



Technical Assistance Report

Project Number: 47150
Capacity Development Technical Assistance (CDTA)
December 2013

Republic of the Maldives: Enhancing Tax Administration Capacity (Financed by the Japan Fund for Poverty Reduction)

CURRENCY EQUIVALENTS

(as of 11 November 2013)

Currency unit	–	rufiyaa (Rf)
Rf1.00	=	\$0.6498
\$1.00	=	Rf15.39

ABBREVIATIONS

ADB	–	Asian Development Bank
CRMS	–	customer relationship management system
ERP	–	Economic Recovery Program
GDP	–	gross domestic product
ICT	–	information and communication technology
MIRA	–	Maldives Inland Revenue Authority
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Capacity development technical assistance (CDTA)
Targeting classification	–	General intervention
Sector (subsector)	–	Public sector management (public administration)
Themes (subthemes)	–	Capacity development (organizational development), economic growth (promoting macroeconomic stability), governance (public administration—national, decentralized, and regional)
Location (impact)	–	National (high), rural (medium),
Partnership	–	Japan Fund for Poverty Reduction

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The proposed technical assistance (TA) is highly relevant to further expand tax revenue administration capacity against the backdrop of a weak fiscal situation in the Maldives. A consultation mission to assess the feasibility of supporting the Maldives Inland Revenue Authority (MIRA) was fielded in December 2012. A fact-finding mission was fielded on 18–21 February 2013. On 28 February 2013 the Government of the Maldives formally requested the Asian Development Bank (ADB) to provide a TA. The Office of the Vice-President cleared the TA on 9 May 2013 as it was not part of the country operations business plan. The government concurred with the impact, outcome, outputs, implementation arrangements, cost financing arrangements, and terms of reference. The design and monitoring framework is in Appendix 1.¹

II. ISSUES

2. The Maldives' fiscal situation is under severe stress and an effective fiscal consolidation program remains paramount to the government's goal of enhancing service delivery—including outreach—while strengthening macroeconomic and financial stability. The fiscal deficit as a percentage of gross domestic product (GDP) was 12.6% in 2012, one of the highest among the developing member countries of the ADB. The widening fiscal deficit is caused by two principal factors: (i) increased government expenditures including added pressure to deliver public services, especially in view of the challenges posed by the country's archipelagic nature and its exposure to climate change risks; and (ii) the limited revenue collection capacity of the country's nascent tax administration. On the expenditure side, a proposed World Bank TA will address the rationalization of government expenditure. On the revenue side, this TA will build on ADB's earlier support toward establishing the MIRA. As recently as 2008, with ADB's Economic Recovery Program (ERP),² the government introduced comprehensive tax reforms leading to the roll-out of a modern taxation system. Despite important achievements, the full roll-out is not complete and further work is required to diversify tax policy and further strengthen tax administration capacity. In line with the proposed assistance, the International Monetary Fund has acknowledged that addressing the fiscal deficit is the most pressing macroeconomic priority, and emphasized the need to implement tax policy reforms and strengthen tax administration capacity.

3. The government continues to make good progress in implementing a wide range of tax policy reforms. Under the Maldives Tax Administration Act, a new tax administration body, the MIRA, was established in March 2010. In addition to the ERP, ADB has supported the establishment of the MIRA through two TA projects.³ With respect to tax policies, the goods and services tax (general and tourism) and the business profit tax were introduced in 2011 and are currently being implemented. ADB assistance supported the introduction and implementation of these taxes, which have already led to significant improvements in tax collection.⁴ The TA under the ERP specifically provided consultancy support for the implementation of the business profit

¹ The TA first appeared in the business opportunities section of ADB's website on 10 May 2013.

² ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan, Technical Assistance Loan, and Technical Assistance Grant to the Maldives for the Economic Recovery Program*. Manila.

³ ADB. 2009. *Technical Assistance to the Maldives for Institutional Strengthening of Economic Management*. Manila; ADB. 2011. *Technical Assistance to the Maldives for Developing the Revenue Administration Management Information System*. Manila.

⁴ Tax revenue as a percentage of GDP increased from 10.7% in 2010 to 19.7% in 2012.

tax and goods and services tax, which were rolled out within 6 months respectively.⁵ The project completion report of the ERP rated the project *successful*.⁶ The revenue administration management information system TA provided support for the implementation of the management information system to finalize the automation of tax submissions.⁷ The MIRA requires continued support to adopt and implement new taxes, especially with the Personal Income Tax Bill and the Corporate Profit Tax Bill already under advanced deliberation in the Parliament. The MIRA requires further support to strengthen its voluntary compliance and enforcement capacity with regard to taxpayer submissions.

4. The proposed TA aims at strengthening the revenue collection capacity of the MIRA. More specifically, the MIRA is expected to increase revenue collection through (i) the introduction of information and communication technology (ICT) initiatives to increase voluntary tax compliance, (ii) strengthening its tax audit system to enforce tax compliance, and (iii) effective implementation of current tax policy and legislation as well as through pursuit and implementation of further tax policy reforms.

5. Taxpayer services play an important role in enhancing voluntary taxpayer compliance. For an archipelagic country such as the Maldives, difficulty in providing services to taxpayers is one of the key challenges, and it is therefore necessary to use technology in reaching out to taxpayers. The TA will assist the MIRA in strengthening taxpayer services functions through the development and implementation of a customer relationship management system (CRMS).

6. Although the audit section of the MIRA has been conducting audit activities, its human resource capacity is not sufficient to carry out a comprehensive risk-based audit program. ADB's preliminary review has found the tax amount collected as a result of audit actions corresponded to only 0.3% of the total tax revenue in 2010, whereas a majority of the Organisation for Economic Co-operation and Development member countries raised more than 2.0% of their total tax revenue from audit activities. It is proposed that support is given to introducing the concept of risk-based audits to increase the effectiveness of the MIRA's audit program in the long run. The TA will support the MIRA in strengthening its tax audit capacity.

7. There is much scope to enhance the implementation of and revenue collection from existing tax legislation and policy. In addition, the Personal Income Tax Bill and the Corporate Profit Tax Bill are expected to be approved in the near future. It is necessary to draft and implement subordinate legislation, internal procedures, and organizational arrangements for these new laws. The TA will assist the MIRA in the effective implementation of existing tax legislation and policies and at the same time prepare the MIRA for the implementation of new tax legislation and policies.

8. The government's Strategic Action Plan, 2009–2013 recognizes tax policy and administration reforms as key issues for economic development, and the Government of the Maldives has committed to a wide range of tax policy and administration reforms. The latest ADB's country partnership strategy for the Maldives describe the development challenge of the Maldives as "a narrow economic base with an inelastic taxation system" and, as a result,

⁵ Total tax revenues increased from \$298 million in 2011 to \$467 million in 2012. Revenues from the goods and services tax increased from \$60 million in 2011 to \$168 million in 2012. Revenues from the business profit tax increased from \$25,000 in 2011 to \$76 million in 2012.

⁶ ADB. 2013. *Project Completion Report: Economic Recovery Program in the Maldives*. Manila.

⁷ ADB. 2011. *Technical Assistance to the Maldives for Developing the Revenue Administration Management Information System*. Manila.

recommend public sector economic and financial management as one of the strategic priorities for ADB assistance.⁸

9. Overall, increasing the MIRA's tax administration capacity will increase revenue collection and support the rebalancing of the national budget, which is essential in addressing the country's development agenda for poverty reduction.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

10. The impact will be an improved fiscal position. Indicators and performance targets are as follows: (i) tax revenue to GDP ratio increases to 21.0% by 2018 (2012 baseline: 19.7%), and (ii) the fiscal deficit to GDP ratio improves to -9.0% by 2018 (2012 baseline: -12.6%).

11. The outcome will be enhanced capacity of the MIRA in tax administration. Performance targets and indicators are as follows: (i) tax compliance increases by 15% by 2015, (ii) revenue collection increases by 10% by 2015, and (iii) the number of taxpayers subject to tax audit increases by 20% by 2015.

B. Methodology and Key Activities

12. The TA will have the following outputs: (i) taxpayer services of the MIRA enhanced, (ii) the audit capacity of the MIRA strengthened, and (iii) the readiness of the MIRA to effectively implement tax policy reforms strengthened. Under output 1, the TA will finance the purchase of the CRMS software license, software customization through a consulting firm, and hardware requirements. The system will effectively interface the Revenue Administration Management Information System with the CRMS. As a result, the CRMS will make it easier for taxpayers to pay taxes and will raise voluntary tax compliance. Under output 2, substantive training and operational support will be provided for the MIRA's tax audit unit, including introduction of the concept of risk-based audits. Under output 3, the TA will finance consulting inputs to support the readiness of the MIRA to introduce and implement new tax initiatives.

C. Cost and Financing

13. The TA is estimated to cost \$1 million, of which \$850,000 will be financed on a grant basis by the Japan Fund for Poverty Reduction, and administered by ADB. The government will provide support in the form of counterpart staff, office accommodation, and other in-kind contributions.

D. Implementation Arrangements

14. The Ministry of Finance will be the executing agency and the MIRA will be the implementing agency. The MIRA has demonstrated strong ownership and commitment in past TA projects with ADB.⁹ The MIRA leadership (the commissioner general) is well known for its

⁸ ADB. 2007. *Country Partnership Strategy: Maldives, 2007–2011*. Manila; ADB. 2011. *Interim Country Partnership Strategy: Maldives, 2012–2013*. Manila.

⁹ ADB. 2011. *Technical Assistance to the Maldives for Developing the Revenue Administration Management Information System*. Manila.

vision and commitment to reforms and is supported by a dedicated and hardworking young staff. The TA will be implemented from December 2013 to December 2015.

15. A consulting firm (international, 15 person-months) will be recruited to provide one functional lead and four ICT specialists to develop the CRMS. Procurement will be by quality- and cost-based selection (quality–cost ratio of 90:10 since greater priority for quality is needed) and the selection will be evaluated on the basis of simplified technical proposals. In addition, a tax administration (tax audit) specialist (6 person-months) and a tax policy specialist (6 person-months) will be recruited as individual consultants. The two individual consultants (preferably former tax authority officials with hands-on experience) will have very specialized skills and as a result will not be able to be recruited through the consulting firm. All consultants will be recruited according to the ADB Guidelines on the Use of Consultants (2013, as amended from time to time). Disbursement will be made according to lump-sum milestones payments. Servers, network accessories, and the required software license to support the development of the CRMS amount to \$240,000 and will be procured through three shopping lots. Procurement will be carried out in accordance with ADB Procurement Guidelines (2013, as amended from time to time). All disbursements will be made in accordance with ADB's *Technical Assistance Handbook* (2010, as amended from time to time).

16. Supported by the consultant team, the MIRA will organize conferences with stakeholders, including officials from the Japanese National Tax Agency, to share and disseminate findings. The outputs of the TA will be widely disseminated online as well as through publications.

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$850,000 to the Government of the Maldives to be financed on a grant basis by the Japan Fund for Poverty Reduction for Enhancing Tax Administration Capacity, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Improved fiscal position	Tax revenue to GDP ratio increases to 21.0% by 2018 (2012 baseline: 19.7%) Fiscal deficit to GDP ratio improves to -9.0% by 2018 (2012 baseline: -12.6%)	(for all indicators) Maldives Department of Statistics data Ministry of Finance data	Risk Global economic and financial crises adversely affect GDP growth and revenue collection
Outcome Enhanced capacity of MIRA in tax administration	Tax compliance increases by 15% by 2015 (2013 baseline: goods and services tax: 70%; business profit tax: 55%) Revenue collection increases by 10% by 2015 (2012 baseline: \$467 million) Number of taxpayers subject to tax audit increases by 20% by 2015 (baseline 2012: 4.5%)	(for all indicators) MIRA statistics	Assumption Political tensions do not affect MIRA's ability to effectively enhance its revenue collection capacity Risk Parliamentary elections significantly slow down the legislature
Outputs 1. Taxpayer services of the MIRA enhanced 2. Audit capacity of the MIRA strengthened 3. Readiness of the MIRA to effectively implement tax policy reforms strengthened	CRMS is operational and effectively integrated in MIRA's business procedures by December 2015 40 MIRA audit staff are trained in risk-based audits by December 2015 (2013 baseline: 0) Subordinate regulations and internal procedures to implement the proposed new tax measures are finalized for adoption by April 2015	(for all indicators) MIRA statistics and reports	Assumption MIRA is able to retain dedicated and competent staff

Activities with Milestones	Inputs												
<p>1. Taxpayer services capacity of MIRA enhanced</p> <p>1.1 Select vendor for CRMS (January 2014)</p> <p>1.2 Finalize system requirement specifications (April 2014)</p> <p>1.3 Conduct a workshop on ICT-based taxpayer services with Japanese tax officials (May 2014)</p> <p>1.4 Finalize design document (June 2014)</p> <p>1.5 Undertake user acceptance test (December 2014)</p> <p>1.6 Pilot test CRMS (January to June 2015)</p> <p>1.7 Official launch of CRMS (July 2015)</p> <p>1.8 Implement CRMS and train users (July 2015–December 2015)</p> <p>2. Audit capacity of MIRA strengthened</p> <p>2.1 Produce road map reports on tax audit (January 2014)</p> <p>2.2 Conduct a workshop on tax audits with Japanese tax (audit) officials (July 2014)</p> <p>2.3 Introduce the concept of risk-based audits (December 2014)</p> <p>2.4 Train staff on risk-based audits (June 2015)</p> <p>2.5 Conduct regular staff training sessions on enhancing audit capacity (January 2014–December 2015)</p> <p>3. Readiness of MIRA to effectively implement tax policy reforms strengthened</p> <p>3.1 Draft subordinate regulations and business operation procedures to implement new income taxes (April 2014)</p> <p>3.2 Organize awareness-raising campaign for introduction of new taxes (September 2014–September 2015)</p> <p>3.3 Conduct a workshop with Japanese tax officials on tax policy implementation and general taxpayer services (September 2014)</p> <p>3.4 Conduct regular staff training sessions on tax policy and legislation (January 2014–December 2015)</p>	<p>Japan Fund for Poverty Reduction: \$850,000</p> <table border="1" data-bbox="816 310 1403 688"> <thead> <tr> <th data-bbox="816 310 1136 373">Item</th> <th data-bbox="1136 310 1403 373">Amount (\$'000)</th> </tr> </thead> <tbody> <tr> <td data-bbox="816 373 1136 426">Consultants</td> <td data-bbox="1136 373 1403 426">578.2</td> </tr> <tr> <td data-bbox="816 426 1136 478">Equipment</td> <td data-bbox="1136 426 1403 478">240.0</td> </tr> <tr> <td data-bbox="816 478 1136 531">Training and workshops</td> <td data-bbox="1136 478 1403 531">30.0</td> </tr> <tr> <td data-bbox="816 531 1136 583">Administration and support</td> <td data-bbox="1136 531 1403 583">0.5</td> </tr> <tr> <td data-bbox="816 583 1136 636">Contingencies</td> <td data-bbox="1136 583 1403 636">1.3</td> </tr> </tbody> </table> <p>Note: The government will provide support in the form of counterpart staff, office accommodations, and other in-kind contributions.</p>	Item	Amount (\$'000)	Consultants	578.2	Equipment	240.0	Training and workshops	30.0	Administration and support	0.5	Contingencies	1.3
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Contingencies	1.3												

CRMS = customer relationship management system, GDP = gross domestic product, ICT = information and communication technology, MIRA = Maldives Inland Revenue Authority.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Japan Fund for Poverty Reduction^a	
1. Consultants	
a. Remuneration and per diem	529.7
b. International and local travel	48.0
c. Reports and communications	0.5
2. Equipment	240.0
3. Training, seminars, and conferences	30.0
4. Miscellaneous administration and support costs	0.5
5. Contingencies	1.3
Total	850.0

Note: The technical assistance (TA) is estimated to cost \$1 million, of which contributions from the Japan Fund for Poverty Reduction are presented in the table above. The government will provide support in the form of counterpart staff, office accommodation, and other in-kind contributions. The value of government contribution is estimated to account for 15% of the total TA cost.

^a Administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. A total of 27 person-months (intermittent) of international consulting services will be required to ensure the effective implementation of this technical assistance (TA) project. Three packages are proposed: (i) one consulting firm contract for 15 person-months (quality- and cost-based selection) with a quality–cost ratio of 90:10 since the services required are highly specialized, and (ii) two individual consulting contracts each for 6 person-months. All consultants will be recruited according to the Asian Development Bank (ADB) Guidelines on the Use of Consultants (2013, as amended from time to time).

A. Consulting Firm (15 person-months)

2. The consulting firm will be engaged on a lump-sum contract basis, payable upon completion of the following key deliverables:

- (i) System requirement study for the customer relationship management system (CRMS).
- (ii) Process documentation and system design (system requirement specifications and system design document).
- (iii) Bill of material for information technology infrastructure tender.
- (iv) CRMS solution development and customization.
- (v) Software testing including acceptance of user test.
- (vi) Post-implementation support.

3. The following positions in the consulting firm will be required.

1. Tax Administration Information and Communication Technology Specialist and Functional Lead (international, 5 person-months, intermittent)

4. The tax administration specialist will have a graduate degree in computer science or any related field and substantial experience in information and communication technology (ICT) solutions for tax administration projects. He or she will undertake the following tasks:

- (i) Produce a report outlining the strengthening of taxpayer service capacity.
- (ii) Lead the ICT specialists in re-engineering the business procedures of the Maldives Inland Revenue Authority (MIRA) with regard to taxpayer services.
- (iii) Lead the functional design of the CRMS.
- (iv) Design and lead capacity development training on taxpayer services.
- (v) Provide post-implementation support.

2. Information and Communication Technology Specialists (four international experts, 10 person-months, intermittent)

5. The following ICT specialists will be recruited by the consulting firm:

- (i) Solution architect (2 person-months): must have a graduate degree and at least 8 years of experience in implementing ICT solutions in public administration projects.
- (ii) Information technology infrastructure and network specialist (2 person-months): must have a graduate degree, preferably in computer science, and at least 3 years of experience in implementing network-related tasks in ICT solutions projects.

- (iii) Software developer (4 person-months): must have a graduate degree, preferably in computer science, and at least 3 years of experience in coding and software development.
- (iv) Database expert (2 person-months): must have a graduate degree, preferably in computer science, and at least 3 years of experience in database development.

6. The ICT experts will coordinate to perform the following tasks:
- (i) Develop the CRMS in line with the key deliverables specified.
 - (ii) Conduct development training sessions on the CRMS and general ICT-based taxpayer services.
 - (iii) Provide post-implementation support.

B. Individual Consultants (total of 12 person-months)

1. Tax Administration (Tax Audit) Specialist (international, 6 person-months, intermittent)

7. The tax administration (tax audit) specialist should have a degree in public administration, economics, or any other related area and have substantial hands-on experience in tax administration, including the management of audit and investigation functions in best practice jurisdictions. He or she will undertake the following tasks:

- (i) Produce a report outlining the strengthening of tax audit capacity. Review the current capacity in the MIRA, taking into account international practices, including organizational reforms.
- (ii) Assist the MIRA to strengthen its audit functions based on the report. Revise and prepare a strategy for effective audit, which may cover risk-based analysis and taxpayer management, and operational manuals for tax auditors. Assist the MIRA to reform organizational arrangements such as launching specialized audit teams to strengthen audit functions.
- (iii) Design and lead capacity development training sessions on tax audit. The training sessions would aim to enhance the skills of tax auditors based on activities in (ii) above, and good international practices will be shared with tax administration experts from other countries and international organizations.
- (iv) Perform capacity building measures as required by the MIRA and ADB.

8. The following deliverables are expected from the consultant: inception report, draft final report, and final report.

2. Tax Policy Specialist (international, 6 person-months, intermittent)

9. The tax policy specialist should have a degree in public administration, economics, or any other related area and have substantial hands-on experience in tax policy analysis and formulation and implementation of tax regulations including income tax in best practice jurisdictions. He or she will undertake the following tasks:

- (i) Produce a tax policy review report. Analyze the current revenue structure, tax composition, and administrative capacity, and propose medium-term directions for tax policy and administration reforms, including new taxes.
- (ii) Assist the MIRA in implementing existing taxes.
- (iii) Assist the MIRA in implementing the new personal income tax and corporate profit tax. Assistance will include drafting subordinate legislation, regulations, and internal procedures, and reforming organizational arrangements.

(iv) Perform capacity building measures as required by the MIRA and ADB.

10. The following deliverables are expected from the consultant: inception report, draft final report, and final report.