

Document of  
**The World Bank**

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Report No: PAD2486

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF SDR 4.2 MILLION  
(US\$6 MILLION EQUIVALENT)

AND A PROPOSED ADDITIONAL GRANT

IN THE AMOUNT OF SDR 4.2 MILLION  
(US\$6 MILLION EQUIVALENT)

TO THE  
REPUBLIC OF THE MALDIVES

FOR A  
PUBLIC FINANCIAL MANAGEMENT SYSTEMS STRENGTHENING PROJECT

May 5<sup>th</sup>, 2018

Governance Global Practice  
South Asia Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective February 28, 2018)

### Currency Unit

New Maldivian  
Rufiyaa (Rf) 15.4 = US\$1

US\$ 1.44589 = SDR 1

### FISCAL YEAR

January 1 - December 31

Acting Regional Vice President: Ethel Sennhauser

Country Director: Idah Z. Pswarayi-Riddihough

Senior Global Practice Director: Deborah L. Wetzel

Practice Manager: Adrian Fozzard

Task Team Leader(s): Franck Bessette, Fabian Seiderer

## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AGO	Auditor General's Office
BER	Budget Execution Report
BPC	Business Planning and Consolidation
CPF	Country Partnership Framework
CS-DRMS	Common Wealth Secretariat Debt Management System
CGE	Central Government Entities
CFF	Cash Flow Forecasting
DeMPA	Debt Management Performance Assessment
DPO	Development Policy Operation
EEP	Eligible Expenditure Program
EPP	Economic policy planning
FM	Financial Management
GDP	Gross Domestic Product
GoM	Government of Maldives
HR	Human Resources
IDA	International Development Association
IDF	Institutional Development Fund
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPSAS	International Public-Sector Accounting Standards
ISR	Implementation Support Review
IT	Information Technology
MTDS	Medium Term Debt Management Strategy
M&E	Monitoring and evaluation
MIRA	Maldives Inland Revenue Authority
MoFT	Ministry of Finance and Treasury
MTFF	Medium-term fiscal framework
NBS	National Bureau of Statistics
NCB	National Competitive Bidding
NPC	National Pay Commission
OP/BP	Operational Policy/Bank Procedure
PAS	Public Accounting System
PCB	Privatization and Corporatization Board
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFDS	Public Finance Development Service
PFM	Public Financial Management
PMU	Project Management Unit
RMS	Recording and Management System
SAP	Systems, Applications and Products in Data Processing
SARTTAC	South Asia Regional Training and Technical Assistance Center
SOE	State-Owned Enterprise
TOR	Terms of Reference
TPAD	Treasury and Public Accounts Division
TSA	Treasury single account



**BASIC INFORMATION – PARENT (Maldives: PFM Systems Strengthening Project - P145317)**

Country	Product Line	Team Leader(s)		
Maldives	IBRD/IDA	Franck Bessette		
Project ID	Financing Instrument	Resp CC	Req CC	Practice Area (Lead)
P145317	Investment Project Financing	GGOIS (9743)	SACMV (7034)	Governance

Implementing Agency: Ministry of Finance and Treasury

Is this a regionally tagged project?	
No	

Bank/IFC Collaboration
No

Approval Date	Closing Date	Original Environmental Assessment Category	Current EA Category
26-Jun-2014	31-Jul-2019	Not Required (C)	Not Required (C)

<input type="checkbox"/> Situations of Urgent Need or Capacity Constraints	<input type="checkbox"/> Financial Intermediaries (FI)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Project-Based Guarantees

**Development Objective(s)**

The proposed project development objectives (PDO) are to enhance budget credibility, transparency, and financial reporting of central government finances.

**Ratings (from Parent ISR)**



	Implementation				Latest ISR
	02-Jan-2015	30-Jun-2015	28-Mar-2016	28-Dec-2016	04-Jan-2018
Progress towards achievement of PDO	S	S	S	S	S
Overall Implementation Progress (IP)	S	S	S	S	MS
Overall Risk		S	S	S	S

**BASIC INFORMATION – ADDITIONAL FINANCING (Maldives Public Financial Management Systems Strengthening Project - P164322)**

Project ID P164322	Project Name Maldives Public Financial Management Systems Strengthening Project	Additional Financing Type Restructuring, Scale Up	Urgent Need or Capacity Constraints No
Financing instrument Investment Project Financing	Product line IBRD/IDA	Approval Date 07-Jun-2018	
Projected Date of Full Disbursement 31-Jul-2022	Bank/IFC Collaboration No		
Is this a regionally tagged project? No			
<input type="checkbox"/> Situations of Urgent Need or Capacity Constraints		<input type="checkbox"/> Financial Intermediaries (FI)	
<input type="checkbox"/> Series of Projects (SOP)		<input type="checkbox"/> Project-Based Guarantees	
<input type="checkbox"/> Disbursement-linked Indicators (DLIs)		<input type="checkbox"/> Contingent Emergency Response Component (CERC)	
<input type="checkbox"/> Alternative Procurement Arrangements (APA)			



**Disbursement Summary (from Parent ISR)**

Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed	
IBRD				<div style="width: 0%; background-color: #ccc; height: 10px;"></div>	%
IDA	6.50	5.39	0.67	<div style="width: 89%; background-color: #4CAF50; height: 10px;"></div>	89 %
Grants				<div style="width: 0%; background-color: #ccc; height: 10px;"></div>	%

**PROJECT FINANCING DATA – ADDITIONAL FINANCING (Maldives Public Financial Management Systems Strengthening Project - P164322)**

**FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	12.00
<b>Total Financing</b>	12.00
<b>of which IBRD/IDA</b>	12.00
<b>Financing Gap</b>	0.00

**DETAILS**

**World Bank Group Financing**

International Development Association (IDA)	12.00
IDA Credit	6.00
IDA Grant	6.00

**COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

Yes  No



Does the project require any other Policy waiver(s)?

[ ] Yes [  ] No

### INSTITUTIONAL DATA

#### Practice Area (Lead)

Governance

#### Contributing Practice Areas

#### Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

#### Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

### PROJECT TEAM

#### Bank Staff

Name	Role	Specialization	Unit
Franck Bessette	Team Leader (ADM Responsible)		GGOES
Fabian Seiderer	Team Leader	Co-TTL	GGOIS
Asif Ali	Procurement Specialist (ADM Responsible)	Procurement Specialist	GGOPZ



Bernadeen Enoka Wijegunawardene	Financial Management Specialist	Financial Management	GGOIS
Bandita Sijapati	Social Safeguards Specialist	Social Safeguards	GSU06
Cigdem Aslan	Team Member	Debt Management Specialist	FABDM
Dassanayake Mudiyansele Anul Harasgama	Team Member		GGOIS
Khuram Farooq	Team Member	IFMIS	GGOSC
Mokshana Nerandika Wijeyeratne	Environmental Safeguards Specialist	Environment	GEN06
Pragya Shrestha	Team Member	Operations	GGOAP
Priyantha Jayasuriya Arachchi	Team Member	Administration	SACSL
Ralph Van Doorn	Team Member	Macro Economics	GMTSA
Suranga Sooriya Kumara Kahandawa	Team Member	DRM Specialist	GSU18
Vidya Narasimhan	Team Member	Finance Officer	WFACS
Vidya Venugopal	Counsel		LEGES
<b>Extended Team</b>			
<b>Name</b>	<b>Title</b>	<b>Organization</b>	<b>Location</b>





MALDIVES

PUBLIC FINANCIAL MANAGEMENT SYSTEMS STRENGTHENING PROJECT

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## I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

### Introduction

- 1. This Additional Financing (AF) for the Public Financial Management Systems Strengthening Project (PFMSSP, P145317) in the amount of US\$12 million supports the Maldives' public financial management reforms aimed at improving budget credibility and fiscal transparency.** The AF covers a financing gap under the parent project and scales up the support to in the areas of planning and budgeting, debt and cash management, financial reporting, procurement, and State-Owned Enterprise (SOE) monitoring and oversight. The AF is financed from IDA. It extends activities under the existing project by supporting the roll out of reforms in selected line ministries and adding new beneficiaries, namely the Auditor General's Office (AGO), the National Pay Commission and the National Bureau of Statistics (NBS).
- 2. The PDO for the parent project is to enhance budget credibility, transparency, and financial reporting of central government finances.** This PDO remains relevant and is likely to be achieved in view of the project's implementation progress, disbursement performance, and results achieved to date. Because of the addition of an SOE management component, "central government finances" will be changed to "public sector finances".
- 3. This project will support two operations under preparation: the Budget Credibility and Fiscal Sustainability Development Policy Financing operation (DPF, P163966) and the Disaster Risk Management Development Policy Credit with Catastrophe Deferred Drawdown Option and Pandemic Emergency Financing Facility (Cat-DDO, P163939).** There are important synergies between the DPF matrix of reforms and the initial PFM project and AF. Both the project and the DPF aim to improve fiscal sustainability and budget credibility. In particular, the DPF prior actions on the introduction of Public Financial Regulations on appropriations and virements, commitment controls and financial disclosures are linked to technical assistance under the project. These public finance management reforms, combined with a strengthened governance and oversight of SOEs, are expected to improve the macro-fiscal framework underpinning the Cat-DDO. Conversely, the CAT-DDO aims to enhance Maldives' financial capacity to effectively manage the human, physical and fiscal impact of climate change, natural disasters and disease outbreaks, which would indirectly contribute to a more credible and sustainable budget.
- 4. Further work is needed to translate the initial reform progress into improved fiscal discipline and PFM performance.** Important progress has been made in terms of modernizing the legal basis, anchoring the budget preparation in a realistic macroeconomic framework, cash management and automation of accounting operations. These reforms need to be completed and rolled out across ministries to deliver results in terms of greater budget credibility and fiscal performance. The AF will support the adoption and the implementation of these new policies, systems and practices. The project's technical assistance supports the DPO's prior actions on the amendment of the Public Finance regulations and law to introduce appropriations. The AF will support the implementation of this new regulation. The AF aims to improve prospects for the sustainability of reforms through the establishment of a Public Finance Development Service (PFDS), strengthening of the capacity of the MoFT to retain and train appropriately the key technical staff and by supporting the Pay Review Commission's efforts to develop adequate cadre and incentives for the core functions of MOFT.



## Country Context

5. **The Government has recently initiated fiscal and macroeconomic reforms.** In the last two years, the Maldives implemented some measures to strengthen their fiscal position (e.g. reduction of electricity subsidies, maintenance of civil service hiring freeze), and thereby increased resources for public investment and contained the debt/GDP ratio. The government has also taken steps to improve budget credibility and transparency. Fiscal out-turns are published monthly by the Ministry of Finance and Treasury (MoFT). MoFT is rolling out a new integrated financial management information system to support commitment controls and improve information and fiscal transparency. The Auditor General has published the audit reports on public debt and guarantees.

6. **Public debt has continued to rise, and the risk of external debt distress is assessed as high by the joint World Bank-IMF Debt Sustainability Analysis.** Public debt excluding guarantees is estimated to have reached 61.9 percent of GDP, compared to 59.7 percent of GDP in 2016. It is attributed to external projected-related borrowing and the sovereign bond, while domestic T bills were redeemed. The country faces refinancing risk from the Eurobond combined with a low level of reserves and fiscal risks through guarantees. The vulnerability of the overall debt portfolio remains elevated, due to the short maturity of domestic debt. Public debt is expected to increase and then taper off towards 2020 with the completion of large construction projects. Maldives has accumulated a large volume of external loans on non-concessional terms and issued guarantees on non-concessional debt to finance infrastructure development (for example for the bridge between Malé and Hulhumalé, expansion of the main international airport, and housing construction). This has impacted the terms of the IDA financing in line with its Non-Concessional Borrowing Policy (NCBP).

7. **At the same time, the operating environment has become more complex.** Maldives is going through a complex process of establishing a new political structure articulated in the 2008 Constitution. Recent events, such as the closure of the Parliament and the State of Emergency, show the fragility of the modern governance framework and of independent institutions. They reveal increasing tensions in the run up to parliamentary and presidential elections in 2018 and 2019 respectively. This situation increases the governance and institutional risks of the project and may impact it in two ways. First, on the macro-fiscal front, a negative impact on tourism is likely to affect the economy, the tax revenues and the foreign exchange reserves, which combined with new expenditure measures announced, may impact the budget and fiscal consolidation efforts. Second, the political tensions are likely to impact the functioning of Parliament and the envisaged policy and legislative changes as was the case for the PFM Act supported by the parent project as well as by the DPO.

8. **The economic outlook is subject to a number of risks.** Maldives's economy faces exogenous risks such as a downturn in global economy, concerns about global terrorism, health pandemic, or natural disasters that may impact global travel. It also faces the risk of an increase in global commodity prices – especially fuel prices – that will impact the economy given its heavy reliance on imports. In addition, with tourism the largest contributor to the economy, any shocks to this sector may have a wider impact leading to a reduction in fiscal revenue and in ancillary sectors that may require a fiscal adjustment to rebalance the fiscal accounts and the balance of payments. There is also a risk of fiscal slippages, especially delays in controlling current expenditure and the realization of contingent liabilities through guarantees. Since 2017, the Maldives has been classified as a fragile state as its three-year average Country Policy and Institutional Assessment ratings are below the 3.20 threshold. The DPO and CAT-DDO under preparation aim to help address these macroeconomic and disaster risks.



## Sectoral and Institutional Context

9. **Improving the efficacy of public financial management and policy making is one of the three main objectives of the Maldives Country Partnership Framework (CPF) discussed by the WBG Board of Executive Directors on April 26, 2016.** As noted in the ongoing World Bank Group (WBG) Performance and Learning Review, progress is being made towards achieving this objective. Through this Public Financial Management project and related technical assistance, the WB contributes to increased budget transparency, improved debt reporting, and development of a Medium-Term Debt Strategy (MTDS). The WB has promoted data-driven policy decision making by supporting the collection, analysis and use of social-economic data. CPF targets were achieved for public access to monthly in-year budget execution reports and for the approval of a MTDS based on cost and risk analysis. One area where the CPF is not on track relates to strengthening the internal audit function. Recent achievements in PFM reforms – most of which were supported by the Public Financial Management Systems Strengthening Project – are reviewed below

10. **The Government has completed technical work for the revision of the legal and regulatory framework for budget formulation, public investment management, budget execution, and financial reporting.** The Ministry of Finance and Treasury (MoFT) aims to introduce Public Financial Regulations (PFRs) to clarify appropriations, to protect the capital budget and to introduce virement rules that strengthen budget discipline. Amendments to the 2007 Audit Law have been finalized and submitted to Parliament. However, these legislative reforms are delayed and unlikely to be passed before the presidential elections. A Public Investment Management Assessment (PIMA) was completed in 2017 with a proposed roadmap to strengthen the preparation, allocation and implementation of key public investments.

11. **Progress has been made towards a comprehensive Medium-Term Macro Fiscal Framework and establishment of budget ceilings based on the framework.** While the macro-economic model will be refined further, it was used to update the fiscal strategy for 2018-2020 and for initial revenue and expenditure forecasts. The cash flow forecasting model was updated and used extensively in weekly cash flow planning meetings. The Medium-Term Debt Management Strategy was updated for 2018-2020, and it has been approved by the Minister of Finance and shared with Parliament.

12. **Budget preparation procedures have been strengthened to bring more consistency and discipline to the process.** The Budget Manual is being finalized, based on the changes brought to the Business Planning and Consolidation (BPC) module of SAP in September 2017. The Budget Call Circular for FY2018 has been issued and aligns with new budget manual. The BPC module has been rolled-out to line ministries as well as other key modules of SAP and related training was conducted. Live data entry of the budget proposals was processed by line ministries and monitored by MoFT in July 2017.

13. **The Government has improved the quality of financial reporting through regular reconciliation with bank statements, preparation of budget execution reports for decision-makers, release of public expenditure information, and alignment of annual financial statement formats with international public-sector standards.** According to the IMF, outstanding arrears were reduced from 5.2 percent of GDP (2013) to 2.5 percent of GDP (2016, IMF). The Ministry of Finance will issue circulars to require ministries to submit purchase orders through SAP and to inform vendors that only purchase orders generated through SAP will be honored. This will lead to more transactions conducted through SAP and so subject to commitment controls and reduce the accumulation of arrears. The Ministry has agreed to develop a strategy to clear arrears, supported by a budget allocation for small arrears to individuals and SMEs and securitization into tradable debt for larger amounts. The arrears clearance strategy is expected to reduce



**Box 1: PFM Reforms to be addressed by the Additional Financing**

**Legal and regulatory framework.** The Law of Public Finance enacted in 2006 does not specify appropriation and virement rules. Amendments are envisaged to fill this gap and the project will support their implementation. There are no specific guidelines for budget release. Once the legislature approves the budget, it is assumed that the budget is released. This shortcoming will be addressed as part of regulations on commitment controls and cash management.

**Manuals and Guidelines.** The Public Finance Regulations are the only documents available to MoFT and other agencies to guide financial management tasks and activities. There are no specific budget, accounting and procurement manuals. Work on the accounting manual has started and manuals covering other functions will be prepared under the AF.

**Capacity and competencies.** One of the major weakness is the lack of competencies especially pertaining to managing the Public Accounting System (PAS). The team that was initially trained in PAS and were well versed with managing the system changes and improvements, left government. The establishment of a Public Finance Development Service and subsequent adoption of a dedicated cadre for PFM staff aims to address this weakness.

**Control environment.** Although FAD attempts to link budget release with cash flow projections from line ministries/agencies, MoFT has no authority to demand that line ministries/agencies send their cash projections. The forthcoming virement rules and commitment controls are expected to strengthen budget discipline and improve cash planning and management.

**System controls.** MDAs tend to circumnavigate the system controls by resorting to manual methods of procurement and payment initiations. This is accepted by MoFT so that daily business of government does not get affected. The introduction commitment controls is expected to close these loopholes.

**System Functionality.** SAP can generate reports to support management decision making and offers functions such as time management in HR and cash journal that have not been realized because of the focus on roll out to all agencies, poorly defined competencies and infrastructure issues. These functions will be the focus of the next phase.

arrears and spur economic activity. A revised Internal Audit Manual has been finalized and includes checklists and questionnaires that are immediately actionable by internal auditors.

14. **The PFM reform agenda builds on a strong ownership among MoFT's leadership but would benefit from a more holistic approach to reform.** The Minister and key heads of units support the PFM reform effort and drive the agenda. A PFM reform action plan has been updated recently (January 2018) and the project PMU is in charge of implementation. The governance structure of this reform program allows for an inclusive decision-making process of the MoFT leadership team through a PFM Working Committee and includes other stakeholders through the PFM Steering Committee. During first phase of reforms, results have been mainly achieved within Finance. However, the Ministry has undertaken sustained outreach initiatives towards line ministries and the Auditor General to expand the scope of PFM reform and ensure better efficiency and sustainability. The AF will build on this framework to support a more holistic and inclusive approach of PFM reform.

15. **Progress in PFM reforms is put at risk by the difficulty faced by MoFT in attracting and retaining staff with the technical skills needed in a modern central finance agency.** Recent improvements in the



IT, budgeting and accounting area rely on specialized technical skills which are in low supply and high demand in the Maldives. The current civil service structure does not accommodate specific cadres for financial management IT specialists, economists or accountants. The civil service legal and regulatory framework does not allow MoFT to offer specialists in high-demand the attractive packages offered by autonomous government agencies. A hemorrhage of skilled staff is currently underway which may compromise the sustainability of recent PFM reform achievements and key MoFT functions. Lack of adequately skilled staff may prevent MoFT from undertaking more advanced reforms in areas such as internal audit, SOE management, and policy analysis.

16. **A detailed assessment of the current PFM performance was undertaken by the parent project and used to inform the design of the AF.** The principal findings are highlighted in Box 1.

#### **Performance of parent project and lessons learned**

17. **The parent Public Financial Management Systems Strengthening Project is on track to achieve its PDO.** Both PDO and Implementation progress are rated “satisfactory” in the latest Implementation Status Report. Lessons learned from implementation of the parent project are reviewed below. According to the latest financial report dated 31 January, the disbursement rate is 89 percent and the uncommitted balance is around US\$ 111,000. Results have been achieved to date in the area of budget preparation, debt and cash management, financial reporting and accounting and in the deployment of an SAP-based financial management information system, first in MoFT and then in line ministries and relevant agencies.

18. **Recognizing the need for a more inclusive and holistic approach to PFM reform, the AF will include additional direct beneficiaries – Auditor General’s Office, the National Pay Commission, and National Statistics Bureau – and involve line ministries in PFM reform design and implementation.** The provide support to line ministries on budget preparation, execution, public procurement, project preparation and appraisal and accounting. Through the AF, MoFT will also increase its leadership role as well as its role in building key PFM capacity in and outside MoFT, notably through the establishment of a PFM training center and a Public Finance Development Service serving the line ministries and agencies.

19. **Recognizing the difficulty faced in attracting and retaining staff for the critical PFM and new SAP functions, the AF will support the establishment of arrangements for sustainable staffing.** During the MTR conducted in April 2017, a policy note: “Sustainability of public accounting system through the establishment of SAP Center of Excellence” was discussed with Government. MoFT’s PFM steering committee validated this concept creating a Public Finance Development Service (PFDS) with a governance structure, key deliverables and options for staffing. The AF will provide seed funding to support this for the implementation of this arrangement.

#### **Rationale for Additional Financing**

20. **The AF will finance activities by GoM that will complement the results achieved through the parent project and expand its scope by including a wider range of stakeholders.** These additional activities will strengthen the gains achieved recently in terms of budget preparation and execution, financial reporting and accounting. The SAP-based public accounting system has now become the backbone of the budget cycle and ensures a more timely and reliable budgetary process. Its potential needs to be fully realized through better use of the data generated, greater buy-in from line ministries of the various modules, enhanced security features and sustainability arrangements, and timely response to users’ needs through access to technical expertise on demand. The AF will also allow the MoFT to define its reform objectives in a more structured fashion with differentiated timeframes, inclusive of the various stakeholders and with clear and realistic objectives that take account of international good practice,



institutional capacity and the specific country context. The AF will expand in areas which were not included in the parent project or included with very limited scope including internal and external audit and SOE oversight. The absence of a well-functioning internal audit function within Government prevents decision makers from having analysis of systemic weaknesses in business processes and internal control systems and hinders identification of potential issues in compliance. Progress in public accounting, reporting and budget preparation processes will not deliver the intended benefits if reforms are conducted in isolation from the public sector external auditor (AGO). MoFT needs to manage and control better the impact on public finance of SOEs. Recent diagnostics show that SOEs have a significant macro-fiscal impact and can undermine the gains achieved in budget management.

21. **The AF provides an opportunity to introduce a results-based financing modality by using disbursement-linked indicators (DLIs) for several components.** The introduction of DLIs will support the implementation of key policy and institutional reforms aimed at strengthening the core functions and cadre of MOFT, the governance and oversight of SoEs and financial transparency and accountability.

## II. DESCRIPTION OF ADDITIONAL FINANCING

### Project Development Objective

22. **The PDO for the project is to enhance budget credibility, transparency, and financial reporting of public sector finances.** The PDO remains relevant and the likelihood of achieving it remains high in view of the project’s implementation progress, disbursement performance, and results achieved to date.

### Beneficiaries

23. **The direct project beneficiaries are the departments of the MoFT, line ministries and SOEs, the Privatization and Corporatization Board, the National Pay Commission, the Auditor General, the National Bureau of Statistics.** The indirect beneficiaries are the citizens and taxpayers of the Maldives.

### PDO indicators

24. **PDO indicators have been revised to take into account the revised scope of activities.**

Initial PDO Indicators	Revised PDO Indicators
<ul style="list-style-type: none"> <li>Aggregate expenditure out-turn compared to original approved budget.</li> <li>Public disclosure of the following key fiscal information: (a) Annual budget documentation; (b) In-year budget execution reports; (c) Year-end financial statements; (d) contract awards; (e) Resources available to Primary service units.</li> <li>Quality of debt data recording and reporting.</li> <li>Coverage and quality of the internal audit function.</li> </ul>	<ul style="list-style-type: none"> <li>Aggregate expenditure out-turn compared to original approved budget.</li> <li>Public disclosure of the following key fiscal information: (a) Annual budget documentation; (b) In-year budget execution reports; (c) Year-end financial statements; (d) tenders above USD 100 000.</li> <li>Comprehensiveness of debt data recording and reporting.</li> <li>SOE financial reporting and disclosure.</li> </ul>

25. **Table 1 presents the amended original project and the additional financing.** Some components and activities from the parent project will be scaled up and some components are new. The Procurement Plan for the parent project has been updated to apply the unexpended balance of funds and the additional activities. All procurement activities commenced after the effectiveness of the new legal agreement will follow the new procurement framework.



**Table 1: Project Structure under Parent and Restructured Project**

Parent Project	USD	Additional Financing	USD	Total
<b>Component 1: Policy-based fiscal strategy and budget credibility</b>	<b>1,450,000</b>	<b>Component 1: Policy-based fiscal strategy and budget credibility</b>	<b>2,730,000</b>	<b>4,180,000</b>
1.1. Strengthening the legislative and institutional framework for PFM	440,000	1.4. Enhancing medium-term fiscal framework and evidenced based budgeting (HIES)	1,370,000	
1.2. Enhancing the Medium-Term Fiscal Framework	600,000	1.5. Strengthening Debt and Cash Management	950,000	
1.3. Strengthening Debt and Cash Management	410,000	1.6. Strengthening Management of the Capital Budget	410,000	
<b>Component 2: Controlled Budget Execution</b>	<b>4,400,000</b>	<b>Component 2: Controlled Budget Execution</b>	<b>6,085,000</b>	<b>10,485,000</b>
2.1. Strengthening the PAS	3,550,000	2.3. Strengthening PAS and Asset Management	2,100,000	
2.2. Enhancing the Control Environment	850,000	2.4. Payroll Management and Control	1,655,000	
		2.5. SOE Governance and oversight	1,880,000	
		2.6. Procurement Reform	450,000	
<b>Component 3: Project Management</b>	<b>550,000</b>			<b>550,000</b>
		<b>Component 4: Accounting, Reporting and Internal Audit</b>	<b>1,700,000</b>	<b>1,700,000</b>
		<b>Component 5: External Scrutiny and Audit</b>	<b>415,000</b>	<b>415,000</b>
		<b>Component 6: Project and Change Management</b>	<b>1,070,000</b>	<b>1,070,000</b>
<b>Contingency</b>	<b>100,000</b>			<b>100,000</b>
<b>Total</b>	<b>6,500,000</b>	<b>Total</b>	<b>12,000,000</b>	<b>18,500,000</b>

**Table 2: Indicative budget by funding source (in thousand USD)**

Parent Project Components	IDA Grant	Restructured Project Components	AF IDA Grant	AF IDA Credit (EEP)	AF Total	Total IDA	GoM	Total project
1: Policy-based fiscal strategy and budget credibility	1,450	1: Policy-based fiscal strategy and budget credibility	2,730		2,730	4,180		
2: Controlled Budget Execution	4,400	2: Controlled Budget Execution	1,585	4,500	6,085	10,485		
3: Project Management	550	4: Accounting, Reporting and Internal Audit	200	1,500	1,700	1,700		
		5: External Scrutiny and Audit	415		415	415		
		6: Project and Change Management	1,070		1,070	1,070		
Contingency	100					100		
<b>Total</b>	<b>6,500</b>	<b>Total</b>	<b>6,000</b>	<b>6,000</b>	<b>12,000</b>	<b>18,500</b>	<b>6,000</b>	<b>24,500</b>

26. The AF will be disbursed through two modalities: input based financing (US\$6 million) and results-based financing (US\$6 million) against the achievement of targets for disbursement linked





**indicators.** The Disbursement Linked Indicators will be covered by an Eligible Expenditure Program (EEP) related to the core MoFT functions and departments involved in the achievement of results. Based on budget for FY 2017, the cumulative EEP over five years will adequately cover the estimated DLI of USD 6.5 million. The budget estimates of MoFT for four years commencing from 2018 amounts to around USD 12 million. Eligible expenditures for the DLI based component are defined as non-procurable operational expenditure items in the following categories and the budget codes: personal emoluments (regular civil servants); travel expenses; electricity; and training (Budget codes 210, 221, 223002, 225).

### Project description

27. **The project comprises four thematic components and one project management component.**

#### Component 1: Policy-based fiscal strategy and budget credibility

28. **Sub-component 1.4: Enhancing the medium-term fiscal framework and evidence based budgeting.** Provision of technical assistance to support (i) the development and roll-out of the medium-term expenditure framework; (ii) analysis of sectoral expenditures to identify potential savings while protecting key investments; and (iii) the formulation of revenue policy; and provision of support to the MoFT for the conduct of a new household income and expenditure survey and to build capacity of the FAD and the NBS. The objective of this sub-component is to improve the quality of fiscal policy anchored into a medium-term fiscal perspective and improve credibility and predictability.

29. Despite recent improvements in budget credibility and outturn, the budget is constrained by high and rigid current expenditures as well as by increasing debt service and health costs. Fiscal space can only be created over the medium term if fiscal discipline is maintained. To foster evidence-based budgeting, the project will finance a Household Income and Expenditure Survey (HIES) and to build capacity of the Fiscal Affairs Department and of the National Bureau of Statistics (NBS) in the process. The Survey results will consider the distributional impact of fiscal measures and programs on households to support evidence-based fiscal policies. This survey is currently estimated to cost USD 1 million. The availability of updated and representative household income and expenditure data across the Atolls will help estimate the impact of disasters and inform the targeting of the government's response.

30. **Sub-component 1.5: Strengthening debt and cash management.** Provision of technical assistance to MoFT (i) to improve cash flow projections to meet the expenditure requests on a timely basis, smoothen the cash flow fluctuations and contribute to the preparation of domestic borrowing plans; (ii) to develop the domestic bond market for government securities to implement the MTDS by improving domestic debt issuances; (iii) to modernize debt management legislation to strengthen the governance framework for debt management operations; (iv) to reduce Treasury risks from guarantees through support for quantitative and qualitative assessment of the guarantee requests on an individual and portfolio basis, and support for improvement of guarantee issuance policy; (v) to assess and mitigate the contingent liabilities, including from the government housing program; (vi) to provide training support for loan negotiations and commercial contracts management; and (vii) to upgrade the debt recording and management system and the development of a unified debt database. The objectives of this sub-component are to: improve the capacity to manage the cost and risk of public debt and guarantees; develop the domestic government securities market; and improve cash management to support improved budget execution.

31. **Sub-component 1.6. Strengthening Management of the Capital Budget.** Provision of technical assistance to (i) support the mechanisms to enhance project screening; (ii) support the development of a multi-year public investment program; and (iii) build the capacity of FAD and the line ministries to prepare,



finance and implement investment operations. This sub-component will support the objective of MoF to enhance the preparation of the capital budget with budget ceiling and selection criteria. These activities will help build the capacity of FAD (Fiscal Affairs Division) to evaluate investment proposals, monitor investment implementation and assess results. They are informed by the Public Investment Management Assessment (PIMA) completed in 2017 and will complement support given by the IMF through the South Asia Regional Training and Technical Assistance Center (SARTTAC).

**Component 2: Controlled Budget Execution**

32. **Sub-component 2.3. Further strengthening of the Public Accounting system (PAS) and asset management.** Provision of technical assistance to MoFT (i) to support the roll out of the PAS to the line ministries and agencies; (ii) to support the setting up of a PFDS within MoFT; and (iii) a result based financing for increased sustainability of PFM reforms and key MoFT functions through establishment of a Public Finance Development Service (see Box 2). The parent project supported the development of a public accounting system (PAS) based on an array of SAP module. The AF will provide technical assistance to support the roll out of PAS. Under this component the project will also provide results based financing for increased sustainability of PFM reforms through the PFDS (DLI #1). In parallel, the project will also support the National Pay Commission and the Civil Service Commission under the new sub-component 2.4 to develop a dedicated and sustainable cadre and an attractive pay structure to recruit and retain staff for these critical PFM and IT functions.

<b>Results-based financing: Increased sustainability of PFM reforms and key MoFT functions through establishment of a PFDS. (\$1.5M)</b>	
DLI #1	This DLI incentivizes and supports development and implementation of a Public Finance Development Service (PFDS), to increase sustainability of PFM reforms and key MoFT functions by: i) Governance structure and organogram of the PFDS has been approved by the Minister of Finance through a Ministerial Decision; ii) 16 advertised PFDS positions are filled based on job descriptions; and iii) when the 2019 PFDS performance report, including client/beneficiary feedback on the PFDS performance is published on MoFT website.

33. **Sub-component 2.4. Payroll Management and Control.** Provision of technical assistance to: (i) provide quality data to the MoFT on its human resources to enable the development of wage policy initiatives; (ii) support the NPC and the Civil Service Commission for the development of a dedicated and sustainable cadre for the critical PFM and IT functions; and (iii) results based financing to strengthen control of the wage bill and staffing of core financial functions. The combination of an important and growing wage bill with a scarcity of qualified and motivated staff to perform critical public financial management functions is undermining the gains of the PFM reforms. The AF will help address the following key constraints. First, MoFT has inadequate control of the wage bill, which is steadily increasing in a relatively unpredictable and uncontrollable fashion, and lacks adequate analysis on which to base appropriate policies. Second, it is very difficult to attract and retain highly skilled IT and PFM staff required to operate the new Public Accounting System / SAP as well as other critical finance functions. These skills are in high demand in the Maldives both from the private and parastatal sectors leading to high staff turnover. This undermines the sustainability of the PAS and MoFT’s expected support to line ministries. These scarce skills shortages will be addressed through the Public Finance Development Service under



**Box 2: Key Features of the Public Finance Development Service**

**A Public Finance Development Service (PFDS) will be established to form a unified structure for staff with key PFM and IT skills.** The MoFT will establish a PFDS within MOFT to achieve three objectives: first, to attract and retain critical staff with marketable skills to mitigate the very high turn-over of critical staff; second, to introduce a result-orientation in the management of key ministerial functions, in particular related to IT systems and software, and also to other critical in the economic, accounting, legal, auditing or other areas; and third, to ensure transfer of skills and knowledge within the organization for sustainability of PFM reforms.

**PFDS staff will provide key technical and functional services for SAP modules to support the budget cycle, Public Accounting System users and support functions in PCB Secretariat, Debt Management Division and Legal Department.** The final scope of institutional support will be determined based on TORs agreed with the World Bank. The selection process for all positions will be transparent and salaries will be based on the market for these scarce skills. There will be a twinning arrangement with the staff from MoFT, where each PFDS staff will work with two MoFT staff to ensure sustainability through adequate knowledge transfer. This reform offers the MOFT a permanent solution to the problem of staffing in aress of scarce skills by creating a dedicated cadre with salary structures determined in consultation with the Civil service and pay review commissions. The AF will support the Public Finance Development Service with USD 1.5 million disbursed through a performance-based DLI over a period limited to two years.

**Initially, highly skilled staff will be recruited by the PFDS under a consultant contract and financed under the project for maximum of two years.** At the end of the two-year period, staff will either return to the public sector if they are officials (Bond) or can apply for a similar job at MoFT. At the same time, MoFT and the National Pay Commission will develop specific cadres and pay structure to ensure the sustainability of this expertise.

**The governance and organizational structure of the PFDS has been endorsed by the PFM Steering Committee.** This structure places the PFDS under the responsibility of the Permanent Secretary of MoFT and the operational responsibility of the Project Director who is head of the unit in charge of PFM reform. The Steering Committee has approved principles for transparent selection, staff performance and management, guidelines governing recruitment, contract structure, twinning and mentoring, training as well as a bond clause. After expiration of the contract, staff will have to serve the ministry for an additional three-year contract in a comparable capacity.

**The PFDS will comprise 16 staff.** 5 SAP functional experts under the authority of the Finance Controller and 4 IT technical experts, under the authority of a Chief Information Officer (CIO). Other experts will support public expenditure management, legal, internal audit, economic and fiscal, debt and asset management.

Sub-component 2.3. Third, it will also be addressed through support to the National Pay Commission (NPC) and the Civil Service Commission to deliver on its mandate: review and evaluation of the pay classification structures in the Maldivian public sector; recommendation of a standardized and consolidated pay classification structure; starting with the core finance functions and to develop specific cadres for the core finance jobs. It will further provide results based financing to Strengthen control of the wage bill and staffing of core financial functions (DLI#2).



<b>Results-based financing: Strengthen control of the wage bill and staffing of core financial functions (\$1.5M)</b>	
DLI #2	This DLI comprises the following results: i) Establishment of civil service registry with gender disaggregated data on personnel and wages; ii) Approval by the NPC of a pay classification structure for finance cadres; and iii) 100% of new MoFT cadre recruited are subject to the revised pay structure for finance cadres.

34. **Sub-component 2.5. State-Owned Enterprise (SOE) governance and oversight.** Provision of technical assistance through (i) policy advice and strengthening of the PCB; (ii) the design and implementation of an SOE fiscal risk and contingent liability assessment and monitoring tool ; (iii) the roll out of the online monitoring and reporting system of the SOEs’ financial and non-financial performance; (iv) roll out of the new corporate governance code for the SOEs, (v) as well as of the corporate governance training program for the SOE Board members, managers and oversight staff in cooperation with the capital market regulator; and (vi) results based financing to improve oversight and monitoring of SOEs. SOEs play an important role in the economy and in the current ambitious public investment program. They are increasingly exposed financially and represent a growing contingent liability for the Government. The recently created Privatization and Corporatization Board (PCB) aims to provide strategic guidance and oversight to these SOEs in cooperation with MoFT, which houses the secretariat. The effectiveness of this critical oversight function is undermined by the lack of appropriate staffing. The AF will help strengthen the secretariat through the PFDS as well as through technical assistance and institutional reforms reflected in a DLI#3 to improve oversight and monitoring of SOEs.

<b>Results-based financing: Improve oversight and monitoring of SOEs (\$1.5M)</b>	
DLI #3	This DLI includes the following results: i) Joint performance monitoring framework for SOEs has been signed between the Minister of Finance and the president of the PCB; and ii) The Boards of Directors of the largest 10 SOEs have adopted the procurement guidelines and the Boards of Directors of the largest 5 SOEs <sup>1</sup> have adopted the new corporate governance code issued by PCB.

35. **Sub-component 2.6. Procurement reforms.** Provision of technical assistance for (i) strengthening the policy and regulatory framework for public procurement; (ii) capacity building through the establishment of certified training course for the benefit of the line ministries and eligible staff of SOEs; and (iii) the pilot testing of green procurement. The ongoing e-GP readiness assessment will inform the feasibility and prerequisites for the development of an e-procurement system, including in terms of supportive legal framework and electronic signature and integration with PAS. Based on the outcomes of this assessment, the project can support the formulation and implementation of a procurement reform Strategy and roadmap.

36. **Component 4. Accounting, reporting and internal audit.** Provision of technical assistance to (i) finance a readiness assessment; (ii) develop a roadmap to strengthen the capacity of the State Internal Audit unit of MoFT; and (iii) support the establishment of an accounting reform action plan; and (iv) results

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<sup>1</sup> The 5 largest SOEs by turnover are: MACL (Maldives Airports Company Limited), IAS (Island Aviation Services Limited), STO (State Trading Organization), HDC (Housing Development Corporation) and MPL (Maldives Ports Limited)



based financing to increase transparency and external accountability of the Recipient’s public-sector finances. The accounting reform action plan will align Internal Audit (IA) practices to international IA standards in the public sector and in support the adoption of a coherent IA framework across the government, which would involve increased methodological consistency between the MoFT and some of the more advanced line ministries and agencies in this area. The action plan aims at full implementation of the IPSAS modified accrual accounting for the issuance of whole-of-government financial statements, in line with recent diagnostics and recommendations in this area as well as plan for subsequent key steps in terms of comprehensiveness of accounting data, better recording of financial and physical assets and liabilities and define a credible timeline for the progressive move towards accrual accounting. This component will also provide results-based financing to increase transparency and external accountability of the Maldives public sector finances (DLI#4).

<b>Results-based financing: Increasing Transparency and external accountability (\$1.5M)</b>	
DLI #4	i) 2018 whole of Government Financial Statements are audited and published; ii) the 2020 Financial Statements of the 10 largest SOEs are audited and published

37. **Component 5. External Audit of the Public Sector.** Provision of technical assistance (i) to improve the alignment with international standards for supreme audit institutions (ISSAI) and with international good practice (including through a peer review based on the SAI-PFM assessment tool); (ii) for performance audits, including through the introduction of a pilot citizen participatory audit; (iii) audit of SOEs; and (iv) capacity building of the PAC. The AGO activities will be managed by MoFT’s Project Implementation Unit (PIU).

38. **Component 6. Project and change management.** Provision of technical assistance (i) for the development of an enhanced communication plan and change management capacity to enable the implementation of reforms; and (ii) by providing cross cutting training and capacity building to the project stakeholders. The capacity of the Project management Unit (PMU) to manage the project has increased substantially with a high-level project coordinator and dedicated staff. The component will support the extension and expansion of the PMU to manage the more complex reform agenda with more diversified stakeholders.

**Consistency with the Country Partnership Strategy**

39. **The proposed AF is aligned with the WBG Maldives CPF FY16-19 and the PLR, which aim to contribute to enabling more inclusive and sustainable growth through better use of the country’s assets, including human capital, natural assets and financial resources.** The third objective of the CPF is to “improve the efficacy of public financial management and policy making”. The Bank aims to “continue setting up and strengthening the foundations for credible, sound, and effective PFM and public procurement systems”.

**Institutional and Implementation arrangements**

40. **The proposed AF will retain the same management structure as the parent Public Financial Management Systems Strengthening Project.** The Project Management Unit (PMU) led by the Project Director will provide overall leadership, with responsibility for the management, coordination and monitoring of results indicators. The PFM Working Committee – chaired by the Project Director and comprising of the heads of each relevant MOFT division responsible for the implementation of each sub component – meets monthly or more often if required. The Program Management Unit (PMU) team is seamlessly connected to the regular business of MOFT, while enjoying a status that preserves the full



dedication of its staff to the management and results achievements of the project. The project benefits from a governance structure which allows for the inclusion in the decision-making process of the MoFT leadership team through the PFM Working Committee and more broadly of non-MoFT stakeholders through the PFM steering committee.

41. **This AF combines input based and results-based disbursement modalities.** Disbursements will be made on the achievement of targets for Disbursement-linked Indicators (DLIs) against an identified Eligible Expenditure Program. The Bank in collaboration with the PMU will monitor the progress and validate the achievement of DLIs. They will review the relevant documents provided by MoFT including IUFs and the evaluation reports on PFDS performance. Progress will be assessed against the baseline data to measure performance, which will inform the disbursements for the following year.

### III. KEY RISKS

42. **The AF supports the development objectives for the parent project and lays out more ambitious final targets.** The AF should also enable greater sustainability of the results already achieved as well as a better ownership of the agenda beyond the MoFT. Opportunities for cross-fertilization and synergies with other Bank engagements at sector level will be systematically explored. The existing safeguards framework remains in place. The new procurement framework will be used for the AF.

43. **The overall risk is High.** Risks have been adjusted from the original project design to focus on the risks to successful implementation of the AF and achievement of the PDO, while taking into account the current overall implementing environment.

44. **Political and governance risks are assessed as High.** Political tensions and instability have increased ahead of Presidential and Parliamentary elections in 2018 and 2019 as evidenced by the closure of Parliament, the declaration of a State of emergency and the suspension of numerous constitutional rights and freedoms. This may distract attention from the fiscal and policy reform program and the make the implementation of politically sensitive reforms, such as the civil service or SOE reforms more challenging. This country wide risk affects the entire program. Selectivity and use of results-based disbursements somewhat mitigates these risks by strengthening incentives for implementation of the most important reforms.

45. **Macroeconomic risk is assessed as High.** The macroeconomic risks facing the Maldives' economy have increased significantly in recent years due to high level of debt, widening current account deficit and low level of reserves. These risks have been compounded by the latest political crisis and State of Emergency affecting the tourism based economy and incomes. A significant deterioration of the macro-economic environment might shift attention to short-term macro-economic stabilization and thereby hinder efforts to implement structural and institutional reforms supported by the AF. The AF mitigates this risk by supporting the Ministry's efforts to achieve a more stable macro-fiscal environment, improve the credibility of the budget, debt sustainability and reduce the risks on the public debt portfolio.

46. **Stakeholder risk is assessed as substantial.** The AF brings in new actors to the reforms and will support roll-out of activities from the MoFT to line Ministries and SoEs. Stakeholder engagement will be addressed through the high-level PFM Steering Committee, which provide strategic guidance and overall monitoring of the project, and the PFM Working Committee comprising heads of all relevant units of the MOFT which helps them implement the project in a coordinated manner. The project has also developed and implemented a comprehensive communication plan, which has significantly improved the level of engagement with stakeholders.



47. **Institutional Capacity for Implementation and Sustainability risk is assessed as substantial.** The risk is substantial due to the current hemorrhage of qualified staff at MoFT which undermines the sustainability of the current reforms. The risk is being mitigated through the establishment of the Public Finance Development Service, through the development of a specific cadre for financial management and corresponding pay structure to attract and retain critical staff. These measures will also help mitigate the risk of dependency on external consultants.

#### IV. APPRAISAL SUMMARY

##### A. Economic and Financial Analysis

48. **The project will yield fiscal benefits that outweigh the opportunity cost of inputs.** The project generates improvements in the quality of information and decision-making in public financial management. These outputs have no corresponding market value and so it is difficult to quantify direct benefits and generate a formal rate of return analysis. However, the project supports the Government's PFM reform agenda which aims to enhance overall fiscal management and governance, strategic allocation of resources and efficiency in use of public resources which contributes to overall macro-economic stability, economic growth and reduction in poverty. The project may enable the Government to realize expenditure savings through improvements in the quality of budgeting, more efficient budget execution and more efficient procurement (small percentage reduction in the cost of procured items could have a large effect across the public sector) and possibly lower interest costs, if the government can implement policies to achieve lower public debt levels (which would also be viewed as ratings-positive by the main international credit rating agencies). Second tier benefits will accrue to the private sector (contractors/suppliers) and public at large from improvements in the efficiency, effectiveness, and accountability of public spending and public services. Most of these benefits will continue to be realized beyond the lifetime of the intervention.

49. **The AF aims to enhance the quality of budgeting as a tool for implementing the Government's development agenda.** The AF will strengthen capacity to appropriately prioritize capital projects and allocate capital and recurrent expenditures adequately in the budget. The AF will also support the integration of budgeting processes across all tiers of government. This will encourage timely communication of resource availability to subnational governments thereby setting the stage for a budgeting process that is orderly and consistent at the subnational level. The AF will support improvements in service delivery through greater integration of all PFM stakeholders and line ministries. The AF will focus on areas that were not so prominent in the parent project like capital budget execution or better SOE management which are likely to have a positive impact on service delivery.

##### B. Technical

50. **The AF design follows the parent project in terms of overall development objectives and the results framework and its governance structure but incorporates also a number of changes.** The adjustments in project design are: the inclusion of the Auditor General's Office, the National Pay Commission and the National Bureau of Statistics as beneficiaries, building on previous engagement with these institutions through an IDF grant and other TA; the widening of the scope of activities to include line ministries; and the inclusion of provisions for results-based financing which will introduce a performance orientation in the management of PFM reforms. These changes reflect the needs of the borrower and increased capacity acquired through satisfactory implementation of the parent project.



51. **The AF, like the parent project, seeks to align PFM systems and bridge the gaps with international standards.** The Government's PFM strategy supports the progressive implementation of international public-sector accounting standards (IPSAS) and international standards for supreme audit institutions (ISSAI). MoFT works closely with the IMF in the area of PFM reform and the improvement of macroeconomic and fiscal data.

52. **The four-year implementation schedule is considered realistic given the experience to date in implementation of the parent project.** The AF is the continuation of the parent project and provides for retroactive financing. Cost estimates have been based on the experience of implementation of the parent project. A substantial amount of the proceeds will be disbursed on the achievement of DLI targets. The PMU team is in place and will be complemented with one staff in view of the additional activities and stakeholders. A qualified Project Director was appointed in the Summer of 2017.

### C. Financial Management

53. **FM arrangements are in line with fiduciary requirements of Operations Policy (OP) 10.00.** The PMU, set up under MoFT, will continue to be responsible for overall FM co-ordination, monitoring and for FM arrangements for the components and activities of the AF. The PMU has sufficient staff, including FM staff with adequate experience and qualifications. MoFT is adequately experienced in handling World Bank financed operations and the FM risk is rated "Moderate".

54. **Disbursements will be report-based using Interim Unaudited Financial Reports (IUFs). For technical assistance and capacity building activities, the PMU will have a Designated Account (DA) opened at the Maldives Monetary Authority for disbursement purposes.** For DLI based activities, disbursements will be made to MoFT consolidated fund. IUFs will be submitted by the PMU within specified dates after end of reporting periods defined for each of the above technical assistance/capacity building activities and DLI based activities. The PMU will submit IUFs, including the input and results based financing. IUFs will capture the actual end use of funds/incurred expenditure for technical assistance and capacity building activities. They will also capture items defined in the Eligible Expenditure Program (EEP) that will consist of non-procurable expenditure items. IUFs will be submitted to World Bank on a semi-annual basis within 45 days of end of reporting period.

55. **The EEP to support the results-based activities will primarily consist of MoFT salaries, wages and allowances.** The EEP represents the budget lines of the annual Budget of GoM that will finance achievement of results under the DLIs. Based on budget for FY 2017, the cumulative EEP over five years will adequately cover the estimated DLI of USD 6.5 million. The budget estimates of MoFT for four years commencing from 2018 amounts to around USD 12 million. Eligible expenditures for the DLI based component are defined as operational expenditure items in the following categories and the budget codes: personal emoluments (regular civil servants); travel expenses; electricity; and training (Budget codes 210, 221, 223002, 225). The major proportion of the EEPs selected are personal emoluments. Payments of personal emoluments/salaries to employees is through direct transfer by treasury into the bank accounts of employees/staff in all the departments. EEP as reported from the MoFT will be considered for DLI disbursement and validated and reconciled with the audited financial statements which will be as per the report of AGO Maldives. Changes to personnel records and the payroll records are carried out in a timely manner in GoM. GoM is in the process of implementing payroll reforms under sub-component 2.2 that will further strengthen payroll management and control.

56. **The results-based disbursements will be made on satisfactory achievement of DLIs and verified as per the agreed verification protocol, supported by EEPs incurred under the project.** The principles





governing the DLI-based component are as follows:

- i. The project will submit reports in English at least annually showing the status of achievement of DLIs. This will be verified, where appropriate, by an independent expert to be appointed by the project as per ToR agreed with the World Bank.
  - ii. On validation of the achievement of DLIs, the project will seek reimbursement from the World Bank of an amount equivalent to the DLI value achieved. The World Bank, subject to EEPs being adequate to cover the value of DLI(s) achieved, will disburse the full amount. Where the reported EEP is less than the aggregate DLI value achieved by the project, disbursement by the World Bank will be limited to the value of the reported EEP. The balance DLI value will be reimbursed when adequate EEP is reported subsequently.
  - iii. If the project does not achieve the DLI target(s) for a particular year, the funds allocated to that particular DLI will be rolled over until the DLI is achieved. In the case of non-scalable DLIs (as provided for in the DLI Verification Protocol), the Bank will only disburse against the full achievement of the DLI target for that particular year.
  - iv. In case the audited EEP is less than the reported EEP, the difference would be adjusted against disbursement of the subsequent disbursement against the achievement of a DLI.
  - v. In the case of partial achievement of any specific scalable DLI, the Bank may, at its discretion, reallocate an amount not exceeding twenty five percent of the proceeds of the Loan to any other DLI. In no case, shall the amount allocated against any DLI be increased by more than seventy five percent through any reallocation, including the reallocation mentioned herein.
57. **The external audit of the Project will continue to be carried out by the Maldives Auditor General's Office (AGO).** There will be two audit reports submitted, one for technical assistance/capacity building activities and one for DLI-based activities. The due date for the submission of audit reports to the World Bank will be within six months of the end of the financial year. There are no overdue audit reports or ineligible expenditures under the MoFT at this point in time.
58. **The GoM will seek retroactive financing, not exceeding 20 percent of the Bank financing, in respect of payments made for eligible expenditures prior to the signing of the Financing Agreement but on or after October 31, 2017.** This includes activities for which there is not enough funding under the parent project and other preparatory and urgent activities under the categories of consultancy services, non-consultancy services, training and goods. There are sufficient controls in place to ensure that the expenses are accounted correctly under the relevant sources of financing (original and additional). The same have been reviewed by the Bank and found sufficient. Further, all retroactive financing expenses will be accordance with the Bank's Policies.

#### **D. Procurement**

59. **The Director General (National Procurement Division of MoFT) will continue to be responsible for procurement under the project, assisted by the staff under the Tender Evaluation Section.** Procurement of the TA activities of the Additional Financing will be carried out under the Bank's Procurement Regulations for IPF Borrowers 2016 Revised November 2017 using methods and approaches contained in the Regulations and according to the agreed Procurement Plan. No legacy contracts from the parent project are expected to be financed from the proceeds of this additional financing.



60. **The Government of Maldives procurement procedures are clearly identified in a Procurement Chapter of the Project Operations Manual, which has been appraised and reviewed by the Bank.** The Manual will be reviewed regularly and updated to meet the project needs in consultation with the Bank. The project has a “moderate” procurement risk rating. The procurement performance will be reviewed during the project implementation period and the procurement risk rating will be adjusted accordingly.

**E. Social (including Safeguards)**

61. **As is the case with the parent project, activities supported under additional financing do not include any activity that would incur social risks or impacts so the Bank’s social safeguards policies are not triggered under the project.** Activities intended to strengthen budget credibility, transparency and financial reporting mechanism of central government finances, including introduction of pilot citizen participatory audit, will contribute towards greater confidence in public financial management thus leading to positive social outcomes.

62. **Citizen engagement. The project will support citizens’ engagement (CE) in the area of performance audit under the external audit component and through improvements in fiscal transparency.** AGO has agreed to develop a policy on participatory audits and to pilot test it in its performance audits. This will involve citizens in the audit process and allow them to provide feedback on the performance and quality of services of the audited public entity. AGO will also involve citizens in the dissemination of the audit findings and monitoring the implementation of audit recommendations. AGO will follow an incremental approach. The project will introduce AGO to relevant country experience and train staff through pilot audits using participatory techniques. The project will also support improvements in fiscal transparency through the publication of better quality, citizen-friendly, timely budgetary information. Building on an initial citizen budget, MoFT has agreed to open it up for citizen feedback as a building stone towards open budgeting. The PFM training center will be opened to key stakeholders from the civil society, including journalists or CSOs. The project will also support the preparation and implementation of a communication strategy – promoting activities such as an annual budget forum and budget dialogues – to raise citizen awareness and inform their engagement in budget discussions.

Indicator	Baseline	Target
Inclusion of Citizen Participatory Audit (CPA) techniques in Performance Audit	No use of CPA	Two pilots on CPA

63. **Gender Considerations. The AF will systematically seek relevant entry points to promote gender informed policy making.** In particular, activities linked to the National Pay Commission will seek to promote the use of gender-informed statistics in the public sector civil service and pay policy. Female labor force participation in Maldives has decreased over the years and a small percentage of women are in highly skilled positions. Reports state that for all industries, including those dominated by women, the average monthly earnings for women lag behind those of men. This difference in wages is most pronounced in the agriculture and forestry industry, where men earn 78 percent more than their female counterparts. In order to understand the gender wage gap in the civil service sector the project will include a gender analysis in the civil pay scale review. Based on this review policy recommendations will be made to bridge the gaps as well as identify policy changes to enable women to move upwards in the civil service by addressing issues such transportation and child care.

64. **While gender disaggregated data around labor force participation is available in the Maldives Household Income and Expenditure Survey (HIES), the survey does not capture gender disaggregated**



**data around heads of households, consumption, expenditure and investment.** While the HIES focuses on household level data, some countries – for instance Palau – have started collating gender disaggregated data to help inform fiscal policy. Maldives has low levels of ownership and control of property among women as against men. This limits their disposable income and ability to access markets, loans, transportation and other services. The project will include modules to capture gender-disaggregated statistics around heads of households, consumption, expenditure and investment in the upcoming HIES to inform fiscal policy to increase women's household level economic decision making.

Indicator	Baseline	Target
Updated gender-disaggregated statistics to inform fiscal policy	No recent data on HIES	Findings from HIES have been published and informing fiscal policy

**F. Environment (including Safeguards)**

65. **The proposed AF, like the parent project, has been categorized as category C.** No specific environmental safeguard policies are triggered since no major environmental impacts are attributed to planned project interventions and so no specific safeguards management actions are identified.

**G. Climate Co-Benefits**

66. **The proposed AF will promote improvements in Disaster and Climate Screening in public sector decision making.** The AF complements activities supported through the CAT- DDO. The AF will finance a Household Income and Expenditure Survey, which will generate useful data related to the exposure and vulnerability. This information is currently outdated. Vulnerability and exposure data can be used in current and future disaster risk management activities including damage and loss assessments, appropriate risk financing mechanisms, screening of public investment projects, land use and development planning. Data and statistics are important in understanding the impacts and costs of disasters. This in turn is important in informing macro-economic and fiscal risk analyses. Therefore, data generated through the household income and expenditure survey will also provide much needed information on the exposure and vulnerability of the Maldivian population to the disaster and climate risks so that it can be used in the ongoing and future risk management initiatives and effective disaster response. Furthermore, the AF will support improvements in public investment management regulations to strengthen project screening for climate resilience and adaptation. This new approach would be pilot tested in selected line ministries for projects not subject to Environmental Impact Assessments. The public procurement reform will include provisions on green procurement aimed at minimizing the environmental impact of public procurement. Finally, support to the implementation of the new corporate governance code will support the climate agenda through increased disclosure and transparency of SOEs as well as through increased consideration and accountability towards stakeholders.

**V. WORLD BANK GRIEVANCE REDRESS**

67. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to



the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org)



**VI. SUMMARY TABLE OF CHANGES**

	Changed	Not Changed
Change in Project's Development Objectives	✓	
Change in Results Framework	✓	
Change in Components and Cost	✓	
Change in Loan Closing Date(s)	✓	
Change in Implementing Agency		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Change in Disbursements Arrangements		✓
Change in Safeguard Policies Triggered		✓
Change of EA category		✓
Change in Legal Covenants		✓
Change in Institutional Arrangements		✓
Change in Financial Management		✓
Change in Procurement		✓

**VII. DETAILED CHANGE(S)**

**PROJECT DEVELOPMENT OBJECTIVE**

**Current PDO**

The proposed project development objectives (PDO) are to enhance budget credibility, transparency, and financial reporting of central government finances.

**Proposed New PDO**

The PDO (project development objectives) for the proposed AF is to enhance budget credibility, transparency, and financial reporting of public sector finances. The PDO remains relevant and the likelihood of achieving it remains



high in view of the project’s implementation progress, disbursement performance, and results achieved to date.

**RESULTS FRAMEWORK**

**Project Development Objective Indicators**

Deviation between aggregate expenditure out turn and the original approved budget Unit of Measure: Percentage Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	18.74	6.15	5.00	Revised
Date	31-Dec-2013	22-Nov-2017	31-Jul-2022	
Public Access to Key Fiscal Information Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	Documents not made available to the public: (1) Year-end state financial statements of the Republic of Maldives; (2) In-year budget execution reports; (3) Contracts awarded.  Budget documents and resources available to primary service units are available in public domain.	Y3 target partly achieved. BERs are being regularly produced from the system and used for economic decision making. However, they are not being published yet in the form of a BER. MoFT has commenced publishing expenditure reports at an aggregate level.  Audit planning for FY 16 audit has commenced. A decision has been made to publish the unaudited statements starting from FY 2016 annual financial statements.	Public disclosure of the following key fiscal information: (a) Annual budget documentation, (b) In-year budget execution reports, (c) Year-end financial statements, (d) tenders above USD 100 000.	Revised



Date	28-Feb-2014	22-Nov-2017	31-Jul-2022	
Comprehensiveness of debt data recording and reporting Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	Annual statement of debt covering domestic and external debt is prepared, but there are gaps and reconciliation problems.	Achieved.  BERs with commitment information, the annual financial statements with payables as well a regular system generated reports on payables are sufficient to meet the requirement of recording payables.  Commonwealth Secretariat Debt Recording and Management System has been upgraded and tested for capturing the public debt stock (external, domestic, grants, Islamic domestic debt instruments and external and domestic guarantees). Data entered thus far have been reconciled for accuracy. A practice of a quarterly reconciliation of debt records have commenced.	Domestic and foreign debt records are complete, includes payable amount updated and reconciled quarterly. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least annually.	Revised



Date	28-Feb-2014	22-Nov-2017	31-Jul-2022	
<b>Coverage and quality of the internal audit function</b> Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	There is no internal audit focused on systems monitoring.	Partially achieved  Internal audit is functional in over 50% of CGEs with revenues and/or expenditures over Rf 500 million. Going forward a decision has been made to centralize the internal audit function at the MoFT and to deploy auditors to carry out audits of government entities.	The internal audit function is operational in 100% of CGEs with revenues and/or expenditures over Rf 500 million, and internal audit undertakes some systems reviews (at least 20% of staff time).	Marked for Deletion
Date	28-Feb-2014	22-Nov-2017	31-Jul-2019	
<b>SOE financial reporting and disclosure</b> Unit of Measure: Percentage Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	50.00	70.00	100.00	New
Date	05-Mar-2018	06-Jun-2018	31-Jul-2022	

**Intermediate Indicators**

<b>Coherent set of PFM laws and regulations</b> Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	NIL	Policy direction received to proceed with drafting of laws. Drafting	Draft proposal for revised PFM laws prepared and presented	Marked for Deletion





		commenced during Q4 2016 and the first draft of FRL has been submitted to AG office in Q1 2017.	to Parliament.  Draft laws exist that support the timely preparation and public dissemination of key reports, fill gaps, and remove inconsistencies in regulations.	
Date	28-Feb-2014	22-Nov-2017	31-Jul-2019	
Decreased variation in expenditures out-turn : within year Unit of Measure: Percentage Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	10.00	6.15	5.00	Marked for Deletion
Date	28-Feb-2014	22-Nov-2017	31-Jul-2019	
Reduced variance of the composition of expenditure from the original budget Unit of Measure: Percentage Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	20.00	24.00	12.00	Marked for Deletion
Date	28-Feb-2014	22-Nov-2017	31-Jul-2019	
Increased capacity on macro fiscal planning Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	MTEF was used for fiscal strategy formulation. Staff were trained on MTEF and DSA in 2015. MTEF additional work on-hold until the completion of BPC. Assistance in policy research and analysis is needed.	Production of a Macro fiscal forecasting tool to inform the annual budget	Revised



Date	28-Feb-2014	22-Nov-2017	31-Jul-2022	
Increased capacity on debt and cash management Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	Credible DMS does not exist.	Y3 results met.  Debt management strategy exists. Strengthened capacity of the Debt Management Division to take lead in preparing and updating DMS. Strengthened capacity on cash forecasting. Technical staff at RMDMD trained to update the DMS but additional training is still required for proper capacity building.  Cash Management Committee has been formulated and initial meetings are ongoing. More training is required on the implementation side.	Debt management strategy produced	Revised
Date	28-Feb-2014	22-Nov-2017	31-Jul-2022	
Timely and comprehensive in-year budget execution reports (BERs) produced Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	NIL	Percentage of MM module rolled out to Male based agencies is 80%. Business Intelligence module of the SAP, which will generate the BERs, has	System-generated monthly BERs with information on actual expenditures vs budget, plus commitments produced and reconciled for all	Marked for Deletion



		been configured. The staff who were trained are on two years leave and existing staff do not have the necessary capacity.	business areas and consolidated by MOFT within 2 weeks of end of month.	
Date	28-Feb-2014	22-Nov-2017	31-Jul-2019	
<p>BERs subjected to audit by internal auditors  Unit of Measure: Percentage  Indicator Type: Custom</p>				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	100.00	Revised
Date	28-Feb-2014	22-Nov-2017	31-Jul-2022	
<p>Timely preparation of annual financial statements (AFS)  Unit of Measure: Text  Indicator Type: Custom</p>				
	Baseline	Actual (Current)	End Target	Action
Value	AFS not accepted by audit as complete and ready for audit.	Y3 results met.  MOFT staff and other AGA's have been trained on preparation of AFS according to IPSAS. Pre-briefing provided to AGA's on SAP module prior to rolling out. BI rollout has been completed up to 75%. Work has initiated on functional upgrades and design has been developed, but changes have not been made live to external users.	System-generated AFS submitted to audit within 4 months from year end.	Revised
Date	28-Feb-2014	22-Nov-2017	31-Jul-2022	
<p>Enhance payroll controls  Unit of Measure: Text  Indicator Type: Custom</p>				



	Baseline	Actual (Current)	End Target	Action
Value	No integration and reconciliation between personnel records and payroll data	Initial scoping document completed for an interface between SAP payroll and the software used in Civil Service Commission.	Establishment registers that drive payroll through integrated system exists.	Marked for Deletion
Date	28-Feb-2014	22-Nov-2017	31-Jul-2019	
Capacity building on procurement through the implementation of a new Procurement curricula Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	NIL	Nil	15.00	Revised
Date	28-Feb-2014	22-Nov-2017	31-Jul-2022	
Improved communication of PFM reforms Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	No PFM communication strategy	Communication strategy prepared.	Communication strategy exists  All planned consultation workshops held for legal and business process review  Fifteen change management workshops for key stakeholders held in total by end of FY5. stakeholders held in total by end of FY5.	Revised
Date	28-Feb-2014	22-Nov-2017	31-Jul-2022	
Inclusion of CPA techniques in Performance Audit Unit of Measure: Text Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action



Value	No use of CPA	Two pilot Performance Audits conducted using CPA	New
Date	01-May-2018	31-Jul-2022	
<b>Updated gender disaggregated statistics to inform fiscal policy</b> Unit of Measure: Text Indicator Type: Custom			
	Baseline	Actual (Current)	Action
Value	No recent data on household income/expenditures	Findings from HHIES have been published	New
Date	01-May-2018	31-Jul-2022	
<b>Improved asset management</b> Unit of Measure: Text Indicator Type: Custom			
	Baseline	Actual (Current)	Action
Value	Asset registry not annexed to AFS	End year Financial Statements with asset registry	New
Date	01-May-2018	31-Jul-2022	

**COMPONENTS**

Current Component Name	Current Cost (US\$, millions)	Action	Proposed Component Name	Proposed Cost (US\$, millions)
Contingency	0.10	Marked for Deletion		0.00
Strengthening the PFM Environment	1.45	Revised	Policy-based fiscal strategy and budget credibility	2.73
Strengthening Budget Execution	4.40	Revised	Controlled budget execution	6.08
Project Management	0.55	Revised	Accounting, reporting and internal audit	1.70
	0.00	New	External scrutiny and audit	0.42
	0.00	New	Project and Change Management	1.07



<b>TOTAL</b>	<b>6.50</b>		<b>12.00</b>
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**LOAN CLOSING DATE(S)**

Ln/Cr/Tf	Status	Original Closing	Current Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-H9510	Effective	31-Jul-2019	31-Jul-2019	31-Jul-2022	30-Nov-2022

**Expected Disbursements (in US\$, millions)**

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Annual</b>	0.00	0.26	0.57	0.67	0.92	2.50	3.00	3.40	2.80	1.54
<b>Cumulative</b>	0.00	0.26	0.83	1.51	2.43	4.93	7.93	11.33	14.13	15.67

**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

Risk Category	Latest ISR Rating	Current Rating
Political and Governance	● High	● High
Macroeconomic	● High	● High
Sector Strategies and Policies	● Substantial	● Moderate
Technical Design of Project or Program	● Moderate	● Moderate
Institutional Capacity for Implementation and Sustainability	● Moderate	● Substantial
Fiduciary	● Moderate	● Moderate
Environment and Social	● Low	● Low
Stakeholders	● Moderate	● Moderate
Other		
<b>Overall</b>	● Substantial	● High

**LEGAL COVENANTS – Maldives Public Financial Management Systems Strengthening Project (P164322)**

Sections and Description



No information available

**Conditions**



**VIII. RESULTS FRAMEWORK AND MONITORING**

**Results Framework**

COUNTRY : Maldives

Maldives Public Financial Management Systems Strengthening Project

**Project Development Objectives**

The PDO (project development objectives) for the proposed AF is to enhance budget credibility, transparency, and financial reporting of public sector finances. The PDO remains relevant and the likelihood of achieving it remains high in view of the project’s implementation progress, disbursement performance, and results achieved to date.

**Project Development Objective Indicators**

Action	Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Revised	<b>Name:</b> Deviation between aggregate expenditure out turn and the original approved budget		Percentage	18.74	5.00	The project coordinator-cum-M&E specialist of the project team	Self-assessment based on PEFA methodology.	Annual
Description: Deviation between aggregate expenditure out turn and the original approved budget at an acceptable level.								
Revised	<b>Name:</b> Public Access to Key Fiscal		Text	Documents not made	Public disclosure of	The project coordinator-	PEFA self-Assessment	Annual





	Information			<p>available to the public:</p> <p>(1) Year-end state financial statements of the Republic of Maldives;</p> <p>(2) In-year budget execution reports;</p> <p>(3) Contracts awarded.</p> <p>Budget documents and resources available to primary service units are available in public domain.</p>	<p>the following key fiscal information:</p> <p>(a) Annual budget documentation, (b) In-year budget execution reports, (c) Year-end financial statements, (d) tenders above USD 100 000.</p>	<p>cum-M&amp;E specialist of the project team</p>			
<p>Description: Public disclosure of key fiscal information:</p> <p>(1) Annual budget documentation, (2) In-year budget execution reports, (3) Year-end financial statements,</p>									



(4) Contract awards, and

(5) Resources available to primary service units.

Revised	<b>Name:</b> Comprehensiveness of debt data recording and reporting		Text	Annual statement of debt covering domestic and external debt is prepared, but there are gaps and reconciliation problems.	Domestic and foreign debt records are complete, includes payable amount updated and reconciled quarterly. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least annually.	The project coordinator-cum-M&E specialist of the project team	PEFA self-assessment	Annual
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Description: Comprehensive, timely, and accurate debt recording and reporting.

New	<b>Name:</b> SOE financial reporting and disclosure		Percentage	50.00	100.00			
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Description:



**Intermediate Results Indicators**

Action	Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Revised	<b>Name:</b> Increased capacity on macro fiscal planning		Text	0.00	Production of a Macro fiscal forecasting tool to inform the annual budget	The project coordinator-cum-M&E specialist of the project team	MOFT assessment	Every 6 months.

**Description:** Credible macro fiscal framework exists. Framework for assessing economic viability and prioritization of public investment projects exists. Capacity of the Economic Policy Planning Unit staff strengthened to: a) Take lead in preparing and updating macro fiscal framework; and b) Conduct fiscal policy analysis to assess impact of tax and expenditure measures on poverty and macro aggregates.

Revised	<b>Name:</b> Increased capacity on debt and cash management		Text	Credible DMS does not exist.	Debt management strategy produced	The project coordinator-cum-M&E specialist of the project team	MOFT Assessment	Every 3 months.
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**Description:** DMS exists. Strengthened capacity of the Debt Management Dept. to take lead in preparing and updating DMS. Strengthened capacity



oncash forecasting. Reliable cash flow forecasts are prepared.

Revised	<b>Name:</b> BERs subjected to audit by internal auditors		Percentage	0.00	100.00	The project coordinator-cum-M&E specialist of the project team	Audit reports – MOFT assessment	Every 6 months
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Description: Increase internal audit coverage on BERs and thereby enhance integrity of information contained in BER and internal control systems.

Revised	<b>Name:</b> Timely preparation of annual financial statements (AFS)		Text	AFS not accepted by audit as complete and ready for audit.	System-generated AFS submitted to audit within 4 months from year end.	The project coordinator-cum-M&E specialist of the project team	Auditor General’s assessment	Annually
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Description: AFS in line with the laws and financial regulations and produced in a timely manner

Revised	<b>Name:</b> Capacity building on procurement through the implementation of a new Procurement curricula		Text	NIL	15.00	The project coordinator-cum-M&E specialist of the project team	MOFT assessment	Annual
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Description: Data on 100% contracts awarded using public funds are available with MOFT and contracts over US\$100,000 (equivalent) are published in the annual report.

Revised	<b>Name:</b> Improved communication of PFM reforms		Text	No PFM communication	Communication strategy	The project coordinator-cum-M&E specialist of the	MOFT assessment	Every 6 months.
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				strategy	exists	project team		
					<p>All planned consultation workshops held for legal and business process review</p> <p>Fifteen change management workshops for key stakeholders held in total by end of FY5.</p> <p>stakeholders held in total by end of FY5.</p>			
Description: Communication strategy approved and implemented.								
New	Name: Inclusion of CPA techniques in Performance Audit		Text	No use of CPA	Two pilot Performance Audits			



					conducted using CPA			
Description:								
New	<b>Name:</b> Updated gender disaggregated statistics to inform fiscal policy		Text	No recent data on household income/expenditures	Findings from HHIES have been published			
Description:								
New	<b>Name:</b> Improved asset management		Text	Asset registry not annexed to AFS	End year Financial Statements with asset registry			
Description:								



Target Values

**Project Development Objective Indicators**

Action	Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Revised	Deviation between aggregate expenditure out turn and the original approved budget	18.74	10.00	9.00	8.00	7.00		5.00
Revised	Public Access to Key Fiscal Information	Documents not made available to the public: (1) Year-end state financial statements of the Republic of Maldives; (2) In-year budget execution reports; (3) Contracts awarded.  Budget documents	Public disclosure of (1) Annual budget documents made available in parallel to these being submitted to legislature.  (2) Resources available to primary service units annually.	Public disclosure of (1) Annual budget documents available in parallel to these being submitted to legislature.  (2) Resources available to primary service units annually.	Public disclosure of (1) Annual budget documents available to public in parallel to these being submitted to legislature.  (2) Resources available to primary service units annually.  (3) Quarterly in-year	Public disclosure of (1) Annual budget documents available in parallel to these being submitted to legislature.  (2) Resources available to primary service units annually.  (3) Monthly in-year	Public disclosure of (1) Complete set of annual budget documents when they are submitted to legislature.  (2) Monthly in-year budget execution reports within one month of completion.	Public disclosure of the following key fiscal information: (a) Annual budget documentation, (b) In-year budget execution reports, (c) Year-end financial statements, (d) tenders above USD 100 000.



		and resources available to primary service units are available in public domain.			budget execution reports published within one month of completion,  (4) Year-end financial statements of the Republic of Maldives published within 6 months of completed audit.  (5) Contracts awarded above US\$100,000 published quarterly.	budget execution reports published within one month of completion.  (4) Year-end financial statements of the Republic of Maldives published within 6 months of completed audit.  (5) Contracts awarded above US\$100,000 published quarterly.	(3) Info concerning resources available to primary service units at least annually or available on request for primary service units with national coverage in at least 2 sectors.  (4)Year-end financial statements of the Republic of Maldives published within 6 months of completed audit.  (5) Contracts awarded above	
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							US\$100,000 published at least quarterly.	
Revised	Comprehensiveness of debt data recording and reporting	Annual statement of debt covering domestic and external debt is prepared, but there are gaps and reconciliation problems.	Domestic and foreign debt records are complete, except for payables to suppliers, updated and reconciled every 6 months.	Domestic and foreign debt records are complete, except for payables to suppliers, updated and reconciled every 6 months.	Domestic and foreign debt records are complete, except for payables to suppliers, updated and reconciled every 6 months.	Domestic and foreign debt records are complete, including payables to suppliers, updated and reconciled quarterly. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least	Domestic and foreign debt records are complete, including payables to suppliers, updated and reconciled quarterly. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least	Domestic and foreign debt records are complete, includes payable amount updated and reconciled quarterly. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least annually.
New	SOE financial reporting and	50.00						100.00



disclosure

**Intermediate Results Indicators**

Action	Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Revised	Increased capacity on macro fiscal planning	0.00	Methodology for preparation of macro fiscal framework exists. Draft macro fiscal forecasting tool exists. 100% of EPP unit staff trained on methodology	Credible macro fiscal framework exists and used for budget preparation. Final macro fiscal forecasting tool exists and used. Draft framework exists for assessing economic viability and prioritization of public investment projects.	Credible macro fiscal framework exists and used for budget preparation. Final macro fiscal forecasting tool exists and used. Final framework exists and used for assessing economic viability and prioritization of public investment	Credible macro fiscal framework exists and is based on macro fiscal forecasting tool to assess economic viability and prioritization of public investment projects	Production of a Macro fiscal forecasting tool to inform the annual budget



				100% of staff at EPP untrained on the job to prepare the macro fiscal framework using the model.	projects 100% of staff at EPP trained to: (1) Conduct fiscal policy analysis to assess impact of tax and expenditure measures on poverty and macro aggregates: (2) Use the framework for capital project selection.		
Revised	Increased capacity on debt and cash management	Credible DMS does not exist.	100% of staff at Debt Management Dept trained on the job to update the DMS.  CFF model developed and 100% of	100% of staff at Debt Management Dept trained on the job to update the DMS.  CFF model developed and 100% of	1.00	1.00	Debt management strategy produced



			relevant staff trained on CFF model.	relevant staff trained on CFF model.			
Revised	BERs subjected to audit by internal auditors	0.00	10.00	25.00	50.00	75.00	100.00
Revised	Timely preparation of annual financial statements (AFS)	AFS not accepted by audit as complete and ready for audit.	1.00	Comprehensive AFS with information on expenditures, revenue, financial assets and liabilities prepared and submitted to audit within 6 months from year end.  Necessary software enhancements and functional upgrades carried out.	Comprehensive AFS prepared and submitted to audit within 6 months from year end.* (*Per PEFA fieldguide, the actual date of submission is the date on which the external auditor considers the financial statements complete and available for audit.).  Functional upgrades and necessary	System-generated AFS submitted to audit within 5 months from year end.	System-generated AFS submitted to audit within 4 months from year end.



					integration with other systems to generate AFS via the system-completed.		
Revised	Capacity building on procurement through the implementation of a new Procurement curricula	NIL	Procurement policy section established and functional.  Monitoring mechanism established under each procuring entity.	0.50	0.75	0.90	15.00
Revised	Improved communication of PFM reforms	No PFM communication strategy	Communication strategy approved.  Five awareness and consultation workshops on business process improvement held.	Communication strategy exists.  Ten consultation workshops on business process improvement held in total by end of FY2.	Communication strategy exists  All planned consultation workshops held for legal and business process review  Five change management	Communication strategy exists  All planned consultation workshops held for legal and business process review  Ten change	Communication strategy exists  All planned consultation workshops held for legal and business process review  Fifteen change



			Five awareness and consultation workshops on the legislative review held.	Ten consultation workshops on the legislative review held in total by end of FY2	workshops for key stakeholders held in total by end of FY3.	management workshops for key stakeholders held in total by end of FY4.	management workshops for key stakeholders held in total by end of FY5.
New	Inclusion of CPA techniques in Performance Audit	No use of CPA					Two pilot Performance Audits conducted using CPA
New	Updated gender disaggregated statistics to inform fiscal policy	No recent data on household income/expenditures					Findings from HHIES have been published
New	Improved asset management	Asset registry not annexed to AFS					End year Financial Statements with asset registry



ANNEX 1. Results Framework

<i>PDO level indicators</i>			
<i>Indicator description</i>	<i>Baseline</i>	<i>Target</i>	<i>Current progress</i>
Aggregate expenditure out- turn and the original approved budget at an acceptable level.	In 2013 actual expenditure deviated from budgeted expenditure by 18.74% (with debt repayments and payment arrears)	Maintain deviation of actual from budgeted expenditures at equal or below 5%	The deviation is 6.15% without debt repayments
Public disclosure of the following key fiscal information: (a) Annual budget documentation, (b) In-year budget execution reports, (c) Year-end financial statements, (d) tenders above USD 100 000	Documents not made available to the public	The following documents are made available to the public (a) Annual budget documentation, (b) In-year budget execution reports, (c) Year-end financial statements, (d) tenders above USD 100 000.	(a) Annual budget documentation, (b) In-year budget execution reports are being disclosed. Financial Statements do not yet cover the whole of government.
Comprehensiveness of debt data recording and reporting	An annual statement of debt covering domestic and external debt is prepared, but there are gaps and reconciliation problems.	Domestic and foreign debt records are complete, updated, and reconciled quarterly. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least annually.	BERs with commitment information, the annual financial statements with payables as well a regular system generated reports on payables are sufficient to meet the requirement of recording payables
<b>Intermediate Indicators</b>			
Increased capacity on macro fiscal planning	Nil	Production of a Macro fiscal forecasting tool to inform the annual budget	MTEF was used for fiscal strategy formulation. Staff were trained on MTEF and DSA in 2015.



Increased capacity on debt and cash management	Credible DMS does not exist.	Debt management strategy produced	Strengthened capacity of the Debt Management Division on preparing and updating DMS. Strengthened capacity on cash forecasting. Technical staff at RMDMD trained to update the DMS but additional training required.
BERs subjected to audit by internal auditors	0%	100%	0%
Timely preparation of annual financial statements (AFS)	AFS not accepted by audit as complete and ready for audit.	System-generated AFS submitted to audit within 4 months from year end.	MOFT staff and other AGA's trained on preparation of AFS according to IPSAS
Capacity building on procurement through the implementation of a new Procurement curricula	Nil	15 staff	
Improved communication of PFM reforms	No PFM communication strategy	Communication strategy exists	
Improved asset management	Asset registry not annexed to AFS	End year Financial Statements with asset registry	
Inclusion of CPA techniques in Performance Audit	No use of CPA	Two pilot Performance Audits conducted using CPA and capturing beneficiary feedback	
Updated gender disaggregated statistics to inform fiscal policy	No recent data on household income/expenditures	Findings from HIES have been published	





**ANNEX 2. Disbursement schedule for DLIs (in million SDR)**

<b>DLI Indicators</b>	<b>Baseline</b>	<b>Results to be achieved by June 30, 2018</b>	<b>Results to be achieved by June 30, 2019</b>	<b>Results to be achieved by June 30, 2020</b>	<b>Results to be achieved by June 30, 2021</b>
DLI # 1: Increased sustainability of PFM reforms and key MoFT functions through establishment of a PFDS.	No PFDS established. Ongoing hemorrhage of key personnel.	Governance structure and organogram of the PFDS has been approved by Decision of the Minister of Finance.	10 out of the 16 vacant PFDS positions are filled based on job descriptions and in a transparent manner. Formula: SDR 240,000 once at least 10 of the 16 vacancies are fulfilled and SDR 18333.33 for every additional vacancy filled in the PFDS thereafter.	2019 PFDS performance report, including client/beneficiary feedback is published on MoFT website.	N.A.
<b>DLI #1 Value: 1.05 Mio. SDR</b>		<b>350 000 SDR</b>	<b>350 000 SDR</b>	<b>350 000 SDR</b>	
DLI#2: Strengthen control of the wage bill and staffing of core financial functions	Limited wage bill data and no specific cadres nor pay schemes for critical finance functions.	N.A.	Establishment of civil service registry by the NPC with gender disaggregated data on personnel and wages.	Approval by the NPC by way of resolution of a standardized pay classification structure for finance cadres.	100% of new MoFT cadre recruited are subject to the revised pay structure for finance cadres.
<b>DLI #2 Value: 1.05 Mio SDR</b>			<b>350 000 SDR</b>	<b>350 000 SDR</b>	<b>350 000 SDR</b>
DLI #3: Improve oversight and monitoring of SOEs	SOE oversight and monitoring is overseen by the Privatization and Corporatization Board (PCB) Act but not fully functional.	PCB secretariat at MoF staffed with a corporate governance specialist	Joint performance monitoring framework for SOEs has been signed between the Minister of Finance and the president of the PCB.	(i) The Board of Directors of the largest 10 SOE adopted procurement guidelines issued by PCB.  Formula- SDR 280,000 once at least 8 SOEs adopts the new procurement guidelines, and SDR 35000 for every SOE that adopts the same.  (ii) The Board of Directors of the five	



DLI Indicators	Baseline	Results to be achieved by June 30, 2018	Results to be achieved by June 30, 2019	Results to be achieved by June 30, 2020	Results to be achieved by June 30, 2021
				(5) largest SOEs adopted the new corporate governance code.	
<b>DLI #3 Value: 1.05 Mio SDR</b>			<b>350 000 SDR</b>	<b>700 000 SDR</b>	
DLI #4: Increasing Transparency and external accountability	Whole of Government Accounts are not consistent with legal requirements and IPSAS and are not audited		2018 Whole of Government Financial Statements are audited and published*.		The 2020 Financial Statements of the 10 largest SOEs are audited and published, including the audit opinion*. Formula: SDR [560,000] once at least 8 of the largest SOEs publish the audited financial statements, and SDR[70,000] for every such SOE that publishes the same
<b>DLI # 4 Value: 1.05 Mio SDR</b>			<b>350 000 SDR</b>		<b>700 000 SDR</b>



ANNEX 4: DLI verification table

#	DLI	Definition/ Description of achievement	Scalability of Disburse ments (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/ agency	Verificat ion agent (VA)	Procedure
1	Increased sustainability of PFM reforms and key MoFT functions through establishment of a PFDS.	<b>June 30, 2019</b> - Governance structure and organogram of the PFDS has been approved by the Minister of Finance through a ministerial decision.	No	MoFT/ PMU	Indepen dent Expert/ WB	Review of the ministerial decision where PFDS is established and described.
		<b>June 30, 2020</b> - At least 10 of the 16 advertised PFDS positions are filled based on job descriptions.	Yes	MoFT/P MU	Indepen dent Expert / WB	Current status is 16 vacancies. The floor is 10 vacancies filled. The disbursement will be prorated to the number of positions filled. The fulfillment will be verified with the copy of the employment contracts signed between the MoFT and the PFDS staff.
		<b>June 30, 2021</b> - indicator is met when the 2019 PFDS performance report, including client/ beneficiary feedback on the PFDS performance is published on MoFT website.	No	MoFT/P MU	Indepen dent Expert / WB	Review of the evaluation report on PFDS performance. Verified and certified by proof that the report has been made public, through the publication of the report in Divehi and in English on the MoFT website.
2	Strengthen control of the wage bill and staffing of core financial functions	<b>June 30, 2019</b> - Establishment of civil service registry with gender disaggregated data on personnel and wage.	No	NPC/ PMU	Indepen dent Expert /WB	Notification by the Civil service commission or by the National Pay commission of the establishment of the civil service registry, covering central government and including gender disaggregated data on personnel and wages (based pay and allowances).
		<b>June 30, 2020</b> - Approval by the NPC of a pay classification structure for finance cadres.	No	NPC	PMU/W B	Resolution of the National Pay Commission approving the new pay classification for finance cadres with a copy of the new pay classification in annex.
		<b>June 30, 2021</b> - 100% of new MoFT cadre recruited are subject to the revised pay structure for finance cadres.	No	NPC	PMU/W B	List of the total new finances cadres recruited by MoFT in 2020 specifying their name, identification number, age, grade, basic salary, allowances and benefits.



#	DLI	Definition/ Description of achievement	Scalability of Disburse ments (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/ agency	Verificat ion agent (VA)	Procedure
3	Improving oversight and monitoring of SOEs	<b>June 30, 2019</b> - Joint performance monitoring framework for SOEs has been signed between the Minister of Finance and the president of the PCB.	No	PCB/M OFT	PMU/W B	Copy of the PCB resolution and/ or MoFT circular of the joint performance monitoring framework, specifying the performance indicators and reporting requirements for SOEs.
		<b>June 30, 2020 (Year 2):</b>  1/The Boards of Director of the largest <sup>2</sup> 10 SOE adopted the new procurement guidelines issued by MoFT/PCB.  2/The Boards of Director of the largest 5 SOE adopted the new corporate governance code issued by PCB.	1/Yes  2/ No	PCB / MoFT	PMU/W B	1/ Current status is 0. The floor is 8 SoEs. The disbursement will be prorated to the number of SOEs having adopted the procurement guidelines. It will be evidenced by the Board resolutions adopting said procurement guidelines vetted by MoFT/ PCB. MoFT/ PCB approval will be part of the evidence.  2/ Current status is 0. The disbursement will be based on the SOEs having adopted the corporate governance code, evidenced by the copy of the resolutions of the Boards of Directors of the 5 largest SoEs by turnover adopting their action plan to comply with the new corporate governance code.
4	Increasing Transparency and external accountability	<b>June 30, 2019:</b> 2018 whole of Government Financial Statements are audited and published.	No	Auditor General	PMU/W B	Audit opinion and report on the 2018 Financial statements published on the website of the Auditor General.
		<b>June 30, 2021:</b> The 2020 Financial Statements of the 10 largest SOEs are audited and published.	Yes	PCB	PMU/ WB	The floor is 8 SoEs. The disbursement will be prorated to the number of SOEs having published their audited financial statements, including the audit opinion of the 10 largest SOEs, by turnover. Proof of publication on the website of the PCB and the relevant SOE.

<sup>2</sup> Largest SOEs by annual turnover: MACL (Maldives Airports Company Limited), IAS (Island Aviation Services Limited), STO (State Trading Organization), HDC (Housing Development Cooperation) and MPL (Maldives Ports Limited)