



MALDIVES

April 2019

TECHNICAL ASSISTANCE REPORT—PUBLIC INVESTMENT MANAGEMENT ASSESSMENT

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Maldives

Public Investment Management Assessment

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Technical Report

March 2017

CONTENTS

GLOSSARY	4
PREFACE	6
EXECUTIVE SUMMARY	7
I. TRENDS IN PUBLIC INVESTMENT	17
A. Trends in General Government Investment and Capital Stock	17
B. Composition of Public Investment	21
II. EFFICIENCY AND IMPACT OF PUBLIC INVESTMENT	23
A. Public Investment Efficiency	23
III. PUBLIC INVESTMENT MANAGEMENT INSTITUTIONS	25
A. Overall Assessment	25
B. Investment Planning	25
C. Allocating Public Investment	32
D. Delivering Productive and Durable Public Assets	37
IV. REFORM PRIORITIES AND RECOMMENDATIONS	46
A. Investment Planning Institutions	46
B. Investment Allocating Institutions	47
C. Implementation Institutions	49
BOXES	
3.1. Mega-Projects in the Maldives	28
3.2. Project Adjustment Guidelines Utilized in Kenya	45
FIGURES	
0.A. Institutional Strength of Public Investment Management Institutions	8
1.A. General Government Investment (2005)	18
1.B. Investment Volatility (2010-2015)	18
1.C. General Government Investment and Private Investment (2005)	18
1.D. Comparison of Capital Stock (2015)	19
1.E. General Government Capital Stock per Capita Relative to Comparable Economies (2005)	19
1.F. Public-Private Partnership Capital Stock	20
1.G. Government Balance and Gross Debt	21
1.H. Current Spending vs. Capital Spending (Last Five-year Average)	21
1.I. Public Investment by Function (Average of the Last 5 Years)	22
1.J. EDA - Public Investment by Function (Average of the Last Five Years)	22
2.A. Measures of Infrastructure Access (most recent years)	23
2.B. Efficiency Frontier, Physical Infrastructure (2008-2015)	24

2.C. Efficiency Gap, Physical Infrastructure, (2008-2014)	24
3.A. Institutional Strength of Public Investment Management Institutions	25
3.B. Evolution of Debt and Deficit (2011-2016)	26
3.C. Budgeted PSIP Expenditures: Domestic and Foreign Financing	33
3.D. PSIP Actual versus Approved (2008 – 2016)	38
3.E. PSIP Domestic Actual versus Approved (2008 – 2016)	39
3.F. PSIP Foreign Actual versus Approved (2008 – 2016)	39
3.G. Current Budget Actual versus Approved (2008 – 2016)	39
3.H. Deviation Domestic Budgeted/Actual PSIP (2008 – 2016)	39

TABLES

0.1. Summary Assessment	11
0.2. Sequenced Priority Action Plan to Improve PIM Efficiency	12
3.1. Maintenance Expenditures 2012-19	35

APPENDICES

1. Detailed Public Investment Management Questionnaire Scores	52
2. Cross-Cutting Issues	55
3. Country Case Study – Oversight of SOEs: Lessons from the Seychelles	62
4. Selection of Guarantees Issued by the Maldives Government	64
5. Existing and Initial Proposed Structure for PIM	65
6. Public Investment Management Assessment Methodology	67

APPENDIX TABLES

A2.1. Summary of Legislative Issues by Institution Arising from the PIMA	56
A2.2 Summary of the Key PIM Areas Where Increased Capacity and Training is Required	59
A2.3. Modular Based Project Management Training Program	61

APPENDIX FIGURE

A5.2. Existing and Proposed Structures	65
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REFERENCES	68
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GLOSSARY

ADB	Asian Development Bank
AGO	Auditor General's Office
BCC	Budget Call Circular
BI	Business Intelligence
CMC	Cash Management Committee
EDA	Emerging and Developing Asia region
EYC	Economic and Youth Council
EME	Emerging Market Economies region
FRL	Fiscal Responsibility Law
FR	Financial Regulations
FY	Fiscal Year
HDC	Housing Development Corporation
HDFC	Housing Development Finance Corporation
IBRD	International Bank for Reconstruction and Development
IFMIS	Integrated Financial Management Information System
LC	Local Council
LGA	Local Government Authority
MACL	Maldives Airports Company Limited
MDA	Ministries, Departments and Agencies
MIRA	Maldives Inland Revenue Authority
MMA	Maldives Monetary Authority
MM-PAS	Materials Management module of the Public Accounting System
MOFT	Ministry of Finance and Treasury
MT	Medium Term
MTCC	Maldives Transport and Contracting Company
MTDC	Maldives Tourism Development Corporation
MTFF	Medium Term Fiscal Framework
MVR	Maldives Rufiyaa
MWSC	Maldives Water and Sewerage Company
NTB	National Tender Board
OECD	Organization for Economic Cooperation and Development
PA	Performance Agreement
PBA	Public Bank Account
PCB	Privatization and Corporatization Board
PEMEB	Public Enterprises Monitoring and Evaluation Board
PFM	Public Financial Management
PFR	Public Finance Regulation
PI	Public Investment
PIMA	Public Investment Management Assessment

PO	President's Office
PPP	Public Private Partnership
PPP\$	Purchasing Power Parity
PSIP	Public Sector Investment Program
SAP	Project System Module
SOEs	State-Owned Enterprise
ST	Short-Term
STELCO	State Electricity Company Limited
STO	State Trading Organization
TSA	Treasury Single Account
USD	US Dollars

PREFACE

At the request of the Minister of Finance and Treasury, a mission from the IMF's Fiscal Affairs Department (FAD) visited the Maldives December 4–18, 2016, to conduct a Public Investment Management Assessment (PIMA). The mission was led by Dr. Teresa Curristine (FAD) and included Mary Betley (FAD expert), Paul Harnett (FAD expert), Jean-Luc Héris (FAD), Eteri Kvintradze (IMF Res Rep, Colombo office), Ralph van Doorn (World Bank), and Kirthisri Rajatha Wijeweera (IMF office, Colombo). This mission had World Bank participation from Ralph van Doorn and Fabian Seiderer. The mission thanks them for their contributions.

During its stay, the mission held meetings with the Minister of Finance and Treasury, Hon. Ahmed Munawar, and Senior advisors to the Minister, Mr. Mohamed Jaleel and Mr. Arif Hilmy; Financial Controller, Ms. Fathimath Razeena, senior staff of the Fiscal Affairs Division (National Budget Formulation, National Budget Execution and Public Sector Investment Program), Resource Mobilization and Debt Management Division, Treasury and Public Accounts Division, Public Procurement Division, the Privatization and Corporatization Board (PCB) Secretariat, and Asset Liability Management Section. The mission also met with the Hon Ahmed Zuhoor, Minister at President's Office and Chair of Economic & Youth Council. In addition, the mission met with the Maldives Monetary Authority and the Auditor General's Office. The mission also met with the State Minister and officials from the Ministry of Education; senior officials from the Ministry of Environment and Energy including the Maldives Energy Authority, the Environmental Protection Agency; the State Minister and senior officials from the Ministry of Health; the Deputy Minister and senior officials from the Ministry of Housing and Infrastructure; and senior officials from the Ministry of Tourism including Regional Airports and Maldives Integrated Tourism Development Corporation, the Local Government Authority, the Maldives Airports Company Ltd, and the Housing Development Corporation.

The mission briefed donor representatives on the mission's findings, including the Asian Development Bank and the World Bank. The mission would like to thank the Maldivian authorities for their cooperation during the course of its work. It is especially grateful to Mr. Ahmed Saruvash Adam for his overall guidance and facilitation of the mission, and to Mr. Ahmed Naeem, Ms. Zeeniya Riyaz, Ms. Mariyam Hussain and Ms. Fathimath Shamma for their excellent support and assistance throughout the mission.

EXECUTIVE SUMMARY

The Maldives is a middle-income country composed of more than 1000 small islands, whose geography and exposure to climate change pose unique challenges for infrastructure development. The population is highly dispersed over 184 inhabited islands and 90,000 square kilometers, making the provision of constitutionally mandated key social infrastructure to all inhabited islands complicated and costly. Further difficulties arise from the need to build climate change resilience and the heavy dependence on imported building materials. Despite these challenges, the government of the Maldives has provided near universal access to basic services (electricity, clean water and sanitation), and health centers and schools are present in all inhabited islands.

Over the last decade, public investment has been above the average for Emerging Market Economies (EMEs) and Emerging and Developing Asia (EDA), and this has translated into an improved capital stock. Public investment averaged 8 percent of GDP in 2005 through 2015, compared to 5.8 percent for EDA and 6.5 percent for EMEs, although it has been volatile. This enabled public capital stock to improve from 52 percent of GDP in 2006 to 68 percent in 2015. In terms of capital stock per capita, the Maldives is well above the EDA average and equal to the EME average.

The current government is significantly scaling up infrastructure investment, with major new infrastructure projects estimated to amount to 35 percent of GDP in 2015-2019. These large projects aim to promote economic growth, diversify the economy, which is heavily dependent on tourism, and consolidate the population in key centers. This scaling up could transform the economy but it also carries risks. The country faces challenges with rising debt levels (73 percent of GDP in 2015) and increased external debt and limits on capacity.¹

Since fiscal space is limited, efficient public investment is essential to ensure value for money and returns from investments. There is significant room to improve public investment efficiency. The efficiency gap between Maldives and the most efficient countries with comparable levels of public capital stock per capita is 50 percent. The gap is wider than the EME average and that of all countries (41 percent), but comparable to the average gap of EDA countries (50 percent).

Strengthening public investment management (PIM) institutions will help to close this efficiency gap. The mission assessed the strength and quality of PIM in the Maldives using the IMF Public Investment Management framework (PIMA), based on the three phases of the PIM cycle: planning, allocation and implementation and on 15 key institutions involved in the PIM cycle. Figure

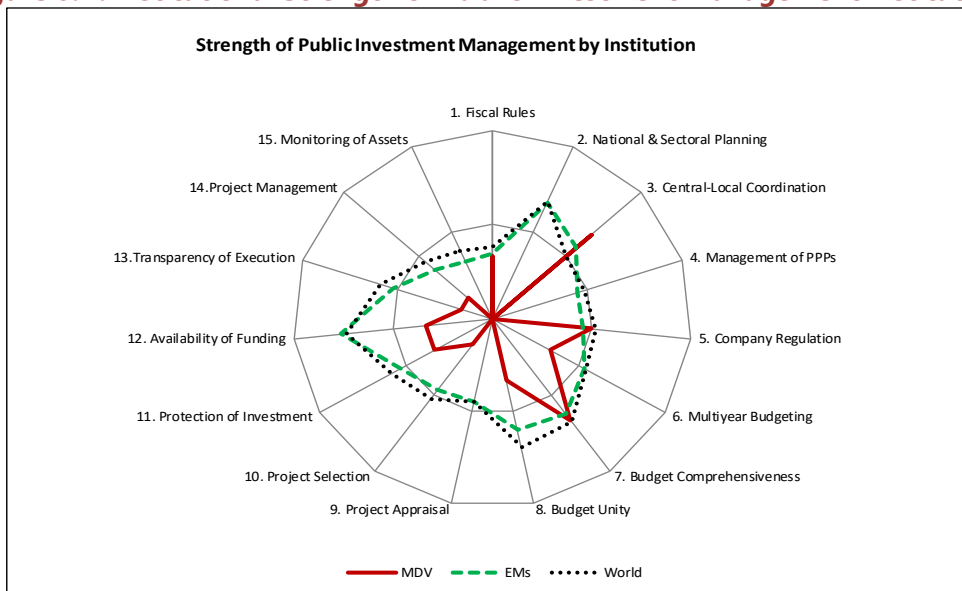
¹ IMF Article IV 2016.

0.A, Table 0.1 and Appendix 1 summarize the results of this assessment, and more details are provided below on the individual phases and institutions.

Most public investment institutions are at a basic stage of development and implementation when compared to the average of EME and all countries. Investing in improving these institutions, based on this report’s recommendations, will significantly enhance efficiency. There are areas of relative strength, with the Maldives being comparable to EMEs in central-local coordination, company regulation and budget comprehensiveness. The overall strength of PIM institutions, however, scores well below EME and all country averages, especially for the implementation phase of public investment. There are also significant gaps in the planning and allocation phases. Almost all institutions are assessed as medium or low (except central-local coordination) in terms of their effectiveness and practical implementation.

The most significant weakness in the PIM and the wider Public Financial Management (PFM) system is poor budget credibility and budget execution. This is not the result of any single institution but reflects several weaknesses in the PIM system, including poor planning, weak project appraisal and selection, no project pipeline and no capital budget ceilings, resulting in unrealistic capital budgets, combined with the approval of projects during the year, weak implementation capacity and the extensive use of virements and reallocations.

Figure 0.A. Institutional Strength of Public Investment Management Institutions



Planning Institutions have gaps in design but more significant gaps in implementation (Section III.B). Weaknesses in the overall strategic framework for public investment, aggravated by a challenging fiscal environment, affect the government’s ability to plan sustainable levels of investment across the public sector. While the government has attempted to constrain overall debt

levels by putting in place fiscal rules, its medium-term plans for scaling-up infrastructure spending make the achievement more challenging. The lack of a comprehensive national strategic planning process undermines the government's ability to guide resources systematically toward achieving its strategic policy objectives. Finally, while the government has begun to strengthen state owned enterprises (SOEs) oversight, the establishment of a clear legislative framework for SOEs and public private partnerships (PPPs) would improve fiscal risk management.

The budget documents include comprehensive information on public investment, however the government's ability to allocate these resources to the right sectors and projects is undermined by the lack of robust processes throughout the project selection and budgeting cycle (Section III.C). There is a lack of procedures and guidelines for ministries, departments and agencies (MDAs) to identify, appraise and fully cost their desired projects. There is no setting of resource constraints (i.e., budgetary ceilings for public investment) to help MDAs with the prioritization of their project proposals. More transparent selection criteria would help ensure funding is provided only for good quality projects that appropriately address government policy priorities. A more strategic and focused Public Sector Investment Program (PSIP), accompanied by better integration of capital and current budgeting, would help improve the efficient use of all budgetary resources.

There are significant weaknesses in implementing projects on time and on budget, leading to higher costs and the inefficient use of scarce investment resources (Section III.D). In project implementation delays occur due to cash rationing and weak project management. There is frequent reallocation of resources to other projects (including those not originally in the budget) and to cover outstanding current expenditures. Efficient procurement is undermined by the use of different procedures across government. During project implementation, weaknesses in project management and monitoring, lack of staff training and changes in project scope lead to cost overruns and frequent delays.

Some progress has been made in improving PIM institutions, and reforms are ongoing in a number of areas. A fiscal strategy statement is produced each year, medium-term capital spending projections are provided, and ongoing projects are prioritized. An Integrated Financial Management Information System (IFMIS) with budget and project management modules and a single treasury account are in place, although staff training has yet to be provided. Reform projects are under way to improve procurement, financial regulations (FR) and oversight of SOEs.

Building on these initiatives and taking account of this assessment, the report provides the following eleven recommendations to strengthen the institutional framework, under five main headings. See Table 0.2 for an action plan for implementing these recommendations over the short and medium term and Chapter IV for a detailed discussion on recommendations.

Strengthening strategic guidance and budget ceilings for public investment

- Revise the budget calendar to prepare and to circulate the Fiscal Strategy Statement earlier (e.g., in April) to enable it to drive the budget process, set priorities for the public investment and let these be the basis for approved total ceilings. Approve realistic aggregate expenditure ceilings (for recurrent and public investment) at the start of the budget process.
- Establish a ceiling for the PSIP budget at the start of the budget process based on a binding resource envelope and include PSIP ceilings in the budget circular.
- Better integrate capital and recurrent budget preparation, including capital project selection.

Improve institutions for project appraisal, selection and management

- Strengthen the project appraisal process by developing a standard methodology for project appraisal, publishing this methodology and verifying that it is consistently applied by the line ministries.
- Improve the project selection process for the budget by developing better targeted selection and prioritization criteria and processes. This includes developing a project pipeline to improve the medium-term focus of project identification, appraisal, selection and approval (See Appendix 5).
- Improve the competitiveness and transparency of the procurement process. Prescribe that all SOEs use standard National Tender Board (NTB) guidelines and procedures.
- Strengthen the project management and monitoring framework and ensure implementation in all MDAs and SOEs.
- Develop a framework for ex-post evaluations and ensure that lessons learned from past projects are incorporated in revised guidelines and practices.

Improve central oversight of SOEs and PPPs

- Enhance the oversight of public investment undertaken by non-budgetary institutions, including SOEs, PPPs, and contractor-based financing. Maintain in a database the number and value of public investments undertaken by SOEs. Publish a list of guarantees and contractor financed projects in the budget.

Improve commitment control and cash management

- Release allocations to enable MDAs' purchasing to take place following authorization by MOFT (for ongoing projects and new projects) in the material management (MM-PAS) module.

Strengthen capacities of all actors involved in public investment management

- Develop and implement a PIM capacity building plan for project managers, supervising officers, operational officers, and MOFT (see Appendix 2). The implementation of all PIM institutions requires not only institutional and legal change but is heavily dependent on building additional capacity within the public sector, which takes time.

Table 0.1. Summary Assessment

Phase / Institution			Institutional Strength	Effectiveness	Importance Priority	Rec.
A. Planning	1	Fiscal rules	Medium: Permanent fiscal rules are in place but capital spending is not excluded from the budget balance rule.	Low: The target is not likely to be achieved, and there is not a published path to meet the debt target.	High	1
	2	National and sectoral planning	Low: No national strategy and very few sectoral strategies in place.	Low: No national planning process and plans are costed	Medium	1
	3	Central-local coordination	High: Local council's investment plans are planned together with central government.	High: Local council's do not borrow and their investment plans are mostly coordinated with central government.	NA	NA
	4	Public-private partnerships	Low: There is no PPP framework or PPP strategy or criteria for entering into PPPs.	Low: Information on, and oversight of, PPP liabilities is relatively limited.	High	2
	5	Regulation of infrastructure companies	Medium: semi-autonomous regulators set prices for the main public utilities.	Medium: Some utility markets have private sector companies operating in them.	NA	NA
B. Allocation	6	Multi-year budgeting	Medium: The annual budget documentation contains multi-year projections of capital spending.	Low: Ceilings on capital expenditure are not set during the budget preparation process and full costs of projects are not disclosed.	High	3
	7	Budget comprehensiveness	Medium: The budget presents a relatively comprehensive picture of capital investments.	Medium: Absence of consolidated information on capital investments weakens fiscal analysis.	High	2
	8	Budget unity	Medium: Classification captures current and capital. Capital and recurrent budgets are not prepared together and future recurrent costs are not budgeted for.	Low: Some current expenditure recorded as capital. Lack of funding for operations and maintenance	Medium	4
	9	Project appraisal	Low: Little central guidance on appraisal criteria, and no evidence of systematic cost-benefit analysis	Low: There is limited use of feasibility studies and risk analysis.	High	5
	10	Project selection	Low: There are no published selection criteria or transparent processes for selection	Low: No pipeline of vetted projects for future funding consideration. This can result in lower and less efficient project selection.	High	6
C. Implementation	11	Protection of investment	Medium: Information on total project costs included in the budget. Virements subject to MOFT approval. Carry over not authorized.	Low: No appropriation act. Persistent under-execution of capital expenditure. Significant reallocation of expenditure during the fiscal year penalizing investment.	High	10
	12	Availability of funding	Medium: Most donor funding in TSA. No cash flow forecasts and project outlays are frequently subject to cash rationing resulting in significant delays in project implementation.	Low: Poor cash forecasting and management leading to the unavailability of cash for budget execution, leading to accumulation of arrears.	High	10
	13	Transparency of execution	Low: Many major projects not tendered using the NTB process; limited public access to procurement information. Project monitoring varied at line ministry level, limited external audit.	Low: Fragmented procurement procedures. At central level weak monitoring of physical progress and central monitoring by MOFT, audit findings not systematically analyzed.	High	7
	14	Project management	Low: Project managers formally assigned, project adjustments do not require fundamental review, no ex-post evaluations conducted.	Low: In practice, project management relies on consultants. Significant cost overruns and delays experienced. Limited learning from failed projects.	High	8
	15	Assets accounting	Low: Asset registers record moveable assets but not infrastructures. No reevaluation and depreciation of fixed assets. Surveys not conducted.	Low: Assets are not effectively, recorded, used and maintained.	Low	8

Table 0.2. Sequenced Priority Action Plan to Improve PIM Efficiency

Priority Actions	2017	2018	2019 and beyond	Responsible Agency
Recommendation 1: Strengthen the strategic guidance for planning and budgeting, particularly for public investment, to ensure resources are more closely linked to government policies				
Strengthen role of Fiscal Strategy Statement in budget process	Strengthen MTFF to provide realistic parameters to identify a clear and realistic path for reducing total government debt over the medium-term	Strengthen the link between the Fiscal Strategy Statement and the budget process.	Publish a credible Fiscal Strategy Statement, linked to the MTFF and the budget process.	MOFT
	Revise the budget calendar to prepare and circulate the Fiscal Strategy Statement earlier (e.g. in April)			MOFT
Develop National Development Strategy and Sector Strategies			Prepare a costed medium-term national development strategy, with a focus on public investment requirements within a realistic overall resource envelope	MOFT; President's Office; MDAs
			Sector ministries to prepare or revise sector strategies in line with the national strategy, including the costing of prioritized measures	MDAs
Recommendation 2: Improve the oversight of public investment undertaken by non-budgetary institutions, including SOEs, PPPs and contractor-based financing, and related fiscal risks				
Publish information on contingent liabilities and PPPs	Include more comprehensive fiscal information in the budget on contingent liabilities and PPPs			MOFT
Analyze fiscal risk related to PPPs and SOEs' operations	Require MOFT to start undertaking an economic/financial review of proposed PPPs, highlighting fiscal risks	MOFT to provide a consolidated report on fiscal risks by SOEs and PPPs	Prepare and publish a Fiscal Risk Statement	MOFT

Develop SOE and PPP legislation		Prepare guidelines for undertaking value-for-money analyses of proposed PPPs	Draft umbrella SOE legislation, and a law on PPPs (or include under the SOE law)	MOFT
Recommendation 3: Establish a ceiling for the PSIP budget at the start of the budget process, based on a binding resource envelope, and include PSIP ceilings in the budget circular				
Establish a ceiling for capital expenditure	Provide for both capital (incl. PSIP) and current ceilings based on the estimated resource envelope in the Budget Call Circular	MDA budget submissions not adhering to ceilings should be rejected	Establish cabinet approved ceilings for ongoing PSIP projects by MDA. Establish a pooled ceiling for new projects to be competed for by MDAs	MOFT; Cabinet
Recommendation 4: Better integrate capital and recurrent budget preparation.				
Clarify the institutional roles in the preparation of both capital and recurrent budgets			Adopt legislation indicating responsibility for the setting of recurrent and capital ceiling, ensuring the system is fully integrated.	MOFT; PO, Parliament
Recommendation 5: Strengthen the project appraisal process by developing a standard methodology for project appraisal, publishing this methodology and verifying that it is consistently applied by line ministries				
Develop and apply a methodology for project appraisal, and create a project pipeline	Review and simplify the existing project fiche appropriate to existing technical capacity at MDA level.	Develop guidelines for project appraisal with increased requirements for larger projects, in line with technical capacity e.g. cost benefit analysis, compatible with any future national development plan, and requiring social costs and benefits be included in costings.	The appraisal process should ensure that any approved project is in line with any future National Development Plan and only positively appraised projects are selected for the project pipeline after a review of project appraisal.	MOFT, MDAs



Recommendation 6: Improve the capital project selection process for the budget by developing better targeted selection and prioritization criteria and processes, and by improving the information provided to decision makers.




Develop and publish criteria for the selection of projects	Develop criteria for project selection bearing in mind the sophistication of current appraisal. Publish criteria for the selection of projects.	Develop a project pipeline to improve the medium-term focus of project identification, appraisal, selection and approval.	Refine criteria to include value for money considerations such as cost benefit/cost effectiveness, project life cycle and future recurrent costs, project readiness for implementation and associated risks.	MOFT, MDAs. and PO
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Recommendation 7: Improve the competitiveness and transparency of the procurement process

Progressively increase the number of tenders using the NTB procedures	Prescribe that all SOEs use standard NTB procedures.	All SOEs use standard NTB procedures.	Tender most major projects using the NTB procedures.	NTB; MDAs and SOEs; MOFT; PO
Develop the NTB procurement database, and improve the public's access to procurement information	Develop the NTB procurement database with reasonably complete data including those that are not proceeded through the NTB.	Prepare and publish standard analytical reports on all tenders; and publish on the NTB website all procurement information.	Ensure the public access to complete, reliable and timely procurement information.	NTB

Recommendation 8: Strengthen the PSIP transparency, management and monitoring framework and ensure implementation in all MDAs and SOEs

Create a comprehensive database of current and planned PI projects, including full capital costs and future recurrent costs	Use the Project System Module in SAP to create a comprehensive database of current and planned PI projects including those from SOEs and PPPs including full capital costs, i.e., add past costs and costs beyond the MTEF outer year to the module.	Enforce the requirement in the PSIP project fiche for MDAs to complete the future recurrent costs of projects. Add such recurrent costs to SAP module.	Include future recurrent costs in the SAP Project System module	MOFT, MDAs and SOEs
	Publish the updated SAP Project Module as part of the budget documentation presented to parliament.		Publish a consolidated table in the budget that presents the full cost of each project over the implementation cycle which also includes funding from all sources.	MOFT
Strengthen the financial and physical monitoring of the public investments projects	Insert red-flag system in the upgraded Project System Module to detect early under-execution, cost overruns, and delays.	Start including in the database information provided by MDAs, SOEs and PPPs on the physical progress of the projects.	Report and publish quarterly major risks on project costs and physical progress.	MOFT
	Enforce the MDAs and SOEs to provide information on the physical progress of the projects.	Progressively strengthen the physical monitoring of the projects starting with Male & surrounds.	Then continuing with outer atolls. Establish central monitoring unit.	MOTF; MHI; MDAs and SOEs
Develop the regulatory framework for the management and monitoring of PI projects	Review the project management and monitoring guidelines to be consistent with International good practices.	Develop a capacity building plan for MDAs and SOEs that enables them to implement and operate the revised project management guidelines.		PO; MOTF; MHI; MDAs and SOEs
Develop a comprehensive asset register of fixed assets		Update, expand and improve current register of movable assets to include fixed assets		MOTF and MDAs

Recommendation 9: Develop a framework for ex-post evaluations and ensure that lessons learned from past projects are incorporated into revised guidelines and practices				
Develop and implement methodology and guidelines for ex-post evaluations and audits	Develop methodology and guidelines for ex-post evaluations and audits.	Pilot the proposed methodology in a joint exercise by MOFT, key MDAs and AGO.	Institutionalize the new regulatory framework for ex-post reviews of PI projects.	MOFT; AGO; MDAs and SOEs
Perform ex-post evaluations	Start performing ex-post evaluations to address sources of the cost overruns and delays.	Analyze AGO audit reports, and address systemic issues and recommendations.	Evaluate the economic and social impact of major PI projects.	MOFT; AGO; MDAs and SOEs
Recommendation 10: Ensure that cash releases and management for PSIP spending are based on commitment controls, and updated monthly cash flow forecasts				
Improve commitment control of PSIP spending	Release allocations for purchase orders after authorization of the MOFT (on-going projects and new projects) in the MM-PAS module. Enforce commitment entries and controls in the MM-PAS module. Enforce the registering of purchase orders in the MM-PAS module.			MOFT; MDAs and SOEs
Improve cash management	Develop and use standard annual cash flow forecasts templates, including PSIP spending.	Analyze and monitor virements and reallocations of PSIP spending to progressively limit their occurrence.		
	Introduce commitment control and cash management regulations in the new Public Financial Regulations.	Train all MDAs on the new regulatory framework and manual for cash management.	All MDAs use the new regulatory framework and manual for cash management.	MOFT MDAs
Recommendation 11: Strengthen capacities to improve PIM efficiency				
Strengthen the capacities of all actors involved in PIM.		Develop and implement a PIM capacity building plan for project managers, supervising officers, operational officers, and MOFT (see Appendix 2)		PO; MOFT; MHI, MDAs

I. TRENDS IN PUBLIC INVESTMENT

A. Trends in General Government Investment and Capital Stock

- 1. In the Maldives, public investment trends have been influenced by a number of contextual factors including the economic dependency on tourism, the high exposure to climate change², and the recent democratization.** The economy is heavily dependent on tourism and has over two decades developed a highly profitable tourism sector.³ The 2004 Tsunami highlighted the vulnerability of the country to climate events, and since the new constitution in 2008, this multi-party democracy, has experienced some political tensions.⁴
- 2. The current government's 2013 election manifesto promises to delivery major new infrastructure projects known as "Mega projects" (see Box 3.1) to promote growth and economic diversification.** These include an expansion of the international airport and adding a new runway, building a bridge connecting Malé and Hulhulé, further development of Hulhumalé island (a major population center) and relocating and upgrading the seaport. This is in addition to several other projects focused on land reclamation, regional airport development and water and sewage facilities improvement.
- 3. After a period of progressive decline in the 1990s and early 2000s, public investment spending has recovered over the last decade but remains volatile (Figure 1.A.).** In 1991-2006, public investment declined from 11 percent of GDP in 1991 to 4 percent in 2004. On average in 2005 to 2015, public investment stood at 8 percent of GDP, and has been above the average for EDA (5.8 percent of GDP) and EMEs (6.58 percent) and comparator countries (Mauritius, Costa Rica and Malaysia) at 6 percent of GDP.⁵
- 4. Three events in particular have driven increased public investment.** In 2004, a devastating tsunami destroyed much of the country's infrastructure and the government increased public investment for the reconstruction in subsequent years. Public investment increased significantly in 2007 in the run-up to the first democratic election in the Maldives, when the government undertook several large capital projects. Public investment has remained high due mostly to land reclamation activities and the government's recent large scaling up of public investments.

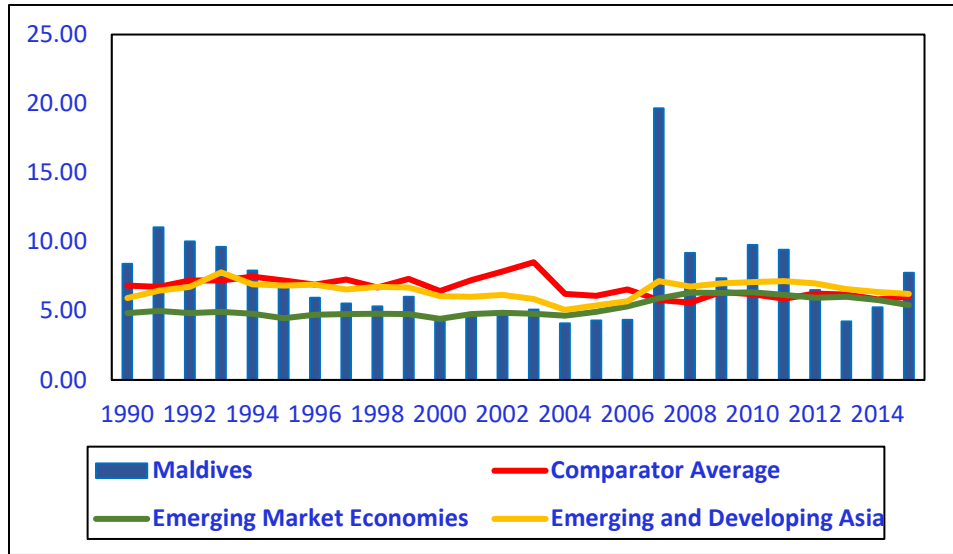
² See IMF Small States' Resilience to Natural Disasters and Climate Change, 2016 for details on the vulnerability of small states to natural disasters and how this impacts public investment.

³ Maldives Systematic Country Diagnostic, World Bank 2015

⁴ IMF Maldives Article IV 2016

⁵ The comparative countries have been selected considering their equivalent GDP per capita, and their economy is highly exposed to climate change.

Figure 1.A. General Government Investment (2005 PPP\$-adjusted, % of GDP)



Sources: WEO and staff estimates based on official data.

5. The overall growth of capital spending, however, shows significant volatility⁶ (Figures 1.B. and 1.C.). Annual public and private investments in Maldives fluctuated between 4 and 20 percent of GDP over the past two decades, giving it the most volatile investment profile in the region in recent years. GDP growth was also very volatile in 2003 – 2010.⁷

Figure 1.B. Investment Volatility (2010-2015)

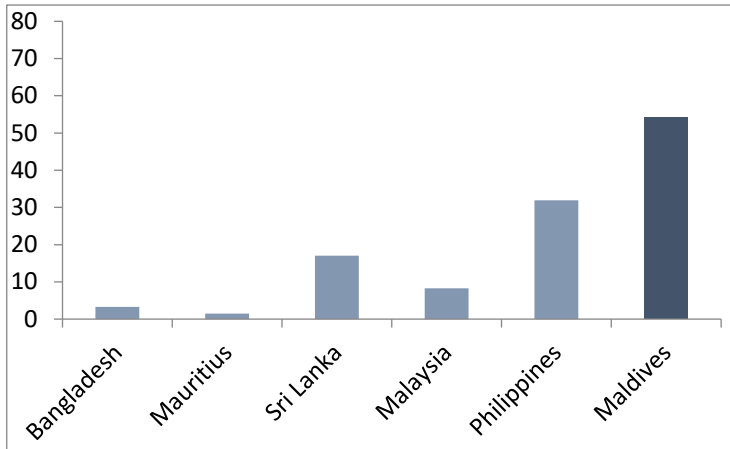
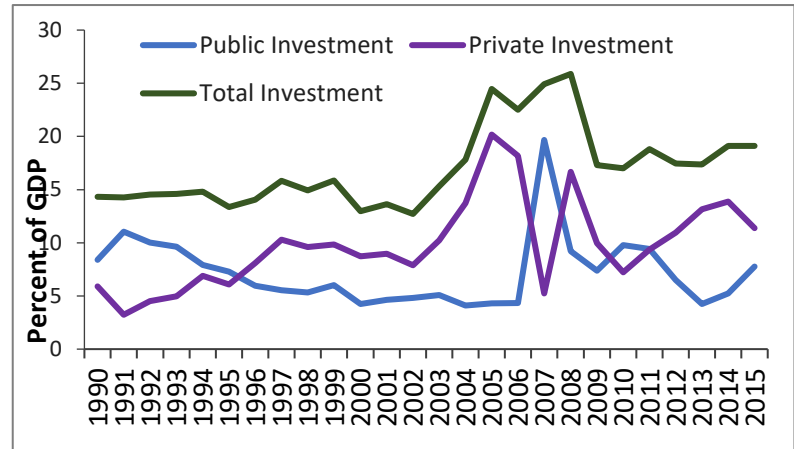


Figure 1.C. General Government Investment and Private Investment (2005 PPP\$-adjusted, % GDP)



Sources: WEO and staff estimates based on official data.

⁶ Volatility is calculated as the standard deviation of the year growth in investment to GDP ratios (real, deflated, and PPP-adjusted).

⁷ GDP growth figures from 2003 -2010. +25.4 in 2003; +13.2 in 2004; -8.1 in 2005; +20 in 2006; +10 in 2007; +12.7 in 2008; - 5.3 in 2009; + 7.2 in 2010.

6. Maldives have accumulated a significant level of public capital stock following the strong investment push in the last decade. The level of capital stock has increased from 52 percent of GDP in 2004 to 68 percent in 2015. This is above EDA peer’s average of 63 percent in 2015 (figure 1d). When measured in terms of capital stock per capita, the Maldives is on par with the average for EME and well above the average of EDA (Figure 1.e).

Figure 1.D. Comparison of Capital Stock 2015 (as % GDP)

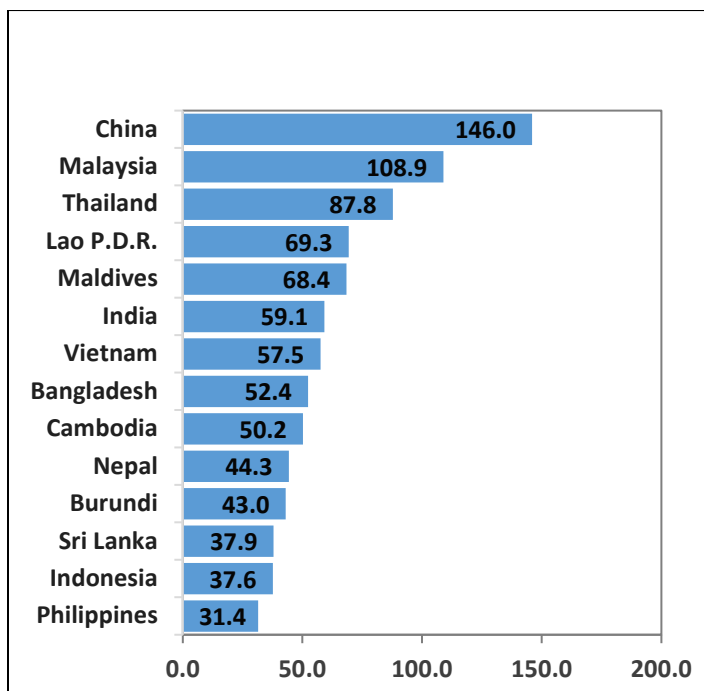
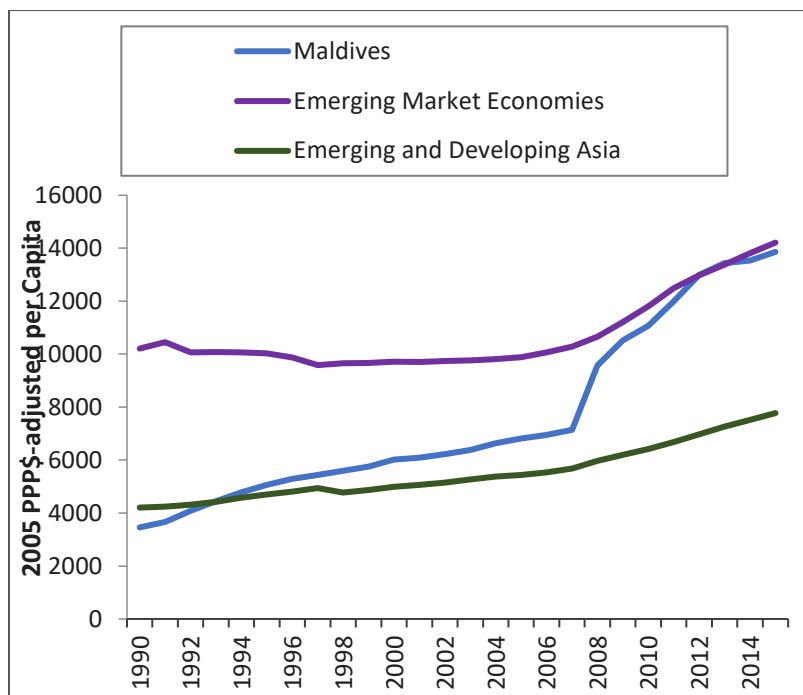


Figure 1.E. General Government Capital Stock per capita Relative to Comparable Economies (2005 PPP\$-adjusted)

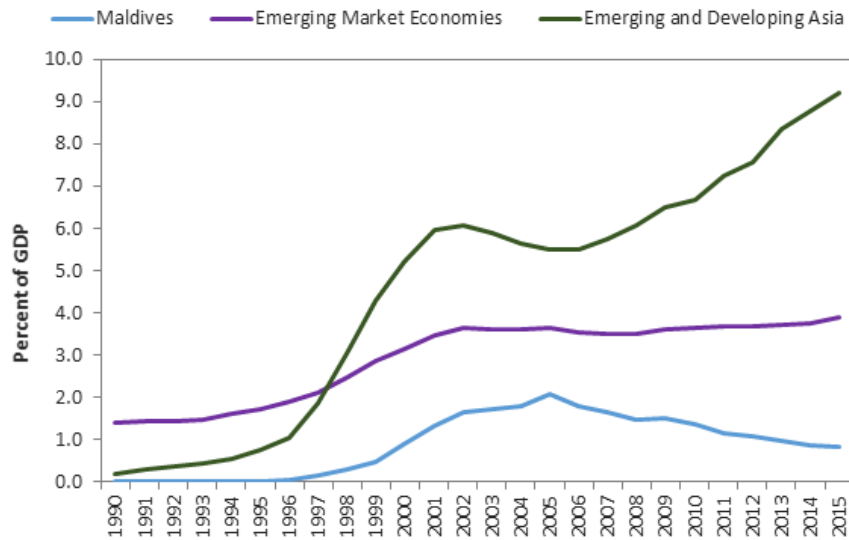


Sources: WEO and staff estimates based on official data.

7. The Maldives has a low level of PPP capital stock when compared to EDA and EMEs.⁸ In the 1990s many emerging markets began actively using PPPs instruments to develop infrastructure. The Maldives began developing PPPs in the early 2000s (Figure 1.F). In 2010 the government signed a large PPP project for nearly 500m USD to develop the International airport, however in 2012 the government cancelled this PPP contract and has recently settled a lawsuit with the relevant companies.

⁸ The data used is based on PPP contractual arrangements for public infrastructure projects that have reached financial closure, in which private parties assume operating risks. The investment amounts represent the total investment commitments entered into by the project entity at the beginning of the project (at contract signature or financial closure).

Figure 1.F. Public-Private Partnership Capital Stock (% of GDP)



Sources: WEO and staff estimates based on official data.

8. General government debt has increased significantly, and fiscal space is very limited, with current spending among the highest in the region. High levels of public sector spending, both current and capital, have resulted in a large increase of general government debt, reaching around 80 percent of GDP in 2016 (Figure 1.G). With its large-scale increase in public investment to address infrastructure gaps, the government aims to enhance growth. Current spending, however, is also very high. While the Maldives has devoted significant resources to capital spending within their budgetary spending envelope, the five-year average of current spending is by far the highest in the region, around 37% of GDP (Figure 1.h). This is also contributing to large deficits, increasing debt levels, and increased fiscal risks.

Figure 1.G. Government Balance and Gross Debt (% of GDP)

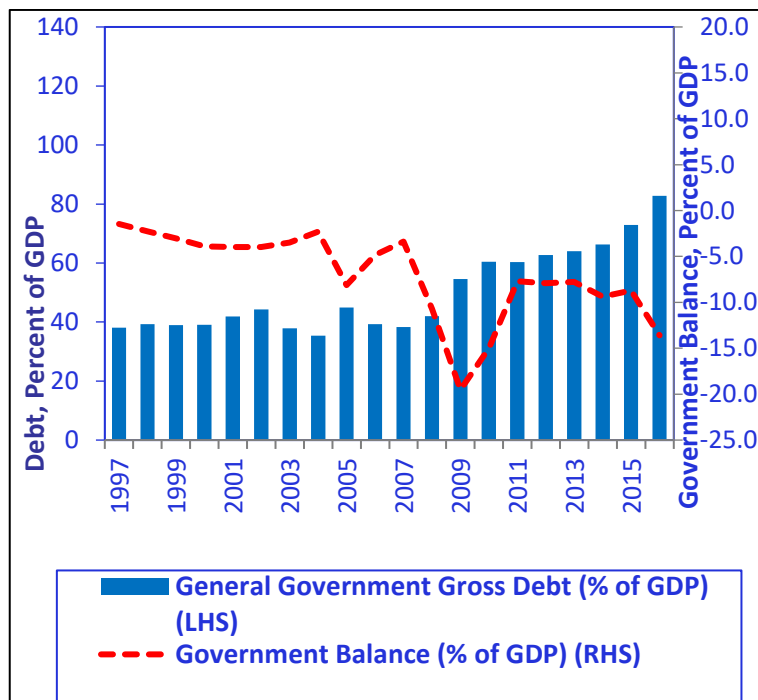
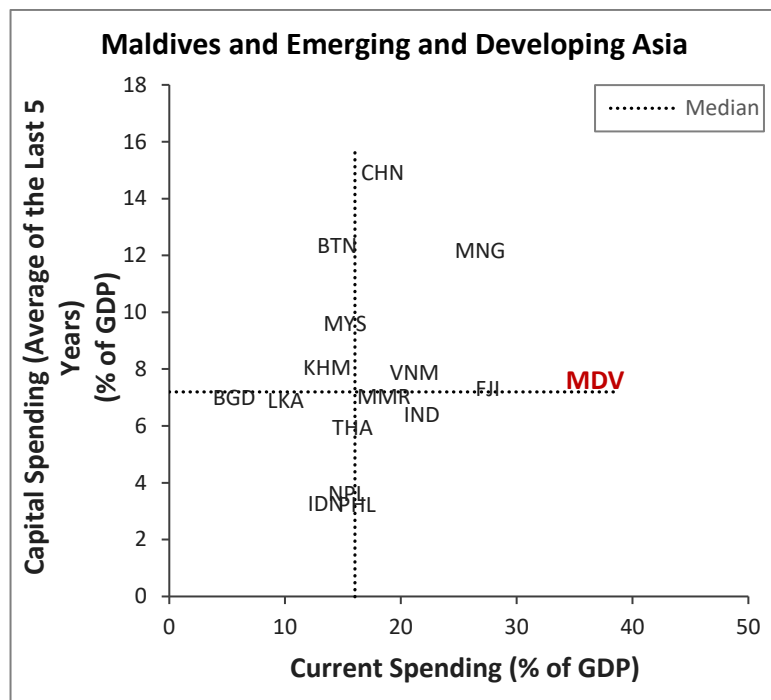


Figure 1.H. Current Spending vs. Capital Spending (Last Five-year Average as a % of GDP)



Sources: WEO and staff estimates based on official data.

9. This large scaling up in public investment aims to transform the economy, but it also brings with it large financial risks. The public investment program focuses on further developing tourism, easing constraints in the capital, Malé, and includes elements of climate change adaptation. Public debt levels, however, are already very high following persistent fiscal problems; and while the investment program could boost growth in the long run, it will substantially add to fiscal and external risks, especially given that some loans are in US dollars and other foreign currencies, in the near term.

B. Composition of Public Investment

10. In the 1980s and 1990s, to accommodate the increased tourism demand, investment focused on upgrading physical infrastructure, mainly transportation. Efforts focused on improving economic infrastructure especially airports, ports and telecommunications. During this period the country’s main airport on Hulhule Island has been upgraded, along with the main seaport in Malé. Telecommunication services grew rapidly in the 2000s to keep pace with the tourism industry. The private sector played a key role in developing infrastructure, notably in the development of the tourist resorts and the largest sea plane fleet in the world.

11. In the last five years, Maldives' public investment spending has focused more on social services, while EDA countries on average continued to focus more on economic infrastructure (Figures 1.I and 1.J). In the past five years, social services account for more than 41 percent of total public investment, with much of it in community programs. This includes the large housing program to help accommodate the consolidation of the population in key centers. Investment in the economic infrastructures (26.6 percent of total investment) is significantly lower than the EDA average (49.5 percent) because of limited investment in electricity, transportation and communication. With the mega economic infrastructure projects that are currently underway and planned, the emphasis is expected to shift again to economic infrastructure.

Figure 1.I. Public Investment by Function (Average of the Last 5 Years)

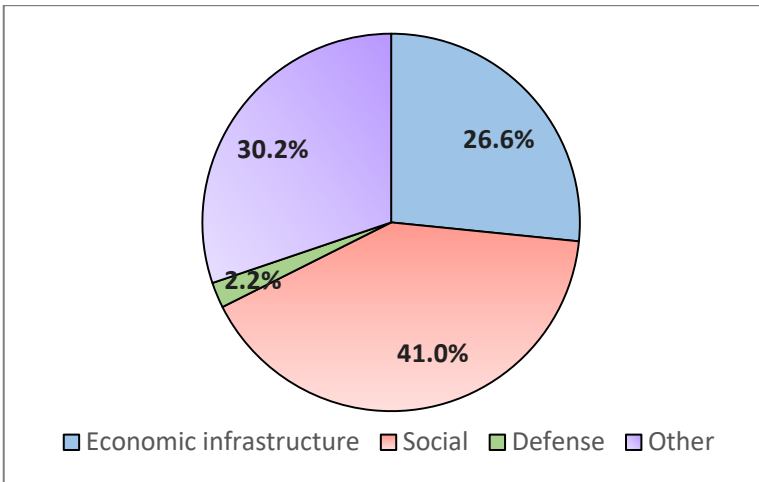
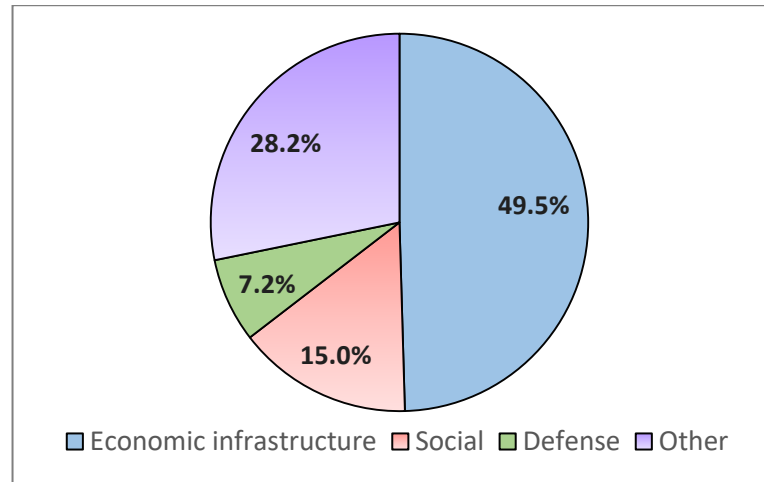


Figure 1.J. EDA - Public Investment by Function (Average of the Last 5 Years)



Source: Ministry of Finance and the Treasury of Maldives⁹

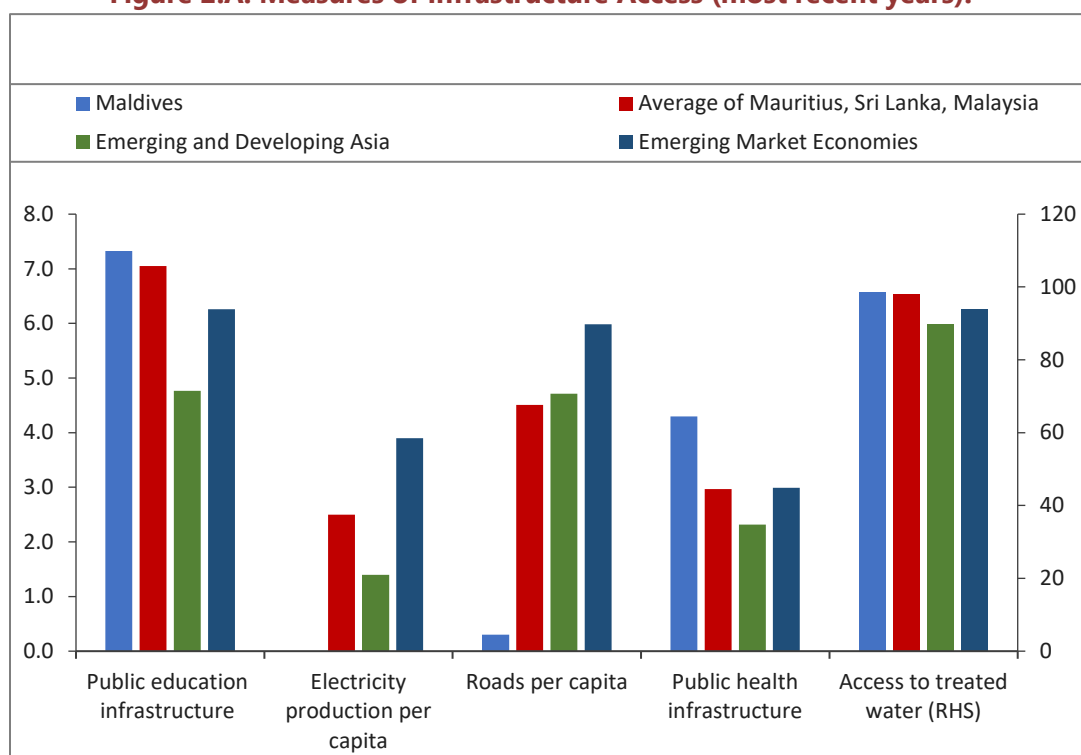
⁹ (1) "Economic infrastructure" is proxied by economic affairs and includes public investment for transportation infrastructure, among other components. (2) "Social" comprises public investment in education, health, housing, social protection, and recreation and culture. (3) "Other" includes public investment for general public services, safety and public order, and the environment.

II. EFFICIENCY AND IMPACT OF PUBLIC INVESTMENT

A. Public Investment Efficiency

12. **Physical measures of infrastructure suggest coverage and access comparable with the average for EME and EDA in education and water infrastructure with higher coverage in public health but much lower in roads (Figure 2.A).** The latter reflects the country's geography with many small islands and thus a heavier focus on sea and air transportation. There is no data available on the perception of quality of infrastructure for the Maldives.

Figure 2.A. Measures of Infrastructure Access (most recent years).¹⁰



Source: World Bank, Global Competitiveness Index, and staff estimates

¹⁰ Units vary to fit scale. Left hand axis: Public education infrastructure is measured as secondary teachers per 1,000 persons; electricity production per capita as thousands of kWh per person; roads per capita as km per 1,000 persons; and public health infrastructure such as hospital beds per 1,000 persons. Right hand axis: Access to treated water is measured as percent of population.

13. Maldives has an important investment efficiency gap, underscoring the need to improve public investment management. The indicator for physical access to infrastructure indicates relatively low efficiency in public investment (Figure 2.B). The resulting efficiency gap between Maldives and the most efficient countries is 50 percent. The gap is wider than the average gap of EME and for all countries (41 percent), but comparable to the average gap of EDA countries (50 percent, Figure 2.C).

14. There is substantial scope for the Maldives authorities to ensure an effective management of their planned infrastructure scale up. As noted in the IMF Board Paper “Making Public Investment More Efficient” (2015) there is a strong link between PIM institutions and public investment efficiency. Addressing the weaknesses and gaps in public investment management identified in the next section of this report would help to increase the efficiency of capital spending in the Maldives.

Figure 2.B. Efficiency Frontier, Physical Infrastructure (2008-2015)

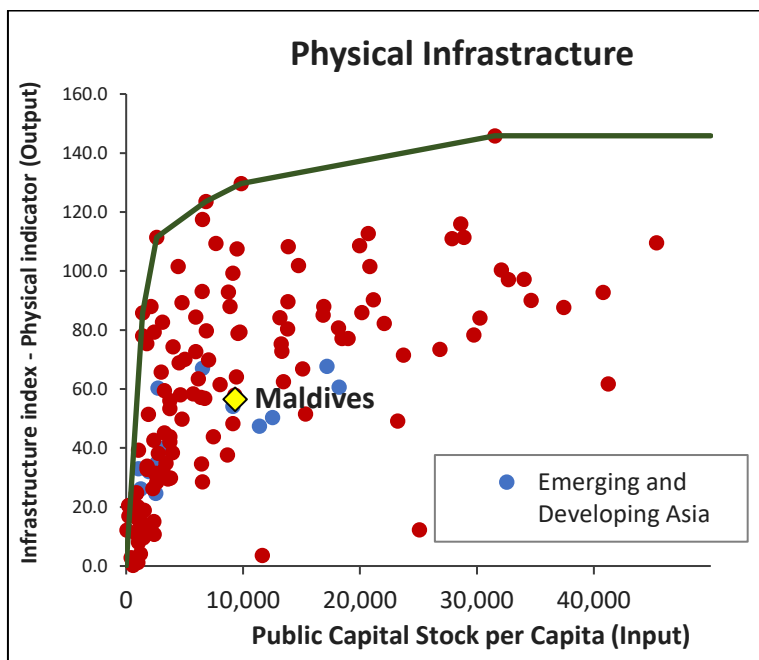
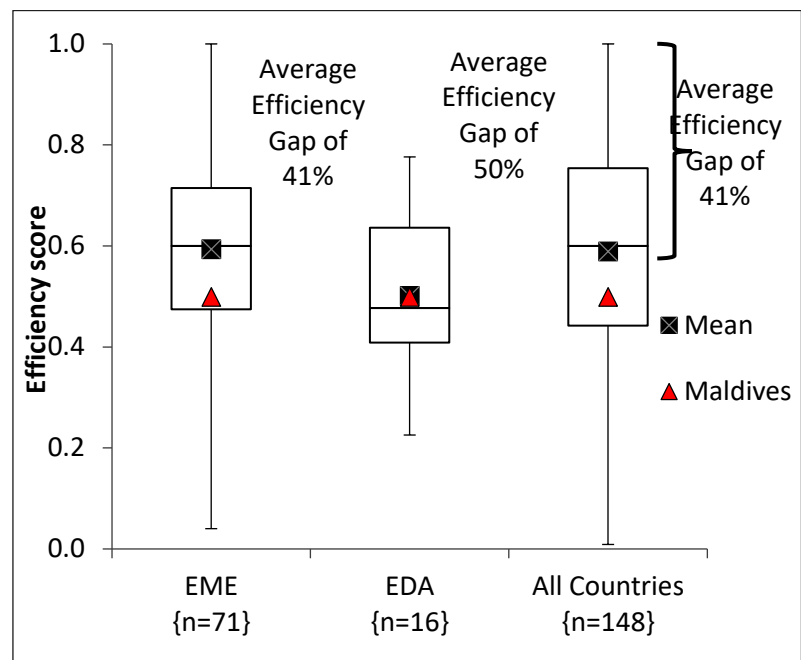


Figure 2.C. Efficiency Gap, Physical Infrastructure, (2008-2014)



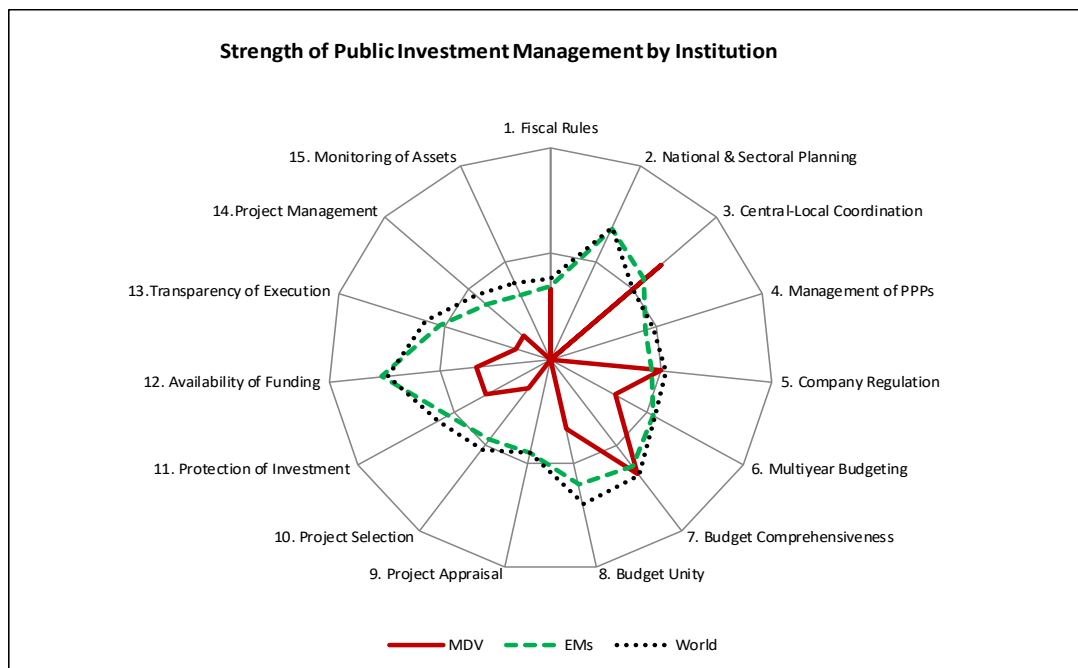
Source: Staff estimates

III. PUBLIC INVESTMENT MANAGEMENT INSTITUTIONS

A. Overall Assessment

15. The Maldives public investment institutions, when compared to EME and all countries, have some important design gaps and significant implementation gaps. Figure 0.A gives an overview of the strength of the Maldives’ PIM institutions compared with EMEs and all countries. As summarized in Figure 3.A Table 0.1 and Appendix 1, public investment institutions present weaknesses in all phases of the investment management process: planning, allocation but especially in the implementation and execution stage. There are also areas of relative strength the Maldives has comparable to EMEs in central-local coordination, company regulation, and budget comprehensiveness. All institutions are assessed as medium or low in terms of their effectiveness.

Figure 3.A. Institutional Strength of Public Investment Management Institutions



B. Investment Planning

1. Fiscal Rules (Strength – Medium; Effectiveness –Low)

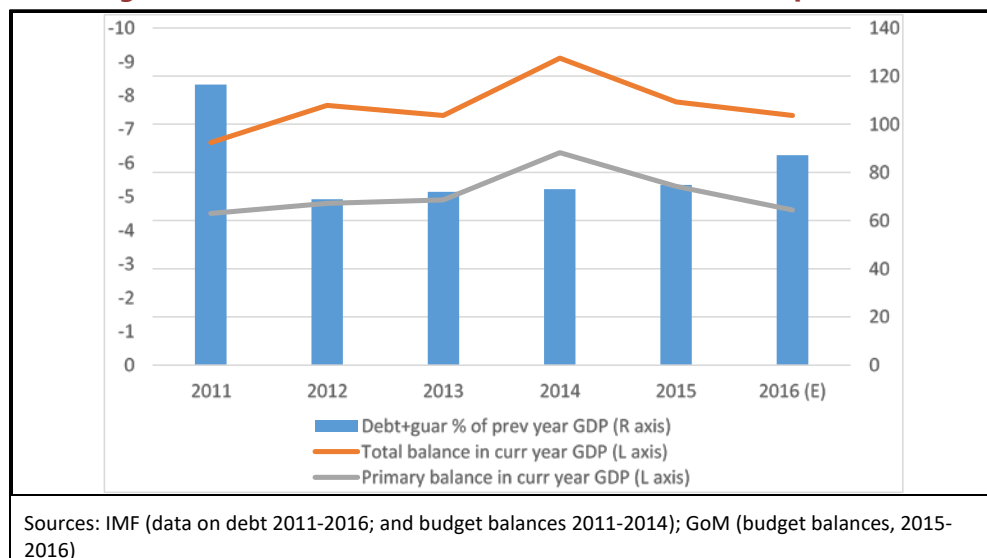
16. The Fiscal Responsibility Law (FRL) which was enacted in 2013, contains fiscal rules for central government debt and total and primary balances. The debt rule specifies a limit on government debt plus government-guaranteed debt as a share of the previous year’s GDP (60

percent of GDP), to be achieved by 2017.¹¹ The budget balance rule specifies that the total deficit balance should be no higher than 3.5 percent of current year's GDP and the primary surplus should be in surplus by January 2017.

17. The FRL contains numerical target limits for the sum of public and publicly-guaranteed debt and for the total and primary balances. The 2017 budget shows the planned levels for both total and primary balances are within the stipulated limits, but the revised expected total and primary balance for 2016 are estimated at -7.4% and -4.6%, respectively. The target for the maximum debt limit¹², at 60% of the previous year's GDP by 2017, is unlikely to be met. Figure 3.B shows the recent evolution of the shares of debt and deficit in GDP. There are no limits on other government liabilities or on net worth.

18. For the 2017 planned budget, the government indicated that the fiscal rules did appear to guide the direction of planned fiscal policy. The fiscal parameters in the approved 2017 budget show a government estimated total budget balance of 0.5% of GDP and a primary surplus of 1.7%, based on government GDP figures, both within the specified FRL limits. Compared to its original budget ceilings for 2017, the government reduced planned current spending in the final budget by about 12 percent. This was also to protect PSIP expenditure.

Figure 3.B. Evolution of Debt and Deficit (2011-2016 per GDP)



19. However, the actual pace of debt and deficit reduction in recent years suggests that achieving the objective of a sustainable level of debt will be challenging. Public debt (excluding publicly-guaranteed debt) is estimated by the government to be around 64 percent of

¹¹ In accordance with a provision in the Law, the President suspended the implementation of a number of sections including those for the fiscal rules for 12 months (until 6 May 2014), but it is assumed that this suspension did not affect the target date for achieving the debt limit.

¹² Including publicly-guaranteed debt.

GDP at the end of 2016; including publicly-guaranteed debt this figure increases to an estimated 83 percent.

20. MOFT prepares a Fiscal Policy Statement annually and is developing a Medium Term Fiscal Framework (MTFF), covering a three-year period, to improve the analytical basis for setting fiscal policy. However, the fact that the FR is not presented to Parliament before the beginning of the budget process nor published limits its effectiveness at providing strategic guidance for the budget. The government has recognized the importance of a robust set of fiscal rules that are realistic and provide a balance of fiscal control and appropriate flexibility to take account of fiscal and political realities. Discussions on preparing an amendment to the FRL are currently ongoing.

21. The law includes a provision allowing rules to be suspended in exceptional circumstances, including natural disasters and economic downturns. The criteria for determining exceptional circumstances are set out in the law. In these cases, the suspension needs to be approved by the legislature. Suspension of the rules has not taken place since the law's promulgation.

22. The FRL does not include explicit rules on capital expenditures. The limits on aggregate and primary fiscal balances include both current and capital expenditures. A clause requires the government to borrow only for national development projects and to facilitate improved productivity, but this is not necessarily restricted to capital expenditures.¹³ In the Maldivian context, setting out a specific minimum level for public investment expenditure, for example, would be unlikely to facilitate achievement of the desired result because of systemic weaknesses in public investment planning and implementation.

2. National and Sectoral Planning (Strength – Low; Effectiveness – Low)

23. The government does not currently have a national strategic plan for public investment, nor does it have a national planning process in place. Government's investment plans are broadly based on its Manifesto pledges, set out in its 2013-2017 platform document.¹⁴ The Manifesto is a high-level document containing broad policy objectives, and is not considered a comprehensive national development strategy for guiding public investment planning. While some of the pledges in the Manifesto include intended expenditure allocation amounts, the document does not contain costing information for any of the policies or activities. The manifesto also includes some of the "Mega projects" that are under way (See Box 3.1).

¹³ This clause applies from 1 January 2016.

¹⁴ Manifesto of the Progressive Party of the Maldives (2013-2017), Working Document (Unofficial English Translation).

24. Some sectors (e.g., health, tourism, education) have prepared master plans¹⁵ but plans are not systematically prepared by all sector ministries nor do they include costing information. The current publicly-available plans are health and tourism.¹⁶ Some of these plans are longer-term in nature (e.g., the health plan covers a ten-year period from 2016-2025), while others, such as the Tourism Master Plan, cover the medium term (e.g., four years).¹⁷ A review of the documents and discussions with stakeholders suggest that the plans are not necessarily explicitly and comprehensively centered on the Manifesto pledges, nor were they systematically updated following its publication. In practice, relatively few sectors currently have such plans in place, and none of the plans contains information on the costs of the measures.

25. The sector plans do not include measurable targets for the outputs and outcomes of investment projects. The tourism sector master plan contains a desired outcome for each activity or objective but, in most cases, there are no indicators set out, nor baselines established, to measure progress towards the achievement of the desired outcome. The health master plan contains a monitoring and evaluation framework, with specific performance indicators for each outcome in the plan, but without any baseline figures or targets for the medium term.

Box 3.1. Mega-Projects in the Maldives

As part of its emphasis on expanding infrastructure to support economic growth, the government is planning to scale up spending on mega-projects. Those currently planned or under way include the development of Ibrahim Nasir International Airport (cost estimate: USD 731.10 million), a road bridge connecting the airport to the capital (cost estimate: USD 181.31 million), continued investment in new housing developments along with the relocation and expansion of the port. Of these mega-projects, the authorities have signed an agreement for US\$373 million with China's Exim Bank (runway and fuel farm) and have also received commitments for some of the other costs related to the airport development (signed loans with KFAED, SFD and OFID for USD 198.94 million), including US\$40 million from the Abu Dhabi Fund and US\$25 million from the OPEC Fund. An implementation agreement with China's Exim Bank for the road bridge project has also been signed. In addition, the authorities signed three other external loans in 2015 – US\$80 million with Saudi Fund (housing development), US\$6 million with the Abu Dhabi Fund (waste management) and US\$50 million with OPEC Fund (water and sewerage project).

Source: IMF staff

3. Central-Local Co-ordination (Strength – Good; Effectiveness – Good)

26. There are limits on the total and individual borrowing of sub-national governments, but in practice local governments have not borrowed to date. The FRL enables the Minister of Finance to set the aggregate total debt of local councils annually based

¹⁵ The plan for education is a high-level strategic document, listing key strategies in the sector, rather than a master plan.

¹⁶ The largest spending ministries for public investment are the Ministry of Housing and Infrastructure and the Ministry of the Environment and Energy.

¹⁷ The time period covered by the education plan was not clear in the draft provided to the mission team.

on national debt. The Minister of Finance has set the current limit at zero, and, in practice, local councils do not appear to be incurring debt. The Decentralization Act includes a clause permitting borrowing by local councils up to specified limits “stipulated in the Act” but no limits are included in the Act.

27. The FRL includes a limit for borrowing by individual sub-national governments.

Individual local councils (comprising city councils, island councils, and atoll councils) may borrow, obtain a government guarantee or seek financing (e.g., from PPPs), including for development projects, in an amount up to a total of one-third of the council’s income of the previous financial year. However, in practice, no council has been approved to borrow.¹⁸

28. Local councils’ capital spending plans are coordinated with those of central government spending agencies.

The Decentralization Act specifies the expenditure responsibilities assigned to local governments (e.g., municipal services), and the budget process to be followed by local councils. In practice, given the limited resources of local councils, the financing of public investment at the local level is provided from the central government’s budget. The central government agency responsible for liaising with local councils is the Local Government Authority (LGA). The projects put forward for financing through the central government in service areas for which local councils have delegated expenditure responsibility are determined jointly by the local council and the LGA.

29. Local councils prepare their public investment project proposals based on their five-year development plans, which reflect the needs of the local population.

The project proposals are submitted to the LGA, which reviews the proposals of all local councils, particularly for consistency with the relevant council’s development plan. In a manner similar to other MDAs, LGA forwards the project proposals to the MOFT and from there to the President’s Office.

30. Capital grants are not provided to local councils.

Because of the small size of many islands and the relatively limited capacities of some councils, central government undertakes the implementation of public investment on their behalf through the LGA. Block grants are provided to local councils for recurrent expenditures but the horizontal distribution to local councils is not determined through the use of a formula; the approved grant amounts to individual local councils (for recurrent expenditures) are set out in the budget document.

¹⁸ No specific approval process for councils seeking loans is set out in the Decentralization Act, but the provisions of the Public Finance Act on all State borrowing apply.

4. Public-Private Partnerships (Strength – Low; Effectiveness – Low)

31. The central government has entered into a number of contracts in recent years which may be broadly defined as public-private partnerships (PPPs)¹⁹; however, there is no government strategy for PPPs nor are there any published standard criteria. Currently, there are PPPs and/or contractor-financed projects in the sectors of health, housing, energy, and tourism, mainly for infrastructure development. However, there is no legislation nor regulations specifically covering PPPs²⁰, and there is a lack of clarity about the government's definition of PPPs. The current financial regulations do not include explicit rules setting out the budgeting and accounting practices to be used for PPPs.

32. Fiscal oversight of, and technical support to, PPPs appears relatively limited. The Privatization and Corporatization Board (PCB), the government's oversight body that deals with procedures for privatization, corporatization, evaluation and the monitoring of State businesses, does not have an explicit fiscal oversight role, nor does the MOFT.²¹ PPP proposals are approved by the Economic and Youth Council, a Cabinet subcommittee, but without an explicit requirement for review by MOFT. Financial and physical monitoring of PPP projects is overseen by the President's Office, *for major projects*, but these reports may not systematically be provided to MOFT.

33. There is no dedicated PPP unit in the government with relevant legal and technical skills, and value-for-money reviews are not systematically conducted. While a feasibility study would be expected to be carried out for PPP proposals, they are not systematically subject to value-for-money reviews before approval.

34. The accumulation of explicit and contingent PPP liabilities is not systematically controlled and recorded, however, some information on PPPs is included in the budget documents. A list of PPPs is included in an annex to the budget; however, it appears not to be comprehensive of all types of non-traditional financing of projects, such as contractor-financed projects, and the budget document does not provide information on government guarantees.²² Most PPPs are implemented by SOEs, and for those funded by government-guaranteed SOE

¹⁹ Including contractor-based financing. PPPs in the Maldives have undergone nomenclature changes according to administration. The previous administration's PPPs (including small scale projects which appear more like charitable initiatives by the private sector, e.g., the building of mosques) are still being implemented. The present administration has initiated Contractor Financed Projects, which appear akin to PPPs.

²⁰ Stipulations regarding public-private partnerships appear in the Fiscal Responsibility Law only in relation to local councils.

²¹ It is noted that the PCB Secretariat is based at MOFT.

²² Information is limited to location, status and total project costs for the forthcoming budget year for each PPP. Some PPPs are not included in the budget annex as the MOFT is dependent on MDAs to send in the required information, which is not necessarily the case.

loans, the guarantees are recorded by the Resources Mobilization and Debt Management Division (RMDMD) of MOFT²³; total (including future) PPP liabilities are not recorded by RMDMD.

5. Regulation of Infrastructure Companies (Strength – Medium; Effectiveness – Medium)

35. The regulatory frameworks provide for competition in some, but not all, public utility sectors. The legislative framework for public utility provision comprises broad legislation (e.g., the Public Utilities Act for electricity, water and sanitation), and a limited set of regulations. Regulations for private sector activity in some sectors (e.g., electricity and water) are not in place, though some draft regulations have been prepared. In practice, participation by domestic private operators takes place in the transport and telecommunications sectors,²⁴ but infrastructure and services in other sectors, specifically electricity, water, and sewerage, are provided by state-owned enterprises.

36. Prices for the main public utilities are set by semi-autonomous regulators, but they are not set on the basis of objective economic criteria. The Maldives Energy Authority, covering electricity, and the Environmental Protection Agency, covering water and sanitation, do not have complete institutional or financial independence. Although the agencies are separate institutions, they are institutionally under a Minister, and their budgets are determined using the normal government budget process. Neither is regulated by an Act. There is significant cross-subsidization in the setting of utility prices for consumers.

37. SOEs play a critical role in the economy and in the delivery of public services, through PCB, the government reviews the financial performance of SOEs but does not review or publish a consolidated report on their investment plans or financial performance. SOEs represent over 50 percent of GDP and 18 percent of the total workforce, there are around 97 SOEs.²⁵ Their economic impact is concentrated in 17 fully and 8 partially owned SOEs.²⁶ The MOFT, in conjunction with the President's office, reviews the investment plans for projects requiring budgetary funding or a guarantee only, but does not systematically review the investment plans of SOEs. The government has made progress in recent years on improving oversight of SOEs with the establishment of the PCB, and further reforms are ongoing. A country case study of improving SOEs oversight is presented in Appendix 3 (Seychelles).

²³ But not shown in the budget.

²⁴ With the latter operating under the Telecommunications Regulations, 2003.

²⁵ The Government of Maldives defines SOEs as any entity with a state participation of 5 percent or higher.

²⁶ Republic of Maldives, The Governance of State-Owned Enterprises, World Bank, June 2016.

C. Allocating Public Investment

6. Multi-Year Budgeting (Institutional Strength—Medium; Effectiveness—Low)

38. The annual budget documentation contains multi-year projections of capital spending. Projections cover a three-year horizon (next fiscal year and two future years) disaggregated by ministry and project.

39. Despite capital spending projections being published in the budget, there are no multi-year or annual ceilings on capital expenditure, and no ceilings are set during the budget preparation process. Total expenditure and revenue scenarios over the medium term are laid out in the MOFT. The recurrent ceilings are then transmitted to MDAs in the Budget Call Circular. The lack of capital budget ceilings results in extensive requests from MDAs to MOFT for projects to be included in the capital budget. These are listed in order of priority with ongoing projects taking precedence over startups. This list is then subject to discussions between MOFT and MDAs to improve the quality of submissions, before all or most are passed on to the PO for the final decision to be made regarding inclusion in the budget. For the 2017 budget the initial list consisted of over 3000 projects, and the final list just 679 projects. The approved PSIP budget was MVR 8 billion for both foreign and domestically financed projects. MVR 4.37 billion was allocated for domestically financed projects.

40. The MOFT establishes current expenditure ceilings for the budget year by spending category and Ministry. The balance of the resource envelope is assumed to be for ongoing and new capital projects, but this is not allocated by ministry or project nor communicated to the ministries. The lack of a concrete ceiling combined with unconstrained bidding undermines prioritization and leads to a situation where the demand for capital spending exceeds the balance of the resource envelope.

41. The full capital cost of major projects is published in the budget documentation, however, life cycle costs are not. The recurrent implications of capital projects are not included, despite these figures being a requirement of the original PSIP forms submitted by MDAs to the MOFT during the budget process.

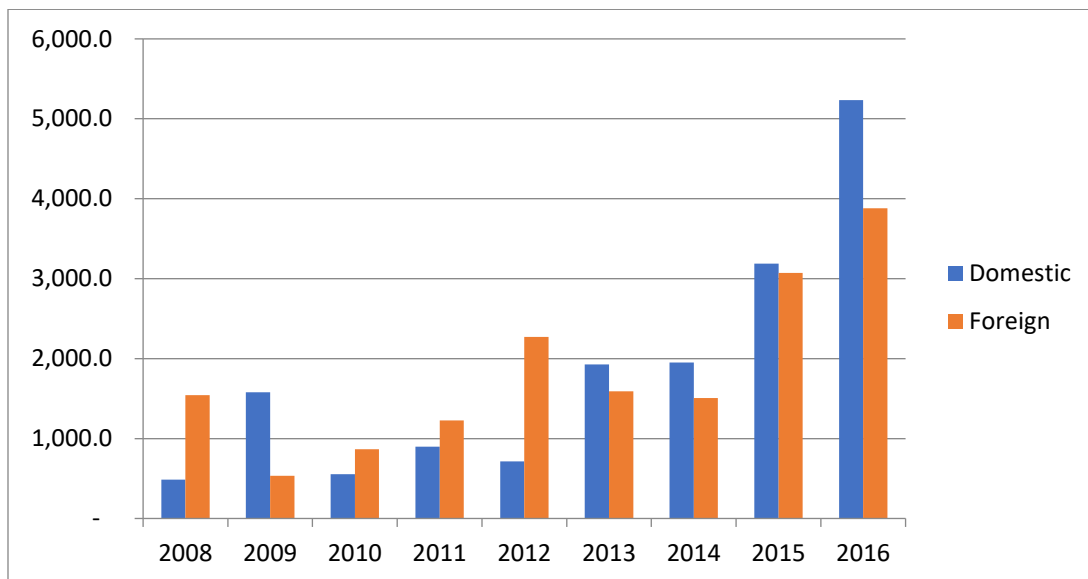
7. Budget Comprehensiveness (Institutional Strength—Medium; Effectiveness—Medium)

42. The budget presents a relatively comprehensive picture of capital investments. While significant capital spending is undertaken by SOEs, most is captured in the budget documentation. Most capital projects are included in the budget documentation, although some capital projects are initiated during the year with the approval of the PO. In addition, some SOEs initiate projects using their own resources, which are not captured in the documentation. It should also be noted that spending under guarantees is captured but the potential liabilities stemming from government guarantees are not comprehensively recorded (see Appendix 4 for list of selected government guarantees).

43. The largest SOE by value of PSIP implementation works is the Maldives Transport and Contracting Company (MTCC). It currently implements works on behalf of the Ministry of Housing and Infrastructure and also by request from other ministries and the PO. It can on occasion be asked to implement projects not budgeted for (making virements from other projects), but in general all its operations are on budget.

44. Externally financed capital projects are included in budget documents and integrated into ministerial budgets. The budget documents contain information on the projects funded by both external and domestic funders. The information is presented by project and by line ministry. The budget documents also contain information on loan-financed components of projects. However, these are presented separately from government-funded projects making it difficult to identify total costs where there is a blend of financing from both sources. Development partner grants are provided in detail in budget documents, although whether they are fully or partially capital in nature is not easily identifiable. Figure 3.C below shows the PSIP budget divided by domestic and foreign financing, the importance of foreign finance is decreasing in recent years. As discussed in Section D foreign financing has a lower execution rate than domestically financed projects.

Figure 3.C. Budgeted PSIP Expenditures: Domestic and Foreign Financing (MVR million)



Source: MOFT, MTEF 2008 - 2019

45. The absence of consolidated information on capital investments weakens fiscal transparency. The projections of capital spending presented in various budget documents do not include cross-references to funding sources or projects. There is no indication of whether a government-financed project cofinances a loan project or if a loan-financed project is partially government-financed. Similarly, the donor financed projects make no reference to the government’s financial participation. Consequently, it is difficult to obtain a full picture of the

capital investments funded by different sources. There is no comprehensive list of projects that have received government guarantees. The lack of a transparent presentation that identifies project funding sources complicates tracking total project costs and can distort overall fiscal analysis.

46. Information on most PPP transactions is integrated into the budget

documentation. PPPs in the Maldivian context represent a mix of PPPs and small-scale projects which appear more like charitable initiatives by the private sector, e.g., the building of mosques. None have been agreed or initiated in the last two years. PPPs, as understood in the international context (shared risk between private and public sectors), are now designated as Contractor Financed Projects. Budget documents contain information on all contractor financed projects, integrated into the domestic capital budget, as they all have to pay an instalment from the domestic budget. Information is limited to location, status and total project costs for the forthcoming budget year for each PPP. Some PPPs are not included in budget documentation as the MOFT is dependent on MDAs to send in the required information, which is not necessarily the case.

8. Budget Unity (Institutional Strength—Medium; Effectiveness—Low)

47. Capital and current budgets are presented together in the budget, however the budget preparation process is divided between the MOFT and the Office of the President.

Whereas the MOFT is responsible for proposing the overall fiscal envelope and the parliament takes the final decisions regarding budget allocations, the actual preparation of the capital budget is separated from current budget preparation. A general budget circular that outlines the budget submission requirements is sent out by the MOFT, requiring MDAs to submit recurrent estimates according to a ceiling (which they sometimes do not), and also a list of projects for selection into the, as yet, unconstrained capital budget. These projects should complete a project fiche, but there is no guidance for the appraisal or selection of projects. The lists of capital projects are then scrutinized by MOFT, and discussed with MDAs with respect to both technical and financial details. No capital projects are rejected at this stage, and all are forwarded to the PO to undergo the selection process. Appendix 5 provides a description of how the current capital budget process operates.

48. The PO now handles capital budget preparation in a process that largely combines project appraisal, selection and budgeting in a single step.

The approved list of capital projects is then aggregated to form the de facto capital budget ceiling. The separation of capital and current budget preparation leads to fragmentation, sub-optimization and lack of consistency between different parts of the budget, whereas the failure to separate project appraisal and selection in two different process steps undermines the consistency and integrity of both. Consistency is particularly important when there is a need to recognize the ongoing costs of an asset and its implication on the current budget.

49. The budget does not include appropriations for recurrent costs associated with investment projects. The budget circular for the preparation of budget submissions for capital budgets does require an assessment of future current expenditure associated with the proposed project, though this is not integrated into future budget discussions. It is also unlikely that such figures are costed robustly. This means that the MOFT does not have a detailed understanding of the likely cost implications of capital investment projects. All major capital investments require current expenditure—such as administration or maintenance fees—to deliver the intended results. In some cases, current expenditure may, over time, exceed the capital cost. With the existing separation of capital expenditure from the current budget there is a risk of underestimating the full fiscal impact associated with capital projects.

50. The operations and maintenance elements of the budget are treated as a residual and are therefore under budgeted in recent years. In approving and developing specific projects the focus appears to be on implementation, with little regard to the associated future recurrent costs. This is unsurprising as capital investment decisions are made without reference to life cycle costs and management. In addition, cuts made to the capital budget are made to maintain or increase current expenditure. The following table indicates the volatility of maintenance expenditures during a period when the capital stock has been expanding.

Table 3.1. Maintenance Expenditures 2012-19 (MVR Million)

Actual	Actual	Actual	Actual	Projected	Budget	Projected	Projected
2012	2013	2014	2015	2016	2017	2018	2019
184.8	93.1	206.6	380.4	214.9	106.2	93.8	94.6

51. The budget classification and chart of accounts distinguishes clearly between current and capital expenditure and financing using the IMF’s Government Financial Statistics (GFS) 2001 guidelines. This classification is also followed in the budget documentation. Whilst the weaknesses of the implementation of the classification and chart of accounts is well documented²⁷, the classification does allow for clear distinction between capital and recurrent. The use of the Chart of Accounts, is often compromised by MDAs which enter project costs on one line-item instead of disaggregating them into salaries, operations and maintenance. A new Chart of Accounts is being developed and the government hopes to implement it quickly.

²⁷ Maldives. Designing A New Budget Classification and Chart of Accounts, IMF FAD June 2016

9. Project Appraisal (Institutional strength—Low; Effectiveness—Low)²⁸

52. With the exception of donor and foreign financed projects, capital projects are not systematically subjected to cost-benefit analyses. Project appraisal occurs, to some extent at MDA level. There is no independent project appraisal following technical guidelines. Investment projects are submitted during budget preparation in the first instance to MOFT, along with a project form which contains some appraisal information, however it is regularly not completed. MDAs indicate the priority of projects for implementation. These projects are then reviewed by MOFT, but not according to any guidelines. The focus is on discussing costings and also on establishing whether projects are ongoing or new.

53. There is no standard published methodology or central support for project appraisal, and there is no evidence that risks are systematically assessed as part of project appraisal. The results of appraisals, as such, are not published, and there is no clear evidence that projects are subject to a rigorous appraisal process. Documents regarding the capital budget contain no references to internal rates of return, impact analyses or sustainability considerations. The MOFT indicated that the review of budget submissions for capital projects by line ministries primarily focuses on readiness for implementation.

10. Project Selection (Institutional strength—Low; Effectiveness—Low)

54. There is no independent quality assurance of project appraisals. There is no PIM framework or project pipeline and, as a result, projects can enter the budget at different stages of the cycle. In addition to submissions under the Budget Call Circular, MDAs together with local councils and MPs can all lobby the PO and parliament for the inclusion of projects even for initiation during the financial year. As mentioned above, MOFT has a mandate to undertake a review of all projects submitted for PSIP consideration. MOFT provides advice to the PO on the merits of investment projects and their overall prioritization. The final selection and prioritization of investment projects is done by the PO.

55. There are no published, standard criteria for project selection. Various criteria such as population served and adherence to the manifesto as well as whether island projects have had investments in the recent past are not considered. Also, it is not possible to see which criteria influenced the decisions and what impact these criteria had. Such information would provide valuable guidance to future project submissions.

56. The Government does not have a project pipeline of approved projects for inclusion in the budget. Projects that are not selected do not constitute a project pipeline in the normal sense. These projects are simply returned to the MDAs with a high likelihood that they will be resubmitted in the following FY for consideration. A project pipeline typically comprises projects that have been thoroughly vetted, are fully in line with project requirements and

²⁸ This assessment refers to projects financed by the government. Loan-financed projects are usually subject to rigorous appraisals required by the lender.

government priorities, and have a high likelihood of future approval and funding (See Appendix 5 for an example of a project pipeline). No projects are rejected on the basis of the appraisal process, which reinforces the impression that this process is fairly limited.

D. Delivering Productive and Durable Public Assets

11. Protection of Investment (Strength—Medium; Effectiveness—Low)

57. The outlays for public investment projects are provided on an annual basis, however, the budget includes project projections for the current year plus two years ahead and information on the total project construction costs. The annual budget documentation presents an annex with the PSIP projects listed and the following information for each project: agency responsible; location; status (ongoing, new, tendered, awarded); total construction costs, and estimates for two outer years. The documentation does not disclose the amount already spent on the project, nor the total of any carryovers from previous years.

58. The annual budget is not currently subject to an appropriation act, and the Parliament (“Majlis”) formally approves the overall expenditure envelope. This means that allocations for public investment are not binding, allowing significant reallocations during the fiscal year that are necessary to execute the budget at the MDAs level.

59. In-year reallocation (“virements”) from capital to current spending are not restricted and do not protect capital spending. The Public Finance Regulation (PFR - Article 4.09) prescribes that the MDAs shall submit their requests for virements to the MOFT for approval. In practice, virements between projects and the redeployments between the administrative sectors during budget implementation, are significant²⁹, contributing to a further change in the composition of expenditure during the fiscal year, penalizing investment and limiting the credibility of the budget. Requests for increased expenditure, both capital and current, during the budget year are mostly accommodated as the execution rate of capital expenditure is low resulting in space for reallocations. In addition, MOTF oversees a significant contingency budget (supplemented by “funds” from poorly executed projects) which can accommodate requests. Much of this contingency is used to pay pending bills.

60. There is currently no rule on whether unspent appropriations for capital spending can be carried over to future years. Only unspent appropriations for externally financed capital spending may be carried over. The unexpended balance of an appropriation lapses at the end of the financial year for which it is made, and the MDAs must request a new allocation in their appropriations for the forthcoming budget year. Nevertheless, ongoing projects are prioritized for funding during budget preparation.

²⁹ Based on the information provided by the MOFT, more than 2000 virements have been approved in 2016 related to the PSIP budget (around 10% of them concern virements from capital to current expenditures approved by the MOFT Budget Committee).

61. In practice, policies and procedures are in place to guarantee that ongoing projects are not delayed to start new projects. In preparation of the budget, while the legal framework allows ministries to propose new projects to the budget without any restrictions. Both MOFT and the PO give priority in resource allocation to ongoing projects. Priority of funding is also given during the fiscal year to ongoing projects to ensure completion before starting new projects. This priority is so strong that MDAs regularly attempt to initiate new projects within ongoing project budget submissions.

62. Under-execution of the capital budget has been significant (Figure 3.D). A large percentage of the PSIP program has not been implemented (54 percent of implementation on average for 2013 – 2015; see Figure 3.E). The foreign PSIP in particular is often under-executed because of optimistic expectations of project progress (16 percent implemented in 2014, and 23 percent in 2015 – see Figure 3.F).

Figure 3.D. PSIP Actual versus Approved (2008 – 2016)

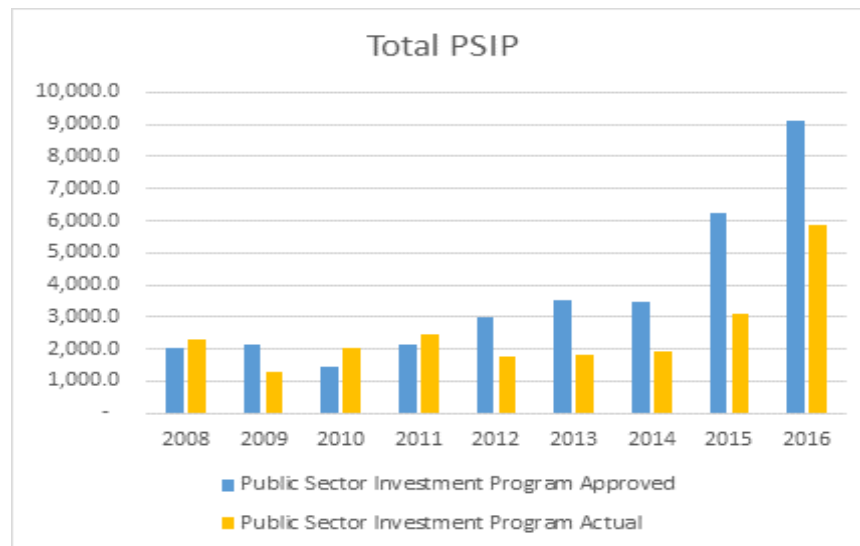


Figure 3.E. PSIP Domestic Actual versus Approved (2008 – 2016)

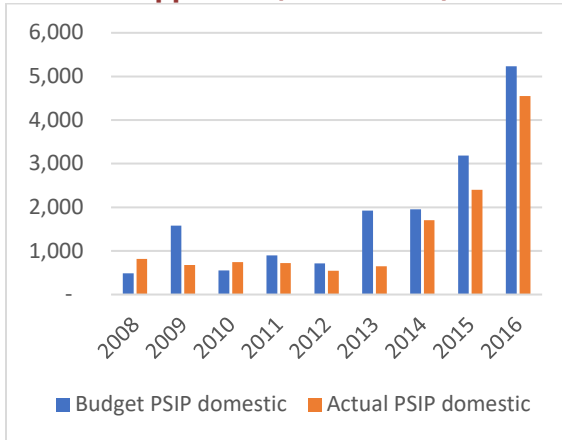
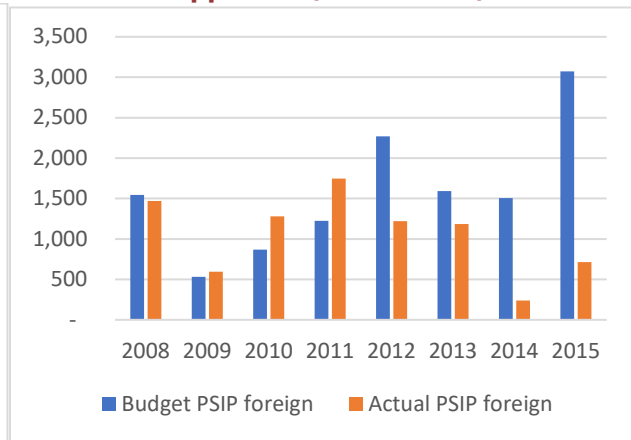


Figure 3.F. PSIP Foreign Actual versus Approved (2008 – 2016)



Source: MOFT, MTEF 2008 - 2019

63. Money is reallocated to under/unbudgeted recurrent expenditure, such as wage, pensions and subsidy increases. For example, in 2014, wages and pensions were unexpectedly increased. In 2015, subsidies were budgeted below the 2014 actual, but then 2015 actual surpassed 2014 actual (Figure 3.G) The deviation of the domestic budgeted versus actual PSIP has its mirror image in the deviation of budgeted and actual recurrent expenditure (Figure 3.H).

Figure 3.G. Current Budget Actual versus Approved (2008 – 2016)

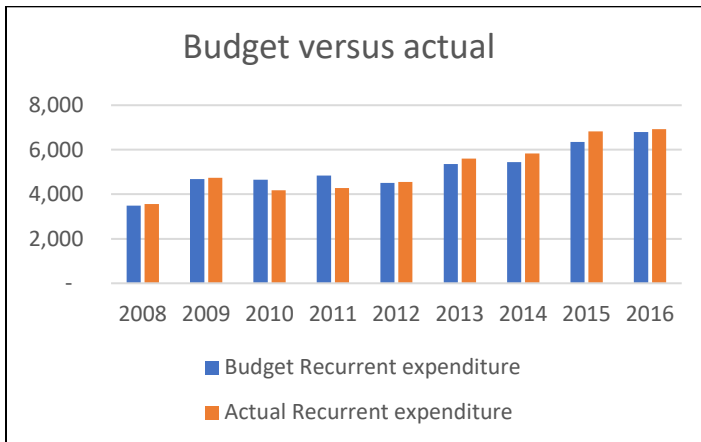
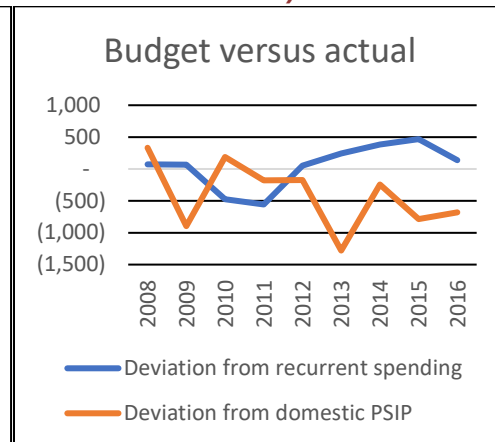


Figure 3.H. Deviation Domestic Budgeted/Actual PSIP (2008 – 2016)



Source: MOFT, MTEF 2008 – 2019

12. Availability of Funding (Strength—Medium; Effectiveness—Low)

64. Cash management remains weak, cash flow statements are not prepared and MDAs are not provided with commitment ceilings in a timely manner. As stated in the 2014 Public Expenditure and Financial Accountability (PEFA) Assessment, and several technical assistance

reports³⁰, revenue forecasting has improved, but overall cash flow forecasting and management remains weak. Spending ministries are not provided with reliable information on the resources available to them for capital expenditure. A few agencies provide cash flow projections. There is no apparent adherence to a formal forecasting calendar, and little evidence of: (1) commitment or procurement plans provided by MDAs and SOEs; (2) review of the forecasts submitted, systematic periodic updating of forecasts, using them in determining quarterly spending authorizations; (3) coordination with the international and domestic borrowing program; or (4) the basis for any form of active cash management. Unrealistic budgets, poor cash forecasting and weak cash management have led to the lack of availability of cash for efficient budget execution, uncoordinated short-term borrowing, and accumulation of arrears.³¹

65. The financing of project outlays is frequently subject to cash rationing leading to significant delays in project implementation. Budget releases are made quarterly for recurrent and capital expenditures, but releases for the domestic PSIP expenditures are only made when invoices are received for payment.³² The efficacy of this system is limited since the information is not based on a forecast of cash resources available for commitments. Daily cash balances are obtained every morning and amounts set aside for essential payments like salaries. The balance is used to make payments based on outstanding invoices and urgent requirements.³³ As previously mentioned, the Budget Division of MOFT (FAD) delays commitments or projects when cash is not adequate, and use the unspent allocations for recurrent expenditures, resulting in significant delays in capital spending and PSIP project startup.³⁴

66. Most external financing is processed through a Treasury Single Account (TSA), with a few exceptions where funds are held in commercial accounts.³⁵ The Treasury maintains one main account (Public Bank Account – PBA) at the Maldives Monetary Authority (MMA), plus several foreign currency subaccounts. Separate bank accounts are maintained on the Atolls for central government purposes and by some institutions, e.g., Maldives National University as well as local authorities, and a number of project accounts are kept separate from the TSA at the donors' request. The SOEs hold their accounts in commercial banks, and these banks provide information on account balances and transactions to the MMA. External finance is nearly-fully

³⁰ IMF TA Report "Reviewing Commitment Controls and Cash Management", by John Gardner, Benoît Wiest, Suhas Joshi and Ashni Singh; August 2015.

³¹ According to the authorities, accumulated pending utility bills in particular are significant. However, as there is no definition of arrears, and no monitoring of the domestic public debt, the MOFT has not been in a position to provide the mission with precise information on the nature and stock of pending bills and arrears. Allocations were made in the 2015 and 2016 budgets to clear arrears.

³² This could be one of the reasons the commitment module of the PAS is not used by the MDAs, as appropriations for the PSIP are not releasing at the beginning of the year.

³³ PEFA Assessment report, 2014

³⁴ The MOFT expects more than MVR one billion to be reallocated in 2016 between PSIP budget and recurrent budget.

³⁵ Banking arrangements are covered by Chapter 2 of the Public Finance Law of 2006.

reflected in the budget estimates and in the annual financial statements prepared by the Financial Controller.³⁶

67. Recent developments in cash management have been encouraging.³⁷ A cash management committee (CMC), composed of representatives from the MOFT, MMA, MIRA and Customs, has been constituted and is expected to meet regularly. PAS implementation has made significant progress with nearly 85 percent of Male' based MDAs now equipped with Material Management (MM) and Business Intelligence (BI) modules. The main MDAs have been asked to prepare annual cash flow plans for PSIP expenditures for the implementation of the 2017 budget.³⁸ This should greatly assist in the process of managing commitments and payable arrears, and to capture as much transaction data as possible through the accounting system. Regulations and guidelines still need to be developed, and capacities strengthened, on cash management and commitment control and the use of SAP modules, both at MOFT and MDA levels.³⁹

13. Transparency of Budget Execution (Strength—Low; Effectiveness—Low)

68. A regulatory framework for procurement incorporating competitive procedures is in place, however many major projects are not tendered using these processes, and the public has only limited access to procurement information. The Public Finance Regulation (PFR) of 2010 (Chapters 15 and 8) sets out the basic provisions on the bidding process.⁴⁰ It also establishes: (1) bid committees in each MDA to authorize procurement works between MVR 25,000 to MVR 1.5 million; and (2) a NTB is responsible for approving the award of major contracts (more than MVR 1.5 million).⁴¹ Opportunity to participate in tenders can be restricted to Maldivian parties if the estimated procurement value is not more than MVR 1.5 million. If the estimated procurement value is more than MVR 10 million, then invitations for tender shall be publicized in international media or a website. For donor or externally financed projects the donor's procurement procedures are followed. Only information on bidding opportunities is made available to the public. Information about the government's procurement plans, contract awards, and data on resolution of procurement complaints is not published.

³⁶ The 2014 PEFA Assessment report, stated that income/expenditure in relation to donor-funded projects is reported for 90 percent (value) of donor-funded projects.

³⁷ The Fiscal Affairs Department (FAD) of the IMF has provided technical assistance on commitment control and cash management, including the set-up of the CMC, the development of a cash management manual and a spreadsheet cash flow forecasting model. But these tools are not operational yet. Cash and debt management are also topics covered by the WB PFM systems strengthening project.

³⁸ Chapter 8 of the FRL prescribes only the preparation of an annual cash flow plan by the MOFT.

³⁹ The MOFT informed the mission that only 36 percent of MDAs currently use the MM-SAP module.

⁴⁰ This regulation is issued in accordance with section 49 of the Law on Public Finance (3/2006).

⁴¹ Contract prices that are more than MVR25,000,00 shall be published.

69. The regulation is applicable to central government units, but not to extra-budgetary funds, SOEs and some defense activities. MDAs are also permitted to use restrictive competitive methods under specific circumstances (restricted tendering, single source and emergency)⁴², but there does not appear to be any mechanism for checking whether use of these methods is justified in accordance with the specified conditions.⁴³

70. Many major projects, especially those conducted by SOEs are tendered using different processes. Tender procedures for some major projects are managed by SOEs using their own tendering rules or those of foreign donors.⁴⁴ These vary according to individual SOEs. There is also no public tendering for government investment projects where the spending ministries decide to have the SOEs do the project construction and to act as the contractors.⁴⁵ This can be explained by the limited number of contractors with the relevant capacities to implement investment projects.

71. Performance audit reports⁴⁶, and other audit reports on financial statements, prepared by the Auditor General's Office (AGO), highlight numerous cases of non-compliance with procurement rules. Shortcomings include: poor procurement planning; entry into contracts without committed funds; splitting of tenders to avoid the open procurement procedure; customization of the tender criteria thus favoring certain bidders in tender evaluations.

72. Databases or records are not maintained for all investment contracts. There is no comprehensive database with information on what has been procured, the value of procurement, and who has been awarded the contracts. The data that does exist is not accurate nor complete. There are no reports produced from databases to provide an overall of the procurement situation and thus there are no follow-up actions to improve procurement. These shortcomings, as well as those related to the public access to procurement information, are expected to be partially addressed from 2017 with the finalization of procurement manuals and the establishment of standard operating procedures and bidding documents for harmonizing procurement practices across the government; and the implementation of a procurement module/database in the NTB.⁴⁷

⁴² Articles 10.23 to 10.27 of the PFR.

⁴³ The exact amount or percentage of the total value of contracts awarded by methods other than open competition was not available.

⁴⁴ For example, the new airport runway project (\$440 million) has not been awarded through an International tender procedure.

⁴⁵ For example, more than 75 percent of the Ministry of Housing and Infrastructures' PSIP projects are implemented by the MTCC and Road Development Agency.

⁴⁶ "Performance Audit Report on Capital Project Management", AGO, March 2016.

⁴⁷ These developments are undertaken with the assistance of the WB PFM systems strengthening project.

73. The financial, and especially the physical, monitoring of projects varies extensively by minister and sector. The major ministries such as Housing and Infrastructure (MHI) have monitoring units, while Education adopted a different model and contracted out its monitoring. Most MDAs appear to have limited resources and expertise in this area. The Health Ministry noted the unit had only three staff monitoring 70 projects. In 2014, guidelines on reporting, monitoring and evaluation of capital projects during project implementation, were produced by a former unit of MOFT⁴⁸. These guidelines, however were not widely disseminated and are not being used by the spending ministries, most of whom did not seem to be aware they existed.

74. There is central financial monitoring of spending ministries and agencies' capital projects however, the comprehensiveness, timeliness, and quality of the information is not adequate and no information is provided on physical implementation. MDAs and main SOEs are requested by the MOFT to report quarterly on the financial implementation of the domestic and foreign financed capital projects. While the financial monitoring of PSIP expenditures has improved⁴⁹, the lack of accurate information about the physical progress of investment projects in MOFT (in addition to the lack of commitment control) results in virement decisions and reallocations initiated and approved at a late stage in the budget year. As the use of the capital budget requires preparatory activities (e.g., procurement, contracting, project plan revisions) of several months, the reallocation has to be executed at least by the middle of the fiscal year to assure use of the budget. A mid-year review would provide the necessary information for timely approval of reallocation decisions.

75. External ex-post audits of capital projects are not routinely undertaken.⁵⁰ Recently the AGO has produced two relevant reports. One examined capital project management by SOEs and MDAs in road construction⁵¹, and the other looked at the management of capital projects in general.⁵² These audit reports and other work by the AGO highlight numerous cases of poor project management and monitoring resulting in particular cost overruns, payment delays, poor quality of outcomes, and weak efficiency of public investment. These reports are submitted to Parliament, but have not been routinely scrutinized, leading to limited action from the Legislature to address the main weaknesses of the public investment management.

76. The absence of ex-post audits of projects significantly reduces the opportunity to learn from past project implementation challenges and mistakes. Ex-post audits should provide useful information on the oversight and management of capital projects, focused on

⁴⁸ In particular, the "Guidance for project management", "Guidance for Program management", "Guidance for implementing infrastructure projects" and "Guidance for the management of the portfolio office", published in March 2014.

⁴⁹ The project system module of the PAS consolidates comprehensive data on the investment projects financial transactions for central Government.

⁵⁰ The AGO hires consultants to audit financial statements of SOEs including capital spending.

⁵¹ "Performance Audit Report on Maldives Road Development"; AGO, June 2016.

⁵² "Performance Audit Report on Capital Project Management"; AGO, March 2016.

both their financial and physical performance during implementation, and on whether economic, efficient, and effective use of resources was achieved. Such information would be invaluable to help improve future project management practices.

14. Management of Project Implementation (Strength—Low; Effectiveness—Low)

77. The quality of project management varies considerably both within and across ministries. Projects financed externally follow donor rules and procedures and most require the establishment of a project management unit. MDAs employ in-house technical staff for monitoring and managing projects⁵³, but the capacities are limited, and important indicators such as the quality and time management of PSIP projects are not systematically monitored. The implementation details submitted with the original project prior to budget approval is often not respected because of project delays, virements, and cancellations. Thus, it is difficult to determine when project costs exceed original estimates, and when implementation plans have slipped.

78. Most of the major and mega-projects are managed by specific SOEs, and do have project management units. Management of these projects is often provided by external consultants. Since consultants are not public servants, they do not satisfy the condition of a senior official; and their appointment as project leaders tends to shield members of the public service from responsibility for project performance.

79. There are no standardized rules, procedures or guidelines for project adjustments. Additionally, there is no formal requirement for, or practice of, reappraising projects in light of proposed adjustments to determine whether their business cases continues to be valid in terms of expected outcomes. This could allow projects that generate a negative return to continue to be executed. Box 3.2 sets out information on project adjustment guidelines used in Kenya.

80. Ex-post reviews focusing on project costs, deliverables, outputs, and outcomes are not systematically required or conducted. In practice, given the nature of physical engineering works, ex-post reviews on the completion of construction projects are a contractual requirement for the release of final payment. There are, however, no regular ex-post reviews which focus on the overall project costs, deliverables or outputs or an evaluation of the social or economic outcomes that were originally forecast to justify a project. This denies an important opportunity to hold project managers accountable for achieving planned outcomes or to learn from experiences that could inform future investment decisions. Again, the reason is in part the shortage of staff with the requisite skills.

⁵³ Since 2014, per the new policy, capital projects below the threshold of MVR 5 million should be monitored by the relevant MDA, while projects above this threshold are required to be approved by the PO and these projects are monitored by the MHI. This policy seems not to be followed in practice, MDAs monitoring their own projects even above MVR 5 million.

Box 3.2. Project Adjustment Guidelines Utilized in Kenya

Kenya Highways Authority uses effective project adjustment guidelines that are applicable for the following changes in the terms of a contract:

- Price adjustments as a result of changes in the scope of a project;
- Extension of the time period of a project that results in an increase in its cost;
- Additional services supplied by consultants for the supervision of a construction project as a result of the extension of the contract period; and
- Additional services provided by a materials laboratory as a result of the extension of the contract period.

The adjustments summarized above do not trigger another procurement process, but only a financial approval process to confirm that the changes comply with the government's procurement regulations, as well as the relevant clauses of the contract.

Once the additional cost is approved by the National Treasury and the process verified by the Procurement Authority, the addendum to the contract can be approved and implemented.

Source: Kenya Ministry of Finance

15. Monitoring of Public Assets (Strength—Low; Effectiveness—Low)

81. The scope and procedures for the management of non-financial assets are clearly defined in the legal framework, but an updated and substantially complete registry of fixed assets is not available. Chapter 11 of the PFR prescribes the management of non-financial assets by MDAs, requiring them to maintain a register of assets; document all purchases, sales and movements in assets; and prepare statements of non-financial assets. In practice, comprehensive asset register information pertaining to immovable assets, is not maintained either at ministry or government level and so is not available for inclusion in the government's financial statements. Only asset registers for moveable assets are maintained by MDAs and consolidated by the MOFT. The absence of comprehensive information on the government's assets prevents the development of an optimal maintenance program or the determination of changes in the nation's patrimony from year to year as a result of investment expenditure. The AGO regularly reports on the lack of comprehensive asset registers.

82. Depreciation of fixed assets is not included in the government's financial statements. Accounting rules on the recording of assets and depreciation have not yet been implemented in the Maldives. The existence of a centralized inventory of fixed assets within the MOFT would provide a significant "head-start" for any future efforts to begin to record assets, develop a government balance sheet, and make provision for the depreciation of assets.

IV. REFORM PRIORITIES AND RECOMMENDATIONS

A. Investment Planning Institutions

Issue: The effectiveness of fiscal rules in facilitating sustainable levels of public investment is weakened by the lack of a credible budget. Decisions on investment allocations are not systematically based on national, sectoral and intersectoral strategies; and expenditures are not constrained by realistic expenditure ceilings based on the MTFE and relative government priorities.

Recommendation 1: *Strengthen the strategic guidance for planning and budgeting, particularly for public investment, to ensure that resources are more closely linked to government policies.*

Short term:

- Ensure that the Fiscal Strategy Statement sets out a clear and realistic path to reducing total government debt over the medium-term;
- Revise the budget calendar to prepare and circulate the Fiscal Strategy Statement earlier (e.g., in April) to drive the budget process, set priorities for the PSIP and let these be the basis for approved total ceilings;

Medium term:

- Prepare a costed medium-term national development strategy focusing on public investment requirements within a realistic overall resource envelope; and
- Following the preparation of a national strategy, sector ministries should prepare or revise sector strategies in line with the national strategy, including the costing of prioritized measures.

Issue: The framework for the scrutiny, selection and oversight of PPP and SOE projects is weakened by the lack of an effective legislative/regulatory framework, systematic review by the MOFT of fiscal risk assessments of proposed PPPs, and the transparency of fiscal risk information to the legislature.

Recommendation 2: *Improve the oversight of public investment and related fiscal risks undertaken by non-budgetary institutions, including SOEs, PPPs and contractor-based financing.*

Short term:

- Increase the comprehensiveness of fiscal information provided annually in the budget documentation, including information on contingent liabilities and on PPPs, including contractor-financed projects;

- Require MOFT to undertake a review and prepare a detailed review report of the economic and financial analysis of proposed PPPs, including contractor-financed projects, highlighting potential fiscal risks to the government.

Medium term:

- Draft an umbrella SOE legislation to address key governance issues and provide appropriate government control and oversight to manage fiscal risk; draft a law on PPPs (or include under the SOE law) which sets out a clear definition of all categories of non-traditional financing of public services, and provides appropriate government control and oversight to manage fiscal risk;
- Prepare guidelines for undertaking value-for-money analyses of proposed PPP or other non-traditionally financed projects, to provide a comparison of the proposed project to the alternative of being traditionally-financed (through the budget);
- Prepare and publish a fiscal risk statement.

B. Investment Allocating Institutions

Issue: The lack of capital budget ceilings provided to ministries undermines fiscal discipline and reduces the capacity to properly manage a pipeline of appraised projects.

Recommendation 3: Establish a ceiling for the PSIP budget at the start of the budget process, based on a binding resource envelope, and include PSIP ceilings in the budget circular.

Short term:

- Approve realistic aggregate expenditure ceilings (for recurrent and PSIP) at the beginning of the budget process, based on realistic macro-fiscal projections and baseline expenditure projections (for both recurrent and PSIP); based on more realistic aggregate expenditure ceilings and improved recurrent budget ceilings.

Medium term:

- Determine, and obtain high-level approval on, realistic and credible medium-term ceilings for aggregate public investment and for individual sector ministries, covering both capital acquisition and public sector investment projects. Ceilings should be based on credible macro-fiscal projections and likely expenditure space; and should be broken down into: (i) ongoing projects (baseline); and (ii) a limited amount of additional investment resources for which ministries' projects could compete.

Issue: Capital and current budgets are presented together in the budget; however, the institutional framework is fragmented, with parallel systems for the preparation of the current and capital budget.

Recommendation 4: Better integrate capital and recurrent budget preparation, including capital project selection

Medium term;

- Adopt legislation indicating responsibility for the setting of recurrent and capital ceiling, ensuring the system is fully integrated.

Issue: The capital project appraisal process has not been sufficiently robust to eliminate weak project proposals and ensure there is a pipeline of high-priority, high-quality projects for further consideration.

Recommendation 5: Strengthen the project appraisal process by developing a standard methodology for project appraisal, publishing this methodology and verifying that it is consistently applied by the line ministries.

Short term:

- Review and simplify the existing project fiche appropriate to existing technical capacity at the MDA level.
- Develop guidelines for project appraisal with increased requirements for larger projects, in line with technical capacity; e.g., cost benefit analysis, compatible with any future national development plan, and requiring social costs and benefits be included in costings. Projects not completing the fiche should not be considered for appraisal.

Medium term:

- The appraisal process should ensure that any approved project is in line with any future National Development Plan, and positively appraised projects are entered into a project pipeline.

Issue: There are no published selection criteria for major projects, and the review process is not formally integrated with the regular budget process.

Recommendation 6: Improve the capital project selection process for the budget by developing better targeted selection and prioritization criteria and processes, and by improving the information provided to the decision makers.

Short term:

- Develop and publish criteria for project selection bearing in mind the sophistication of current appraisal.
- Develop a project pipeline to improve the medium-term focus of project identification, appraisal, selection and approval.

Medium term:

- Refine criteria to include value for money considerations such as cost benefit/cost effectiveness, project life cycle and future recurrent costs, project readiness for implementation and associated risks.

C. Implementation Institutions

Issue: Many major projects are not tendered following a standard process, and the public has only limited access to procurement information

Recommendation 7: *Improve the competitiveness and transparency of the procurement process.*

Short term:

- Prescribe that all SOEs use standard NBT procedures.
- Develop the NTB procurement database with reasonably complete data and standard analytical reports on all tenders, including those that are not proceeded through the NTB.
- Improve the public's access to complete, reliable and timely procurement information by publishing on the NTB website all procurement information (bidding, plans, awards, both value and company name, and complaint resolution).

Medium term:

- Progressively increase the number of tenders using the NTB procedures; and require and approve full justification for non-use of open competition.

Issue: Capital projects are subject to substantial delays and cost overruns, resulting from weaknesses in project management, unclear accountability in project implementation, insufficient and untimely monitoring of physical progress, and failure to revise project plans in case of significant changes. The absence of consolidated information on capital investments weakens overall fiscal analysis. It is difficult to obtain a full picture of the capital investments funded by different sources.

Recommendation 8: *Strengthen the project management and monitoring framework and ensure implementation in all MDAs and SOEs.*

Short term:

- Use the Project System Module in SAP to create a comprehensive database of current and planned PI projects including those from SOEs and PPPs including full capital costs and future recurrent costs. Publish the updated SAP Project Module as part of the budget documentation presented to parliament.
- Strengthen the financial and physical monitoring of the PI projects by inserting red-flag systems in the Project System Module to initiate corrective measures, to detect early

underexecution, cost overruns, and delays, and initiate corrective actions; enforce the MDAs and SOEs to provide information on the physical progress of the projects to be integrated in the system; and progressively strengthen the physical monitoring of the projects starting with Male & surrounds.

- Develop the regulatory framework for the management and monitoring of PI projects by reviewing the project management and monitoring guidelines published in March 2014 to be consistent with international good practices; and developing a capacity building plan for MDAs and SOEs that enables them to implement and operate the revised project management guidelines.
- Establish central monitoring unit to monitor projects.

Medium term:

- Publish a consolidated table in the budget that presents the full cost of each project over the implementation cycle, include proposed maintenance costs and funding from all sources.
- Progressively strengthen the physical monitoring of the projects, continuing with outer atolls.
- Report and publish quarterly major risks on project costs and physical progress.

Issue: Good and bad practices of planning and implementing capital projects are not systematically assessed after completion through audit and evaluation reports, and do not result in systemic changes.

Recommendation 9: *Develop a framework for ex-post evaluations and ensure that lessons learned from past projects are incorporated in revised guidelines and practices.*

Short term:

- Develop methodology and guidelines for ex-post evaluations and audits; the first stage would focus on whether the project has complied with the various rules and procedures laid down in legislation, initial costs and time frame; pilot the proposed methodology in a joint exercise by MOFT, key MDAs and AGO, and institutionalize it afterwards.
- Perform ex-post evaluations of sources on the cost overruns and delays (comparison of original and final project costs, and comparison of original and final time frame); analyze AGO audit reports, and address systemic issues and recommendations.

Medium term:

- As second stage, evaluate the economic and social impact of major public investment projects, the quality of the services and facilities delivered.

Issue: Poor commitment control, cash forecasting and cash management have led to the unavailability of cash for efficient budget execution, uncoordinated short-term borrowing, and accumulation of arrears.

Recommendation 10: *Ensure that cash releases and management for PSIP spending are based on commitment controls, and updated monthly cash flow forecast.*

Short term:

- Improve commitment control of PSIP spending by releasing the allocation for the purchase after authorization of the MOFT (ongoing projects and new projects) in the MM-PAS module; enforcing commitment and controls, and the purchase orders registering in the MM-PAS module.
- Improve cash management by developing and using standard cash flow forecast templates including PSIP spending; introduce commitment control and cash management regulations in the new PFR; and analyze and monitor virements and reallocations of PSIP spending to progressively limit their occurrence.

Medium term:

- Progressively implement the cash management regulations, and the manual provided by the IMF FAD 2014 TA mission.

Issue: The PIM challenges and recommendations made in previous chapters of this report highlight the need for strengthening of staffing and skills sets in executing agencies (MDAs and SOEs), the MOFT, and the AGO. Increased capacity is specifically required in all aspects of PIM.

Recommendation 11: *Strengthen capacity to improve PIM efficiency.*

Short- and medium-term:

- Develop and implement a PIM capacity building plan for project managers, supervising officers, operational officers, and MOFT (see Appendix 2).

Appendix 1. Detailed Public Investment Management Questionnaire Scores

A	Ensuring Sustainable Levels of Public Investment	1.73
1	Fiscal Principles or Rules: Are there explicit fiscal principles or rules, and how do they apply to capital spending?	1.67
1.a.	Is fiscal policy guided by one or more permanent fiscal principles, or rules?	2
1.b.	Do fiscal principles or rules constrain capital spending in the near term?	1
1.c.	Are there targets or limits for government liabilities, debt, or net worth?	2
2	National and Sectoral Planning: Are investment allocation decisions based on sectoral and inter-sectoral strategies?	1.00
2.a.	Does the government publish national and sectoral strategies for public investment?	1
2.b.	Are the government's national and sectoral strategies or plans for public investment costed?	1
3.c.	Do sector strategies include measurable targets for the outputs and outcomes of investment projects?	1
3	Central-Local Coordination: Is there effective coordination of central and sub-national governments' investment plans?	3.00
3.a.	Are there limits on sub-national governments' borrowing?	3
3.b.	Is capital spending by Sub National Governments coordinated with central government?	3
3.c.	Does central government have a transparent, rule-based system for making capital transfers to SNGs, and for providing timely information on such transfers?	NR
4	Public-Private Partnerships: Is there a transparent framework for the scrutiny, selection, and oversight of PPP projects?	1.00
4.a.	Has the government published a strategy for PPPs and issued standard criteria for entering into PPP arrangements?	1
4.b.	Are PPPs subject to value for money review by a dedicated PPP unit before approval?	1
4.c.	Is the accumulation of explicit and/or contingent PPP liabilities systematically recorded and controlled?	1
5	Regulation of Infrastructure Companies: Is there a favorable climate for the private sector and SOEs to participate in infrastructure provision?	2.00
5.a.	Does the regulatory framework support competition in contestable markets for economic infrastructure (e.g., power, water, telecoms, and transport)?	2
5.b.	Are there independent regulators who set the prices of economic infrastructure services based on objective economic criteria?	2
5.c.	Does the government oversee the investment plans of infrastructure SOEs and monitor their financial performance?	2

B Ensuring Public Investment is Allocated to the Right Sectors and Projects		1.60
6 Multi-Year Budgeting: Does the government prepare medium-term projections of capital spending on a full cost basis?		1.67
6.a.	Is capital spending by ministry forecasted over a multi-year horizon?	3
6.b.	Are there multi-year ceilings on capital expenditure by ministry or program?	1
6.c.	Are projections of the full cost of major capital projects over their life cycle published?	1
7 Budget Comprehensiveness: To what extent is capital spending undertaken through the budget?		2.33
7.a.	Is capital spending mostly undertaken through the budget?	2
7.b.	Are externally funded capital projects included in the budget documentation?	3
7.c.	Is information on PPP transactions included in the budget documentation?	2
8 Budget Unity: Is there a unified budget process for capital and current spending?		1.67
8.a.	Are capital and recurrent budgets prepared and presented together?	1
8.b.	Does the budget include appropriations of the recurrent costs associated with capital investment projects?	1
8.c.	Does the budget classification and chart of accounts distinguish clearly between recurrent and capital expenditure, in line with international standards?	3
9 Project Appraisal: Are project proposals subject to systematic project appraisal?		1.00
9.a.	Are capital projects subject to standardized cost-benefit analysis whose results are published?	1
9.b.	Is there a standard methodology and central support for the appraisal of projects?	1
9.c.	Are risks taken into account in project appraisal?	1
10 Project Selection: Are there criteria and institutions in place to guide project selection?		1.33
10.a.	Does the government undertake a central review of major project appraisals before decisions are taken to include projects in the budget?	2
10.b.	Does the government publish and adhere to standard criteria for project selection?	1
10.c.	Does the government maintain a pipeline of approved investment projects for including in the annual budget?	1
C Delivering Productive and Durable Public Assets		1.40
11 Protection of Investment: Are investment projects protected during budget implementation?		1.67
11.a.	Are total project outlays appropriated by Parliament at the time of commencement of a project?	2
11.b.	Are in-year transfers of appropriations (virement) from capital to current spending prevented?	2
11.c.	Can unspent appropriations for capital spending be carried over to future years?	1
12 Availability of Funding: Is financing for capital spending made available in a timely manner?		1.67
12.a.	Are ministries/agencies able to plan and commit expenditure on capital projects in advance on the basis of reliable cash flow forecasts?	1
12.b.	Is cash for project outlays released in a timely manner?	1
12.c.	Is external (donor) financing of capital projects integrated into cash management and the Treasury Single Account?	3
13 Transparency of Budget Execution: Are major investment projects executed transparently and subject to audit?		1.33

13.a.	Is the procurement process for major capital projects open and transparent?	1
13.b.	Are major capital projects subject to monitoring during project implementation?	1
13.c.	Are ex-post audits of capital projects routinely undertaken?	2
14	Management of Project Implementation: Are capital projects well managed and controlled during the execution stage?	1.33
14.a.	Do ministries have effective project management arrangements in place?	2
14.b.	Has the government issued rules, procedures and guidelines for project adjustments that are applied systematically across all major projects?	1
14.c.	Does the government systematically conduct an ex-post review and evaluation of projects that have completed their construction phase?	1
15	Monitoring of Public Assets: Is the value of assets properly accounted for and reported in financial statements?	1.00
15.a.	Are surveys of the stock, value and condition of public assets regularly conducted?	1
15.b.	Are non-financial asset values recorded in the government balance sheets?	1
15.c.	Is depreciation of fixed assets captured in government operating statements?	1

Appendix 2. Cross-Cutting Issues

83. The purpose of this annex is to cover public investment management (PIM) related topics which are cross cutting issues. These issues are partly covered in the specific PIMA institutions and dimensions but, without highlighting them as a separate evaluation dimension, they might not get sufficient attention or are discussed in a systematic manner. These cross-cutting dimensions include issues that support the implementation of PIM institutions or create implementation barriers.

Legal Framework

84. The legal framework guides decisions on public investment in all stages of the project, assigns clear roles in planning and implementing projects, and define processes and tools to be followed. This should ensure better quality for planning and delivery of public investment, consistency throughout the different projects, and enhance transparency within the government and for external stakeholders.

85. Progress has been made by the Government of Maldives (GoM) in modernizing public financial management (PFM) legislation, although the approach has been piecemeal. There is an ongoing project with the World Bank in this area. The new Constitution of the Maldives (2008) provides overarching stipulations on submission and approval of the annual budget and incurrence of expenditure, and responsibilities of the Auditor General. The main other pillars of the legislative framework for PFM are the 2006 Public Finance Act (PFA) covering the principles and procedures for control and management of the public finances and property of the state; the 2008 Audit Act setting out the roles and responsibilities of the external auditor and the requirement for the audit of all government institutions, accounts and government trading bodies; the 2013 Fiscal Responsibilities Law (FRL) on the principles and manner in which the PFM processes such as budget formulation, expenditure control, debt management, cash management, and fiscal reporting are to be implemented and accounted for; while the Decentralization Act (2010) and the Privatization, Corporatization, Monitoring and Evaluation of State Owned Enterprises (SOEs) Act (2013), are also relevant as it relates to fiscal relations between central and local government, and SOEs. A Public Financial Regulation (PFR) was issued in 2002 and revised in 2009 and 2010 by the MOFT. These regulations cover the governments' financial processes. As a result of changes to business processes brought about by the automation of the accounting system, the MOFT has issued a number of new instructions in the form of Treasury Circulars.

86. However, the legal basis for planning, budgeting, and implementing capital projects is not comprehensive and consistent. Numerous gaps and inconsistencies have been identified in the PIM legal and regulatory framework, in previous TA reports and during the PIMA mission. The lack of implementing guidelines of new legislations, clarity on accountabilities, roles, and

responsibilities, and inadequate coordination, have also led to reduce the effectiveness of the PIM processes. Table 1 lists the key legislation issues arising from the PIMA exercise⁵⁴.

Table A2.1 Summary of Legislative Issues by Institution Arising from the PIMA	
Institution	Key Public Investment Legal Issues
1. Fiscal Rules	The legal framework should include explicit rules on capital expenditures. The Fiscal Responsibility Law (FRL) which was enacted in 2013 contains fiscal rules for central government debt and total and primary balances, but does not include explicit rules on capital expenditures.
4. PPP and SOEs	There is no legislation nor regulations specifically covering PPPs and/or SOEs. There is a lack of clarity about the government’s definition of PPPs. The current Financial Regulations do not include explicit rules setting out the budgeting and accounting practices to be used for PPPs. There is no umbrella SOE legislation which addresses key governance issues and provides for appropriate government control and oversight in order to manage fiscal risk.
5. Regulations of Infrastructure Companies	The regulatory frameworks provide for competition in some, but not all, public utility sectors. In particular, regulations for private sector activity in some sectors (e.g., electricity and water) are not in place.
9. and 10. Appraisal and Selection of Projects	There is no standard published methodology or central support for project, costing appraisal and selection.
11. Protection of Investment	<p>The annual budget should be subject to an appropriation act. The Parliament approves only the overall expenditure envelope. This means that allocations for public investment are not binding, allowing significant reallocations during the fiscal year.</p> <p>There is currently no rule on whether unspent appropriations for capital spending can be carried over to future years. The unexpended balance of an appropriation lapses at the end of the financial year for which it is made, and the MDAs must request a new allocation in their appropriations for the forthcoming budget year.</p>
12. Availability of Funds	<p>Financial regulations should include clear reference to commitment controls. Currently, the Public Finance Law has a provision on payment and expenditure of public moneys: “no liability for any expenditure of public moneys shall be incurred by any person except in the following circumstances: (1) public moneys to meet the liability are lawfully available; and (2) the incurring of the liability has been authorized in accordance with the Public Finance Regulations”. As a clear reference to Financial Regulations is made in the PFL 2006, they need to specifically include a clear definition of commitments; who has the authority to commit expenses and in which circumstances; the arrangements to ensure that commitments being made by any public entity are authorized and within the approved budget; the recording and maintenance of commitment reports and the internal control framework designed to ensure that all commitments and expenditures comply with the commitment control system.</p> <p>Cash management regulations should also be introduced in the new PFR, to enforce the new institutional framework for cash management (Cash Management Committee, Cash Management Unit manual, etc.).</p>

⁵⁴ These issues and recommendations are not exhaustive, and would need a deeper analysis.

<p>13. Transparency</p>	<p>All SOEs should use standard NTB procedures. For the moment, the SOEs follow their own procedures for procurement which are not fully transparent and consistent with good International practices.</p> <p>The project management and monitoring guidance should be reviewed to be consistent with international good practices (“Guidance for project management”, “Guidance for Program management”, “Guidance for implementing infrastructure projects” and “Guidance for the management of the portfolio office” in particular).</p> <p>Standardized rules, procedures or guidelines for project adjustments should be developed. Additionally, formal requirement for, or practice of, should be defined for reappraising projects in light of proposed adjustments to determine whether their business cases continue to be valid in terms of expected outcomes.</p>
<p>14. Ex-post reviews</p>	<p>Methodology and guidelines for ex-post evaluations and audits should be developed; the proposed methodology should be piloted in a joint exercise by MOFT, key MDAs and AGO, and institutionalize afterwards.</p>

87. A committee comprising finance ministry and other government officials is currently reviewing, revising and consolidating the various regulations and circulars. A more comprehensive and updated set of regulations, including a new PFR, should be issued in the near future. This new set of regulations, as well as the development or review of corresponding guidelines, needs to be given priority in the short-term.

Information System Support (IT)

88. A central information management system for public investment projects (supported by an IT-system) provides a systematic data basis for the management of public investment. In a database which is IT-system based project information is registered systematically throughout all the phases of public investment management from planning, budgeting, to approval and selection, to implementation and monitoring. IT-systems support managerial activities by providing data for managerial decisions.

89. The implementation of the PAS accounting system has made significant progress. With implementation starting in 2009, the PAS has been rolled out both centrally, in the MOFT, and in in each Male-based MDAs. It is currently composed of separate modules, in particular:

- *The Materials Management (MM) module* is used for the purchasing process: each MDAs can enter a purchase order (PO): each PO is entered on a specific budget line item and an automated control embedded in the system checks whether the total amount of the PO can be charged toward the available budget credit available on the line item;
- *The Accounts Payable (AP) module* where SAs enter invoices once the purchased good/service is received for processing the payment which is then performed centrally at the MOFT;
- *The Business Intelligence module (BI)* allowing for the design of standard reports which can be easily accessed and configured by end-users;
- *The Project System module* allows a financial monitoring of PSIP projects;

- *The budget module will be implemented for the preparation of the budget.*

90. However, the PAS system is not used appropriately in many MDAs. While nearly 85 percent of Male based MDAs are now equipped with Material Management (MM) and Business Intelligence (BI) modules, only a minority (36 percent) uses them. Practically, all MDAs which have access to the MM module to enter purchase orders can also enter invoices directly in the AP module: the automated control checking whether there is a preceding PO for each invoice entered in AP is not enforced yet. Many MDAs enter directly their invoices in the AP module once the purchased good or service is received, bypassing the control at the commitment stage. As a result, controlling expenditures at the commitment stage remains limited. Regulation and guidelines still need to be developed, and capacities strengthened, on cash management and commitment control and the use of SAP modules, both at MOFT and MDA levels. Furthermore, the Project System Module is not comprehensive, and not use for monitoring and assessing the implementation of the PSIP projects.

91. The short term/medium term objectives would be to enforce the input of expenditures at the commitment stage in the PAS, and to build on the Project System module to create a comprehensive database of current and planned PI projects including those from SOEs and PPPs. Such expenditure controls would have many advantages, both in terms of PSIP execution and monitoring, and cash and treasury management. For budget execution, a control on budget at the commitment level is more efficient than cash rationing (once the invoice has been received) as the latter can lead to a build-up of expenditure arrears. Strengthening budget expenditure control at the commitment stage allows a more predictable budget execution and better, more proactive decision making. Central monitoring and reporting of major project would mitigate the project risk. For cash and treasury management, the information entered at the commitment stage enables a forecast of cash needs in advance. Expenditure control at the commitment level would also allow more tailored quarterly budget releases. Overall, all reports that will be issued from the PAS need a strong input from key functional users in their design and implementation. The current implementation of the BI module is also a strong opportunity to foster this, its user-friendly interface should eventually allow key users to design, to a certain extent, their own reports.

Institutional Capacity

92. The implementation of all PIM institutions depends heavily on the capacity within the public sector. Both, the number of staff as well as their skills and education matter how the institutions can be implemented and handled.

93. The authorities recognized in the need for strengthening public investment capacity. The PIM challenges and recommendations made in previous chapters of this report highlight the need for strengthening of staffing and skills sets in executing agencies (MDAs and SOEs), the MOFT, and the AGO. Increased capacity is specifically required in all aspects of PIM (see Table 2).

Table A2.2 Summary of the Key PIM Areas Where Increased Capacity and Training is Required

Institution	Key Topics for Capacity Building
Project Planning and Allocation (institutions 1 to 10)	<ul style="list-style-type: none"> • Develop strategies that link national and sectoral development objectives to specific public investment projects; • Support preparation of more comprehensive and credible project proposals, in accordance with improved MOFT guidelines. This will entail improving capacity to use project preparation methodologies and techniques (e.g., needs analysis, project costing, cost benefit analysis, prioritization, risk analysis); • Undertake more thorough project appraisals, particularly in the case of large, complex projects where specialist knowledge is needed or innovative financing methods, are proposed; • Oversee experts/consultants contracted to provide technical support for feasibility, project design and appraisal studies; and, • Secure effective programming and prioritization of projects within overall constraints (sector strategies, resources, financing, etc.).
Project implementation (institutions 11 to 15)	<ul style="list-style-type: none"> • Secure more effective project management including oversight of experts/consultants, monitoring of project progress, problem resolution, reporting, quality assurance and ex-post evaluation; • Improve the transparency of the procurement process; • Strengthen monitoring, analysis and reporting of public investment projects; • Develop incentives for optimizing the pace of implementation and costs; • Improve commitment control and cash management for the PSIP budget; • Improve audit and ex-post evaluation of project outputs and outcomes; • Maximize the use of SAP for the PSIP budget.

94. Executing agency project managers and senior management are ultimately responsible and accountable for achieving expected project outputs. Typically, project management in executing agencies is undertaken by professional/technical staff who may have limited experience or formal training in project management. Core project management training is required to build the capacity of these technical staff to manage project planning and design and secure efficiency and control during execution. This will include an understanding of government specific project management regulatory requirements and guidelines; the processes/tools used to schedule and monitor project activities and the use of project resources including the management of diverse human resources, including experts and technical consultants.

95. Proposed project implementation units (PIUs) in executing agencies will need the technical capacity to support responsible project managers. This will include a high level of competence to support project managers in their oversight responsibilities and the technical and procedural requirements across executing agency departments. Staffing levels for PIUs will depend on the nature and volume of public investment projects in the sector covered. Internal audit units within the MDAs and SOEs will also need to be strengthened to assess the performance of their institution’s investment projects.

96. Further enhancing appraisal, coordination and monitoring capacity will require:

- A review of MOFT organizational structure (and specialist units) for fiscal risks management, and oversight of investment planning, allocation and implementation processes; and,

- Further skills development for sector specialists in specific project appraisal, project monitoring, and ex-post review techniques.

97. There is also an identified need for the AGO to enhance the office's capacity to assess the performance of the overall investment portfolio. Individual projects should be subject to audit as part of the normal audit program of the AGO. These audits will provide useful information on project performance, but the value of such information would be enhanced if a cross cutting analysis was provided highlighting general project management issues that impact the efficiency and performance of the PSIP. Such independent analysis would assist both the executive and the parliamentary accounts committees to implement more effective control and risk management measures.

98. The GoM should develop a capacity building plan for project managers, supervising officers, operational officers, and MOFT that enables them to improve PIM efficiency, and to implement and operate the revised PFR sections and project management guidelines related to PIM, and the use of SAP. An emphasis could also be given in the medium term to performance management, using simple and realistic key results targets designed to improve performance.

99. A variety of specific training interventions would be needed for increasing public investment capacity. Table 3 below outlines a summary program of training that would meet the training requirements, this will need to be further developed based on a more detailed training needs analysis⁵⁵. The proposed training program takes a modular approach with initial foundation modules to provide core project management skills to all staff involved in project management tasks. This foundation would then be built on through a series of more advanced modules for staff in PIUs who are expected to provide more detailed technical advice to project managers on all aspects of project management including overseeing consultants and experts. Further specialist modules are proposed for specific techniques needed for more advanced aspects of project design and appraisal.

⁵⁵ This example of a training program for PIM was developed in the context of the PIMA exercise for Mauritius.

Table A2.3 Modular Based Project Management Training Program

Target Group(s)	Training Needs	Core Subjects	Training Methodology
Project Managers in MDAs and other Stakeholders	Core Aspects of Investment Project Management	<ul style="list-style-type: none"> • Project Cycle - Planning, identification and appraisal, submission, approval, implementation • Legal and institutional framework • Key processes and procedures • Coordination and Communication 	Module 1- 4 Online Training Courses
PIU Staff MOFT Staff	Specific processes <ul style="list-style-type: none"> • Sector Planning • Identification • Appraisal • Allocation • Implementation • Monitoring, etc. 	<ul style="list-style-type: none"> • More detailed training on core processes • Managing a portfolio of projects 	Modules 5-n Online Training Courses
PIU Staff MOFT Staff Audit Staff	Specific Project Management Methodologies and Techniques	<ul style="list-style-type: none"> • Sector Planning • Project Appraisal • Project Costing • Needs and Cost Benefit Analysis • Risk Analysis • Ex Post Evaluation and Audit 	Advanced Modules, Online Training Courses and Specific Workshops

Appendix 3. Country Case Study – Oversight of SOEs: Lessons from the Seychelles⁵⁶

Country context: Seychelles shares a number of similarities with the Maldives. Both are high- or upper-middle income small island states, with highly-open economies focused on tourism, fishing and services. Both have tried to diversify their economies in order to reduce their dependence on single sectors, and both have had challenges in controlling the SOE sector and managing the resulting fiscal risk.

Situation pre-reform: Debt levels were high, amidst a mushrooming fiscal deficit, exacerbated by the macroeconomic shock as a result of the global financial crisis. The large public enterprise sector was a substantial drag on public spending and posed a significant medium-term fiscal risk. Budgetary transfers to public sector entities, including SOEs, totaled just under 2 percent of GDP in 2008. Although there were 44 SOEs, the sector was dominated by four enterprises, which accounted for an estimated 82 percent of total assets and 85 percent of turnover of SOEs.

Reform measures carried out: Beginning in 2009, the government undertook a reform of the SOE sector in control and manage fiscal risk more effectively. The key reforms included: (i) introducing an umbrella SOE Act, which formalized the ownership framework for SOEs, clarified the roles and responsibilities of the government agencies involved, and created an oversight body (Public Enterprise Monitoring Commission [PEMC]) in the Ministry of Finance; (ii) undertaking a series of strategic reviews of the existing portfolio, with a view to streamlining and divesting unnecessary and poorly-performing SOEs; (iii) giving an explicit additional oversight role to the Parliamentary Public Affairs Committee; and (iv) professionalizing SOE boards.

Results following the reforms: Over the past 5 years, the reforms have succeeded in strengthening governance and oversight of SOEs, and thereby better management of fiscal risk. These include

- Improved legislative framework, including the promulgation of the SOE law (PEMC Act);
- Part-privatization of some SOEs, including Air Seychelles, which reduced the fiscal burden on the government;
- Improved profitability and cash flow of SOEs; nonetheless, budgetary support for SOEs has increased over the last 5 years;
- Improved governance through the establishment of the Public Enterprise Monitoring Commission to oversee the governance of SOEs;
- Introduced good practices for benchmarking the performance of SOEs;
- Improvements in the capacities of SOE boards.

⁵⁶ Sources: PEMC Act; IMF (2013): Addressing Macro-Fiscal Risks from SOE Reforms, Victoria; World Bank (2009), Public Expenditure Review, Volume 2, and Staff.

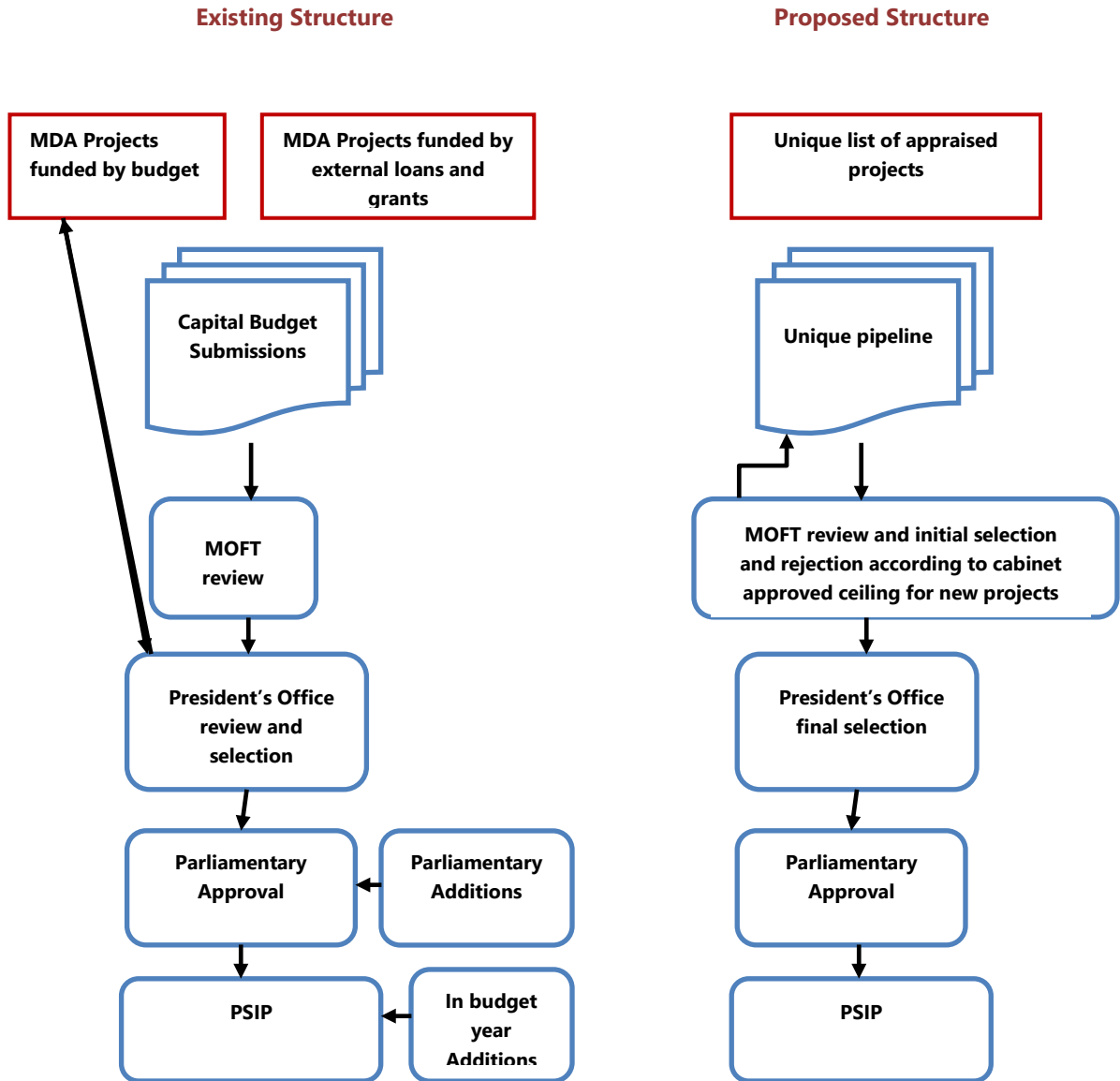
Lessons for Maldives: A key lesson for the Maldives from the Seychelles' experience is that the PEMC Act on SOEs stipulates the comprehensive oversight of SOEs by the Minister of Finance. This includes the requirement to receive regular (quarterly) reports on SOE activities and financial reports. It also sets out clear roles and responsibilities for the PEMC, including the requirement for it to inform the Minister of Finance of specific financial risk from SOEs and weaknesses or shortcomings of any SOE Board. The act also sets out the reporting requirements for SOEs, including specifically reporting to the Minister of Finance, as well as to the PEMC and the SOE's relevant Minister.

Appendix 4. Selection of Guarantees Issued by the Maldives Government

New Issuances 2016			
Beneficiary	Financier	Project	Amount (USD)
Ozturk Holdings	EP Holdings	5000 Housing units	327,799,969
G with Nature	Rashmi Plaza	1000 Housing units	65,182,000
HDC	Export Import Bank of India	Road development	34,330,000
Pipeline			
Beneficiary	Financier	Project	Amount (USD)
STELCO	Export Import Bank of China	5th Power Development Project	77,000,000
HDC	Industrial and Commercial Bank of China	7000 Housing units	368,900,000
HDC	Hatton National Bank	7000 Housing units	65,100,000
Joonghan	China Commercial Bank	1000 Housing units	52,000,000

Appendix 5. Existing and Initial Proposed Structure for PIM

A5.2. Existing and Proposed Structures



Source: Staff.

The annual budget preparation process can be described as follows:

- MOFT's Fiscal Affairs Division (FAD) sends a circular to each of the MDAs containing ceilings for recurrent expenditures and guidelines to elaborate the budget.
- Each MDA prepares a list of desired projects to include in the following year's PSIP and submits it for review by the MOFT.
- The projects list (none having been rejected at this stage) is then sent to the President's Office for review, selection and approval

- The President's office sends approved list Parliament for discussion (the Parliament can add projects to the list).
- The final Public Sector Investment Program (PSIP) list (containing details on the implementation of the projects) and corresponding capital expenditure budget is then elaborated and passed by the Parliament.

This process results in a capital expenditures budget that lacks credibility. It is a process with multiple stakeholders acting without clear rules and ceilings.

The main issues are:

- Capital ceilings are not contained in the budget circular for budget preparation;
- Projects are added to the budget throughout the preparation process without a robust assessment of the project viability or feasibility: this can occur both at line ministries and at the Presidential and Parliament levels (and also during the budget year). As a result, during the year, some projects may not be implemented if they are not feasible or if, for example, return on investment is later shown to be insufficient.
- There are significant capacity constraints to implement projects both at the contractors' and the LM levels which frequently result in project implementation delays or even unsuccessful public tender procedures.

Capital expenditure budgeting should be clarified and strengthened at each stage of the procedure. The diagram above proposes a simple structure that indicates key points for stakeholder involvement and simple management lines. The main features are

- budget circulars that include realistic ceilings for capital expenditure based on medium-term fiscal projections
- priority given to ongoing projects before new projects
- New projects should be chosen from a list of robustly appraised projects in the project pipeline

The budget circular should also include a list of criteria that each project should meet before being included in the PSIP as well as basic information to fill (pre-feasibility study, expected return on investment) for each of them. However, the requested information should not be too detailed at this level.

This process would progressively ensure that only viable projects are included in the capital expenditure budget. A good pilot candidate for this exercise could be the Ministry of Housing, as it handles most of the infrastructure projects and has adequate capacity (including Project Management Units) to implement them. Eventually, other line ministries would need to strengthen their capacity in project management. This would allow them to present viable projects to include in the PSIP process and to implement them in a timely manner.

Appendix 6. Public Investment Management Assessment Methodology

For the purpose of the assessment of public investment management in Section III, two dimensions were assessed for each institution:

- ***Institutional strength***: Institutional strength assesses the design of the processes, laws, systems, and managerial tools implemented from a design point of view. It is based on the questionnaire presented in the IMF Board Paper “Making Public Investment More Efficient.” This questionnaire comprises of 15 institutions each with three indicators. For each indicator, three possible scores are set (low, medium, and good). The scoring of the three indicators per institution is aggregated using simple averaging. The following color code was used and scores for the institution were assigned according to the following principles:

	Good	Medium	Low
Strength of the institution	Green	Yellow	Red

- ***Effectiveness***: The effectiveness assesses how well the institution is implemented in practice and whether it achieved the envisaged results. It was assessed qualitatively, based on evidence (e.g., numerical; reviews and assessment of (international) organizations; audit reports). The following color code was used:

	High	Medium	Low
Effectiveness of the institution	Green	Yellow	Red

References

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