

ANNUAL REPORT

2016



PEMC

PUBLIC ENTERPRISE MONITORING COMMISSION

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Acronyms and abbreviations

AFRITAC	Africa Regional Technical Assistance Centre
AFS	Annual Financial Statements
CBS	Central Bank of Seychelles
DBS	Development Bank of Seychelles
FSA	Financial Services Authority
GDP	Gross Domestic Product
GOS	Government Of Seychelles
HFC	Housing Finance Company Limited
IDC	Islands Development Company Limited
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
MOFTEP	Ministry of Finance, Trade and Economic Planning
NISA	National Information Services Agency
OECD	Organisation for Economic Cooperation and Development
PE	Public Enterprise
PEMC	Public Enterprise Monitoring Commission
PMC	Property Management Corporation
PSO	Public Service Obligations
PUC	Public Utilities Corporation
ROA	Return On Assets
SCAA	Seychelles Civil Aviation Authority
SCB	Seychelles Commercial Bank
SCI	Statement of Corporate Intent
SCR	Seychelles rupee
SEYPEC	Seychelles Petroleum Company Limited
SIMBC	Seychelles International Mercantile Banking Corporation Limited
SOE	State-Owned Enterprise
SPA	Seychelles Ports Authority
SPF	Seychelles Pension Fund
SPTC	Seychelles Public Transport Corporation
SRC	Seychelles Revenue Commission
SSI	Société Seychelloise d'Investissement Limited
STC	Seychelles Trading Company Limited
VAT	Value Added Tax

Chairperson's report

In evaluating the year 2016, PEMC has taken into consideration the changes and expectations that determined the new phase of the country's transformation, and particularly, changes in the political and economic landscapes. The transformation started with the fiscal and structural changes in 2008, followed by a series of developments that aimed to build on good governance, transparency and accountability in all public functions, services and finances. The Public Enterprises have been playing important roles in the socio-economic development of the country but their achievements have not been as visible or talked about as much as incidents of misconduct, underperformance and non-compliance.

There are currently twenty public enterprises (PEs) that are being monitored by PEMC and they are operating in the financial, energy, transport, service and development sectors. The total asset base of the PEs amounted to SCR 26,517,859,573 and their liabilities amounted to SCR 13,144,837,772 for the year 2016, which are approximately 139% and 69% of the nominal Gross Domestic Product (GDP) for 2016, respectively. The PEs together had a net profit of SCR 1,245,811,451 in 2016, representing an increase of 14% when compared to the year 2015. These can therefore be sources of fiscal risk to the public finances if they do not perform well financially.

Otherwise, the year 2016 was characterized by management assessment of some Public Enterprises by PEMC, the IMF and the World Bank, and some of the outcomes are featured in the report. It has to be noted that, in spite of the great financial performance by most PEs in 2016, there have been challenges and noticeable gaps in governance, transparency and accountability. This has led PEMC to conduct more working visits to PEs and working with Board and Management to address issues that could put much of the PEs value at risk and potential operational or public finance crises. Although PEMC's main mandate is the oversight role of the PEs, we have often had consultative meetings to better understand their challenges. In some cases, we have worked together to address issues of non-compliance, without interfering unnecessarily with their operations or compromising our oversight role.

PEMC has had its own challenges in terms of staffing but, at the same time, some notable successes. Everybody will have their own highlights, but mine have included our more rigorous approach to good governance and transparency, improved working relationship with PEs, and promoting financial disciplines. We have done some great management assessment on PEs including L'Union Estate, and the findings and recommendations will be great pointers and lessons learnt for other PEs in the coming years. PEMC is now committed to build its capacity to undertake more comprehensive

management assessments, focus on fiscal risks and promote good governance including leadership at Board and Management levels, procurement and project management.

2017 will certainly bring new challenges for PEMC and the PEs, and some of them are already manifesting themselves. A case in point is the IFRS financial reporting obligations and the need to be more accountable will challenge our ability to be innovative, creative and productive. I have no doubt that the PEMC and PEs' staff teams are experienced enough to face these challenges and make 2017 a year of further growth.

Finally, I have to thank our partners for their approach when dealing with their daily tasks, our stakeholders for their consistent support, and our clients for their confidence in us.

William Zarine

Chairperson of the PEMC Board of Commissioners

1 General Information

1.1 Strategic Overview

1.1.1 Vision

“To promote effective and efficient commercial Public Enterprises (PEs) within the Seychelles.”

1.1.2 Mission

“To monitor and evaluate the overall performance of Public Enterprises (PEs) and to promote ethics of good governance in all their business transactions.”

1.1.3 Values

Our Core Values are:

Excellence: We strive to meet the highest standards of PE oversight and monitoring. We are committed to continuously improving our monitoring and supervisory roles, the quality of our staff and management as well the standards of service offered to our clients.

Ethics: We are committed to the highest standards of respect, honesty, accountability and professionalism. We expect the conduct of our staff and commissioners to be based on mutual trust and respect and driven by the highest ethical standards.

Teamwork: We value teamwork as an integral approach in bringing together a range of talents for informed decision-making and collaborative action. We believe in the sharing of knowledge and experience and supporting our staff, management and commissioners to reach their full potential.

Service: We are committed to offering the highest standards of service to our staff, PEs and other stakeholders. In doing so, we aim to safeguard the interest and investments of our shareholders and the people of Seychelles, and promote PEMC as a high performing organization.

Diversity: We embrace the diversity of staff and value their necessity in the creation of an environment that is safe, supportive and welcoming. We also strive for diversity in our service on offer to our clients.

Growth: We are committed to fostering the personal and professional growth of staff by promoting learning and leadership development in all our endeavours.

Partnerships: We work with international and with local partners in the Public Sector to improve on the quality of engagements and interactions with our clients. We value their contribution in helping PEMC to achieve its vision, mission and strategic goals.

Through these core values, PEMC continuously promotes and ensures good governance, accountability and transparency.

1.2 Mandates

In line with provisions in the Public Enterprise Monitoring Commission Act 2013 (PEMC Act), the Public Enterprise Monitoring Commission (PEMC) is mandated to:

- Ensure that the Government's interests and investments as a major shareholder are maintained;
- Provide an efficient and effective oversight function, ensures that the PEs optimize their investments and at the same time become operationally efficient; and
- Improve the policy environment of the PEs.

1.2.1 Entities Reporting to PEMC

As per Schedule one of the PEMC Act, there were 20 PEs and their subsidiaries reporting to PEMC in 2016 and their activities are in the following sectors/industries:

- Services and Development
- Energy
- Transport
- Financial Services
- Trading

Details of PEs per sector are provided in Appendix 1.

1.3 Key Functions

The key functions of the Commission are divided into two core categories:

Category 1: Governance

Category 2: Business monitoring and financial analysis.

1.3.1 Governance

PEs in the Republic are providing key essential services hence having a high impact on our citizens' day-to-day life. Good governance of PEs is therefore essential for our economy. PEMC strives to achieve the following:

- Implement the PEMC Act and monitor compliance with the governing law.
- Ensure adherence by PEs to policies and guidelines formulated by the Commission, Ministry of Finance and their responsible Ministry.
- Arrange investigation or inspection into the affairs of a PE where necessary in the public interest.
- Work in close collaboration with respective government departments to ensure that their current policies and regulatory environment are conducive to the PEs operation for them to better serve the public interest.
- Review and update existing guidelines.
- Develop appropriate systems and frameworks to promote good governance best practices by introducing and monitoring governance indicators.
- Create an Institute of Directors in consultation with relevant stakeholders.
- Assist in board appointment and continuously update the database on the board appointment.
- Develop tools to assess governance in PEs.
- Carry out governance audit within all PEs and submit reports to the Minister of Finance and the Responsible Minister
- Make recommendations on matters relating to the functions of the Board of PEs concerning governance and their adherence to approved policies and guidelines.

- Carry out research regarding best practices worldwide which can improve the work of the Commission and the PEs

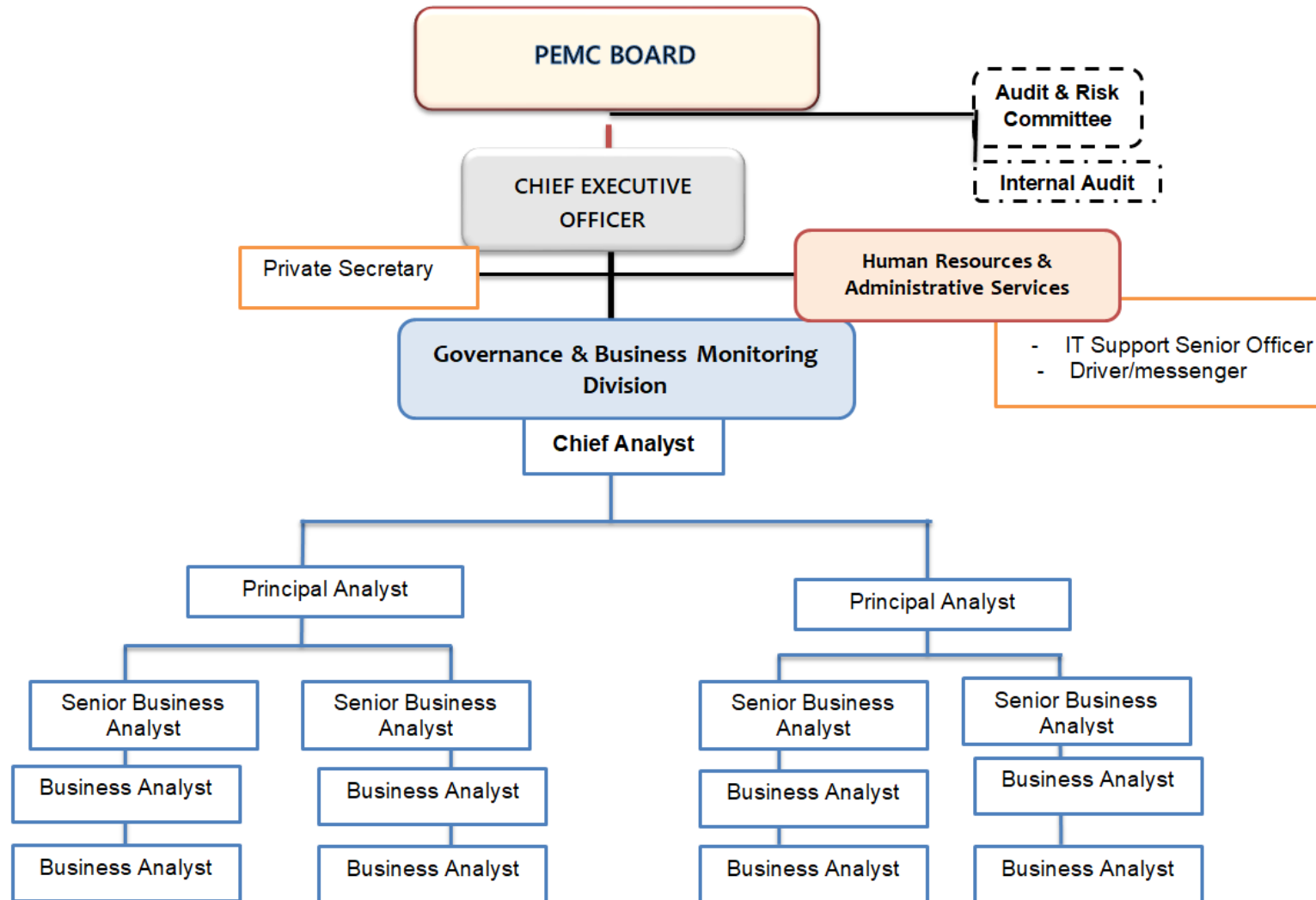
1.3.2 Business monitoring and financial analysis

The Business monitoring and financial analysis function aims to achieve the following:

- Ensure that the PEs' strategic objectives are in line with the Government's national plan for the respective sectors within which they operate.
- Monitor the preparation and implementation of the Statement of Corporate Intent (SCI).
- Analyse the approved annual budget of the PEs and advise the appropriate Board to its adequacy or suitability in compliance with the PEMC Act.
- Assess the implementation of projects carried out by PEs to ensure compliance with procedures and regulations governing capital expenditure.
- Ensure adherence by PEs to policies and procedures formulated by their Responsible Ministry or Board to ensure sound and efficient management, including finances of the PEs.
- Submit quarterly reports on the activities of the PEs to the Minister of Finance
- Identify issues relating to operational and financial risks of PEs that may have material impact on the PE and the economy as a whole.
- Make recommendations to the Government on the efficiency of ongoing PEs.
- Ensure that PEs promptly submit their annual reports, together with a copy of their audited accounts.
- Ensure that PEs submit monthly a statement of their financial and operational performance.
- Receive regular updates from PEs and maintain an on-going interaction with them.
- Research and implement new software which will improve the quality of analysis and reporting of the Commission.
- Provide relevant advice to the PEs.
- Conduct on-site inspections on PE premises.
- Recommend investigations into the affairs of the PEs where necessary.

- Follow-up on recommendations of audit reports.
- Monitor and identify factors that inhibit the realization of revenue targets of the PEs.
- Monitor the PEs' compliance to the required reporting standards.
- Ensure compliance with the PEMC Act and other local laws/legislations.

1.4 PEMC Organisation structure



1.4.1 PEMC Board of Commissioners

The Board of Commissioners is established under section 7 (1) of the PEMC Act. For the year under review, PEMC had a Board of seven Commissioners. The new Board of Commissioners was appointed in February 2016 and has since been upholding the following responsibilities, amongst others:

- Providing direction on the affairs and operations of PEMC and overseeing service delivery in line with government's policies.
- Ensuring compliance with PEMC Act, government administrative orders and financial regulations.
- Providing the policy direction required.
- Overseeing and facilitating provisions to provide the Minister responsible for Finance with information, guidance and decisions pertaining to the PEs so that their performance and that of the Board can be monitored.

1.4.2 PEMC Management and staff

In addition to its CEO, the Commission had four members of staff during the year 2016, namely one private secretary, two senior business analysts and one business analyst.

PEMC welcomed Mr. Roger Toussaint as its new Chief Executive Officer (CEO) in November 2016. The Commission's former CEO, Ms. Sitna Cesar, was appointed as Special Advisor to the Minister for Finance, Trade and Economic Planning.

The Commission also recruited a new member of staff in December 2016 to be responsible for the Administration and Human Resource functions.

1.5 Highlight of 2016 goals/focus

1.5.1 PEMC

The strategic goals/focus of PEMC for the year 2016, which are in line with the PEMC Act were:

- To develop strong partnerships with the PEs for the purpose of facilitating and enhancing its monitoring, analytical and feedback/reporting roles.
- To work with the PEs to ensure that they are properly controlled and managed for the purposes of better performance, transparency and accountability.

- To ensure that PEs operate in a planned and structured manner that best improves efficiency and competitiveness of the economy.
- To proactively troubleshoot and offer advice and recommendations to improve the operations and performance of the PEs.
- To become the trusted shareholder representative on behalf of the Government of Seychelles.

1.5.2 Public Enterprises

Key calls on PEs for the year 2016 included:

- Good governance with full accountability and transparency, in line with the PEMC Act and other governance frameworks such as the Companies Ordinance 1972, their own statute/decreed, Financial Institutions Act 2004 and as amended, Public Finance Management Act, Procurement Act and Tax Laws.
- Financial performance including profitability, growth, sustainability, risk (fiscal/market, financial, operational, reputational) management. Need to quantify social responsibilities and be accountable for financial performance.
- Reporting requirements and upholding prompt, accurate, objective, and full reporting including investments, projects, deals, financial projections, plans and targets, incidents, governance structures including subsidiaries.
- Legal obligations such as taxes, Statement of Corporate Intent (SCI) or business plan or strategic plans, Board sub-committees, audit committees, Board meetings, project/investment appraisals with Board approval, upholding mandates and social/commercial objectives, Code of Ethics, Agreements of all undertakings, records, disclosures.

2 Performance Information

2.1 PEMC

2.1.1 Performance Overview

PEMC achieved certain important targets during the year 2016 such as obtaining World Bank expertise in conducting governance and operational assessments of six major PEs, which was a structural benchmark for PEMC with the IMF.

PEMC also carried out more on-site inspections compared to the year 2015, leading to greater understanding of the activities of the PEs as well as an improved working relationship with the PEs.

The Commission also organised a forum in 2016 to further strengthen this working relationship, to improve the PEs' understanding of its role as well as to have better insight of the challenges being encountered by the PEs.

Despite the achievements, the year 2016 has been a challenging one for PEMC in undertaking some of its oversight roles. Business and financial analysis plans and targets have been marred by a lack of fulltime business/financial analysts and difficulties in obtaining all required information from some PEs in good time as well as other compliance issues.

2.1.2 Financial performance

PEMC is a budget-dependent body and receives an appropriation from the budget managed through a central account administered by the Treasury Division. The Commission does not generate revenue.

PEMC received a budget appropriation of SCR 5,019,765 for the year 2016 and expensed SCR 4,248,149 for the same period. This represents an increase of 25% in budget appropriation and expenditure compared to the year 2016, reference is made to Table 1.

Expenditure represented 85% of the total budget for the year under review. The under-expenditure is largely caused by wages and salaries for vacant posts which were not filled during the year. Wages and salaries were the largest expenditure item for the Commission for 2016.

Table 1: Statement of receipts and payments for the Commission for 2016

	Budget	Actual	Variance		Previous year actual
	SR	SR	SR	%	SR
RECEIPTS					
Allocations/Appropriations	5,019,765.03	4,248,149.50	771,615.53	15%	3,393,736.18
PAYMENTS					
Wages and Salaries	1,944,200.01	1,429,181.09	515,018.92	26%	1,754,832.44
Good and Services					
Office Expenses	611,065.01	526,918.26	84,146.75	14%	364,338.23
Transportation & Travel Costs	79,675.70	46,105.70	33,570.00	42%	111,149.05
Maintenance & Repairs	215,300.01	191,478.45	23,821.56	11%	73,140.00
Other Goods & Services	1,885,000.00	1,797,711.00	87,289.00	5%	1,055,886.46
Total recurrent expenditure	4,735,240.73	3,991,394.50	743,846.23	16%	3,359,346.18
Non- Financial Assets					
Machinery & Equipment	284,524.30	256,755.00	27,769.30	10%	34,390.00
Total expenditure	5,019,765.03	4,248,149.50	771,615.53	15%	3,393,736.18
Surplus/(Deficit)		771,615.53			559,963.82

2.1.3 Performance Information of PEMC by activity

2.1.3.1 PEMC forum

PEMC organised a forum for the year 2016 under the theme of “*ENHANCING PEMC AND PEs RELATIONSHIP.*” The forum, which had very good participation by PE management and staff, was held in three different sessions during February and March. The sessions grouped the PEs by sector. Each PE made a presentation about their organisation, their strengths, weaknesses, opportunities, threats and risks involved with their activity. There were also round table discussions where PEs deliberated about specific issues affecting them, either individually or as a sector. This interaction also enabled PEs to share experience and discuss on a way forward. Additionally, the forum was a networking opportunity for the PEMC board members and staff with the PE Management and staff.

2.1.3.1 Governance and Operational assessments

PEMC received the expertise of a team from the World Bank to undertake governance and operational assessments of six PEs during 2016. These assessments were one of PEMC’s benchmarks

with the IMF and also served as an “on-the-job training” for the Commission’s analysts for future governance and operational reviews.

In addition to these six assessments undertaken with the support of the World Bank, PEMC conducted assessments on another two PEs. The governance and operational assessments are further detailed in Section 3 of this report “Governance.”

2.1.3.2 Staff training

PEMC acknowledges the importance of expanding the knowledge-base of its employees by providing on-going training. This allows staff to gain new skills and also enables PEMC to keep abreast of new developments in its field of work such as governance and financial matters, which is vital for the efficient and effective delivery of its mandate.

a) Public-Private Partnerships (PPP)

The concept of PPPs and their correct implementation and monitoring are of high importance to PEMC, given that one of its roles is to monitor fiscal risks of the PE sector. PEMC staff participated in two workshops focusing on PPPs during 2016:

- In March 2016 two of PEMC’s analysts participated in a three-day workshop on PPPs organised by the Ministry of Finance, Trade and Blue Economy in collaboration with the Investment Climate Facility (ICF) for Africa and the African Development Bank (AfDB). The workshop covered concepts central to PPPs such as Regulatory and Institutional framework, Value for money, Risk allocation and Project finance.
- In May 2016 PEMC was represented at a workshop on PPP contracts, Outsourcing and Value for money. The workshop, which spanned over six days, was organised by the Ministry of Finance, Trade and Blue Economy in collaboration with the World Bank. Topics such as Project Management, Risk identification and allocation, Risk Matrix development, Cash Flow projections and Value for money models were covered.

b) State-Owned Enterprise (SOE) Reform

One of PEMC’s analysts attended a Seminar on State-Owned Enterprise (SOE) Reform and Government for African English Speaking Countries from the 13th of July to 2nd of August 2016 in Beijing. There were 27 participants from a pool of various African English-speaking countries such as the Federal Democratic Republic of Ethiopia, the Federal Republic of Nigeria, the Republic of South Africa, the Republic of Ghana and the United Republic of Tanzania.

The seminar was sponsored by the Ministry of Commerce of the People's Republic of China and organized by the Academy of Macroeconomic Research (AMR) of National Development and Reform Commission of the People's Republic of China, which is an important coordinating department of the State Council and vital component in the Chinese Central Government.

The seminar included daily proactive lectures from high-level professionals from the AMR, visits to the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) which is an independent government body which supervises and manages the state-owned assets of the SOEs under the supervision of the Central Government (excluding financial enterprises), improves corporate governance and dispatches supervisory panels to the supervised enterprises on behalf of the state council. The program also included visits to various commercial, public service SOEs and cultural site visits.

2.1.3.3 Amendment to the PEMC Act

Section 37 of the PEMC Act was amended on 30th December 2016. The Amendment consisted of the addition of a subsection stating that “the Chairperson of the board of each Public Enterprise and the Chief Executive Officer or any other person who is the administrative head thereof shall attend the Finance and Public Accounts Committee to present the annual and financial report of their respective Public Enterprise.”

2.1.3.4 Consolidated Cash Flow Statement

PEMC undertook the annual exercise of compiling the consolidated cash flow statement for the year 2016 using the Audited Financial Statements (AFS) of PEs for the year 2015. This statement was submitted to the Treasury Division and reviewed by the Office of the Auditor General. The final statement for the year 2016 contained the audited accounts of nineteen PEs, l'Union Estate had not submitted its AFS for the year 2015 to be included in the consolidation.

2.1.3.5 PEs Budget 2017

The Commission also undertook the annual exercise of aggregating the estimates for revenue and expenditure of the Public Enterprises to be included in the budget document for 2017, reference is made to section 3.1.4 “Estimates and projections (budget) (PEMC Act, Section 39).”

2.2 Public Enterprises

2.2.1 Performance overview

One of PEMC's functions, in line with Section 11 (j) of the PEMC Act is to *"identify issues relating to operational and financial risks of Public Enterprise that may have material impact on the Public Enterprise and the economy as a whole."* The Commission monitors the financial performance of PEs as a part of this function since the Government may face fiscal risk if they do not perform well financially. One of the documents used by PEMC to monitor the financial performance of PEs are their certified Annual Financial Statements (AFS).

As at reporting date, seventeen PEs had submitted their certified AFS for the year 2016 to PEMC. The analysis contained in this report for the year 2016 has been based on the AFS of the seventeen PEs.

The PEs that are yet to submit their AFS for the year 2016 to the Commission are:

- Seychelles Ports Authority
- L'Union Estate Company Limited
- PetroSeychelles Limited

PEMC has received the AFS of nineteen PEs for the year 2015, and the analysis for the corresponding year has been based on these AFS.

2.2.2 Profitability

Profitability is important as PEs have to be able to service their debt, provide funds for capital expenditure, ensure their long-term sustainability and provide sufficient returns to the budget through dividends.

Income for the seventeen PEs amounted to SCR 10,979,831,600 for the year 2016, representing 57% of GDP.¹

The PEs recorded a total profit (before tax) of SCR 1,523,976,544, representing an increase of 14% when compared to the year 2015, reference is made to Figure 1. The total profit (before tax) of the PEs was equivalent to 8% of GDP for the year 2016.

¹ Source: National Bureau of Statistics

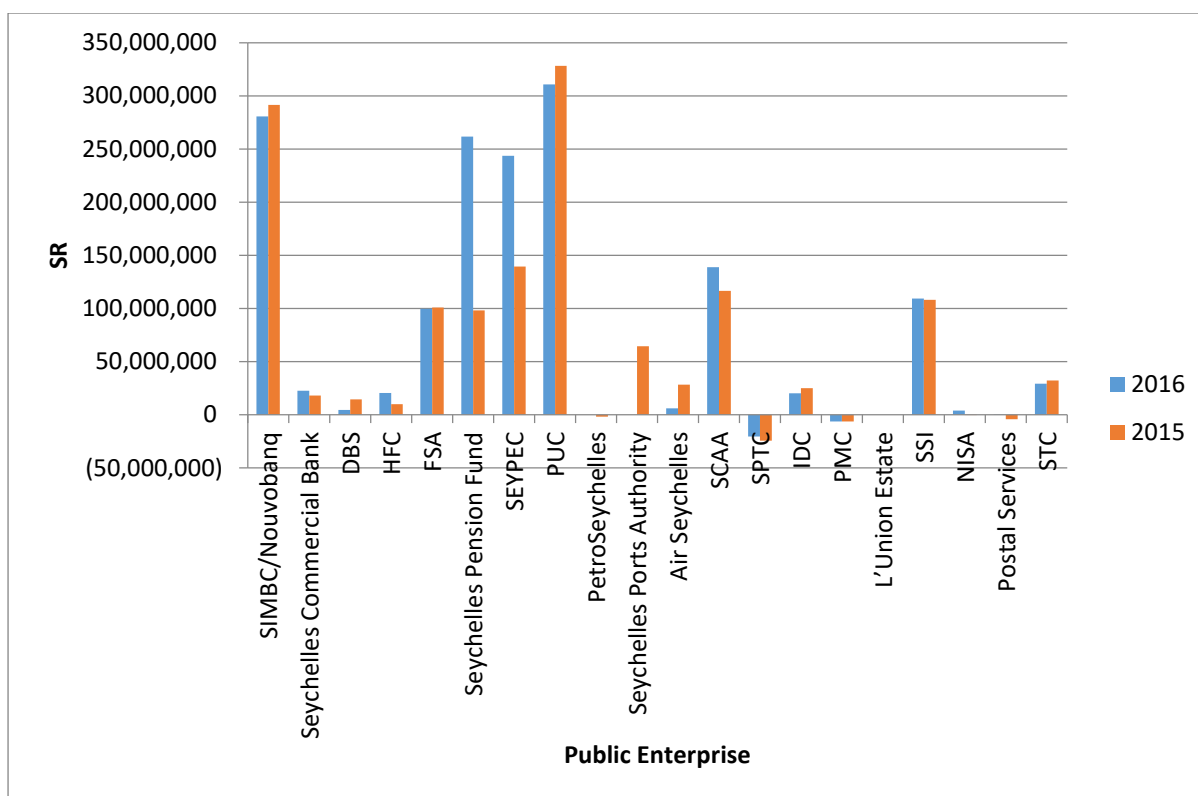


Figure 1: Profit/(loss) before tax by PE for the years 2015 and 2016

Analysis of profit before tax revealed that the most profitable PEs for the year 2016 were PUC (SCR 310.8m), Nouvobanq (SCR 280.7m), Seychelles Pension Fund (SCR 261.5m), SEYPEC (SCR 243.5m) and SCAA (SCR 138.6m).

Amongst the seventeen PEs, two (i.e. 12%) recorded a loss for 2016. Of the nineteen PEs that had submitted their AFS for the year 2015, five (i.e. 26%) had recorded losses. Two PEs, namely SPTC and PMC, have recorded consecutive losses for 2016 and 2015, reference is made to Figure 2.

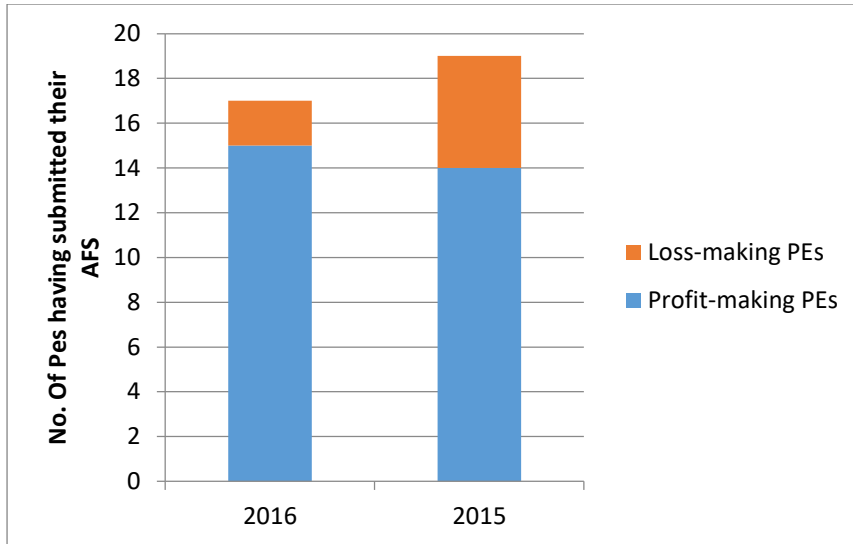


Figure 2: Number of profit-making and loss-making PEs for the years 2015 and 2016

The Financial sector recorded the highest total profit (before tax) for the year 2016 (SCR 689m), followed by the Energy sector (SCR 554m) representing 45% and 36% of the profit of the PE sector respectively. The profits of the Financial sector and of the Energy sector represent 4% and 3% of GDP for the year 2016 respectively.

A similar trend was observed for the year 2015, reference is made to Figure 3.

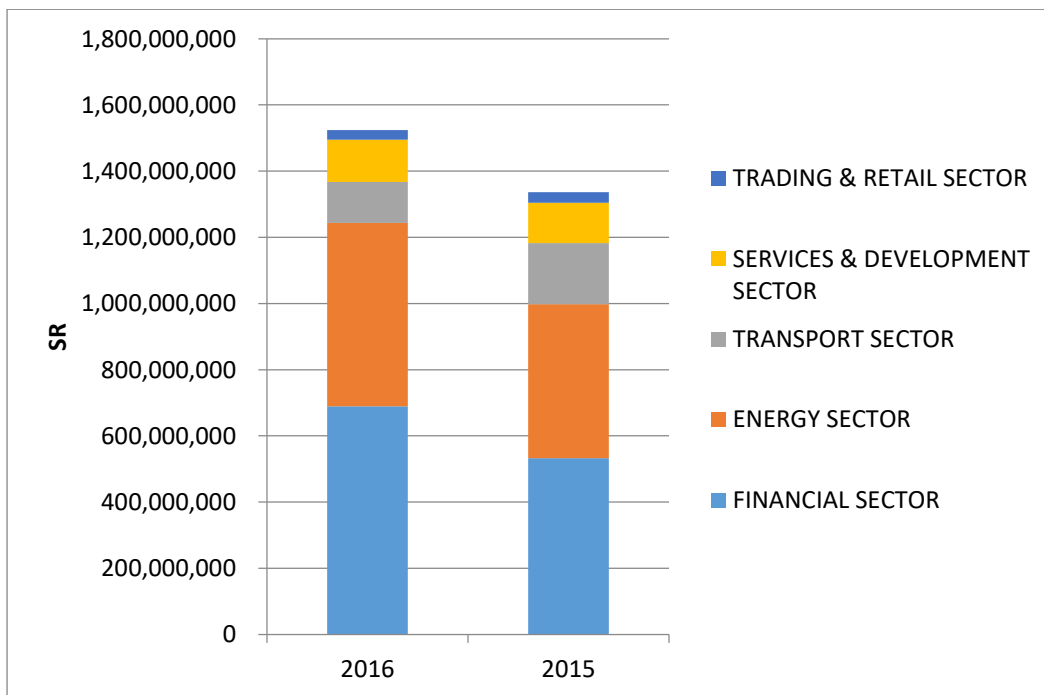


Figure 3: Total profits (before tax) by sector for the years 2015 and 2016

2.2.2.1 Return on Assets (ROA)

Return on assets (ROA) is an indicator of how profitable an entity is relative to its total assets. ROA shows how efficiently an entity can use its assets to generate net income or profits.

A rough international benchmark for ROA is above 5%.² The PEs had an aggregate ROA ratio of 5% for 2016, this remained unchanged when compared to the year 2015. The sectors with the highest ROA for 2016 were the Services and Development sector (7%) followed by the Financial sector (5%), this is illustrated in Figure 4.

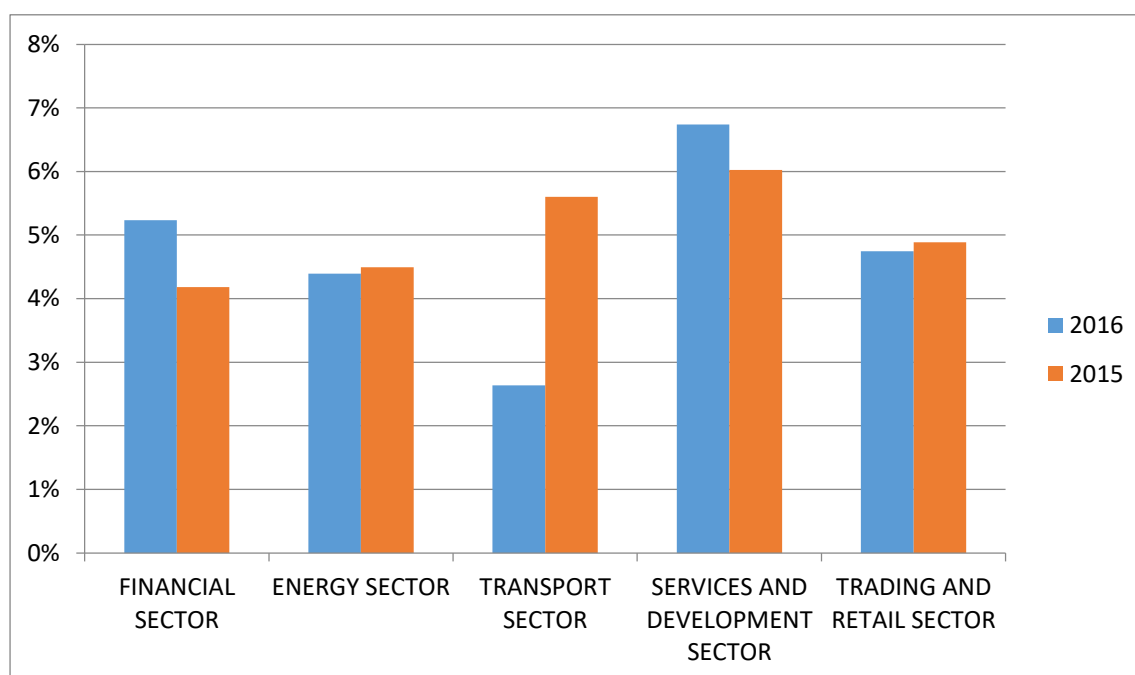


Figure 4: Ratio of Return on Assets by Sector for the years 2015 and 2016

2.2.2.2 Return on Equity (ROE)

Return on Equity (ROE) measures an entity's profitability by revealing how much profit is generated with the funds invested by the shareholders. A rough international benchmark for ROE is 15%.³

The PEs had an aggregate ROE ratio of 9% for the year 2016, this remains unchanged when compared to the year 2015. The sector with the highest ROE for the year 2016 was the Financial sector (15%) followed by the Transport sector (10%) and the Services and development sector (10%). The sectors with the highest ROE for the year 2015 were the Transport sector (19%) and the Financial sector (15%). The reduction in the ROA for the Transport sector is provisional since the

² Source: IMF, *OVERSIGHT OF FISCAL RISKS OF THE SOE SECTOR*, October 2016

³ Source: IMF, *OVERSIGHT OF FISCAL RISKS OF THE SOE SECTOR*, October 2016

Commission does not have the AFS for the Seychelles Ports Authority to include in its analysis for the year 2016. Details of ROE by sector are provided in Figure 5.

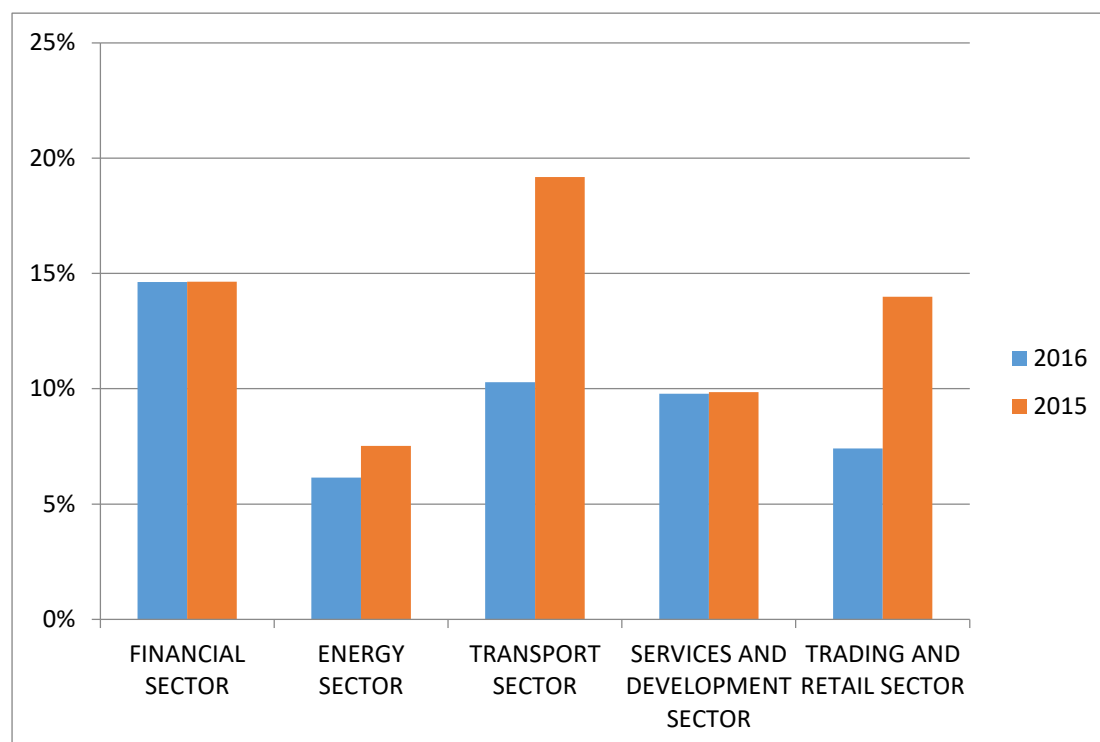


Figure 5: Ratio of Return on Equity by sector for the years 2015 and 2016

2.2.3 Financial sustainability

2.2.3.1 Assets

The total asset base of the PEs amounted to SCR 26,517,859,573 for the year under review, representing an increase of 12% when compared to the year 2015. The total assets of the PEs represented approximately 139% of GDP for the year under review.

Figure 6 illustrates the total assets of the PEs by sector for the years 2016 and 2015. It can be seen that the Financial sector (2016: SCR 11.4bn) and the Energy sector (2016: SCR 9.9bn) had the largest asset base and consequently the highest value at risk for both years.

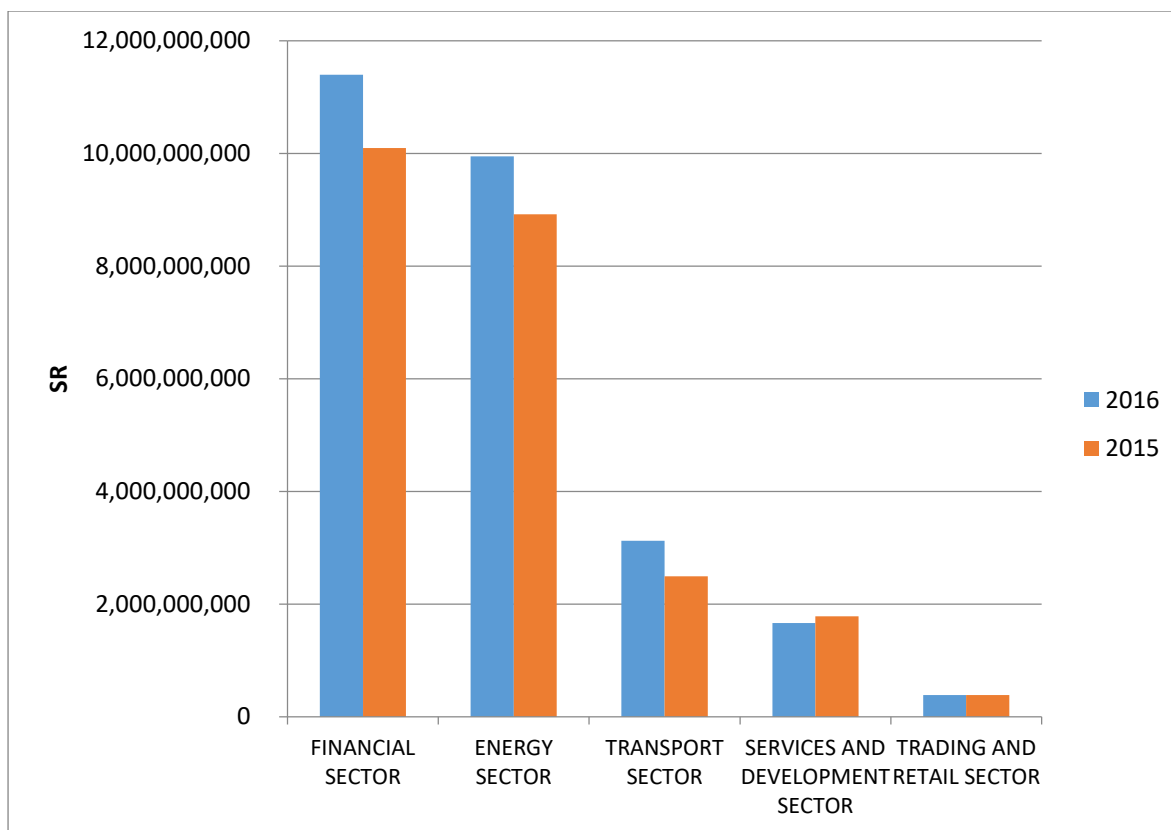


Figure 6: Total assets of PEs by sector for the years 2015 and 2016

2.2.3.2 Liabilities

It is important for the Commission to monitor the liabilities of the PE sector given that all PE debts are an explicit or implicit contingent liability for the Government.

Total liabilities of the PEs amounted to SCR 13,144,837,772 for the year under review, representing an increase of 15% when compared to the year 2015. Total liabilities of the PEs represented approximately 69% and 62% of GDP for the years 2016 and 2015 respectively. This increase was primarily in the Transport and Financial sectors. There was a rise in borrowings in the Transport sector and an increase in customer deposits as well as new borrowings in the Financial sector, reference is made to Figure 7.

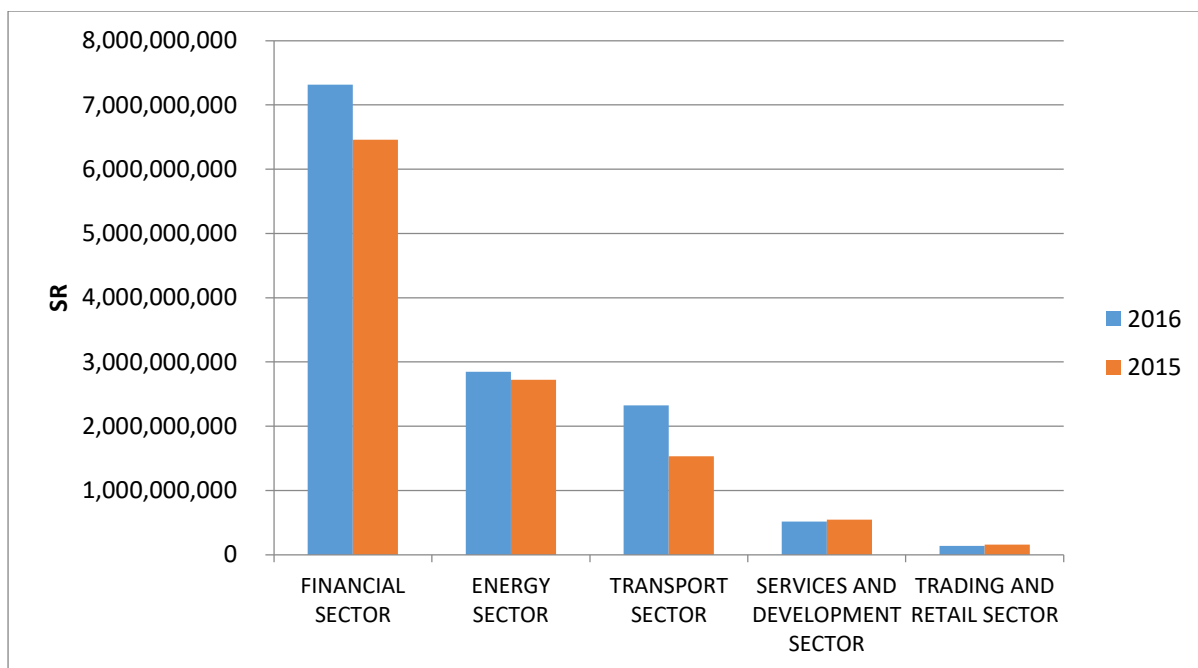


Figure 7: Total liabilities by sector for the years 2015 and 2016

2.2.3.3 Debt to Equity

The Debt to Equity ratio compares an entity's total liabilities to its total equity. The ratio indicates how much debt an entity is using to finance its assets relative to the value of its investor financing (equity).

Figure 8 illustrates the Debt to Equity ratio by sector for the year 2016 and 2015. It can be seen that the ratio has remained fairly stable for most sectors with the exception of the Transport sector. The analysis may be skewed as the Commission has not yet received the AFS of all PEs for the year 2016.

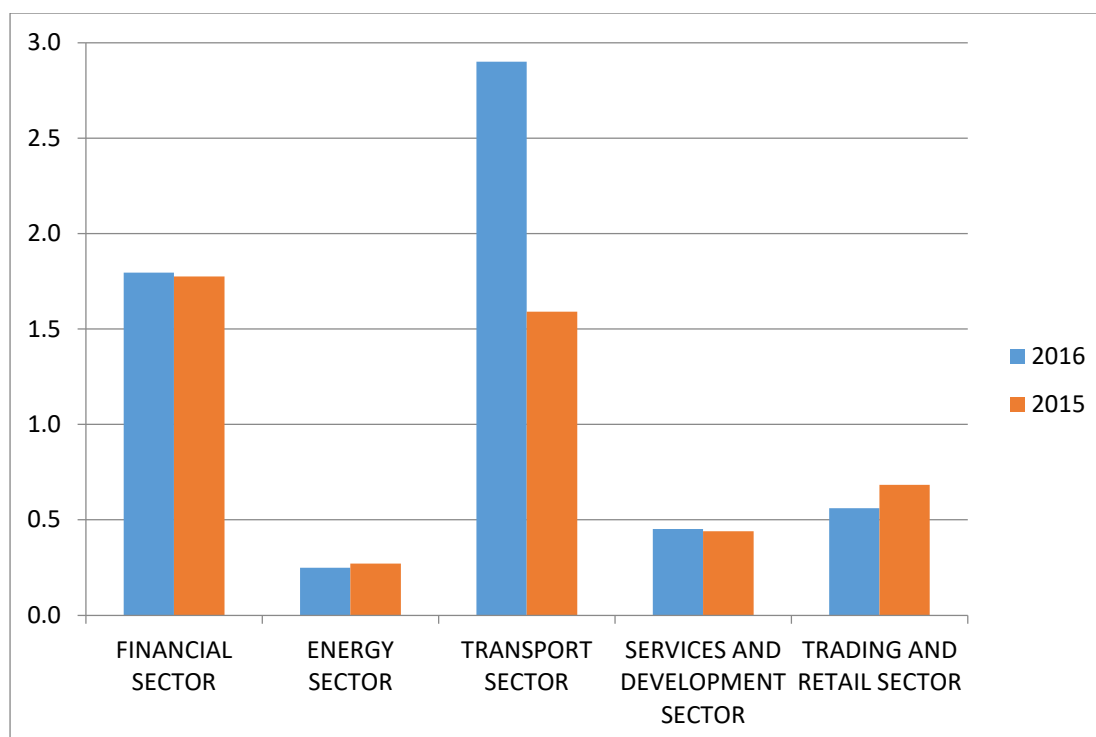


Figure 8: Debt-to Equity ratio by sector for the years 2015 and 2016

2.2.3.4 Taxes

PEs are required to pay taxes which include business tax, corporate social responsibility tax, customs duties and transferring VAT collected. Certain PEs, such as the Property Management Corporation (PMC), are exempted from paying tax by law due to the nature of their activity. This exemption can be considered as a form of indirect financial support from the Government.

The total tax expense of the PEs for the year 2016 amounted to SCR 278,165,093 representing an increase of 12% when compared to the year 2015. The tax expense of the PEs for the year 2016 represents 4% of the approved budget for the year, this remains stable when compared to the year 2015. Reference is made to Table 2.

Table 2: Total taxes of PEs for the years 2015 and 2016

	2016 SR	2015 SR
Total tax expense ⁴	278,165,093	248,283,347
Share of the national budget ⁵	4%	4%

⁴ Predominantly business tax, does not include VAT and import duties which are also paid by PEs

⁵ Appropriation Act, 2015 and Appropriation Act, 2016

2.2.4 Employment

The PEs employed a total of approximately 5,900 staff for the year 2016, representing an increase of 6% when compared to the year 2015. Employment in the PE sector represented approximately 13% and 12% of the total average workforce for the years 2016 and 2015 respectively.⁶ The PE sector was the third largest employer after the private sector and the Government for both years.

Further analysis revealed that amongst the PEs, the Transport sector was the largest employer for the year 2016 followed by the Energy sector and the Services and Development sector. The distribution of staff by sector of the PEs for the year 2016 has remained stable when compared to the year 2015 and is illustrated in Figure 9.

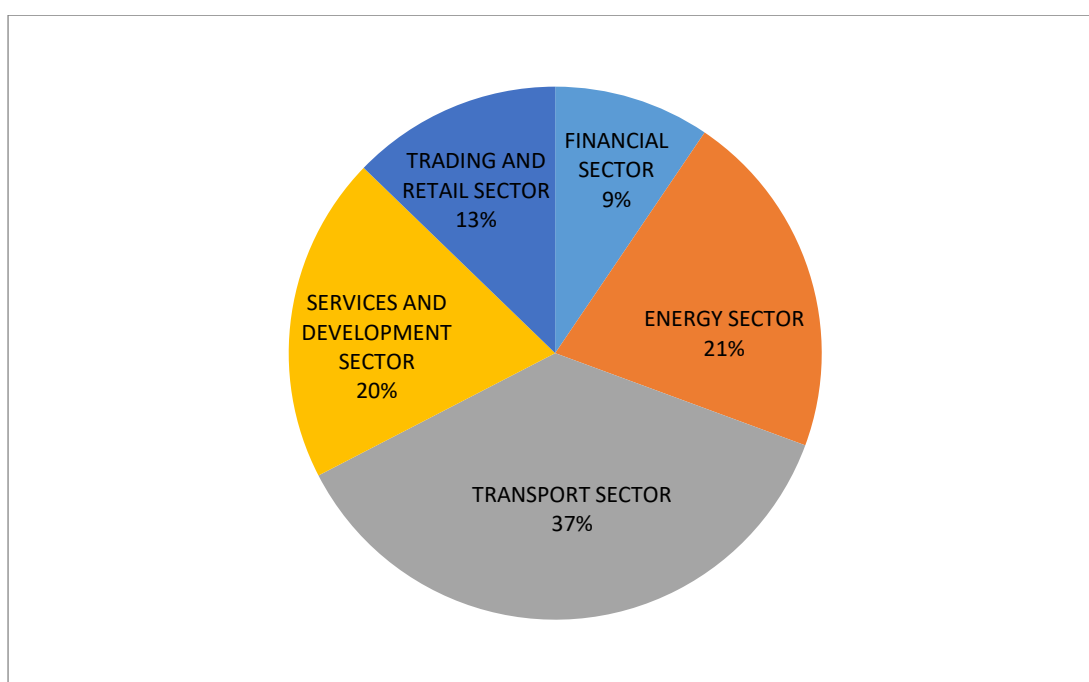


Figure 9: Total employment of the PEs by sector for the year 2016

Overall it can be noted that PE sector has an important presence in the national economy, but with substantial value at risk. The total assets of the sector were in excess of 100% of GDP for the year 2016 and the total revenue and liabilities were in excess of 50% of GDP for the same period. Poor performance of the PE sector could therefore have a non-negligible impact on the national economy. It is consequently important that this sector is monitored closely and the strategy for achieving this is by ensuring that PEs have good corporate governance structures in place.

⁶ Source: National Bureau of Statistics, *FORMAL EMPLOYMENT AND EARNINGS 2016-Q4*, March 2017

3 Governance

During the year 2016 PEMC was active in promoting the principles of good corporate governance, which is part of its mandate. PEMC did this either directly, through the forum which it organised in 2016 or indirectly by conducting governance and operational reviews of PEs.

3.1 Compliance Highlights

PEMC requests certain information from PEs on a regular basis to monitor and assess their performance as part of its role as their oversight body.

Some of the PEMC's requirements related to the submission of information are detailed in this section.

3.1.1 Submission of the annual report (PEMC Act, Section 36 and Schedule 4)

Section 36 of the PEMC Act requires that PEs prepare an annual report on their operations together with a copy of their annual audited accounts to be submitted to PEMC within three months after the end of their financial year.

Approximately 20% of PEs submitted an annual report to the Commission for the year 2016, the remaining PEs submitted only their annual financial statements (AFS). Only one PE, the Seychelles Pension Fund, had submitted its certified AFS to PEMC within three months after the end of its financial year as required by Section 36 of the PEMC Act.

3.1.2 Submission of the Statement of Corporate Intent (SCI) (PEMC Act, Section 34)

It is a requirement of Section 34 of the PEMC Act for PEs to submit a Statement of Corporate Intent (SCI) to the Commission which covers a period of three years, i.e. the financial year in which it is delivered and the following two financial years. PEs are required to submit an updated SCI after the period of three years covered by the initial one.

PEMC issued a circular in January 2016 (Circular No.1 2016) requesting that PEs submit an updated SCI if their previous one had lapsed. At the end of the year 2016, 70% of PEs had submitted an updated SCI to PEMC and the remaining 30% had not complied. PEs which had not complied comprise of:

- Air Seychelles Ltd
- Housing Finance Company Ltd
- National Information Services Agency
- Seychelles Petroleum Company Ltd
- Seychelles Postal Services Ltd

- Seychelles International Mercantile Banking Corporation/Nouvobanq

3.1.3 Monthly financial reports (PEMC Act, Section 38)

Section 38 of the PEMC Act stipulates that PEs should submit to the Commission a statement and financial and operational performance within fifteen days after the end of every month. PEs were partly compliant to this requirement for the year 2016.

3.1.4 Estimates and projections (budget) (PEMC Act, Section 39)

It is a requirement for PEs to submit estimates and projections (budget) to the in respect of their next financial year.

All PEs submitted their annual estimates and projections for expenditure and revenue pertaining to the year 2017 to PEMC during the year 2016. These projections were aggregated by the Commission and included in the budget document for the year 2017.

The Commission is taking steps to improve level the compliance of PEs, these include strengthening the PEMC Act as well as meeting with relevant stakeholders, reference is made to section 5 “Conclusion and 2017 focus.”

3.2 Highlight of the internal management audit by PEMC

An internal management audit was prepared by the Commission in January 2016 as part of the national exercise for all Ministries, Departments and Public Sector Agencies to conduct a performance audit on their activities.

The report included:

- The objectives of the Commission.
- Its monitoring and evaluation role.
- The status of PEs’ compliance in terms of monthly and quarterly reporting, timely submission of SCI and AFS.
- The achievements of the Commission. These focused on the IMF benchmarks met in 2014 and 2015, such as the consolidation of PE accounts, the launching of the PEMC website to serve as a web-based public information sharing system to report on the financial performance of PEs and

the approval by the PEMC Board of a plan for undertaking governance and operational assessments of PEs.

- The constraints faced by the Commission and steps to overcome them.

3.3 Highlight of Governance and Operational Assessments

3.3.1 Highlight of the World Bank Audit of PEs

During 2016, PEMC welcomed a team from the World Bank as part of an exercise to undertake Governance and Operational Assessments of PEs. The exercise forms part of PEMC's mandate to "ensure that Public Enterprises are properly controlled and managed for the purpose of better performance, transparency and accountability, to improve efficiency and competitiveness of the economy, to foster and accelerate the macroeconomic stability of the country and to provide for matters connected therewith".

The objective of the assessments was to identify areas of improvement in the PEs operational and financial performance as well as in their current corporate governance practices to support the Government's efforts in building resilience and reducing the PE's exposure to external risks.

As part of this assessment, the World Bank team conducted two missions in Seychelles in February and September 2016. Six PEs were reviewed by the World Bank team in collaboration with PEMC, namely; PUC, SEYPEC, STC, Novobanq, Seychelles Pension Fund and Seychelles Ports Authority.

The main finding of the assessment was that the strengths and shortfalls of corporate governance practices are very similar across enterprises. There are a series of corporate governance areas, in which all enterprises do not comply fully with international guidelines (OECD Guidelines), namely in financial controls, reporting, transparency and disclosure. One reason for this is that national legislation for these areas are not necessarily aligned with international guidelines, hence there is no obligation for the enterprises to comply.

Provisions covering corporate governance in PEs are contained in a number of laws and regulations some of which are in need of updating. These include the Companies Act 1972, the Public Finance Management Act 2012, the PEMC Act and various laws and regulations governing specific PEs. Consequently, the assessment also included a review of the national legislation against international benchmarks and made recommendations for closing the identified gaps.

Other areas with room to improve compliance with OECD Guidelines are Board nomination practices and the holding of Annual General Meetings (AGMs).

Table 3 shows the extent to which the PEs comply with the OECD Guidelines and the extent to which the national legislation covers and includes OECD recommended practices and its gaps.

Table 3: Compliance with OECD guidelines

Corporate Governance Areas	SEYPEC	PUC	STC	SPF	SPA	Nouvobanq	National Legal Framework
<i>Mandate defined in legal framework</i>							
<i>Ownership and Oversight</i>							
<i>Board of Directors</i>							
<i>Company Objectives and Management</i>							
<i>Performance Monitoring</i>							
<i>Fiscal and Financial Discipline</i>							
<i>Controls, Transparency and Disclosure</i>							
<i>Awareness and Commitment to Corporate Governance</i>							

Legend:

	<i>Few issues to be addressed</i>
	<i>Significant progress made but more still needs to be done</i>
	<i>Significant shortcomings to be addressed</i>

The Commission has developed an action plan, based on the findings of these assessments, which was approved by Cabinet in May 2017.

3.3.2 Assessment of l'Union Estate Company Ltd

The PEMC Chairperson, CEO and analysts conducted a working visit on La Digue in July 2016 to undertake an operational assessment of l'Union Estate Company Ltd following a number of reported challenges and recent audits.

The aim of the assessment was to provide support to the Company to ensure that its operations and structure are in line with its mission and objectives. The exercise included meetings with the Company's Board, interviews with staff members, site visits and desk review of documents. A report based on the findings was submitted to the Company.

The report provided short-term, medium-term and long-term recommendations, which included:

- Developing a Business Plan which will articulate the Company's vision, mission, objectives, targets, risk assessment and mitigation.
- Reviewing the Company's governance structures;
- Reviewing all products and services being offered in terms of leases, pricing, supply and demand.
- Increasing emphasis on staff training and appraisal.
- Developing the Company's monitoring and control system.

3.3.3 Assessment of Property Management Corporation (PMC)

PEMC initiated the review of PMC in September 2016. The objective of the review was to evaluate whether the Corporation's governance, operations and structure support its mission and objectives.

The review included interviews with the Corporation's CEO, senior management and staff, desk review of documents, site visits and a Corporate Governance questionnaire based on the World Bank Toolkit for the Corporate Governance of State-Owned Enterprises and the OECD guidelines for the Corporate Governance of State-Owned Enterprises.

The exercise was postponed following restructuring and changes in constitutional posts and portfolios, including the appointment of new CEOs for PMC and PEMC, and resumed during the year 2017.

The report was submitted to PMC for comments in March 2017. The findings focused on the Corporation's:

- legal framework
- structure and staffing
- strategic planning and performance monitoring processes
- financial review
- controls, transparency and disclosure

PEMC will be following-up on the implementation of the recommendations during the year 2017.

3.4 Highlight of Fiscal Risk Assessments by IMF/AFRITAC

During 2016, PEMC benefitted from Technical Assistance in the field of Fiscal Risk. Following the request from Ministry of Finance, Trade and Economic Planning (MOFTEP), IMF/AFRITAC South undertook an assessment of Fiscal Risks in the PE sector in Seychelles. As part of this assessment, the IMF/AFRITAC team conducted two missions in Seychelles in February and August 2016.

The objective of the mission was to assist PEMC and MOFTEP to better identify the source of fiscal risk from the PEs and the relevant data and policy issues.

The main finding of the assessment was that there was a lack of full and consistent data on PE finances as well as the PE flows to and from the budget. This comprehensive data on the PE sector is necessary for the identification of the source and nature of PE-associated fiscal risks.

The assessment also revealed a need for further analysis and policy development in terms of:

- PE profitability.
- Debt and investment decisions: for example maintaining a database of non-guaranteed debt.
- Fiscal flows between the budget and the PEs: for example drafting a dividend policy.
- Public Service Obligations (PSOs) which are currently neither quantified nor funded.
- PE trade arrears.

3.5 Highlight of Audit Reports

3.5.1 PEMC

The Commission is subject to an annual audit of its accounts as required by section 10 of its governing law. The accounts of the Commission were certified by the Auditor General and a copy of the report can be found in Appendix 3.

3.5.2 PEs

The Commission received the certified AFS of seventeen PEs for the year 2016 as stated in section 2 “Performance Information” Out of the seventeen PEs, one had submitted its AFS to the Commission within the timeframe of three months after the end of its financial year.

For the year 2016, two amongst the seventeen PEs received a qualified audit opinion in their AFS, namely Property Management Corporation (PMC) and Seychelles Trading Company (STC). The remaining fourteen PEs had unqualified audit opinions.

The qualified opinions in the AFS of PMC and STC were both related to limitations in their respective IT systems, which resulted in a lack of supporting documentation to allow the auditor to perform adequate audit procedures. PMC is in the process of migrating its records to a new property management software which will address its current software limitations. STC has completed the initial phases of implementing a new software and the process will be progressing in line with the Company's strategic direction.

4 Challenges and Opportunities

PEMC and the PEs encountered various challenges throughout the year 2016, some of which have hindered their performance. The Commission recognizes the importance of addressing these challenges and is engaged on acting upon them in the short to medium-term to create a culture of continuous improvement. An integral part of this is to identify as well as create opportunities for improvement which will add value to the work of the Commission and the PE sector.

4.1 Challenges

4.1.1 Challenges of the PEMC

Throughout the year under review, PEMC has had numerous successes but has also faced some pertinent challenges which must be addressed in the coming year in order to fulfill its mandate more effectively and efficiently. The challenges for PEMC for 2016 have been:

4.1.1.1 Absence of standard definition of a Public Enterprise

The definition of PE remains an issue as the PEMC Act does not provide any clear guidance on defining a PE and it merely states under Section 2-Interpretations that a PE is *"an organisation specified in column 1 of Schedule 1 and any subsidiary of such organization."*

4.1.1.2 PEs' selective or non-compliance to the PEMC Act and other governing legislations

Section 2 of the PEMC Act further states that an organisation may be *"a company, a body corporate, a statutory corporation, a statutory body, a trust partnership or a joint venture."*

This implies that PEMC has oversight of 20 PEs incorporated or established with varying legal forms under different pieces of legislations. Some PEs, usually the more commercially focused organisations, such as STC, IDC, SCB, SEYPEC, Nouvobanq et al. are incorporated as limited liability

companies, hereinafter ‘company’, under the Companies Ordinance 1972, hereinafter the Ordinance”, and are required to comply with legislative requirements of the Ordinance.

On the other hand, certain PEs such as SPA, DBS, SPF, NISA et al. have Public Service Obligations, hereinafter ‘PSOs’ are created under other legal forms specified by their own respective legislations, are required to comply with the statutory commitments of their enabling legislations.

As previously mentioned above, the 20 PEs under the oversight of the Commission and the present PEMC Act has certain limitations in terms of enforcing the legal requirements whereby several PEs fail to comply in accordance with their reporting obligations as stipulated in Part IV of the PEMC Act.

There are instances where certain PEs choose to comply with the roles and responsibilities of Directors as per Section 171 of the Ordinance but not to the Liabilities and Duties of Directors as stipulated in Schedule 5 of the PEMC Act. Moreover, PEMC cannot enforce penalties on the PEs where there is selective or non-compliance due to lack of provisions for enforcement of specific sanctions.

4.1.1.3 Lack of sanctions for non-compliance with the PEMC Act

As mentioned above, the Commission has no enforcement powers to apply sanctions to PEs. The current enforcement structure of the Commission is a “comply or explain” framework where PEs are only required to explain the reason for the non-compliance with the provision of the Act. The Act does not hold any person or group of persons accountable and responsible for the PEs compliance to their legal obligations.

PEMC is currently reviewing the PEMC Act and it is being proposed that appropriate sanctions be introduced in respect of non-compliance with its Act.

4.1.1.4 Absence of clear criteria to assess the fiscal Risk of PEs

Section 11 (j) of the PEMC Act states that it is one of the functions of the Commission to “identify issues relating to operational and financial risks of Public Enterprise that may have material impact on the Public Enterprise and the economy as a whole.”

There is an absence of clear criteria for the collection of relevant information and measurement of the fiscal risk of the PEs to allow PEMC to effectively assess and manage the impact of the fiscal risk.

4.1.1.5 Fragmented oversight of procurement of PEs

Section 11(d) of the PEMC Act states that one of the Commission's functions is to *"assess the implementation of projects carried out by PEs to ensure compliance with procedures and regulations of capital expenditure."*

The Procurement Oversight Unit (POU) established general guidelines for the following PEs and subsidiaries:

- Seychelles Trading Company Limited
- Green Island Construction Company Ltd
- Islands Development Company Limited
- Seychelles Petroleum Company Limited
- 2020 Development (Seychelles) Limited
- Housing Finance Company Limited
- Seychelles Postal Services Limited
- Seychelles Commercial Bank Limited
- Seychelles International Mercantile Banking Corporation/Nouvobanq
- Air Seychelles Limited

The PEs not mentioned above are required to comply with the Public Procurement Act 2008 and its respective Public Procurement Regulations 2014 which establishes, under its First Schedule, the various procurement thresholds, approval procedures and procurement methods.

Depending on the threshold, PEs have to obtain approval for their procurements from either the National Development Committee, the National Tender Board, their respective Board of Directors, or their respective Procurement Committee, if any.

The current oversight framework of PE procurement is fragmented as there is no proper collective framework between the various procurement monitoring bodies to monitor compliance with the established procurement policies, procedures and legislations.

4.1.1.6 Lack of communication between government regulators

Under the current legal framework there is a lack of communication between the PEMC and the various oversight agencies of the Government such as the POU, the Registrar and the SRC. The PEMC is in the process of establishing MOUs with various government supervisory bodies including CBS to address the issue of miscommunication and facilitate the exchange of information.

4.1.1.7 Human Capacity and Competency

As previously stated, the PEMC has oversight of 20 PEs and it had performed its mandate in 2016 with only five members of staff. It is a great challenge for such a small number of staff to oversee the PE sector and enforce the mandate of the Commission. The small PEMC team has managed to obtain some success throughout the year but there are still some shortcomings due to the number of staff.

Moreover, the oversight of the PE sector requires certain level of competency and the PEMC has faced certain challenges in attracting professionals with the adequate competence.

4.1.1.8 PE Sector Governance Culture

The limitation of the current legal framework, the absence of a legislated Corporate Governance codes, the small number of PEMC staff and the lack of communication amongst regulatory bodies and also support from various stakeholders, has made it very difficult for PEMC to fully deliver on its mandate. This has led to a governance culture of non-accountability and non-transparency which fosters non-compliance to both sector-wide and individual PE's governance and regulatory requirements. This is particularly a concern in procurement and project implementation, an area that is getting increasing focus of PEMC, going forward.

4.1.2 Challenges of the PE sector

PEs also faced numerous challenges during the year 2016, some were inherent to the nature of their activity and some were common to the PE sector as a whole. Some challenges encountered by the PE sector for 2016 were:

4.1.2.1 Conflict between maximisation of profit and provision of Public Service Obligations (PSOs)

Section 4 of PEMC Act provides a broad definition and distinction between commercial and non-commercial objectives of PEs.

Although, the objectives of the PEs are stipulated in the PEMC Act, there is no clear definition of 'commercial' and 'non-commercial' activities. PEs with strictly commercially driven objectives are mainly required to maximise their profits, as if they were a private business, and PEs with primarily non-commercial objectives are mainly required to provide PSOs while maintaining their costs within the financial budgets and ensuring their continuity as a going concern.

In certain cases the non-commercial objectives are implicit in the PE's mandate. There might be a conflict in instances where PEs are required to fulfill both commercial and non-commercial objectives since the two objectives are not clearly distinguished and may contradict each other. PEs

with both financial and social objectives have to maximise profits whilst providing and subsidising the costs of Public Service Obligations (PSOs) on behalf of the Government as illustrated in Figure 10.

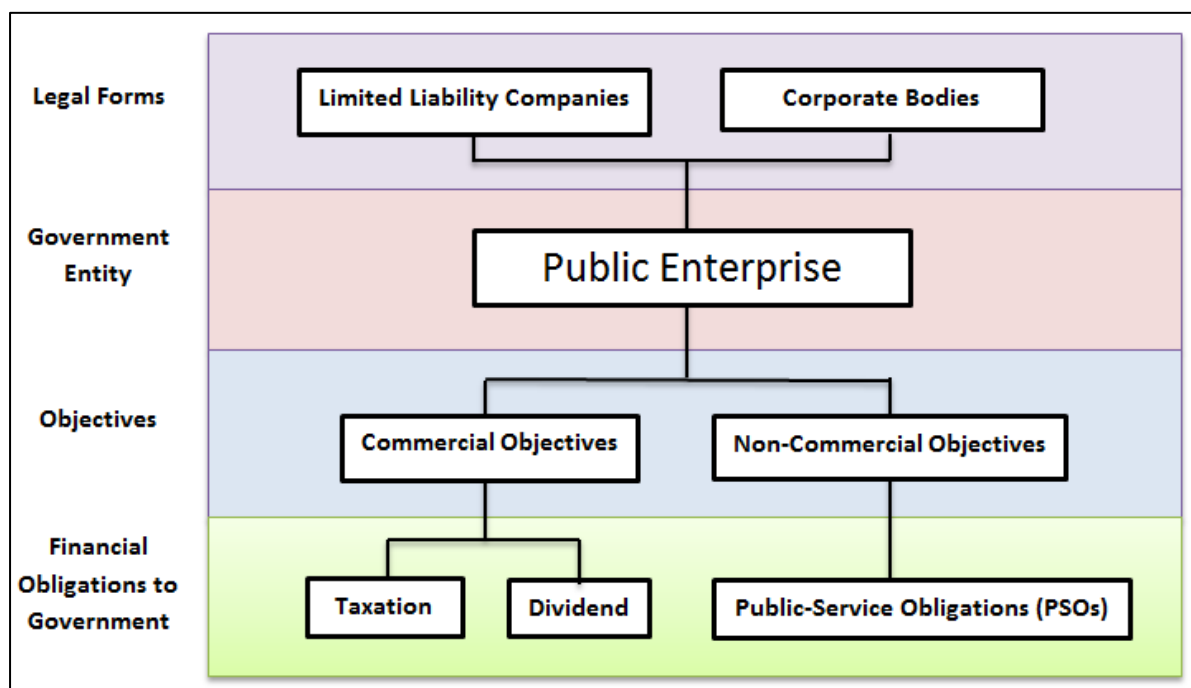


Figure 10: Legal forms of PEs, their objectives and obligations to Government

4.1.2.2 Unaccounted costs of PSOs and non-reimbursement by the Government

Most PEs are not allocated funds by the Government therefore PEs with mainly non-commercial obligations and PEs with both commercial and non-commercial obligations are required to finance the costs of the PSOs out of their own finances thus adversely affecting their profit. The PEs have to bear the costs of providing the PSOs to the public which significantly impacts on their financial performance.

PEs mainly carrying out PSOs have to finance the costs of PSOs from their own funds although they are not commercially oriented. On the other hand, PEs with both financial and social objectives are required to achieve profitability whilst financing the costs of the PSOs. Those same PEs may also have other statutory financial obligations at the end of each financial year to pay taxes to the SRC and dividends to Government or both as previously illustrated in Figure 10.

The current legal framework does not provide clear criteria for PEs to evaluate and measure the costs of PSOs and it does not provide any provision for reimbursement of the costs by the Government. The PEs are currently absorbing the costs of the PSOs within their operation which adversely impacts their finances which may give rise to fiscal risks.

4.1.2.3 Non-Professionalization of the Board of Directors

The current legal framework governing Boards of Directors is broad and does not reflect the best international corporate governance practices for Board Professionalization. An example is Section 21(1) of the PEMC Act which states that *“the President, in consultation with the Responsible Minister, shall appoint the Chief Executive Officer for each Public Enterprise.”*

Another example identified is, although Schedule 2 of PEMC Act lists some broad rules for the appointment of Directors of PEs, the composition of most of the PEs Board lacks the necessary professional objectivity required to act in best interest of the PEs and the public as they comprise mostly of public servants.

Ideally, the Boards of PEs should include representatives from the private sector who possess the necessary technical and business experience to professionally exercise their responsibilities and duties as Directors of PEs. Presently, there is a shortage of potential candidates for directorship of PEs from the private sector.

The absence of a legislated Corporate Governance code means there is no clear criteria detailing the requirements for the selection, appointment, composition and governance of Boards and their sub-committees will continually give rise to issues identified above.

Moreover, there is no particular section of the PEMC Act which holds Directors accountable for non-performance of their duties and responsibilities to ensure compliance with the legislative obligations of the PEs as previously mentioned under Item 1.1 and 1.2 above.

Additionally, there is no legal requirement and framework for evaluating the performance of the Board of Directors of the PEs. A Board Evaluation process can elevate performance of these Directors and ensure more adequate approaches in the decision-making processes of these Directors and thus improve a PE's performance.

4.1.2.1 Ambiguity of the Government's role as minority shareholder

The PEMC Act currently does not mandate a Shareholder's Agreement between the Government and other significant shareholders, from the private sector, in instances where the Government is the minority shareholder of a company.

A shareholder agreement between the Government and the private majority shareholders would specify the rights, including influence in Board composition, etc. and protect the Government as a minority shareholder.

4.2 Opportunities for PEMC and the Public Enterprise sector

Although the above challenges exist, there are also opportunities for them to be addressed in the short to medium-term. Some of these opportunities are detailed in this section.

4.2.1.1 Development of an Ownership Policy between the Government and the PEs

The OECD Guidelines on Corporate Governance stipulate that *“the ultimate purpose of state ownership of enterprises should be to maximise value for society, through an efficient allocation of resources.”*⁷

As previously mentioned, the PEMC Act currently does not impose legislative requirements on the State and its PEs to have an ownership policy which would assist the PEMC in addressing the issues identified in Point 1.3 to 1.11 above.

An ownership policy would assist in achieving good corporate governance, accountability, transparency and control as it would establish guidelines and principles that would ensure:

- an effective legal and regulatory framework for PEs
- the state acting as an owner
- the equitable treatment of shareholder
- relations to stakeholders
- transparency and disclosure
- responsibility of PEs’ Board of Directors

4.2.1.2 Development of an Institute of Directors

In order to professionalise the Board of PEs and increase the number of eligible candidate for Directorships, there is a need to develop and establish an Institute of Directors. Part V of the PEMC Act governs the regulation of the Board of Directors of the PEs but does not address the issues identified in 1.10 above. An Institute would focus on the development of better directors, and ultimately, better boards by furnishing existing and potential directors with the necessary knowledge and acumen required to fulfill their duties and to appreciate the importance of good governance.

⁷ OECD (2015), *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, 2015 Edition, OECD Publishing, Paris, p.17

4.2.1.3 Development of a Code of Corporate Governance

Section 6(1) of the PEMC Act states that one objective of the PEMC is to “*promote ethics of good governance in all business transactions*” meaning that the PEMC is mandated to establish and foster a good corporate governance framework and environment in the PE sector.

However, the PEMC Act merely stipulates broad statutory requirements governing CEOs, Board of Directors, Board and Sub-Committee composition, duties and liabilities of directors and reporting obligations of PEs. Although, it currently covers some general corporate governance practices, it does not address the specific issues identified in Section 4.1 above. Moreover, the current Code of Governance was last updated in 2010 and is obsolete as it does not reflect the current corporate governance climate.

There is a need to enforce a revised Code of Corporate Governance, hereinafter “the Code” which will address the previously mentioned corporate governance issues that the PEMC is facing and reflect the current economic and political climate of accountability, transparency and disclosure.

The revised Code of Corporate Governance would benefit both the individual PEs and the economy as a whole by:

- Improving strategic decision-making and operational performance of PEs.
- Reducing the risk of corporate crisis and scandals of Board Directors of PEs.
- Fostering better relationships between the PEs and their stakeholders.
- Providing better financing for infrastructure development by PEs.
- Reducing the fiscal burden of PEs and increased net returns for the Government through higher dividend policy.
- Reducing possible corruption and improved transparency.
- Providing a set of guidelines for the PEs based on internationally accepted good practices, as well as guidelines on Corporate Social Responsibility.
- Providing a framework for strong board practices and employee-commitment, effective internal controls, transparent disclosure, and well-defined shareholder rights.

4.2.1.4 Building the human capacity and competency of the PEMC

The PEMC is committed in enhancing its manpower to perform with the highest professionalization and integrity. It is important to note that PEMC has a proactive and qualified team.

Capacity building in the field of Good Governance is a priority for the organization. Training and international exposure are important tools to achieve this goal and will also feature in the PEMC's training plan. The Commission has also submitted a new organization structure to Government which would enable it to prepare a succession plan.

5 Conclusion and 2017 focus

To conclude it can be said that the PE sector remained significant in the national economy, in terms of size and composition, for the year 2016. The Commission plays a critical role as the monitoring body of the PE sector since efficient and effective oversight of this sector is vital to limit any potential harm that the mismanagement or poor performance of PEs may cause.

The Commission has set some targets for the year 2017 to ensure that it achieves its mandate and provides the level of oversight required for the PE sector. Some of these targets focus on the Commission's internal operations and some of them focus on the Commission's actions for the PE sector.

5.1 2017/2018 focus for PEMC

From the year 2017, PEMC aims to strengthen its existing internal structure; staff capacity, controls and facilities to complement its medium-term objections. Some targets for the period 2017/2018 include:

- Providing up-to-date information on the PEMC website. Having a pro-active website strategy that can increase awareness of PEMC is vital towards increasing transparency.
- Improving service delivery. The PEMC needs to continue building-up its workforce to effectively carry out its functions. In order to achieve this, the Commission intends to review its scheme of service to be able to attract and retain staff.
- Ensuring that staff receive adequate and specialised training in the necessary fields and also attain knowledge and experience through suitable networking channels. Knowledge and experience from different countries and regions can elevate best practices in areas such as good governance. Furthermore, the sharing of experience in terms of challenges and weaknesses faced in different SOE sectors around the world can bring forth great exchanges that can benefit the Commission in moving forward.

- Establishing a proper and efficient database for the collection of information to simplify specific tasks and to facilitate their timely delivery. This can also improve access to pre-compiled data for instance upon the request of information from various stakeholders and data users.
- Promoting strong team work and team effort.
- Implementing effective and innovative reporting frameworks to support the Commission's functions.
- Improving PEMC's working environment. An adequate office space is of essence, since the Commission foresees to build-up its capacity. Office space should be readily available to accommodate such changes.
- Continuing review of the PEMC Act, which is on-going. The Commission aims to modernise the Act with the best practices in terms of good governance, transparency, accountability and effective reporting, to name a few. These changes will also serve to strengthen the PE sector. Once finalised by the PEMC Act Committee, the proposed review shall be presented to the Cabinet for approval.
- Finalising its implementation plan based on the governance and operational assessments undertaken and seeking Cabinet approval of the said plan.

5.2 2017/2018 focus for the Public Enterprise sector

From the year 2017, PEMC aims to create more awareness of its central role and mandate. One way in which the Commission aims to achieve this is by meeting with stakeholders of the PE sector and formalising partnerships for the exchange of information.

The Commission has planned to conduct further governance and operational assessments of PEs during 2017.

PEMC also aims initiate the process of preparing a Fiscal Risk Statement for the PE sector in order to ensure the long-term sustainability of the sector. For this PEMC will be collaborating with PEs to identify and quantify their Public Service Obligations (PSOs) which will then be included in the Fiscal Risk Statement.

The Commission's other targets for the PE sector for the period 2017/2018 are to:

- Work on new guidelines for the preparation of the Statement of Corporate Intent (SCI).
- Take steps to draw up a Code of Governance.
- Ensure that PEs are preparing their updated SCI where it has lapsed.

- Develop partnerships with other oversight bodies/regulators such the Finance and Public Accounts Committee of the National Assembly (FPAC), the Office of the Auditor General (OAG), the Procurement Oversight Unit (POU) and the Company Registrar.
- Ensure that PEs are complying with the PEMC Act in terms of reporting and submission of documents such as Annual Financial Statements, monthly financial statements and minutes of Board meetings.

Appendices

Appendix 1 Public Enterprises listed in the PEMC Act, Schedule 1

PUBLIC ENTERPRISE	GOS SHAREHOLDING	INDUSTRY
SIMBC/Nouvobanq	78%	Financial Institution
Seychelles Commercial Bank	60%	Financial Institution
DBS	60.50%	Financial Institution
HFC	100%	Financial Institution
FSA	100%	Financial Institution
Seychelles Pension Fund	100%	Financial Institution
FINANCIAL SECTOR		
SEYPEC	100%	Energy
PUC	100%	Energy
PetroSeychelles	100%	Energy
ENERGY SECTOR		
Seychelles Ports Authority	100%	Transport
Air Seychelles	60%	Transport
SCAA	100%	Transport
SPTC	100%	Transport
TRANSPORT SECTOR		
IDC	100%	Services & Development
PMC	100%	Services & Development
L'Union Estate	100%	Services & Development
SSI	100%	Services & Development
NISA	100%	Services & Development
Postal Services	100%	Services & Development
SERVICES AND DEVELOPMENT SECTOR		
STC	100%	Trading
TRADING AND RETAIL SECTOR		

Appendix 2: Performance information

Public Enterprise	Profit/Loss (Before Tax)		Tax		Total assets		Total liabilities ⁸	
	2016 SR	2015 SR	2016 SR	2015 SR	2016 SR	2015 SR	2016 SR	2015 SR
SIMBC/Nouvobanq	280,670,000	291,304,000	85,882,000	103,436,000	5,701,385,000	5,341,024,000	5,242,468,000	4,851,628,000
Seychelles Commercial Bank	22,477,556	17,933,399	1,820,597	5,890,605	1,194,298,056	981,434,963	1,054,693,642	856,487,508
DBS	4,505,433	14,499,357	0	0	915,228,427	698,158,207	614,761,120	404,014,981
HFC	20,453,672	9,938,464	5,452,151	1,096,679	626,926,773	526,989,664	265,698,640	200,544,272
FSA	99,691,605	100,675,134	0	0	218,944,239	193,634,222	119,679,133	123,604,160
Seychelles Pension Fund	261,475,226	98,094,857	0	0	2,737,590,072	2,351,876,001	19,903,320	20,101,398
FINANCIAL SECTOR	689,273,492	532,445,211	93,154,748	110,423,284	11,394,372,567	10,093,117,057	7,317,203,855	6,456,380,319
SEYPEC	243,533,791	139,436,591	117,469,368	65,206,085	6,461,556,923	5,770,455,766	1,316,508,338	1,230,488,429
PUC	310,774,189	328,124,972	0	0	3,486,033,513	3,131,814,771	1,530,163,010	1,486,718,457
PetroSeychelles		(1,820,294)		0		14,233,225		7,780,042
ENERGY SECTOR	554,307,980	465,741,269	117,469,368	65,206,085	9,947,590,436	8,916,503,762	2,846,671,348	2,724,986,928
Seychelles Ports Authority		64,411,000		10,000,000		335,917,000		132,623,000
Air Seychelles	5,821,918	28,200,000	0	0	2,377,082,192	1,477,346,667	2,223,643,836	1,324,920,000
SCAA	138,640,599	116,329,579	41,542,180	34,848,874	620,207,304	544,402,025	66,989,268	45,082,408
SPTC	(20,461,119)	(24,535,073)	0	0	129,116,141	134,022,007	34,093,623	27,475,010
TRANSPORT SECTOR	124,001,398	184,405,506	41,542,180	44,848,874	3,126,405,637	2,491,687,699	2,324,726,727	1,530,100,418
IDC	20,084,143	24,845,253	7,906,663	6,284,049	447,666,447	480,440,204	337,704,386	382,655,623
PMC	(6,240,129)	(6,388,496)	0	0	651,144,913	792,274,506	1,792,782	3,313,463
L'Union Estate								
SSI	109,363,002	108,149,802	6,406,456	7,986,227	483,399,661	450,621,878	135,073,187	133,751,950
NISA	3,941,413	(342,826)	989,829	0	31,913,050	29,202,363	21,942,208	22,183,105
Postal Services	109,968	(4,298,973)	(60,693)	290,246	48,110,966	30,474,967	20,479,337	3,013,998
SERVICES AND DEVELOPMENT SECTOR	127,258,397	121,964,760	15,242,255	14,560,522	1,662,235,037	1,783,013,918	516,991,900	544,918,139
STC	29,135,277	32,133,494	10,756,542	13,244,582	387,255,896	386,526,118	139,243,942	156,892,899
TRADING AND RETAIL SECTOR	29,135,277	32,133,494	10,756,542	13,244,582	387,255,896	386,526,118	139,243,942	156,892,899
TOTAL	1,523,976,544	1,336,690,240	278,165,093	248,283,347	26,517,859,573	23,670,848,553	13,144,837,772	11,413,278,703

Legend:

	AFS not submitted to PEMC
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⁸ Includes deferred grants

Appendix 3: PEMC Audited Report 2016



OFFICE OF THE AUDITOR GENERAL

P.O. Box 49 - Victoria,
Mahe, Republic of Seychelles
Telephone: (248) 4672500 Fax: (248) 4610365
E-mail: auditgen@oag.sc Website: www.oag.sc

Please address all correspondence to the Auditor General

Our Ref: PEMC/AI

Date: 26th July 2017

*Chief Executive Officer
Public Enterprise Monitoring Commission
Orion Mall
Victoria*

Audit Certification of the Public Enterprise Monitoring Commission – 2016

Please find enclosed 1 set of duly certified account for the year ended 31 December 2016

*Lindy Sedgwick (Mrs)
For: AUDITOR GENERAL*





OFFICE OF THE AUDITOR GENERAL

P.O. Box 49 - Victoria,
Mahe, Republic of Seychelles
Telephone: (248) 4672500 Fax: (248) 4610365
E-mail: auditgen@oag.sc Website: www.oag.sc

Please address all correspondence to the Auditor General

Opinion of the Auditor General on the accounts of Public Enterprise Monitoring Commission for the year ended 31 December 2016

Scope

I have audited the statement of accounts of the Public Enterprise Monitoring Commission for the year ended 31 December 2016, as set out on pages 1 to 6, in terms of Section 10 (2) of the Public Enterprise Monitoring Commission Act, 2013.

As per Section 10 (1) of the Act, the Commission is responsible for keeping proper books of accounts and records and the information they contain. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report it to the Commission.

The audit was conducted in accordance with the International Organisation of the Supreme Audit Institutions (INTOSAI) auditing standards. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the statement of accounts as well as an evaluation of accounting policies and significant estimates.

The audit was planned and conducted so as to obtain all information and explanations considered necessary to provide me with sufficient evidence to give a reasonable assurance that the statement of accounts are free from material misstatement, whether caused by fraud or other irregularity or error. The overall adequacy of the presentation of information in the statement of accounts was also evaluated in forming my opinion.

The audit opinion expressed has been formed on the above basis.

Opinion

In my opinion, the statement of accounts properly presents the financial transactions of the Commission for the year ended 31 December 2016 and comply with the IPSAS cash basis format of accounts as prescribed by the Ministry of Finance vide Circular 1 of 2015.

Gamini Herath
Auditor General

Victoria, Seychelles
25 July 2017



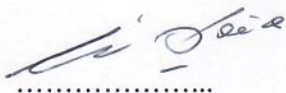


**STATEMENT OF ACCOUNT AS AT
31ST DECEMBER 2016**

PUBLIC ENTERPRISE MONITORING COMMISSION

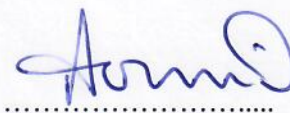
**STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR THE YEAR ENDED
31st DECEMBER 2016**

	Budget SCR	Actual SCR	Variance SCR	Previous year actual
Allocations/Appropriations	5,019,765.03	4,248,149.50	771,615.53	3,393,736.18
PAYMENTS				
Wages and Salaries	1,944,200.01	1,429,181.09	515,018.92	1,754,832.44
Good and Services				
Office Expenses	611,065.01	526,918.26	84,146.75	364,338.23
Transportation & Travel Costs	79,675.70	46,105.70	33,570.00	111,149.05
Maintenance & Repairs	215,300.01	191,478.45	23,821.56	73,140.00
Other Goods & Services	1,885,000.00	1,797,711.00	87,289.00	1,055,886.46
Total recurrent expenditure	4,735,240.73	3,991,394.50	743,846.23	3,359,346.18
Non-Financial Assets				
Machinery & Equipment	284,524.30	256,755.00	27,769.30	34,390.00
Total Expenditure	5,019,765.03	4,248,149.50	771,615.53	3,393,736.18
Surplus/(Deficit)		771,615.53		559,963.82


.....

Chairperson

Date: 13/06/17


.....

Chief Executive Officer

Date: 13/6/17



Notes to the Financial Statements

	Budget SCR	Actual SCR	Variance SCR	Variance %
Wages & Salaries				
Basic Pay	1,101,026.00	877,136.09	223,889.91	20%
Allowances	843,174.01	552,045.00	291,129.01	35%
	1,944,200.01	1,429,181.09	515,018.92	26%

GOODS & SERVICES

Office Expenses

Advert & Donations	5,000.00	4,462.00	538.00	11%
Hospitality	79,000.00	41,316.00	37,684.00	48%
News Paper & Magazines	13,500.00	9,460.00	4,040.00	30%
Printing & Stationery	115,000.00	158,414.50	-43,414.50	-38%
Postage	2,500.00	1,215.00	1,285.00	51%
Cleaning Expenses	10,095.00	5,697.85	4,397.15	44%
Consumables	25,000.00	9,443.10	15,556.90	62%
Electricity	105,000.00	82,368.74	22,631.26	22%
Water	5,500.01	1,523.87	3,976.14	72%
Internet	138,390.00	144,761.05	-6,371.05	-5%
Telephone	73,500.00	21,635.63	51,864.37	71%
Uniforms	13,580.00	9,171.00	4,409.00	32%
Other Office Expenses	25,000.00	37,449.52	-12,449.52	-50%
Total Office Expenses	611,065.01	526,918.26	84,146.75	14%

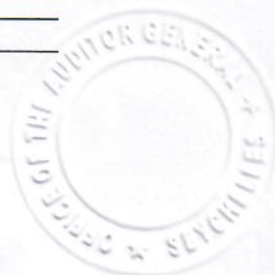
Transportation Costs

Fuel for vehicles	5,000.00	7,070.00	-2,070.00	-41%
Domestic Airfares	4,560.00	2,560.00	2,000.00	44%
Overseas Airfares	-	-	-	-
Bus/Taxi/Ferry Fares	3,460.00	1,460.00	2,000.00	58%
Domestic Sub Allowances	17,655.70	11,655.70	6,000.00	34%
Overseas Sub Allowances	39,000.00	18,750.00	20,250.00	52%
Other transportation costs	10,000.00	4,610.00	5,390.00	54%
Total Transportation Costs	79,675.70	46,105.70	33,570.00	42%



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	Budget SCR	Actual SCR	Variance SCR	Variance %
Maintenance & Repairs				
Motor vehicles	300.00	300.00	-	0%
Office Building	17,000.00	18,935.45	-1,935.45	-11%
IT Equipment	176,000.01	163,160.00	12,840.01	7%
Air Conditioning Equipment	10,000.00	8,600.00	1,400.00	14%
Office Equipment	12,000.00	483.00	11,517.00	96%
Total Maintenance & Repairs	215,300.01	191,478.45	23,821.56	11%
OTHER GOODS & SERVICES				
Other Goods & Services				
Govt Building & Infrastructure	3,000.00	8,500.00	-5,500.00	-183%
Security and Enforcement	4,000.00	-	4,000.00	100%
Insurance and Licensing Fee	26,000.00	16,610.00	9,390.00	36%
License Fees	3,000.00	3,500.00	-500.00	-17%
Local consultancy Fees	1,000.00	800.00	200.00	20%
Foreign Consultancy fees	45,000.00	-	45,000.00	100%
Training fees	-	-	-	0%
Office Rent	1,352,000	1,425,400.00	-73,400.00	-5%
Facilities for events	108,000	14,425.00	93,575.00	87%
Board Members	343,000	328,476.00	14,524.00	4%
Total Other Goods & Services	1,885,000	1,797,711	87,289	5%
Total Recurrent Expenditure	4,735,240.73	3,991,394.50	743,846.23	
Non Financial Assets				
ACQ Aircon Equipment	33,000.00	10,760.00	22,240.00	67%
ACQ Furniture	54,500.00	53,070.00	1,430.00	3%
ACQ IT Equipment	169,024.30	168,125.00	899.30	1%
ACQ Printing Equipment	27,000.00	24,800.00	2200.00	8%
ACQ Tool	1,000.00	-	1,000.00	100%
Total Non Financial Assets	284,524.30	256,755.00	27,769.30	9.76%
Total Expenditure	5,019,765.03	4,248,149.50	771,615.53	14.91%



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Public Enterprise Monitoring Commission

Notes to the accounts for the year ended 31st December 2016

1. Accounting Policies

Basis of preparation

The Statement of Cash Receipts and Payments have been prepared in accordance with Cash Basis IPSAS "Financial reporting under the cash basis of accounting".

The accounting policies have been applied consistently throughout the period.

Reporting Entity

The Statement of Cash Receipts and Payments are for a public sector entity: Public Enterprise Monitoring Commission (PEMC) referred to as public bodies in PFMA, 2012.

The PEMC does not operate its own bank account. The Government operates a centralized Treasury function which administers cash expenditure incurred by all departments during the financial year. Payments made on this account in respect of PEMC are disclosed in the Actual column in the statement of cash receipts and payments.

The PEMC was established under the PEMC Act, 2013 (Act No. 3 of 2013). The Commission has been given a mandate to monitor and evaluate the overall performance of twenty-one Public Enterprises, to ensure efficient operation of such Enterprises, promote ethics of good governance in all business transactions, including financial matters such as budget, give recommendations to improve performance and thus increase the return on investments.

Reporting currency

The reporting currency is Seychelles rupees (SCR).

2 Appropriation

Amount appropriated to PEMC are managed through a central account administered by the office of the Treasury. These amounts are not controlled by PEMC, but are deployed on the PEMC's behalf by the central account administrator on presentation of appropriate documentation and reported as allocations/appropriations in the statement of cash receipts and payments. The amount the Treasury has expended for the benefit of PEMC for the year ended 31st December 2016 equals SCR4,248,149.50



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3. Fixed Assets

The details of fixed assets are recorded in registers as required by Financial Instructions and Accounting Manual and are under the control of the Commission

Fixed assets policy

Capitalization of Fixed Assets: The threshold for capitalization is SCR1,000.00 and items costing SCR1,000.00 or less will be expensed in the year of purchase.

4. Variance between budget and actual

Material variations between the budget and actual are shown below:-

Description	Budget (SCR)	Actual (SCR)	Variance (SCR)
Printing & Stationery	115,000.00	158,414.50	-43,414.50
Internet	138,390.00	144,761.05	-6,371.05
Other office expenses	25,000.00	37,449.52	-12,449.52
Fuel for vehicles	5,000.00	7,070.00	-2,070.00
Office building	17,000.00	18,935.45	-1,935.45
Govt Building & infrastructure	3,000.00	8,500.00	-5,500.00
License Fees	3,000.00	3,500.00	-500.00
Office Rent	1,352,000.00	1,425,400.00	-73,400.00

- (i) PEMC was preparing for the recruitment of additional staff by purchasing necessary equipment and furniture and making necessary repair to office buildings. We also prepared memorabilia's for awareness purposes. Prepayment of office rent and upgrade for internet was also done.
- (ii) **License Fees**
The variance of SCR500 was done to an increase in the cost for license fees.

5. Authorisation date

The Statement of Cash Receipts and Payments was authorized on.....13/06/17.....by the Chairperson and the Chief Executive Officer for the PEMC.

