



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 12-Jan-2018 | Report No: PIDC23590

**BASIC INFORMATION****A. Basic Project Data**

Country Maldives	Project ID P163966	Project Name Maldives Programmatic Development Policy Financing (P163966)	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Board Date May 14, 2018	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance and Treasury	Implementing Agency Ministry of Finance and Treasury, National Social Protection Agency		

Proposed Development Objective(s)

The Budget Credibility and Fiscal Sustainability Development Policy Financing operations support the government efforts to:

- (1) improve the policy framework to enhance credibility of the budget; and
- (2) improve the policy framework to enhance sustainability of the public finances

Financing (in US\$, Millions)**SUMMARY**

Total Financing	10.00
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DETAILS

Total World Bank Group Financing	10.00
World Bank Lending	10.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

The proposed operation will support the government of Maldives in its efforts to: (i) improve the policy framework to enhance the credibility of the budget; and (ii) improve the policy framework to enhance sustainability of the public finances. Maldives' development model relies on a high-end, private-sector tourism enclave economy redistributing tourism-generated tax and non-tax revenue to the population through public services, subsidies and jobs. However, this is complicated by the geographical dispersion of the archipelago that prevents achieving economies of scale, and ultimately leads to question whether this model is sustainable.

The Government recently started a number of large infrastructure projects to allow the population to move from small, vulnerable islands to Greater Malé. To make space for these investments, the government is started to reduce current expenditure items, such as eliminating electricity subsidies and phasing out food subsidies, which was replaced by a targeted cash transfer, and is borrowing for capital expenditure. It is expected that domestic and foreign-financed public and private will continue to drive growth in the medium term, with large current account deficits financed by foreign direct investment and infrastructure loans, while the tourism resort sector and related sectors are expected to be the second support for growth. The level of public debt-to-GDP ratio is expected to increase, but taper off towards 2020 as the large investment projects will have finished.

Poverty incidence is low and substantially in line with that of upper middle income countries with 7.3 percent living below the international poverty line of US\$ 1.90 per day; 24.4 percent living on less than US\$ 3.20 per day; and 54.3 percent living on less than US\$ 5.50 per day, according to the 2009 Household Income and Expenditure Survey.

Relationship to CPF

The Systematic Country Diagnostic defined “improving the efficiency and efficacy of public resource management and reducing macro-fiscal risk” as one of three priority areas to promote growth, poverty reduction and shared prosperity in a sustainable way in Maldives.¹ In particular it mentions the need for (1) better management of public financial resources—managing the wage bill, finding operational savings in the expensive Aasandha health care scheme, reforming subsidies, improving SOE governance and reducing fiscal risks, and improving procurement transparency and value for money); and (2) increasing macroeconomic resilience in a small country exposed to external shocks to tourism, commodity prices and natural disasters. While its geography and tourism-centered development model will always expose it to external shocks, it can increase its resilience by reforming public expenditure and making the budget more flexible, decreasing the risk of the debt portfolio, improving public sector governance and planning capacity, and increasing macroeconomic policy space. One of the pillars of support defined under World Bank's Country Partnership Framework FY 16-19 as “improving the efficacy of public finance management and policy making” provides the rationale for the World Bank support for the government's program in addressing its fiscal challenges.

¹ Maldives: Systematic Country Diagnostic, World Bank, 2015.

<http://documents.worldbank.org/curated/en/340571467992519800/Maldives-Systematic-country-diagnostic-Identifying-Opportunities-and-Constraints-to-Ending-Poverty-and-Promoting-Shared-Prosperity>



C. Proposed Development Objective(s)

The proposed operation is focused on addressing the challenges in the macroeconomic and fiscal framework. Its program development objective is to support the government in its efforts to: (1) improve the policy framework to enhance credibility of the budget; and (2) improve the policy framework to enhance sustainability of the public finances. The program builds on existing initiatives by the Government and on the existing Public Financial Management System Strengthening project financed the World Bank, aiming to enhance budget credibility, transparency, and financial reporting of central government finances.

The program is informed by the Government's program containing social, religious, infrastructure, economic, energy, transport, environment and political goals. This program supports reforms to address fiscal difficulties and promote efficiency in public spending, and review taxes and duties, and improve the provision of infrastructure. On health insurance in particular, it pledges to eliminate wastage and corruption and negotiate services with foreign service providers. By supporting reforms that contribute to (1) improving the policy framework to enhance the credibility of the budget; and (2) improving the policy framework to enhance sustainability of the public finances, it supports the Government's objectives on fiscal policy, infrastructure planning and health care.

Key Results

The expected results of the program are a more credible budget with actual revenue, overall and sectoral expenditure and the fiscal balance closer to the budgeted amounts; more transparency of the government financial statements; improved risk management of the public debt portfolio; more efficient public expenditure on Aasandha, while keeping the same level of quality for the patients; improved monitoring and management of fiscal risk of state-owned enterprises; and fiscally sustainable protection against rising energy prices targeted to the poor and vulnerable.

D. Concept Description

The proposed operation is programmatic operation with disbursements in 2018 and 2019 supporting the Government's reforms through two pillars:

Pillar 1. Improve the policy framework to enhance credibility of the budget. This pillar will cover policy actions to strengthen the legal framework for budget formulation, public investment, budget execution, auditing and reporting. It is expected that this will improve budget credibility and avoid unexpected issues in budget execution. More transparency will allow Parliament and society to hold the executive more accountable.

Pillar 2. Improve the policy framework to enhance sustainability of the public finances. This pillar will cover actions to strengthen the legal framework for fiscal responsibility and debt management, improve the fiscal sustainability of health care system, improve monitoring state-owned enterprises to reduce their fiscal risk and to protect the budget from energy price fluctuations through a targeted cash transfer system independent of energy prices.

A key requirement to a Development Policy Financing operation is the maintenance of an adequate macroeconomic framework, and the operation is expected to contribute to this.



E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

As in most small (island) states, policy actions to build fiscal resilience, address vulnerability and ensure fiscal sustainability are key to promoting fiscal policy and debt sustainability. Actions supported by the proposed operation are expected to have either a positive or neutral poverty and social effects: (i) prior actions relating to health and cash transfer programs are expected to have neutral or positive poverty and social effects; and (ii) prior actions supporting fiscal sustainability and debt management could also potentially have positive effects.

Environmental Impacts

A preliminary assessment suggest that the prior actions will not have significant effects on the environment and natural resources. A more detailed discussion will be provided in the program appraisal document.

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APPROVAL

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