fact human resources' capacity constraints may, at times, lead to certain delays in the implementation of reforms. Hence, the Task Manager has to provide technical advisory support.

### C. "Results" experience:

- ⇒ Measurable and quantifiable outcome indicators: For any future Bank budget support operation, it is essential for measurable and quantifiable outcome indicators to be selected. These indicators should also include at least one of the Bank's Core Sector Indicators.
- ⇒ Bank instruments to assist ADB-only countries: there is a pressing need for the Bank to consider ways for providing institutional support in parallel to any future budget support operation in the Seychelles. It is to be noted that Seychelles faces human resources constraints by virtue primarily of its small population size (estimated at 84,600 in 2006). The only available instrument for ADB-only countries (besides Trust Fund resources) is the MIC Grant, which allows principally for studies.

## I. RATINGS SUMMARY

All working scores and ratings must be found in the relevant section in the PCR. For example, please insert the "Overall Output score" in Section D.I. in the "Achievement of Outputs" box below.

CRITERIA	SUB-CRITERIA	WORKING SCORE
PROGRAMME OUTCOME	Achievement of outputs <i>(insert score from Section D.I.)</i>	3.0
	Achievement of outcomes <i>(insert score from Section D.II.)</i>	3.0
	Timeliness <i>(insert score from Section F.4.)</i>	4.0
	OVERALL OUTCOME SCORE <i>(score average)</i>	3.3
BANK PERFORMANCE	Design and Readiness	
	Programme Objectives are relevant to country development priorities. <i>(insert score from Section C.3.)</i>	4.0
	Programme Objectives could in principle be achieved with the project inputs and in the expected time frame. <i>(insert score from Section C.3.)</i>	3.0
	Programme Objectives are consistent with the Bank's country strategy paper <i>(insert score from Section C.3.)</i>	4.0
	The log. frame presents a logical causal chain for achieving the programme development objectives. <i>(insert score from Section C.5.)</i>	2.0
	The log. frame expresses objectives and outcomes in a way that is measurable and quantifiable. <i>(insert score from Section C.5.)</i>	2.0
	The log. frame states the risks and key assumptions. <i>(insert score from Section C.5.)</i>	4.0
	Conditionality is matched with country capacity and political commitment. <i>(insert score from Section E.2.)</i>	4.0
	Programme design includes adequate risk analysis and mitigation measures. <i>(insert score from Section E.2.)</i>	4.0
	Financial management, monitoring and/or other systems are based on those already in use by government and/or other partners. <i>(insert score from Section E.2.)</i>	4.0
	Responsibilities for programme implementation were clearly defined. <i>(insert score from Section E.2.)</i>	4.0
	Monitoring indicators and monitoring plan were agreed upon. <i>(insert score from Section E.2.)</i>	4.0
	Baseline data were available or collected during programme design. <i>(insert score from Section E.2.)</i>	3.0
DESIGN AND READINESS SUB-SCORE <i>(score average)</i>	3.5	

	Supervision	
	Bank enforced:	
	Environmental Safeguards (if applicable) <i>(insert score from Section F.4.)</i>	n/a
	Fiduciary Requirements <i>(insert score from Section F.4.)</i>	4.0
	Covenants and Triggers <i>(insert score from Section F.4.)</i>	4.0
	Bank provided quality supervision in the form of skills mix and practicality of solutions. <i>(insert score from Section F.4.)</i>	4.0
	Bank provided quality management oversight. <i>(insert score from Section F.4.)</i>	3.0
	PCR was delivered on a timely basis <i>(insert score from Section G)</i>	4.0
	<b>SUPERVISION SUB-SCORE <i>(score average)</i></b>	<b>3.8</b>
	<b>OVERALL BANK PERFORMANCE SCORE <i>(score average)</i></b>	<b>3.7</b>
BORROWER PERFORMANCE	Design and Readiness	
	Responsibilities for programme implementation were clearly defined. <i>(insert score from Section E.2)</i>	4.0
	Monitoring indicators and monitoring plan were agreed upon before project launch. <i>(insert score from Section E.2)</i>	4.0
	Baseline data were available or collected during programme design. <i>(insert score from Section E.2)</i>	3.0
	<b>DESIGN AND READINESS SUB-SCORE <i>(score average)</i></b>	<b>3.7</b>
	Implementation	
	Borrower complied with:	
	Environmental Safeguards (if applicable) <i>(insert score from Section F.4)</i>	n/a
	Fiduciary Requirements <i>(insert score from Section F.4)</i>	4.0
	Conditions and Triggers <i>(insert score from Section F.4)</i>	3.0
	Borrower was responsive to Bank supervision findings and recommendations. <i>(insert score from Section F.4)</i>	4.0
	Borrower collected and used monitoring information for decision-making. <i>(insert score from Section F.4)</i>	4.0
	<b>IMPLEMENTATION SUB-SCORE <i>(score average)</i></b>	<b>3.7</b>
	<b>OVERALL BORROWER PERFORMANCE SCORE <i>(score average)</i></b>	<b>3.7</b>

## J. PROCESSING

STEP	SIGNATURE AND COMMENTS	DATE
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Sector Manager Clearance: Mr. Serge N'GUESSAN (OIC)		
Regional Director Clearance: Mr. Gabriel NEGATU		
Sector Director Approval: Mr. I. LOBE-NDOUMBE		

SCORE	EXPLANATION
4	Very Good- Fully achieved with no shortcomings
3	Good- Mostly achieved despite a few shortcomings
2	Fair- Partially achieved. Shortcomings and achievements are roughly balanced
1	Poor- Very limited achievement with extensive shortcomings
NA	Non Applicable

Note: The formulas round up or down for decimal points. Only entire numbers are computed.

## LIST OF ANNEXES

Annex I: Bank Inputs

Annex II: Assessment of Macroeconomic Developments

Annex III: List of Supporting Documents

## Annex I: Bank Inputs

### A. Key AfDB Appraisal Team Members

- S. CHINIEN, Principal Economist Task Team Leader
- P. KARIUKI, Principal Country Economist, OREA
- C. SANTISO Sector Manager, OSGE 1
- G. NEGATU Sector Director, OSGE
- ORDU Regional Director, OREA

### B. Peer Reviewers of the Program Appraisal Report (PAR)

- Adwao AYISI-OKYERE, former Consultant, GECL
- Michel MALLBERG, former Senior Economist, OSGE.2
- Carlos MOLINEDO, former Senior Country Economist, ORSB
- Martin SEPTIME, Lead economist, ORSB
- Kate TENCH, Governance Expert, OSGE.0
- Richard WALKER, Senior Economist, OREA
- Ahmed ZEJLY, former Lead economist, OSGE

## Annex II: Assessment of Macroeconomic Developments

Real GDP growth recovered from -1.3% in 2008 to 0.7% in 2009, which contrasted significantly with the 7.6% contraction expected at the onset of the reform program. This growth was fuelled by a rebound in tourist arrivals in the second half of the year. By end-2009, tourism arrivals were down by only 1% compared to the previous year, and then grew by a record 10% during 2010, reaching an unprecedented level of 174,500. Compared to 2009, tourists from Europe (with a lion's share of about 75%) increased by 8% in 2010; African and Asian arrivals grew even faster at 58% and 24% respectively. This was supported by a rebound in the global economy, a weaker Seychelles Rupee (SCR) and price discounting by tour operators. In addition to tourism, the other major growth driver has been Foreign Direct Investment (FDI). The latter increased mainly due to the completion of several high-end market hotels, largely financed by foreign investors, and the construction of a residential project<sup>1</sup>.

Real GDP growth is estimated at 6% in 2010 and the medium-term outlook is favourable, with growth projected to be about 5% over 2011-13. This is mainly due to growth in tourism arising from Government's efforts to promote the country outside its traditional markets. The fishing sector continues to be adversely impacted by piracy attacks and threats in the Indian Ocean. FDI inflows are expected to slow down due to the completion of the large construction projects.

Price stability has been the main objective of monetary policy and, in 2009 and 2010, the outcome has been remarkable. The annual average inflation rate that had shot up to 37% in 2008, following the foreign exchange liberalisation in November 2008, was brought down to single digits by the end of Q1 2010. Inflationary pressures remain well-contained, with the year-on-year inflation rate falling to 1% in November 2010. The easing of inflationary pressures has mainly emanated from increased competition in the trade sector, which has allowed the country to counter the threats of rising international food prices. However, inflation is projected to increase to 4.2% in 2011, before easing to 2.9% in 2012.

The Central Bank of Seychelles (CBS) has also strengthened the supervision of the non-commercial financial institutions such as the Development Bank of Seychelles (DBS) and the Housing Finance Company (HFC). However, in recent months, a challenge has emerged pertaining to the liquidity management and the transmission of monetary policy signals. To address this shortcoming, CBS is coordinating with the Ministry of Finance on the issuance of Treasury bills.

In terms of exchange rate management, the Seychelles Rupee (SCR) has stabilised since the large swings in late 2008. After being floated in late 2008, the SCR slumped to SCR 16.8/US\$1, before rebounding to a peak of SCR10.3/US\$1 in October 2009, and slipping gradually since then to about SCR12/US\$1 in January 2011. The CBS maintains its policy of intervening in the foreign exchange market only to smooth out excessive volatility and ensure orderly market conditions.

In 2010, the current account deficit is estimated to have increased to 33.2% of GDP from 30% in 2009, mainly due to a surge in imports. This resulted from improved economic activities (notably construction) that are mainly being financed by foreign investors. The deficit is projected to improve to 24.5% and 22.2% in 2011 and 2012 respectively on account of robust export growth. With regard to foreign exchange reserves, it stood at US\$211 million, equivalent to around 2.3 months of imports, in mid-November 2010, compared to US\$169 million or 1.6 months a year earlier<sup>2</sup>.

The Government of Seychelles has been pursuing a fiscal policy stance that is in line with the targeted public debt reduction strategy, leading to achievement of fiscal surpluses since 2009. The primary surplus in 2010 is estimated to have exceeded the programme target by 2% to reach 9.4% of GDP. Business tax receipts were driven by stronger-than-expected growth in 2010, while the SCR's depreciation against the US

<sup>1</sup> Ile Perseverance.

<sup>2</sup> They are projected to reach 2.7 months of imports in 2011, and to continue the upward trend to the projected target of 3 months of imports by 2012.

dollar boosted trade and sales taxes on imports. Tax reforms are also progressing well: revised business tax legislation was enacted in January 2010, reducing rates and broadening the tax base. The sales tax base was expanded, cascading effects were reduced and concessional rates are being phased out. A withholding-based personal income tax was introduced in July 2010 to replace the social security contributions previously levied on employers and employees. The final cornerstone in the tax reforms will be the introduction of VAT from July 2012. In conclusion, the reform program that the Government adopted at the end of 2008, which was supported by the ECAP, can be considered to have been successfully implemented.

Source: Seychelles: Country Strategy Paper: 2011-2015, AfDB

### Annex III: List of Supporting Documents

Title of Document	Author	Date
Country Project Portfolio Review Report	AfDB	1998
Seychelles' Macroeconomic Plan	AfDB	July 1999
Seychelles Interim Strategy Note	AfDB	February 2009
Progress Report on Implementation of the "Enhancing Procurement Reforms and Capacity Project" (EPRCP)	COMESA	July 2008
Seychelles Public Financial Management Performance Report	European Commission <i>(prepared by ECORYS consultancy firm)</i>	December 2008
2008 Article IV Consultation and request for a Stand-by Arrangement – Staff Report	IMF	December 2008
First Review under the Stand-by Arrangement	IMF	March 13 2009
Second Review under the Stand-by Arrangement	IMF	July 2009
Seychelles Public Expenditure Review	World Bank	March 2009
State of Good Governance in the Republic of Seychelles	UNECA	2007