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TECHNICAL ASSISTANCE REPORT—FISCAL TRANSPARENCY EVALUATION

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F I S C A L   A F F A I R S   D E P A R T M E N T

Maldives

Fiscal Transparency Evaluation

Sandeep Saxena, Majdeline El Rayess, Gemma Preston, Celeste Kubasta,
Pokar Khemani, Joe Cavanagh, and Adrien Tenne

Technical Assistance Report

April 2021

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GLOSSARY

AG	Auditor General
AGA	Accountable Government Agency
AGO	Auditor General's Office
BCG	Budgetary Central Government
BML	Bank of Maldives
CBA	Cost Benefit Analysis
CBDRRF	Community-Based Disaster Risk Reduction Framework
COFOG	Classification of Functions of Government
e-GDDS	Enhanced General Data Dissemination Standard
EBU	Extrabudgetary Unit
EME	Emerging Market Economies
FAD	Fiscal Affairs Department of the Ministry of Finance
FRA	Fiscal Responsibility Act
FTC	Fiscal Transparency Code
GFS	Government Finance Statistics
GFSM 2014	*Government Finance Statistics Manual 2014*
GFSM 1986	*Government Finance Statistics Manual 1986*
GoM	Government of Maldives
GST	Goods and Services Tax
HDFC	Housing Development Finance Corporation
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
LGA	Local Government Authority
MFMRA	Ministry of Fisheries, Marine Resources and Agriculture
MIB	Maldives Islamic Bank
MMA	Maldives Monetary Authority
MNPHI	Ministry of National Planning, Housing & Infrastructure
MoF	Ministry of Finance
MPAO	Maldives Pension Administration Office
MPCC	Macroeconomic Policy Coordinating Committee
MTBF	Medium-Term Budget Framework
MTDS	Medium-Term Debt Strategy
MTFS	Medium-Term Fiscal Strategy
MRPS	Maldives Retirement Pension Scheme
MVR	Maldivian Rufiyaa (Rf)
NBS	National Bureau of Statistics
NDMA	National Disaster Management Authority
NSDP	National Summary Data Page
PAS	Public Accounting System
PFA	Public Finance Act
PFM	Public Financial Management
PFR	Public Financial Regulations
PIMA	Public Investment Management Assessment
PPPs	Public-Private Partnerships
PSDS	Public Sector Debt Statistics
PSIP	Public Sector Investment Program
RMDMD	Resource Mobilization and Debt Management Department
SARTTAC	South Asia Regional Training and Technical Assistance Centre
SAP	Strategic Action Plan
SDF	Sovereign Development Fund
SOE	State-owned Enterprise
TPAD	Treasury and Public Accounts Department
TPU	Tax Policy Unit
UN	United Nations
USAID	United States Agency for International Development
US$	United States Dollars
WB	World Bank

Legend for summary tables

Not Met	Basic	Good	Advanced

PREFACE

In response to a request from the Minister of Finance, Government of Maldives, the IMF Fiscal Affairs Department (IMF-FAD) team carried out a Fiscal Transparency Evaluation of Maldives. The evaluation was conducted remotely from November 23–December 14, 2020. The IMF team was led by Sandeep Saxena and comprised Majdeline El Rayess and Gemma Preston (all IMF-FAD); Celeste Kubasta (SARTTAC PFM Advisor); and Joseph Cavanagh, Pokar Khemani, and Adrien Tenne (FAD experts). The team assessed Maldives' fiscal reporting, fiscal forecasting and budgeting, and fiscal risk management practices, benchmarking them against the standards set by the 2014 version of the IMF's Fiscal Transparency Code. The team also developed an action plan for addressing key weaknesses in fiscal transparency in Maldives. The assessment followed a virtual inception mission conducted in August 2020.

The team presented its findings and key recommendations to the Minister of Finance, Mr. Ibrahim Ameer. Ministers of State for Finance Mr. Ismail Ali Manik and Mr. Ahmad Shareef provided overall guidance to the team. The team worked in close collaboration with Chief Financial Budget Executive Mr. Saruvash Adam and his team in the Fiscal Affairs Department (FAD) of the Ministry of Finance. Financial Controller, Ms. Razeena Fathimath, and her team from the Treasury and Public Accounts Department (TPAD) provided valuable insights and data support. The team also held extensive discussions with the staff of the Finance Ministry's Resource Mobilization and Debt Management Department (RMDMD), Public Enterprise Monitoring Unit, and National Tender Board; Ministry of National Planning, Housing and Infrastructure; Ministry of Environment; National Disaster Management Authority (NDMA); Auditor General's Office; and Maldives Monetary Authority (MMA).

The team briefed donors at the end of the mission and would like to thank the IMF Resident Representative office in Colombo for organizing the meeting, which included representatives from the World Bank, the Asian Development Bank, and the United States Agency for International Development (USAID).

The mission would like to extend its gratitude to the Maldivian authorities for excellent cooperation, and candid discussions, despite the limitations of virtual meetings. Special thanks are due to Amana Shabeer and Azyan Hameed of FAD's Research Division for their tireless support in organizing meetings and making available the required information.

EXECUTIVE SUMMARY

Reflecting an ongoing commitment to enhancing fiscal transparency, Maldives is the first small island state, and the second country in Asia, to have undertaken a Fiscal Transparency Evaluation (FTE). The Government of the Maldives (GoM) recognizes the importance of transparency in fiscal management and in delivering on its ambitious policy agenda, while responding to current challenges within a tight fiscal environment. This report assesses fiscal transparency practices in Maldives against the first three pillars of the IMF's Fiscal Transparency Code (FTC).

Overall, the FTE shows that Maldives has made considerable progress in improving fiscal transparency in recent years. The gains are reflected in favorable assessments in many areas. At the same time, several practices are assessed at the level of "Basic" or "Below basic." However, the ongoing reforms make it possible to harness quick wins with relatively minor additional efforts in a number of areas. Table 1—presented as a heatmap—summarizes the scores on each of the three pillars of the FTC. Figure 1 presents an international comparison of these scores. In summary, the FTE shows the following:

- Performance in fiscal forecasting and budgeting is stronger relative to the other pillars; 50 percent of practices are assessed as "Good" or "Advanced." The remainder in this pillar are at the "Basic" or "Below basic" level.
- Performance across fiscal reporting practices is uneven, ranging from "Advanced" to "Below basic." Noteworthy is the progress achieved in high-frequency budget execution reporting, where the practice scores an "Advanced" rating. Of particular note are the COVID-19 reports that provide weekly updates on the performance of the government's economic response package, including increases in health and social spending.
- Fiscal risk analysis and management emerges as a weak area, consistent with the experience elsewhere. Most of the practices in this pillar are rated as "Basic," and some are "Below basic."

Pillar I. Fiscal Reporting

The overall performance across fiscal reporting practices is mixed; firm foundations are in place, but some fundamental elements need to be reinforced. Fiscal reports in Maldives cover almost the entire general government operations and provide policy makers with near real-time information on budget execution, which promotes confidence that policy can be quickly adjusted, if needed. The budget and accounting classification system is capable of supporting diverse reporting needs. The credibility and timeliness of audited annual financial statements, however, remain a concern; further efforts are needed to improve compliance with international reporting standards. Indeed, the nonavailability of timely audited financial statements is an important gap in transparency and in the executive's accountability for the use of public resources. In addition, the completeness and reliability of fiscal information need to be improved. Strengthening the quality of reported assets and liabilities will also be critical to improving fiscal risk management.

Table 2 presents a consolidated position of the estimated assets and liabilities of the entire public sector in Maldives as at end-2019.

Pillar II. Fiscal Forecasting and Budgeting

Practices in fiscal forecasting and budgeting show strength, but a few areas warrant close attention. Budget unity is a key strength. Parliamentary control over public spending is strong, supported by a relatively comprehensive legal framework for budgeting. Timely publication of budget-related information enhances transparency. However, given the absence of clear targets for fiscal aggregates, fiscal policy seems to be missing the strategic direction necessary to maintain a sustainable path for public finances. The medium-term fiscal strategy (MTFS) and the underlying medium-term budget framework (MTBF) need to be further developed to improve their credibility. To provide a firm basis to the MTBF and annual budget, the Ministry of Finance's (MoF) macroeconomic and fiscal forecasting capacity requires augmentation. Greater transparency is needed around the procurement of major infrastructure projects and their total cost. These improvements to public investment management processes can help to ensure that government resources are used effectively, and that waste and inefficiency are avoided.

Pillar III. Fiscal Risk Analysis and Disclosure

Public finances in Maldives are exposed to significant fiscal risks that require careful identification, analysis, management, and monitoring. Revenues are highly dependent on the tourism sector, and the stock of debt is at an alarmingly high level (115 percent of GDP at end-2020). Revenues and debt could be further impacted by risks from natural disasters and climate change; for example, the fiscal cost of the 2004 tsunami—although considered low frequency—has been estimated at 62 percent of GDP. Over the longer term, there are questions over the sustainability of the unfunded public pension scheme. Fiscal risks stemming from local councils are currently low; however, the decentralization agenda—which may, among other things, allow local councils to borrow in financial markets—could potentially create risks for the central government.

In addition, state-owned enterprises (SOEs), with total liabilities of 84 percent of GDP at end-2019, are a major source of fiscal risks. The government has also provided loans to SOEs that could be impaired if the creditworthiness of the SOEs deteriorates further. Analysis of nine major SOEs covering a five-year period (2014–19) points to increasing riskiness. Almost all government guarantees involve debt contracted in foreign currency, exposing the government to currency risk as well.

A comprehensive view of fiscal risks is needed to inform a more holistic and coordinated approach to fiscal risk management. The MoF has done well to introduce a discussion of main fiscal risks in the budget documents. The discussion, however, needs to be further enhanced. The analysis of fiscal risks needs to be made more comprehensive, with, where possible, risk quantification.

Recommendations

The FTE provides recommendations for Maldives to further enhance its fiscal management and transparency by means of improvements across each of the three pillars. Heatmaps contained within each of the three pillars also place emphasis on areas of relative priority and importance, considering the present country context. An action plan (Annex I) is provided to prioritize and sequence the needed reforms. The key recommendations include the following:

- **Recommendation 1.1. Improve the timeliness and reliability of the year-end consolidated financial statements.** The aim should be to improve the quality of reporting on assets and liabilities, consistent with international public sector accounting standards (IPSAS), and to complete the audit of the annual financial statements for the timely publication of the audited statements.

- **Recommendation 1.2. Enhance the transparency of tax expenditure by improving their reporting and coverage.** The legal framework should be updated to define tax expenditures and establish a requirement of annual publication of estimates of revenue forgone by sector or major policy area.

- **Recommendation 2.1. Establish clear fiscal policy objectives to effectively guide the fiscal stance.** The ongoing development of a new Fiscal Responsibility Act (FRA) should be completed to provide a realistic path to fiscal consolidation and should include clearly articulated fiscal objectives. The implementation, and eventual elevation to regulations, of the 2019 Virements and Appropriation Procedures would bring greater transparency to budget reallocations.

- **Recommendation 2.2: Continue to refine the MTBF, supported by robust and reliable macroeconomic and fiscal forecasts, to enhance budget credibility.** Strengthen the MoF's macroeconomic and fiscal forecasting capacity through adequately resourcing the macro unit and equipping it with appropriate tools and skills.

- **Recommendation 2.3. Enhance the spending efficiency on public investment projects and the transparency around project selection and procurement.** Cost-benefit analysis of investment projects should be undertaken more routinely, and all major projects should be subject to open and competitive procurement.

- **Recommendation 3.1. Improve the analysis and disclosure of fiscal risks.** The disclosure of fiscal risks in the budget documents should be enhanced by enriching the discussion of the main macroeconomic risks; the risks surrounding the debt portfolio and debt sustainability; and the other major specific fiscal risks, such as guarantees, risks from SOEs, natural disasters, legal claims, and risks to financial assets. The MoF's institutional capacity to analyze and manage fiscal risks needs to be further strengthened.

- **Recommendation 3.2. Improve the analysis of pension liabilities, and assess and manage the short-term and long-term liabilities of the various pension schemes.** A comprehensive review of the various pension schemes is needed, with actuarial assessments of their long-term sustainability and reviews of funding arrangements to examine any short-term risks.

- **Recommendation 3.3. Enhance and strengthen the management of guarantees by ensuring greater compliance with the MoF's guarantee policy**. The policy itself offers scope for improvements to be able to support better management of guarantees, including through the development of suitable risk mitigation measures.

- **Recommendation 3.4. Strengthen the transparency around SOEs finances by publishing an ownership policy and more comprehensive reporting.** An overview of the financial position and performance of the public corporations' sector is needed for a holistic assessment of risks. The analysis of individual SOEs requires further deepening.

Table 1. Summary Heatmap

I. Fiscal Reporting	II. Fiscal Forecasting and Budgeting	III. Fiscal Risk Analysis and Management
1.1.1. Coverage of Institutions	2.1.1. Budget Unity	3.1.1. Macroeconomic Risks
1.1.2. Coverage of Stocks	2.1.2. Macroeconomic Forecasts	3.1.2. Specific Fiscal Risks
1.1.3. Coverage of Flows	2.1.3. Medium-Term Budget Framework	3.1.3. Long-Term Fiscal Sustainability Analysis
1.1.4. Coverage of Tax Expenditures	2.1.4. Investment Projects	3.2.1. Budget Contingencies
1.2.1. Frequency of In-Year Reporting	2.2.1. Fiscal Legislation	3.2.2. Asset and Liability Management
1.2.2. Timeliness of Annual Financial Statements	2.2.2. Timeliness of budget documents	3.2.3. Guarantees
1.3.1 Classification	2.3.1. Fiscal Policy Objectives	3.2.4. PPPs
1.3.2. Internal Consistency	2.3.2. Performance Information	3.2.5. Financial Sector Exposure
1.3.3. Historical Revisions	2.3.3. Public Participation	3.2.6. Natural Resources
1.4.1. Statistical Integrity	2.4.1. Independent Evaluation	3.2.7. Environmental Risks
1.4.2. External Audit	2.4.2. Supplementary Budget	3.3.1. Subnational Governments
1.4.3. Comparability of Fiscal Data	2.4.3. Forecast Reconciliation	3.3.2. Public Corporations

Not Met	Basic	Good	Advanced

Figure 1. Fiscal Transparency Evaluation Scores—International Comparison

Table 2. Maldives Public Sector Financial Overview, 2019

(Percent of GDP)

	Central Government			Local Government	General Government	Non Fin. Corporations	Financial Corporations	Central Bank	Consol.	Public Sector
	Budgetary Central Gov.	EBU	Consolidated Central Gov.							
Total transactions										
Revenue	26.5	0.2	26.7	1.7	27.3	23.4	5.8	0.5	-5.8	51.2
Expenditure	31.0	0.1	31.1	1.7	31.7	21.4	2.6	0.2	-5.8	50.1
Expense	25.8	0.1	25.9	1.7	26.5	17.8	2.5	0.2	-5.8	41.1
Investment in NFA	5.2	0.0	5.2	0.0	5.2	3.6	0.2	0.0	0.0	9.0
Net operating balance	**0.7**	**0.1**	**0.8**	**0.0**	**0.8**	**5.6**	**3.4**	**0.3**	**0.0**	**10.0**
Net lending/borrowing	**-4.5**	**0.1**	**-4.4**	**0.0**	**-4.4**	**2.0**	**3.2**	**0.3**	**0.0**	**1.0**
Total assets	**51.7**	**0.0**	**51.7**	**0.0**	**51.7**	**78.0**	**53.3**	**21.3**	**-54.5**	**149.8**
Nonfinancial assets	6.5	0.0	6.5	0.0	6.5	61.7	0.7	0.3	0.0	69.2
o/w: Subsoil assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	45.2	0.0	45.2	0.0	45.2	16.3	52.6	21.0	-54.5	80.5
Reported liabilities (a)	**70.2**	**0.0**	**70.2**	**0.0**	**70.2**	**40.0**	**44.1**	**20.5**	**-41.1**	**133.7**
Debt securities	37.4	0.0	37.4	0.0	37.4	0.0	0.5	0.0	-16.2	21.7
Loans	25.5	0.0	25.5	0.0	25.5	28.5	1.9	0.1	-12.3	43.8
Accounts payable	7.3	0.0	7.3	0.0	7.3	11.5	25.6	0.8	-1.7	43.5
Pensions	0.0	0.0	0.0	0.0	0.0	0.0	16.0	0.0	0.0	16.0
Other (mainly equity/deposits)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.5	-10.8	8.7
Reported net worth	**-18.5**	**0.0**	**-18.5**	**0.0**	**-18.5**	**38.0**	**9.3**	**0.8**	**-13.5**	**16.1**
Unreported liabilities (b)	**64.6**	**0.0**	**64.6**	**0.0**	**64.6**	**0.0**	**0.0**	**0.0**	**0.0**	**64.6**
Unreported pensions	64.6	0.0	64.6	0.0	64.6	0.0	0.0	0.0	0.0	64.6
Unreported PPP liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities (a)+(b)	**134.8**	**0.0**	**134.8**	**0.0**	**134.8**	**40.0**	**44.1**	**20.5**	**-41.1**	**198.3**
Net financial worth	**-89.6**	**0.0**	**-89.6**	**0.0**	**-89.6**	**-23.8**	**8.6**	**0.5**	**-13.5**	**-117.7**
Net worth	**-83.1**	**0.0**	**-83.1**	**0.0**	**-83.1**	**38.0**	**9.3**	**0.8**	**-13.5**	**-48.5**

Sources: 2019 Government of Maldives unaudited Consolidated Financial Statements; financial statements of major public corporations; *Government Finance Statistics Manual 2014* (*GFSM 2014)* data prepared by IMF.

FISCAL REPORTING

Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.

1. **This chapter assesses the quality of fiscal reporting in the GoM against the principles set out in the first pillar of the IMF's Fiscal Transparency Code (FTC).** It focuses on the following four dimensions:

1. Coverage of public sector institutions, stocks and flows
2. Frequency and timeliness of reporting
3. Quality, accessibility, and comparability of fiscal reports, and
4. Reliability and integrity of reported fiscal data.

2. **Fiscal reporting in Maldives is characterized by a diverse set of reports produced by four different departments within the Ministry of Finance (MoF).** The Treasury and Public Accounts Department (TPAD) is responsible for financial accounting and reporting; the Fiscal Affairs Department (FAD) for the annual budget, in-year budget execution reports, and Government Finance Statistics (GFS); the Resource Mobilization and Debt Management Department (RMDMD) for debt reporting; and the Public Enterprise Management (PEM) for reporting on SOEs. The following reports are noteworthy:

- **Weekly fiscal development reports,** prepared on a cash basis, provide revenues and expenditures by economic classification, primary balance, and overall balance. Expenditure is also identified by agencies. Reports include details on the public sector investment program (PSIP), classified by functions, and debt operations for the reference period. Data are presented as of the end of the week, compared with the approved budget and previous year outturn. Box 1 provides information on the weekly COVID-19 spending reports introduced in 2020.
- **Monthly fiscal development reports,** prepared in the same format as the weekly fiscal development reports, provide the revenue and expenditure outturn for and up to the month, compared with the approved budget, and the previous year outturn for the corresponding period.
- **Monthly economic indicator reports** provide a summary table of key economic indicators monitored and analyzed by the MoF.
- **Monthly Green Fund reports** present data on green tax collection by Atoll/City and establishment type and expenditure incurred by project.

- **Quarterly reports on SOE finances** present individual analysis of all 28 nonfinancial SOEs, with brief overviews of their aggregate financial performance.

- **Annual consolidated financial statements**—prepared by the TPAD in compliance with cash-based International Public Sector Accounting Standards (IPSAS)— provide the GoM's financial performance and financial position and include a comparison of outturn with budget.

- **Public Debt Bulletins and Outstanding Debt Reports** provide the disbursed outstanding debt of the government, including guaranteed debt, external and domestic debt breakdowns, and summary debt statistics.

- **Public Sector Debt Statistics** are generated by the MoF and show the total debt outstanding of the central government with breakdown by the type of government securities and the change in debt level from one period to the other.

Table 3 presents the main fiscal reports covered in this chapter.

Box 1. Weekly COVID-19 Spending Report

Recognizing the value in monitoring and reporting on COVID-19 spending, the Ministry of Finance, since the start of May 2020, has published a weekly—and easy to read—report as part of the government's commitment to transparency and accountability. The report, which is released every Monday, carries data as of the last Thursday. It highlights the government's COVID-19–related health and social sector spending. It also carries an update on the government's economic response package that comprises the COVID-19 Recovery Loan Scheme for businesses, Income Support Allowance for individuals, and the discount on electricity bills for households. Information includes the number of businesses, individuals, and households assisted and the amounts disbursed under each of the three schemes. The data on direct government spending are provided by institution and economic category. The report includes a useful glossary to assist readers in understanding the information provided in the report.

Table 3. Maldives: Principal Fiscal Reports

		Coverage			Accounting		Publication	
	Agency	Flows	Stocks	Institutions	Basis	Class	Frequency	Lag
In-year Reports								
Budget Execution Reporting								
Weekly fiscal developments	MoF	R, E, Fin	N/A	BCG	Cash	National	W	1 week
Monthly cash flow statements	MoF	R, E	N/A	BCG	Cash	National	M	N/A
Monthly fiscal developments	MoF	R, E, Fin	N/A	BCG	Cash	National	M	1 month
Monthly fiscal time series	MoF	R, E	N/A	BCG	Cash	National	Q	1month
Quarterly economic and fiscal developments	MoF	R, E, Fin	N/A	BCG	Cash	National	Q	2 months
Other Reports								
Monthly economic indicators	MoF	–	–	–	–	–	M	1 month
Public debt bulletin	MoF	Fin	Debt	BCG	Cash	National	SA	6 months
Outstanding debt	MoF	Fin	Debt	BCG	Cash	National	Q	3 months
External grants, sovereign guarantees, and active external loans	MoF	Fin	Debt	BCG	Cash	National	M	U
Public sector debt statistics	MoF	Fin	Debt	BCG	Cash	PSDS	Q	3 months
Annual Reports								
Government consolidated financial statements	MoF	R, E, Fin	A, L	BCG	M-cash	IPSAS (Cash)	A	24m
Government finance statistics	MoF	R, E, Fin	N/A	BCG	M-Cash	GFSM1986 /2014	A	1 month
Statement of public debt (audited)	MoF	Fin	N/A	BCG	Cash	IPSAS	A	22m
Public sector debt statistics	MoF	Fin	N/A	BCG	Cash	PSDS	A	N/A

Notes: 1. R = Revenue, E = Expenditure, A = Assets, L = Liabilities, Fin = Financing, W = Weekly, M = Monthly, Q = Quarterly, S-A = Semi-annual, A = Annual, M-cash = Modified Cash, Nat = National, V = Variable, BCG = Budgetary central government, U = Updated on an ongoing basis, N/A = Not applicable.
2. "Class" refers to the standards governing presentation and classification.
3. "Lag" refers to elapsed time after close of period. For in-year reports, the stated value relates to expected lag; for annual reports, it refers to actual lag using the most recently published year.
4. Monthly cash flow statements were last issued in February 2020.
5. The consolidated finnacial statements present a partial balance sheet, with a selection of assets and liabilities.

1.1. Coverage of Fiscal Reports

1.1.1.	Coverage of Institutions	Basic

3. **In 2019, the public sector in Maldives comprised 297 institutional units whose expenditure accounted for 50 percent of GDP (Table 4)**. The MoF maintains an institutional table that categorizes institutions by type within the public sector. In 2019, the public sector included:

- **Budgetary central government** (BGC), comprising 49 accountable agencies and constituting a mix of legislative, judicial, and executive bodies.
- **Extra-budgetary central government,** comprising five institutions and a recently created Sovereign Development Fund (SDF), partly off budget.
- **Local government,** comprising 209 local councils ranging in size from cities to island councils and largely dependent on transfers from the central government.
- **Public Corporations**, comprising the central bank (Maldives Monetary Authority, MMA); four other financial corporations, including the Maldives Pension Administration Office (MPAO); and 28 nonfinancial public corporations.

Table 4. Public Sector Institutions and Finances, 2019
(Percent of GDP, unless specified otherwise)

	Number of entities	Revenue	Expenditure	Balance	Intra-PS expenditure	Net expenditure	Percent net expenditure
Public Sector	**297**	**51.2**	**50.1**	**1.0**	**0.0**	**50.1**	**100.0**
General government	**264**	**27.3**	**31.7**	**-4.4**	**0.0**	**31.7**	**63.2**
Central government	55	26.7	31.1	-4.4	0.0	31.1	62.1
Budgetary central government	49	26.5	31.0	-4.5	3.9	27.1	54.1
Extrabudgetary units and funds	6	0.2	0.1	0.1	0.0	0.1	0.3
Local governments	209	1.7	1.7	0.0	0.0	1.7	3.5
Central bank	**1**	**0.5**	**0.2**	**0.3**	**0.0**	**0.2**	**0.4**
Nonfinancial public corporations	**28**	**23.4**	**21.4**	**2.0**	**1.9**	**19.5**	**38.9**
Other financial public corporations	**4**	**5.8**	**2.6**	**3.2**	**0.0**	**2.6**	**5.2**

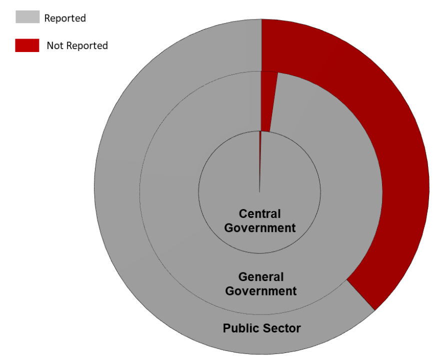
Source: Staff calculations.

4. **The annual consolidated financial statements cover 97.8 percent of general government and 62 percent of public sector expenditures (Figure 2)**. The accounts include the various central government institutions; trust funds; and transfers to other parts of the public sector, including transfers to extra-budgetary units (EBUs), local councils, SOEs, and the MPAO. The general government operations excluded from the financial statements are as follows:

- The portion of expenditure of the five EBUs that is funded by their own revenues—about 0.4 percent of the total general government expenditure.

- The portion of expenditure of the local councils that is funded from their own revenues—about 1.8 percent of the total general government expenditure.[1]

Figure 2. Coverage of Expenditures in Fiscal Reports, 2019



Source: Staff calculations.

5. **The SDF—a reserve maintained at the MMA—was created in 2017 primarily as a sinking fund to meet a large debt repayment falling due in 2022.** The SDF is funded by budgetary transfers (around 4 percent of the total budget). The weekly and monthly fiscal reports and the annual financial statements report budgetary transfers to the SDF during the year and the SDF fund and cash balances. The SDF's investments and disbursements, however, are off budget and are excluded from fiscal reports. By early December 2020, the SDF had accumulated lifetime inflows of MVR 3.55 billion and had made investments of MVR 2.65 billion and debt repayments of MVR 0.35 billion. The accumulated balance of the fund stood at MVR 3.2 billion (3.7 percent of GDP). A part of this balance is held in foreign currency (US$), but the currency composition of SDF is not publicly disclosed.

6. **The boundary of general government, as currently delineated, offers scope for review.** Recent technical assistance missions by the IMF's South Asia Training and Technical Assistance Center (SARTTAC) have identified 15 entities, currently classified as public corporations, for potential reclassification into general government.[2] The suggested resectorization needs to be reviewed and confirmed by the GoM. The identified entities include: (1) the MPAO, currently classified as a social security institution; and (2) 14 nonfinancial public corporations that rely on budget transfers or that otherwise do not charge economic prices. The size of the MPAO's own administration is small, but the Maldives Retirement Pension Scheme (MRPS) it administers is substantial (Table 5). In line with the SARTTAC recommendations, this report treats the MPAO as a public financial corporation. Pending further scrutiny, the second set of entities has been recognized as part of the public corporations sector in this report.

[1] The three larger city councils (Fuvamulak, Addu, and Malé), which obtain rents, and some communities that have retained ownership of local utility companies, account for the bulk of the own revenues collected by the local council sector.

[2] See SARTTAC TA Reports, "Maldives: Government Finance Statistics and Public Sector Debt Statistics," by Ethan Weisman, March 2019; and "Maldives: Government Finance and Public Sector Debt Statistics," by Brooks Robinson and Roderick O'Mahony, March 2020.

Table 5. Summary Finances of MPAO and MRPS

	MPAO Administration	MRPS Fund	
	MVR, millions	MVR, millions	Percent of GDP
Revenues	60.8	1,737.6	
Expense	43.3	57.7	
Surplus	**17.6**	**1,679.9**	**1.9%**
Assets	117.5	13,895.3	
Liabilities	8.9	7.7	
Net Worth	**108.6**	**13,887.6**	**16.0%**

Source: MPAO annual report, 2019.

7. **Further enhancements to the coverage and credibility of reports will promote transparency.** Currently, the GFS and budget execution reports are drawn from the main public accounting system (PAS), using the same institutional coverage as the annual financial statements. Debt reporting is limited to the BCG, although it includes on-lending and government guaranteed debt. The GoM is making efforts to improve the institutional coverage of fiscal reports. An initiative by the MoF and the Local Government Authority (LGA) aims to bring local council finances online through a new application, beginning in 2020. This application, developed in-house, will initially be manually integrated with the PAS.[3] The application is yet to be rolled out to all councils. The MoF has set up a working group to improve the GFS and public debt reporting and to review the sectorization issues and boundary cases, as well as to update the institutional table. In addition, efforts should be made to include the full operations of EBFs, including the SDF, with its currency composition. Given the SDF's primary objective, disclosing currency composition would likely provide a positive signal to financial markets/lenders.

1.1.2.	Coverage of Stocks	Basic

8. **Consolidated annual financial statements and GFS reports are prepared on a modified cash basis but include information on cash, deposits, and debt.**[4] The financial statements focus on the movements of cash, but they include information on cash balances and public debt, by way of a disclosure note. The disclosures cover around 35 percent of all public sector assets and liabilities; assets represent about 52 percent of GDP, and liabilities are equal to about 70 percent of GDP (Figure 3). Figure 4 compares Maldives' public sector net worth (negative 48.5 percent of GDP) with other countries. The disclosure notes include data on financial assets (accounts receivable, investments in SOEs, and cash and cash equivalents), as well as some nonfinancial assets (property, plants, and equipment). On the liability side, there are disclosures on current accounts payable and

[3] Due to their geographical spread, the authorities consider the cost of extending the PAS to all local councils to be far in excess of the benefits of capturing their financial data.

[4] The accounting system provides for a complementary period of 30 working days after the year-end, during which payments can be made and booked to the previous budget year.

public debt (face value). The GFS data are based on the same dataset and present changes in financing. The MoF also produces an annual statement of public debt, which is audited and published.

9. The asset and liability disclosures are developmental in nature and do not present a complete picture. The PAS—an SAP adaptation—was introduced in 2009. It was initially set up to handle centralized payments only; other functionalities were introduced at later stages. Except for cash and current payables, the PAS does not maintain direct records of assets and liabilities. These are maintained in other systems in the MoF and across the government. Debt data are recorded using CS-DRMS. Accordingly, apart from debt and current payables, the values disclosed in the consolidated financial statements are variable in terms of their completeness and reliability. The audit report on the 2018 financial statements contained a criticism of asset and liability accounting, including the calculation of cash balances

Figure 3. Coverage of Assets and Liabilities in Fiscal Reports, 2019
(Percent of GDP)

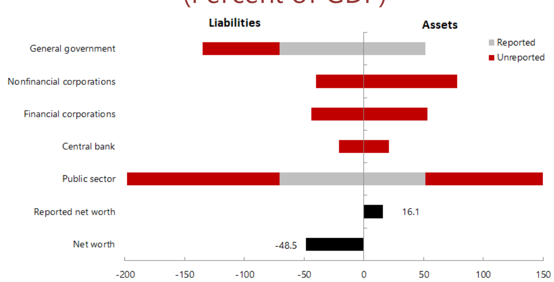
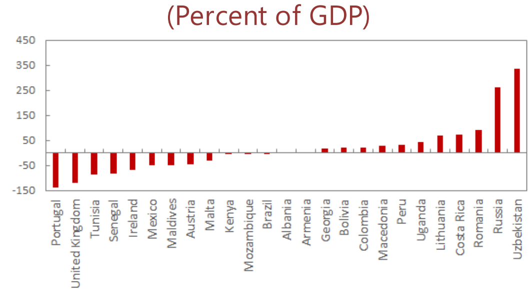


Figure 4. Public Sector Net Worth in Selected Countries
(Percent of GDP)



Source: Staff calculations.

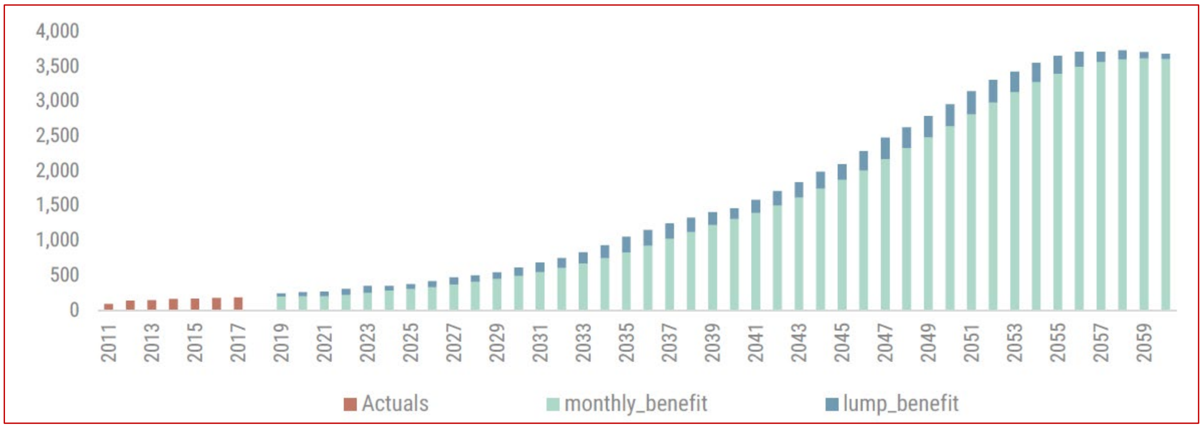
10. A major omission is the unreported liability of the public service pension scheme.[5] The MoF pension budget includes payments to civil servant pensioners from a variety of unfunded pension schemes, some defined benefits and some defined contributions schemes. These involve both lump sums and monthly payments to retired public servants from across the public service. In the 2020 budget, lump sums were estimated to cost MVR 64 million, and monthly payments were estimated to cost MVR 240 million.

11. These annual pension costs are expected to rise to around MVR 3.5 billion by the 2050s—a level considered unsustainable. The MoF conducted an analysis of the future payments under these unfunded public service pension schemes and reported the results as part of the 2019

[5] IPSAS 39 (Employee Benefits) provides guidance on the treatment (in financial statements) of different types of pension schemes. Few countries comply with the standard or its equivalent in national or IFRS-based standards. Australia and New Zealand and the UK provide useful examples and discussion of the valuation methods used.

budget documents (Figure 5). In particular, these arrangements are seen as onerous because public servants are also eligible for the MRPS, creating a double coverage issue.

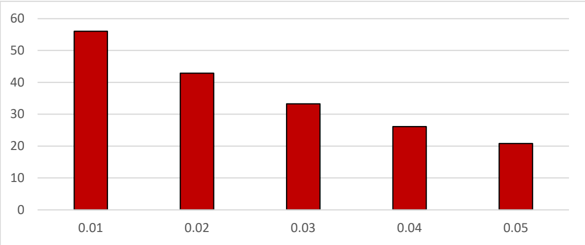
Figure 5. Forecast Annual Cost of Public Service Pensions (MVR, millions)



Source: Maldives Budget Book 2019.

12. A simple estimation suggests that the net present value (NPV) of these commitments represents a liability of around MVR 56 billion, which is 65 percent of GDP. Indeed, the valuation of this liability is dependent on the choice of discount rate. As illustrated in Figure 6, this liability can potentially range from MVR 20.8 billion (24 percent of GDP) at a discount rate of 5 percent to MVR 56 billion (65 percent of GDP) at a discount rate of 1 percent. Typically, the discount rate would be based on the long-term bond market real rate of return.[6] There is no direct comparator for 40-year rates in Maldives; markets elsewhere (and actuarial calculations used by other nations reporting their pensions liabilities) suggest that a discount rate nearer to 1 percent rather than 5 percent may be more appropriate.

Figure 6. Illustrative Estimation of NPV of Unfunded Pension Liabilities (MVR, billions)



Source: Staff calculations, based on authorities' forecast of annual costs.

13. A gap between MRPS assets and accumulated pension liabilities would represent a further pension-related liability. The 2019 MRPS accounts show assets of MVR 13.9 billion and liabilities of MVR 7.7 million; the bulk of the liabilities are the administrative fees payable to MPAO. The MRPS does not seem to include liabilities for pension and other benefit rights already earned by its subscribers. Pension awards are made based on individual pension accounts; members revert to the state-funded basic pension once their individual account balances are exhausted. Thus, pension

[6] The mission understands that the data in Figure 5 are in constant price terms. As such, the real rather than the nominal rate would be used to discount future cash flows.

fund liabilities are, in theory, equal to its assets, even if these liabilities are underreported. However, the MPAO acknowledges that there is room for doubt over this assumption, particularly in cases of pensions transferred from the government that were matched by a bond that may prove to be less than the eventual liability. The MPAO is considering engaging consultants to determine if there is indeed a gap between fund assets and liabilities. For the purpose of this report, therefore, MRPS' liability is assumed to be equivalent to the fund's net assets—MVR 13.9 billion.

14. **Another gap in current reporting concerns the government assets resulting from the various loan schemes.** These schemes are either administered directly by the MoF or handled by banks acting as MoF's agents. The schemes include loans to SOEs, student loans, and COVID-relief and other loans to small businesses. More recently, the Maldives Inland Revenue Authority has taken the responsibility for the collection of such loans. At this stage, there are no reliable data on the sums at stake. The mission was informed that there is a balance of around MVR 2 billion (2.3 percent of GDP) in student loans. By end-December 2020, some MVR 346 million had been disbursed in COVID-relief loans to SMEs and those who are self-employed, and an additional MVR 579 million to large businesses (together, these amount to approximately 1 percent of GDP).

15. **Further development of data on assets and liabilities is needed to make debt and GFS reporting more comprehensive.** Debt reporting is currently limited to debt securities and loans at face value. The March 2020 SARTTAC report suggested broadening the coverage of debt instruments, as well as the institutional coverage of debt reports. Given the developmental nature of asset and liability data, current GFS reporting does not extend beyond cash and borrowings.

16. **A phased inclusion of accrued elements will provide both the impetus and the discipline needed to assemble and report better information on assets and liabilities**. The GoM has already announced its intention to transition to accruals accounting. Although a demanding reform, it will provide a framework for more comprehensive and reliable reporting on the full range of government assets and liabilities. The MoF has started to commission consultants to help design a transition strategy. Reliable data on assets and liabilities will support the production of a more complete and integrated balance sheet and facilitate fuller GFS reporting.

1.1.3	**Coverage of Flows**	**Basic**

17. **The annual consolidated financial statements, as well as the GFS reports, present a comprehensive account of cash flows, including financing flows (both debt and lending-related).** The reports, as well as the disclosed surplus or deficit, do not include accrued revenues and expenses and other economic flows, such as depreciation, holding gains and losses (currency gains/losses, or gains/losses in equity holdings), actuarial adjustments, or the write-off or impairment of assets. Similar limitations exist for in-year reporting and debt reporting, which are currently limited to cash movements and debt balances at face or cash value.

18. The transition to accruals, when it happens, will allow accounts to include all of the relevant flows. Until a fully developed roadmap is available, there is no specific timetable set for this development. The capture of non-cash and other economic flows is a natural byproduct of a switch to full accruals accounting. These flows can be material and produce fiscal aggregates that are quite different from those revealed by cash movements alone.

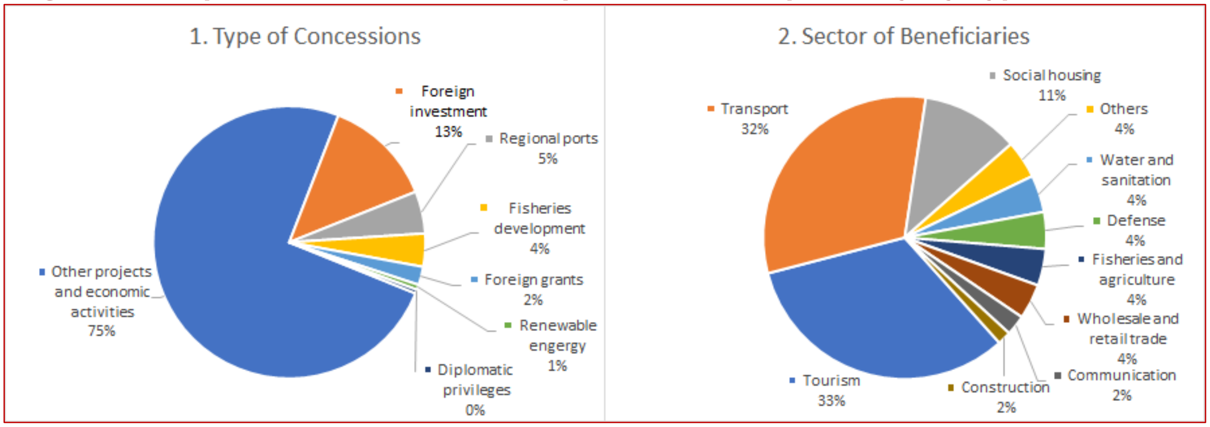
1.1.4.	Coverage of Tax Expenditures	Not Met

19. A comprehensive statement of revenue loss from tax exemptions and benefits is currently missing. The number of tax benefits and exemptions is likely to be significant in Maldives. These may include: (1) zero-rate goods for the goods and services tax (GST) as presented in the Goods and Services Tax Act; (2) exemptions of business in the Business Profit Tax Act, in particular, the profit tax of foreign investors who are party to a foreign investment agreement; (3) tax incentives related to the developers and investors in special economic zones, as provided by the Special Economic Zones Act; and (4) preferential treatment on the import duty of goods as stipulated by the Customs Act. The legal framework neither provides a precise definition of tax expenditures nor mandates the disclosure of data.

20. The newly created Tax Policy Unit (TPU) within the MoF is working on establishing a methodology for estimating revenue losses. Following a 2019 technical assistance mission provided by the IMF, the TPU was created within the MoF to strengthen the role of the ministry in formulating tax policy. Part of the role of the unit is to perform revenue and economic impact analyses, including tax expenditure analysis, with the purpose of annual publication in the budget. The TPU is leading this work in collaboration with the Maldives Inland Revenue Authority and Maldives Customs Service. The TPU is taking a gradual approach to estimating and disclosing tax expenditures. Work has begun on estimating tax exemptions related to import duty. With IMF technical assistance, the TPU plans to undertake an exercise in estimating tax expenditures related to income tax and business profit tax (BPT). The TPU aims to produce a comprehensive tax expenditure report that encompasses all types of tax exemptions, including those related to the GST.

21. For the first time, the 2021 Budget Book included estimates of tax expenditures related to preferential treatment on import duty. Following the work done by the TPU, the 2021 Budget Book included a statement on the estimations of revenue losses on import duty for specific activities, such as reduced duty rates for development of regional ports, exemptions for promotion of special economic zones, and promotion of certain sectors. The data that covered 2019 were presented by the type of concession and the beneficiary sector. The estimations of revenue losses amounted to MVR 1.8 billion (around 11 percent of total tax revenue; 2 percent of GDP). Exemptions on import duty related to other projects and economic activities (mostly capital projects) have been the main type of concession for which the tourism and transportation sectors are the main beneficiaries (Figure 7).

Figure 7. Composition of the 2019 Tax Expenditures on Import Duty, by Type and Sector



Sources: Budget Book, 2021; staff calculations.

1.2. Frequency and Timeliness

1.2.1.	Frequency of In-Year Reports	Advanced

22. In-year fiscal reports are published routinely in a timely manner. The Research and Publication unit of the FAD prepares and publishes weekly and monthly fiscal developments reports covering the BCG. Weekly reports are published on the MoF's website within one week of the reference period, and monthly reports are published by the end of the following month. The PAS facilitates the timely preparation of these reports. Some elements of information, however, such as bank accounts held at commercial banks, are not available through the PAS. These elements require manual incorporation. Automation of this part would include the seamless generation of these reports and improve their credibility. Until then, any significant exclusions should be disclosed in the report.

1.2.2	Timeliness of Annual Financial Statements	Not Met

23. The legal requirements for the preparation and submission of audited annual financial statements have not been met in recent years. The Public Finance Act (PFA) Chapter 5 Section 38 (a) requires the Finance Minister to submit annual financial statements to the Auditor General (AG) within three months and 14 days after year end. The AG is required to audit and provide a report within two months of receiving the financial statements. The report is then provided to the Finance Committee of People's Majlis. These deadlines have not been met in recent years. The latest available audited financial statements are for 2018; financial statements for 2019 are under audit. Financial statements for 2017 and prior years remain unaudited and unavailable for publication.

24. The lack of published financial statements on a timely basis impedes the transparency and accountability of the use of public resources. Capacity constraints in auditing the financial statements of all of the Accountable Government Agencies (AGAs), as required by the PFA, hinders the ability of the Auditor General's Office (AGO) to adhere to the statutory deadlines for publishing audit reports. The quality of financial statements submitted to the AGO further compounds the challenges. The AGO had been developing its certification audit function. The recent publication of the 2018 audited consolidated financial statements is a welcome development and needs additional reinforcement. The AGO also audited the 2016 consolidated financial statements. Although the audit report was not issued, the key findings were shared with the MoF and followed up during the 2018 audit.

25. Over time, Maldives should aim to attain progressively higher levels of practice in this area. A first target should be to publish audited financial statements within 6-9 months of the year-end. As the FMIS can provide the substantial data required, the timeliness of financial statements will be expected to improve over time. Procedures are underway to address key audit findings that will also improve the credibility of the data. These changes will also enhance the ability of the AGO to complete the audit in accordance with the requirements of the PFA.

1.3. Quality

1.3.1.	Classification	Good

26. The current budget classification and Chart of Accounts largely meet international budgeting, accounting, and reporting standards and practices. The budget and budget execution reports are classified using an administrative and economic classification. A functional classification of expenditures—broadly aligned with the Classification of Functions of Government (COFOG)—is also provided. In addition, the budget documentation includes "Budget in GFS format" that is aligned with the classifications of the *Government Finance Statistics Manual 1986* (*GFSM 1986*). The economic classification, however, is quite detailed; it includes elements of other classification types and requires adjustments to produce reports compliant with accepted statistical and accounting standards.

27. The MoF has done considerable work in recent years to design an improved budget classification and chart of accounts.[7] The new classification design has four main segments: organization, economic, fund, and program-cum-functions. In 2017, while configuring the budget planning and consolidation module, the GoM considered transitioning to a new economic (object) classification with the purpose of complying with IMF's *GFSM 2014* and IPSAS cash-based financial reporting requirements. Its implementation, however, was postponed due to capacity constraints. Currently, a mapping table is used to produce GFS 2014-compliant reports. Going forward, once configured, the PAS would be expected to generate GFS reports.

28. The planned introduction of program classification in the 2022 budget will further enhance the classification structure. The functional segment will be derived from the program classification. Doing this will enhance the credibility of expenditure reports by functions and facilitate better international and intertemporal comparison of the level and composition of expenditure. This

[7] The work on the new classification has progressed under the Maldives Public Financial Management System Strengthening Project, supported by the World Bank.

opportunity should also be used to implement the improved economic classification (complying with *GFSM 2014* and IPSAS) to fully implement the new chart of accounts included in the budget manual.

1.3.2.	Internal Consistency	Not Met

29. The MoF has, with external assistance, started work on reconciling (1) fiscal balance and financing and (2) financing and change in debt stock, but the work is yet to become routine or published:

- **Reconciliation between fiscal balance and financing.** Recent GFS statements of operations, produced on the basis of *GFSM 2014* with the help of a March 2020 SARTTAC mission and now shown on the IMF website, were prepared using central bank data for financing; they show a statistical discrepancy.[8] With the exception of 2014, this discrepancy has been within the acceptable tolerance (2 percent of total expenditure) used by the Fund to assess the reliability of these data. Reasons for the discrepancy are yet to be identified. The MoF has yet to produce or publish these reconciliations as a matter of routine. A further SARTTAC mission is expected to help operationalize this new approach.

- **Reconciliation between financing and change in debt stock.** The March 2020 SARTTAC mission also worked with the RMDMD to reconcile financing with the stock of debt. The mission helped prepare rough stock-flow reconciliations for debt securities and loans in recent years (2016–18), requiring the calculation of holding gains/losses through changes in exchange rates for debt denominated in foreign currencies and some adjustments for time recording and arrears. The results were close enough to confirm the accuracy of the GFS and PSDS debt calculations and to understand the source of any differences. This work has also not yet been made routine or published.

30. Reconciliation between the stock of debt issued against counterparty records of debt holdings needs further improvements.[9] The GoM has a mix of external and domestic debt. The domestic debt is held by a range of institutions, including MRPS, SOEs, institutional investors, and private companies. There is no secondary market for these government securities. The MMA—which issues domestic debt as fiscal agent—checks its records of domestic debt holdings against banking survey data. This process is only a partial check since it does not extend to the part of debt held by nonbanking institutions. The RMDMD reportedly obtains creditors' balances semi-annually to reconcile direct borrowings.

[8] Reports prepared by the MoF under *GFSM 1986* and that still appear on the MoF website do not show overtly the "statistical discrepancy" that often appears in the GFS Statement of Operations; accordingly, fiscal balance and financing are shown as being equal. These data were prepared using budget outturn numbers from the PAS and therefore have a zero or minimal discrepancy.

[9] The RMDMD regularly reconciles debt-related flows, as recorded in PAS and CS-DRMS.

31. Routinely carrying out and publishing these reconciliations as part of fiscal reports enhances reports' credibility.[10] These reconciliations are important to establish data integrity and consistency across different fiscal reports, especially when reports are prepared using diverse data sources.

1.3.3.	Historical Revisions	Not Met

32. The MoF has no standing policy on GFS data revisions; little explanation of changes to historical data and no bridging tables from old to new datasets are provided. Revisions to the GFS are usually undertaken when switching from the approved to the revised budget and then to the outturn data. After entering the outturn data, there is no standing policy or practice for further historical revisions, for example, to reflect later data[11] or changes in measurement (except for the changes reported separately by the March 2020 SARTTAC mission).[12] The MoF publishes and updates its *GFSM 1986* data without explanation as to the basis for reporting (except to say "budget," "revised," "proposed," or "actual" in the column heads).[13] The GFS data on the National Summary Data Page (NSDP) do not specify the status of the data. Accordingly, it is difficult to trace changes in the GFS data or to relate these data to other financial reports. The MoF intends to switch to *GFSM2014* and hopes to receive further assistance from SARTTAC to help automate the production of new GFS data, including the restatement of previous time series. The March 2020 SARTTAC mission recommended that the MoF document its GFS preparation procedures, including the use of bridging tables from old to new datasets.

33. The MoF has recently begun to compile and report debt data that are more aligned with international standards and will need to define a policy on revisions. In early 2020, RMDMD, with SARTTAC's assistance, worked to produce debt statistics in partial compliance with international standards (the IMF's Public Sector Debt Statistics). The MoF also uploaded monthly external debt data for 2020 and 2021, as well as annual data going back to 2015, to the World Bank's debt reporting system. The data were last updated in October 2020. The MoF has also supplied semiannual debt data to the IMF's debt reporting system; the most recent data are for the first half of 2020. The MoF should develop a policy for revisions to time series data for public debt. This policy

[10] The frequency for such reconciliations will, in part, depend on the extent to which reconciliations require that external data be obtained. For example, banking data may only be available quarterly or a debtor circulation exercise may only occur annually.

[11] The MoF generates data in *GFSM 1986* formats directly from the PAS using predefined reports in the Business Intelligence module. The data do not reflect all accounting adjustments and reconciliations.

[12] Recently, with SARTTAC assistance, the previous data series was re-presented to reflect *GFSM 2014* standards. These new data appear separately on the IMF website, with some adjustments. These have yet to appear in the MoF's own data series.

[13] *GFSM 1986* data are prepared twice: (1) once the proposed budget is presented to the Parliament and (2) when the budget is approved.

would apply to both domestic and external debt reporting and include (1) the appropriate way to explain and report revisions, and (2) the manner of using bridging tables from old to new data sets.

1.4. Integrity

1.4.1.	Statistical Integrity	Basic

34. Fiscal statistics are compiled and disseminated in accordance with the IMF's Enhanced General Data Dissemination Standard (e-GDDS) practices. Maldives concluded the implementation of the e-GDDS requirements in July 2019 and published critical data through the National Summary Data Page (NSDP).[14] The NSDP, which is posted on the National Bureau of Statistics' (NBS) website, contains links to statistics published by official data producers, namely, the MMA, the NBS, and the MoF. Fiscal statistics are being disseminated domestically (including through the NSDP); the January 2020 SARTTAC GFS technical assistance mission encouraged the authorities to also disseminate fiscal statistics internationally.

35. The MoF has the responsibility to compile and disseminate fiscal statistics, although this responsibility is not yet formalized in legislation. A new National Statistics Act is expected to assign the GFS and Public Sector Debt Statistics (PSDS) compilation and dissemination duties to the MoF. The Act is being considered by the Parliament. Informally, the FAD is responsible for coordinating the compilation process of fiscal data, which is then transmitted to the NBS for publication on the NSDP. The MMA also publishes fiscal statistics, both central government debt and operations data. The authorities have twice convened an interagency GFS/PSDS Working Group to coordinate dissemination plans and to discuss future GFS/PSDS developments. Several projects are underway to improve the production and dissemination of fiscal statistics.

36. The disclosure of fiscal statistics is broadly in line with international standards. The MoF prepares fiscal statistics based on *GFSM 1986* concepts, definitions, and methods. Annual data are available in the IMF GFS database (FY 2005–14) and on the NSDP for recent years. Both a statement of operations providing the main components of revenue, expenditure, and financing (as discussed under section 1.1.3) and debt statistics are available under the GDDS framework. For 2019, the fiscal data reported under the GDSS framework can be broadly reconciled to annual outturns as published in the 2020 Budget Book and the December 2019 Public Debt Bulletin. These sources are also broadly consistent with the fiscal statistics published by the MMA. The Public Debt Bulletin contains government gross debt, by maturity, instrument, and currency. The GFS and quarterly public sector debt statistics based on the *GFSM 2014* and the Public Sector Debt Statistics Guide for Compilers and Users 2011 have been prepared for FY 2014–19 with the help of SARTTAC. These statistics are yet to be published by the authorities, but they are available publicly from IMF and the World Bank. With

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[14] https://www.imf.org/en/News/Articles/2019/06/20/pr19229-maldives-implements-international-monetary-funds-enhanced-general-data-dissemination-system.

SARTTAC's technical assistance, the MoF is looking to operationalize fiscal reporting under the *GFSM 2014*.

1.4.2.	External Audit	Basic

37. The external audit function is firmly rooted in the country's legal framework and enjoys full functional autonomy. The AG is a constitutional authority appointed by the President and approved by a majority of People's Majlis. The AG may only be removed by the President, upon consultation with People's Majlis, if unable to satisfactorily perform his or her duties. Although the AGO budget is included in the government budget and is subject to the ceilings established by the MoF, it is evaluated separately by the Finance Committee of People's Majlis. According to the Audit office, the audits are conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI). The audit report for the 2018 consolidated statements includes a qualified opinion on the financial statements. It is followed by a qualified opinion on compliance with the budget approved by People's Majlis and with the PFA and the PFR.

38. Individual audits of the various government entities were performed prior to 2018, but there has not been an audited consolidated statement in previous years. The 2019 consolidated financial statements were submitted to the AG recently, and the audit is scheduled to start in January 2021. Thus, 2018 consolidated financial statements are the only published audited financial statements in recent years.

39. The audit opinion for 2018 Consolidated Financial Statements was qualified due to a lack of beginning and closing cash balances and inadequate disclosure of controlled entities, including local councils. Auditors issue a qualified opinion when there is (1) a limit in scope or a material issue on compliance with accounting principles or (2) when required disclosures in the Notes to the Financial Statements are inadequate. The lack of cash balances in the financial statements means that the completeness of accounts cannot be fully validated, and an informed analysis of the government's current cash resources cannot be performed. Although Maldives complies with cash based IPSAS, the requirement of a disclosure of significant controlled entities and reasons for not consolidating controlled entities was not complied with. Further, local councils were consolidated on the Statement of Receipts and Payment and presented in a grant. The Statement of Comparison of Budget and Actual presents the budget provided to local councils at the line-item level. At a minimum, an explanation should have been provided for this difference in the Notes to the Financial Statements. Although these qualifications are serious, they do not reflect a material misstatement of the financials.

40. The 2018 audit opinion on compliance with PFA and PFR was also qualified. This was due to the lack of a properly maintained fixed asset register and inadequate accounting for "public funds." The audit report notes that the auditors were unable to verify and ascertain the accuracy and completeness of fixed assets reflecting a total of MVR 6.8 million. The audit recommended properly implementing a portal to improve asset recording and reporting and to put in place adequate internal controls to minimize risks to assets. The qualification on the public funds was due to a lack of available details to validate the statements.

1.4.3.	Comparability of Fiscal Data	Good

41. Budget execution reports, fiscal statistics, and final accounts are prepared and presented in formats consistent with the approved budget. The format is broadly based on *GFSM 1986*. The budget format shows revenues, expenditures, and calculations of fiscal balances. The GFS reports use the same data but with GFS principles and standard formats; nevertheless, they are relatable to the original budget and other fiscal reports.

42. Annual financial statements include a statement comparing budget and outturn, both in summary and detailed levels. In line with the cash-based IPSAS, the consolidated annual financial statements include a principal statement comparing budget and outturn, using a format that mirrors the original summary budget presentation. The principal statement is supplemented by a disclosure note that reconciles budget outturn to the statement of cash receipts and payments. Disclosures explain reasons for variances[15] and provide variances for each accountable agency, as well as by funds.

43. This uniformity of presentation is marred by changes in the approved budget numbers presented in the annual financial statements. The task of tracking from the budget to outturn in the annual financial statements is rendered complicated because of the changes to the approved budget data mid-year, after supplementary appropriations. The approved budget shown in the Statement of Comparison of Budget and Actuals includes supplementary appropriations. The statement also includes a separate column for revised budget.[16] In this respect, this is a deviation from IPSAS, which requires this statement to include original and final budgets, as well as actuals.

44. A further improvement would be an explicit reconciliation between the financial statements and the GFS data. Although the GFS numbers, both under *GFSM 1986* and *GFSM 2014*, are based directly on the same data as the final accounts and broadly use the same presentation as the budget, there is no explanation of the differences between financial and fiscal reporting bases. A closer comparison of GFS data—both the *GFSM 1986* data produced by the MoF and the *GFSM 2014* data prepared by the March 2020 SARTTAC mission—against similar aggregates in financial reporting reveals differences between financial and fiscal numbers. These differences are inevitable because of the different classifications and treatments between IPSAS cash accounting and the GFS, and because the GFS numbers include financing data drawn from the banking system rather than the

[15] A description of main budget variations but not explanations of factors that cause those variances, as required by IPSAS.

[16] "Approved" refers to the most recent budget total approved by Parliament, and "Revised" refers to the budget numbers after considering virement issued under the MoF's authority.

accounting system. Although the differences may be understood by data preparers, these differences are not highlighted or explained in presentations of fiscal or financial data.[17]

Conclusions and Recommendations

45. The assessment recognizes advancements made in the coverage, timeliness, classification, and comparability of fiscal reports. Fiscal reports in Maldives include in-year and year-end budget outturn/execution reports, fiscal statistics, and annual financial statements. In-year budget execution reporting is regular and timely, enabling the ongoing review and analysis of budget implementation throughout the year. Published reports provide good coverage of general government and are comparable with budget documentation. The classification of revenues and expenditures is generally consistent with international standards.

46. Areas for improvement include reporting of accruals and tax expenditures and data integrity. Information on assets and liabilities in financial statements is incomplete and not sufficiently reliable. Statistical reporting deals only with cash, debt, and financing. Delays in the publication of audited financial statements reduce transparency and impede accountability for the use of taxpayer resources. The nonavailability of information on tax expenditures means that there is little scrutiny of their costs and benefits, as well as their efficacy vis-a-vis direct spending. Table 6 summarizes the overall assessment on pillar I.

47. In line with the preceding assessment, our recommendations focus on two high priority areas—the timeliness and reliability of consolidated financial statements and more comprehensive reporting of tax expenditures.

Recommendation 1.1. The timeliness and reliability of the year-end consolidated financial statements need further improvement:

- Develop a plan to publish credible audited consolidated financial statements that are compliant with international standards and that include all material general government finances, within a reasonable period (preferably six to nine months) after the year-end.
- Agree with the AGO on a plan for timely completion of the audit and presentation to People's Majlis. Include a provision to clear the backlog of unaudited consolidated financial statements from previous years
- Automate, wherever possible, the collection of data currently outside the PAS to improve the data reliability and the speed of its collection.

[17] The most recent financial accounts of the UK government, for example, include a specific Annex discussing the different reporting bases and explaining the differences in data presentations (WGA_2018-19_Final_signed_21-07-20_for_APS.pdf (publishing.service.gov.uk). Similar good practice can be seen in the financial reports of Australia and New Zealand.

- Establish a roadmap for expanding the coverage of stock items in the accounting system that focuses on the inclusion of the most material stocks and associated flows. An early step should be the resolution of previous audit findings, recommendations, and other identified problems in accounts preparation.

- Revise the budget classification and chart of accounts to support *GFSM 2014* and accrual accounting under the IPSAS; include functional and programmatic classifications, using bridging tables and facilitating automatic report formats within the PAS.

Recommendation 1.2 The transparency of tax expenditure should be further enhanced by improving the reporting and coverage of the statement on tax expenditures:

- Update the legal framework to include a precise definition of tax expenditures; require annual publication of estimates of the revenue forgone from tax exemptions and benefits by sector or policy area, including a description of the main policy objectives and beneficiary groups.

- Augment the TPU capacity to expand the work on tax expenditures to cover all types of major tax exemptions, benefits, or concessions.

Other supporting reforms

48. There is scope to make further improvements in the GFS and debt reporting against relevant international standards. The MoF could consider documenting the new GFS and debt reporting processes, including the adoption of *GFSM 2014* and PSDS, and the tracking and reporting of differences between fiscal reports and financial statements. The reporting basis for fiscal statistics could be clarified, and any differences from previously reported numbers could be explained.

Table 6. Summary Assessment of Fiscal Reporting

	Principle	Assessment	Issues and Importance	Recom-mendation
Coverage	Coverage of Institutions	**Basic.** Fiscal reports cover the central government and a substantial part of local council expenditure.	**Medium.** Inclusion of local councils and an updated sectorization of public entities are needed to extend reporting to all material general government institutions.	
	Coverage of Stocks	**Basic.** Fiscal reports are cash-based, lacking adequate coverage of stock items.	**High.** Enhanced coverage of stocks in the annual financial statements would promote a better understanding of, and control over, the government's assets and liabilities.	1.1
	Coverage of Flows	**Basic.** Fiscal reports are limited to cash flows and financing.	**Low.** Capturing accrued revenues/expenses and other economic flows would help provide a more comprehensive view of the government's finances.	
	Coverage of Tax Expenditures	**Not met.** There is no systematic and comprehensive analysis or presentation of tax expenditures.	**High.** A comprehensive overview of the type and size of tax expenditures is needed to provide a fair understanding of revenue loss and to assess their impact.	1.2
Frequency and Timeliness	Frequency of In-Year Reporting	**Advanced.** In-year reporting includes weekly and monthly reports, generally published within two weeks and one month, respectively	**Low.** Completeness of in-year reports offers scope for enhancement by interfacing the FMIS with other systems to capture transactions outside the accounting system.	
	Timeliness of Annual Financial Statements	**Not met.** The 2018 consolidated financial statements were published in January 2020.	**High.** Timely publication of financial statements establishes accountability for the use of public resources and informs budget policy decisions.	1.1
Quality	Classification	**Good.** The budget is presented using economic, administrative, and functional classifications.	**Medium.** Budget classification and chart of accounts need further development to support international standards on financial and statistical reporting.	1.1
	Internal Consistency	**Not met.** The MoF does not routinely reconcile fiscal balance, financing, and debt.	**Medium.** Regular reconciliation would help validate data consistency and enhance its quality.	
	Historical Revisions	**Not met.** There is no routine revision of time series data.	**Low.** A data revision policy requiring explanations for revisions to past data would enhance data integrity and credibility.	
Integrity	Statistical Integrity	**Good.** Fiscal statistics are broadly compiled and disseminated in line with international standards**.**	**Low.** Fiscal statistics need alignment with *GFSM 2014*.	
	External Audit	**Basic.** Consolidated financial statements are audited following international standards, by an independent Auditor General's Office, but the opinion is qualified.	**High.** Speeding up the auditing process will enable the timelier dissemination/publication of consolidated financial statements. Consideration should also be given to completing the audit of financial statements of earlier years.	1.1
	Comparability of Fiscal Data	**Good.** Fiscal reports are comparable to the original budget format, but reconciliation of fiscal and financial data offers scope for improvement.	**Low.** Fiscal reports, if not comparable, should include a reconciliation with key items in other reports.	

FISCAL FORECASTING AND BUDGETING

Fiscal forecasts and budgets should provide a clear statement of the government's budgetary objectives and policy intentions, as well as comprehensive, timely, and credible projections of the evolution of the public finances.

49. **This chapter assesses the quality of Maldives' fiscal forecasting and budgeting practices against the standards set by the FTC.** In doing so, it considers four key dimensions of fiscal forecasting and budgeting based on publicly available information (Table 7):

- The comprehensiveness of the budget and associated documentation
- The orderliness and timeliness of the budget process
- Policy orientation and
- The credibility of the fiscal forecasts and budget proposals.

Table 7. Fiscal Forecasting and Budget Documents

Report	Content	Timing
Strategic Action Plan	Comprehensive strategy and plan for medium-term development of national priorities, regions, and sectors	July 2019 (latest plan)
Medium-Term Fiscal Strategy	Assessment of fiscal policies and fiscal projections over a four-year period	July
Medium-Term Debt Strategy	Debt strategy over a four-year period	July
Budget Proposals	Proposed budget	October
Budget Committee Budget	Changes made by Parliament to	November
Hearing Report	Draft budget	
The Budget Book	Approved budget	December
The Budget Booklet	Citizens' budget	October

Source: Staff compilation.

2.1. Comprehensiveness of Budget Documentation

2.1.1.	Budget Unity	Advanced

50. The budget documentation covers the gross revenues, expenditures, and financing of all BCG ministries, agencies, and various trust funds in a comprehensive manner. All tax and nontax revenues, grants (both domestic and foreign) and expenditures, including donor-funded activities, are presented in gross terms. There is no retention of revenues by any central government entity. Furthermore, the institutional table for sectors and subsectors of central and general government is reviewed and updated annually; the latest update was in October 2020.

51. The 2021 budget was prepared on the basis of a medium-term framework; it included outturn for 2019, revised estimates for 2020, and budget estimates for 2021 and two forward years. The 2021 budget includes the following:

- Maldives' economic and fiscal outlook
- Budget summary statements for 2020–23 covering revenues and recurrent and capital expenditures, by offices and AGA. In addition, the budget statements include receipts and payments relating to grants and trust funds classified by offices and AGAs[18]
- Maldives' PSIP and other projects financed by domestic budget, loans, grants, trust funds, and summary statements for these financing sources, and
- List of New Policy Initiatives (NPIs), as well as broad details of pension and retirement benefit payments.

52. Maldives scores high on budget comprehensiveness, with less than 0.5 percent of the central government revenues and expenditures outside of the budget. Five central government entities are outside of the budget.[19] Their aggregate expenditure is a mere 0.33 percent of the total BCG expenditure and total receipts is 0.5 percent of total budget revenues (Table 8). Of these EBUs, three—the Capital Market Development Authority, the Maldives Civil Aviation Authority, and the Bar Council of the Maldives—are completely excluded from the budget and financial statements. The remaining two—the Maldives National University and the Islamic University of Maldives—are partly excluded. The MPAO's classification as a social security fund is under review; it has its own revenues

[18] In terms of Public Finance Act (PFA 2006 and amended to date), AGAs include the President's Office, ministries, AGO, and government agencies that the President determines and designates to have separate financial management and financial accountability. As defined in the PFA, "public offices" shall mean all offices of the legislative, executive, and judicial branches; and offices established under the Constitution and Laws, Island councils, Atoll councils, and city councils.

[19] The SDF, which this report treats as an EBU (see paragraph 3), is entirely budget funded. The size of the extra-budgetary sector would expand if the nonmarket SOEs were to be reclassified as part of the general government.

and does not depend on budget grants for its expenditures. The government's contributions to MRPS, as employer and on accrued rights, are on budget.

Table 8. Central Government Extrabudgetary Receipts and Payments, 2019

Institution	Receipts	Expenditure
Maldives National University	158,078,372	65,211,315
Islamic University of Maldives	8,246,634	11,415,763
Civil Aviation Authority	2,256,652	22,245,759
Bar Council	16,000	199,573
Capital Market Development Authority	813,121	12,111,223
Total outside the GoM accounts	**169,410,779**	**111,183,633**
GoM total as per 2019 financial statements	**33,729,311,138**	**33,412,943,759**
As a percentage of GoM total	**0.50%**	**0.33%**

Source: Ministry of Finance.

2.1.2.	Macroeconomic Forecasting	Good

53. Budget documents provide an analysis of the assumptions for key macroeconomic variables, with limited overview of the main macroeconomic components. The Budget Book and MTFS include forecasts of key macroeconomic aggregates (for example, nominal and real GDP, inflation, balance of payments, and reserves) for the current year, as well as for the medium term. Given the importance of tourism to the economy, tourism assumptions and their impact on the forecasts are discussed in detail. Investment projects and construction forecasts are also well documented. The latest MTFS, covering the period from 2021–23, assesses the impact of the COVID-19 crisis on various economic variables, including unemployment and external sector, but it only does so for 2020. Global macroeconomic forecasts (for example, by IMF) and their linkages with the Maldivian economy are briefly discussed, primarily with respect to their impact on tourism.

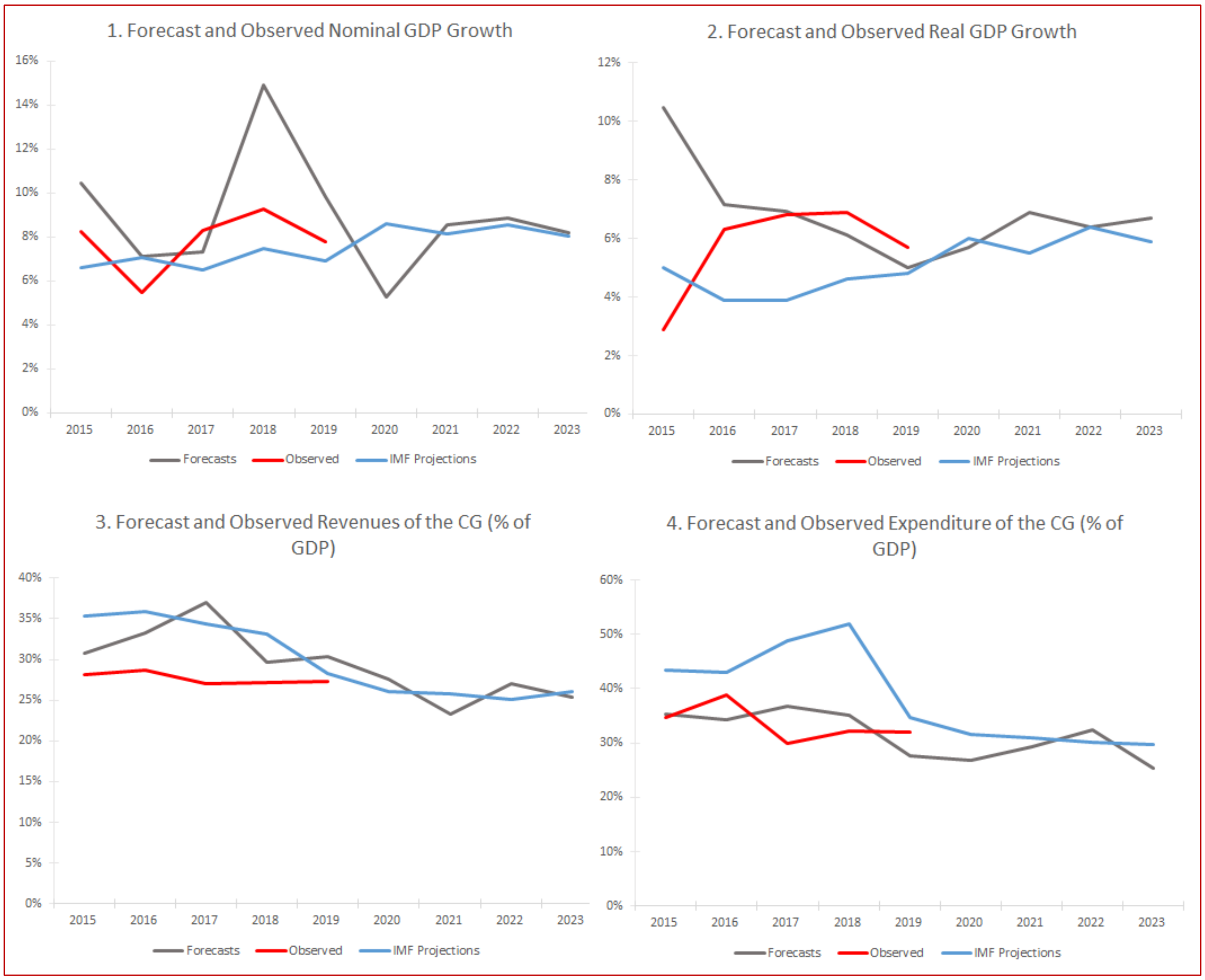
54. A multi-agency Macroeconomic Policy Coordinating Committee (MPCC) leads the process of establishing the macroeconomic forecasts.[20] The MPCC is a high-level policy coordination body and is supported by a technical group. Main forecasts are established in September/October during the preparation of the budget. These are revised at the technical level in February of the next year, if needed. There is a more thorough update in June to establish the MTFS. There are few comparisons between the successive vintages of the forecasts (see 2.4.3), and updates tend to become new forecasts.

55. Although largely accurate, both the one year-ahead and medium-term GDP growth forecasts have tended to show a hint of optimism in recent years. This is particularly the case for

[20] The MPCC comprises the Ministry of Finance, the Central Bank, the Ministry of Tourism, the Ministry of Planning, the Bureau of Statistics, and the Maldives Inland Revenue Authority.

nominal GDP forecasts, which translate into optimism in revenue projections. Figure 8 provides a comparison of three-year ahead forecasts, with observed values for nominal and real GDP, as well as government revenues and expenditure.

Figure 8. Evaluation of Macroeconomic and Fiscal Forecasts
(Three-Year Forecasts, 2015–25)



Sources: MFTS; Budget in Statistics; IMF Staff Report for Disbursement under the Rapid Credit Facility (April 2020) for the IMF forecasts; and staff computations.

56. The existing fiscal models allow forecasting beyond three years, but it is not currently utilized. The current framework mainly factors in tourism and construction developments. The forecast is done separately for fisheries, trade, transport and communication, financial intermediation, public administration, other sectors, and the price deflator. Revenue forecasts use outputs from the macroeconomic model; expenditure forecasts are based on historical expenditure timeseries. A more detailed model is being developed to produce GDP forecasts by industries, incorporating linkages among industries. The MoF, under the leadership of the MMA, plans to produce a financial programming model to model sectoral interlinkages. The limitations of the existing framework are well identified; the capacities, however, are limited, because few people are devoted to this function.

2.1.3.	Medium-Term Budget Framework	Basic

57. Maldives prepares and publishes a medium-term fiscal strategy (MTFS), but the development of an MTBF is evolving.[21] The Fiscal Strategy is based on the Medium-Term Fiscal Framework, baseline estimates for revenue and expenditure, and projections for financing. Revenues and expenditure are projected by economic categories. The expenditure projections are based on policy commitments, with details of new policy initiatives. Revenue projections identify new revenue measures. With these details, the MTFS presents a clear picture of expenditure and revenue dynamics.

58. The MTFS, which is published by the government annually, displays several elements of good practice. The 2021 MTFS, among other things, sets out the following: (1) a comparison of the previous Fiscal Strategy and the approved 2020 budget; (2) the 2019 outturn and 2020 revised estimates to reflect the current circumstances, and medium-term fiscal policy goals and policy implementation; (3) proposed changes to the revenue and expenditure structure, based on the medium-term fiscal balance and debt sustainability; (4) the available fiscal space (that is, the budget available for new policy initiatives); and (5) measures to improve the effectiveness of the implementation of fiscal policy.

59. The processes for preparing the MTFS, however, lack adequate rigor in forecasting. The expenditure forecasts made in July for the budget year are often revised later in October while framing budget estimates. Similarly, outyear estimates see significant revision while rolling over to the next year. As a result, the fiscal strategy does not seem to provide a credible basis for framing expenditure ceilings. Furthermore, the budget estimates neither fully follow the MTFS projections nor provide reconciliation between the two. Table 9 shows MTFS forecasts versus approved budget and budget outturn for 2019 and 2020—the variation between forecasts and approved budget for 2019 and 2020 is relatively high.

Table 9. Revisions to Medium-Term Expenditure Forecasts

Expenditure Forecasts (MVR billions)					
	2019	**2020**	**2021**	**2022**	**2023**
2018 MTFS	25.9	26.0	30.3	29.0	
2019 MTFS	–	37.0	38.7	38.6	
2020 MTFS	–	–	33.9	31.7	32.1
Approved Budget	29.1	36.0	–	–	–
Outturn/Revised Estimates	30.7	30.1	–	–	–

Source: MTFS, Staff calculations.

[21] The Fiscal Responsibility Act (Law Number 7/2013) requires the Government to submit an MTFS Statement to the Public Accounts Committee of the Parliament (People's Majlis) before the end of July every year.

60. An MTBF provides a bridge between a country's MTFS and the budget—a process for setting expenditure ceilings at the ministerial and program levels for the coming fiscal year and three or four additional years, and for making reliable forward projections of spending (Box 2).

Box 2. Definition of MTFFs and MTBFs

A **medium-term fiscal framework (MTFF)** encompasses the top-down specification of the aggregate resource envelope and the allocation of resources across spending agencies. It typically shows projections of the main fiscal aggregates—revenue, expenditure, deficit, and public debt—over a period of three to five years.

A **medium-term budget framework (MTBF)** refers to a set of institutional arrangements for prioritizing, presenting, and managing revenue and expenditure over several years. It is usually presented in the same format, classification, and level of detail as the annual budget. Binding or indicative ceilings on expenditure are included for all years of the MTBF. In most countries, however, spending appropriations are only made on an annual basis through the budget law.

Source: Staff compilation.

61. Maldives' current budget procedures include some features of an MTBF, but there are gaps, compared to the models used in advanced countries and some emerging markets (see Table 10). The key features of an advanced MTBF that are currently lacking in Maldives include (1) an integrated process for preparing the annual budget and the MTFS/MTBF; (2) a process for making reliable forward estimates of spending over the medium term; (3) the use of planning margins or planning reserves in allocating resources; and (4) a process to carry forward defined categories of spending (for example, capital investment) from one fiscal year to the next. Bringing Maldives' MTFS/MTBF in line with good practice would require improvements in these areas, as well as further capacity augmentation in the MoF and spending agencies.

Table 10. Differences between Maldivian MTFS and Advanced MTBF Model

MTBF Characteristics	Maldives	Advanced
4- or 5-year MTBF framework	Yes	Yes
Indicative ceilings for outyears	Yes	Yes[1]
Full alignment with government's fiscal policy objectives and macroeconomic forecasts	Yes	Yes
Spending estimates for outyears rolled over from one MTBF to the next	No	Yes[2]
Budget preparation process for capital and recurrent spending fully integrated	No	Yes
Definition of capital and recurrent spending aligned with international standards	Partly	Yes
A single process for preparing MTBF and annual budget, and fully integrated documentation	No	Yes
Reliable forward estimates of spending in outyears	Partly	Yes
Planning margins or planning reserves	No	Yes
Carry forward spending from one year to the next, with well-defined restrictions	No	Yes

Source: Staff compilation.

Notes:

[1] Some advanced countries have adopted a fixed framework for the MTBF, that is, one that is only changed at the end of the 3-4-year period.

[2] Some advanced countries have binding ceilings for the outyears, for example, Sweden and UK (partially).

2.1.4.	Investment Projects	Not met

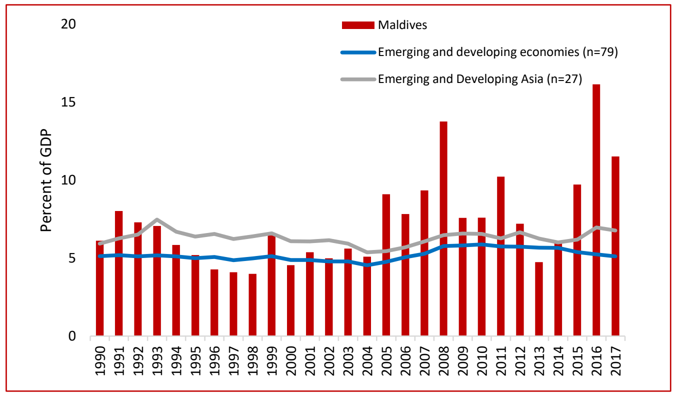
62. **Recent trends in public investment in Maldives have been shaped by developments in international tourism, significant exposure to climate change,[22] and democratization.** After a period of progressive decline in the 1990s and early 2000s, public investment spending has recovered over the past decade but remains volatile (Figure 9). A 2004 tsunami destroyed much of the country's infrastructure, resulting in an increase in public investment in subsequent years to support reconstruction efforts. Public investment again increased significantly in 2007, ahead of the first democratic elections when the government invested in a number of large capital projects.[23]

[22] 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.

[23] Broad investment trends are discussed in IMF, "Maldives: Public Investment Management Assessment, 2019.

Since then, the government's significant infrastructure agenda has led to a large scaling up of public investments.

Figure 9. Maldives: Recent Trends in Public Investment



Source: IMF-FAD, Investment and Capital Stock Dataset, 1960-2017; staff calculations.

63. Public investment can drive economic development but comes with significant risks that can be exacerbated in a crisis and need to be carefully managed. The PSIP aligns the government's medium-term development goals to the strategic action plan and provides a financing envelope for these investments. In practice, the focus has been on further developing tourism, adapting to climate change, and easing congestion in Malé. Major projects in recent years include building the new international airport terminal and runway, building a bridge connecting Malé and Hulhulé, developing Hulhumalé island (a major population center), and relocating and upgrading the seaport. These are in addition to several other projects that are focused on land reclamation, regional airport development, and water and sewage facilities improvement. Against the backdrop of very high levels of public debt, the investment program can substantially add to the fiscal and external risks.[24] These pressures underscore the importance of establishing robust public investment management processes to help ensure the effective and efficient use of government resources.

64. The budget documents provide a comprehensive view of the PSIP, but there is no disclosure of total obligations under multiannual investment projects. The budget documentation provides the details of the government's infrastructure spending plans by (1) the funding source (domestic, loan, grant, trust fund); (2) the status of project (ongoing, awarded, retention, tendering, pre-tendering, new); and (3) the cost over a five-year period, by functional area, implementing agency, and project (Figure 10). For projects extending beyond five years, the total project cost cannot be observed in the budget papers at the time the project is announced. Thus, for such projects, the legislature lacks the information to assess the full implications of its approval of the first year's appropriations.[25] The public can track the progress of certain projects through a specially developed portal called *isles*.[26] This system is part of the current set of public investment management reforms to improve the monitoring of PSIP implementation.

[24] The 2021 budget announced an expansion of the PSIP under a tight fiscal constraint.

[25] The MoF staff maintains that most projects have a horizon shorter than five years.

[26] https://isles.gov.mv/Project/Budget/85.

Figure 10. Disclosure of the Cost of Major Investment Programs in the Budget

PUBLIC SECTOR INVESTMENT PROGRAM - LOAN DISBURSEMENTS 2018-2022

(IN MVR)

Office	Project Name	Island	Agency	Status	2018 Actual	2019 Revised	2020 Approved	2021 Approved	2022 Approved
			Total		4,254,912,741	2,493,350,625	2,854,811,039	4,425,971,135	4,546,427,265
1272	Ministry of Finance				2,291,560,089	1,485,926,812	1,054,419,670	2,245,585,937	964,974,202
	Hulhumale Island Development Project	Hulhumale'	X-KSA - Saudi Fund	On-going	68,707,399	87,197,536	201,474,202	201,474,202	201,474,202
	Velaana international Airport Development Project (Runway)	Hulhule'	Commercial Loans	On-going	1,846,238,383	924,277,700	170,413,168	484,171,208	-
	Terminal Development Project at Velana international Airport	Hulhule'	Abu Dhabi	On-going		119,111,479			
	Terminal Development Project at Velana international Airport	Hulhule'	Other Financing	On-going	-	-	-	381,750,000	763,500,000
	Terminal Development Project at Velana international Airport	Hulhule'	X-KSA - Saudi Fund	On-going	345,814,353	42,812,363	158,231,699	517,403,288	-
	Terminal Development Project at Velana international Airport	Hulhule'	kuwait fund	On-going	-	177,226,374	256,327,169	326,107,137	-
	Terminal Development Project at Velana international Airport	Hulhule'	OPEC Fund for International Development (OFID)	On-going	30,799,954	135,301,360	267,973,432	334,680,102	-

Source: Budget Book 2020.

65. Cost benefit analyses (CBAs) are performed on an ad-hoc basis and are not published. Currently, projects above a certain threshold are subject to more rigorous analysis. CBAs are undertaken for some major projects, such as the Velana International Airport Runway and the Terminal Development project, but these are exclusively for internal use. Looking ahead, the MoF and Ministry of National Planning, Housing & Infrastructure (MNPHI) are working to improve their institutional capacity to perform and review CBAs. The MNPHI notes the challenges with sourcing and extracting appropriate data to inform CBAs within the Maldivian context. The MoF, working with the MNPHI and the President's Office, has formulated a standard vetting process for screening PSIPs that imposes enhanced documentation requirements on ministries, including feasibility studies and environmental impact assessments for high-value projects.

66. Not all major projects are contracted via open and competitive tender. An open and competitive tender process is important to maximize the value-for-money proposition for public finances and minimize the opportunities for corruption by ensuring transparency in the issuance of contracts to suppliers**.** The PFRs set out competitive procurement policies and procedures. However, certain provisions circumvent an open and competitive tender process. For example, PFR 10.27 allows contractual works to be awarded without a bidding process to SOEs and their subsidiaries, projects financed by foreign nations or concessional loans, and with Cabinet approval where a party submits an unsolicited proposal.[27] Performance audit reports by the AGO also highlight numerous cases of noncompliance with procurement rules, including the customization of the tender criteria, thereby favoring certain operators; and weaknesses in tender evaluations.[28] In addition, information on the resolution of procurement complaints is not published, although the authorities advise that procurement processes be paused until procurement disputes are reviewed and resolved.

[27] The process for such unsolicited proposals is elaborated in the Unsolicited Proposals Policy, issued by the Ministry of Economic Development. It includes a strict due diligence process prior to awarding such contracts.

[28] See "Performance Audit Report on Capital Project Management," AGO, March 2016.

67. Information about the government's procurement plans is not published, but information on tenders and awarded contracts is available in an easy-to-view format on the MoF website.[29] Not all procurements for major projects are published on the tender website, because not all major projects go to tender. Information on awarded contracts is published, along with a procurement source. Where a contract has been awarded based on a sole-sourcing arrangement, a short justification is provided that includes the name of the contractor and the value of the contract. The scale or extent of uncompetitive tendering processes overall has not been validated, as aggregate procurement statistics were not readily available from the National Tender Board.

2.2. Orderliness and Timeliness of the Budget Process

2.2.1	**Fiscal Legislation**	**Good**

68. The existing legal framework prescribes several elements of the budget timetable, the key content of budget documentation, and the responsibilities of the executive and legislative branches in the process. The Constitution sets out the basic framework for budget management, based on the principles of legislative control of public spending. The executive cannot spend, lend, borrow or extend guarantees, except in accordance with the law approved by People's Majlis. The Constitution also requires that an annual budget be submitted for parliamentary approval before the commencement of each financial year; it accords full authority to People's Majlis to amend the executive's budget proposal as it deems fit. The PFA further elaborates by requiring that the budget be submitted at least two months ahead of the start of a new financial year and specifies the broad structure and content of the annual budget. Public finance regulations provide detailed guidance. These core legal requirements are supplemented by the Fiscal Responsibility Act 2013 (FRA) that further demands, among other things, submitting the following to People's Majlis: (1) a National Fiscal Strategy and a National Debt Strategy by July of every year and (2) a Budget Position Report before the preliminary discussion on the budget in Peoples Majlis linking fiscal strategy with the budget.

69. The legal framework, however, lacks clarity on the requirements for parliamentary approval of the annual budget prior to the start of the fiscal year and for continuity of government if, for some reason, the budget is not approved in time.[30] In practice, in recent years, budgets have been approved prior to the beginning of the fiscal year (see 2.2.2). Explicit legal provisions—preferably in the PFA—requiring that the budget be approved prior to the start of the

[29] https://www.finance.gov.mv/tenders.

[30] Section 23(a)(3) of the Public Finance Act allows expenditure from the Advance Fund in cases where expenditure is not allowed from any other funds as per the law. However, Section 23(b) stipulates that expenditure from the Advance Fund applies to instances where an expense is not included in the budget, rather than covering instances where budget has not yet been approved by the Parliament for the year.

fiscal year, and further requiring continuity provisions in case the budget is not adopted by the start of the fiscal year, would further strengthen the legal framework.

70. Another aspect that needs enhancement is the specification of executive authority to reallocate the approved budget, which has been excessive in the past (see also 2.4.2). In the absence of an Appropriation Act, the executive has exercised complete discretion in reallocating approved budgets within the overall ceiling. The new Virement Guidelines, introduced in 2019, limit this discretion to some extent and define a framework for reallocations by the executive; their implementation, however, has been delayed due to the onset of the coronavirus pandemic. Over time, the guidelines would need further development and to be able to preserve the sanctity of the basic fabric of the Peoples' Majlis' approved budget they would need elevation to a higher legal status. A clearer specification in the PFA of the level of granularity at which appropriations are approved by People's Majlis would further demarcate the boundaries of executive authority in reallocations.

2.2.2	Timeliness of Budget Documents	Good

71. Maldives continues to maintain its track record of providing timely budget documentation. Over the past four years, in compliance with the legal requirements, the government's proposed budget was submitted to People's Majlis exactly two months before the start of the financial year. The proposed budget documents are published and made available on the MoF website and the www.budget.gov.mv website at the time that the budget speech is delivered to the Parliament by the Finance Minister; the documents have been posted on the website in early November of each year.

72. The Parliament, although not legally bound by a time limit, has over the past four years, approved the budget approximately one month prior to the commencement of the new financial year. In addition, any changes made by the Parliament to the proposed budget are summarized in a report published by the Budget Committee on the Parliament's website. Once the budget is approved, the approved budget tables are uploaded to the MoF website. The full approved budget—The Budget Book—is made available on the MoF website within approximately one month of the approval by Parliament.

73. Further efforts by the authorities to improve the timeliness of budget approval and publication are encouraged. Table 11 presents a regional comparison. Maldives compares favorably to several countries in the region, but there is scope for further improvement. Notwithstanding the publication of the budget tables, and to ensure a complete and comprehensive picture, a further reduction in the time lag between the approval of the budget and the publication of the full set of approved documents would be desirable.

Table 11. Regional Comparison: Timeliness of Budget Documents

Budget Timeliness	At least 3 months before	At least two months before (but less than three months)	Less than two months (but at least in advance of the budget being approved by the legislature)
Maldives		X	
Bangladesh			X
Cambodia			X
Fiji			X
Indonesia	X		
Malaysia			X
Nepal			X
Papua New Guinea			X
Philippines	X		
Sri Lanka		X	
Thailand	X		
Timor-Leste			X
Vietnam		X	

Source: Open Budget Survey 2019 staff compilation.

2.3. Policy Orientation

2.3.1	Fiscal policy objectives	Not met

74. The FRA contains several numerical fiscal rules that have not been effectively implemented (Table 12 and Figure 11). The fiscal objectives specified in the FRA are precise and timebound, but the targets and timelines have proven too ambitious to meet. The FRA called for fiscal consolidation; however, a spurt in infrastructure investments, coupled with lower-than-expected growth in revenues, led to higher deficits and rising debt levels. Targets for deficit containment could not be met, the country did not achieve the intended primary surplus, and post 2016 debt levels exceeded the prescribed limit (Figure 11). The average deficit during 2013–19 has been 6 percent of GDP; the stock of debt (including guaranteed debt) at the end of 2019 stands at 77 percent of GDP.

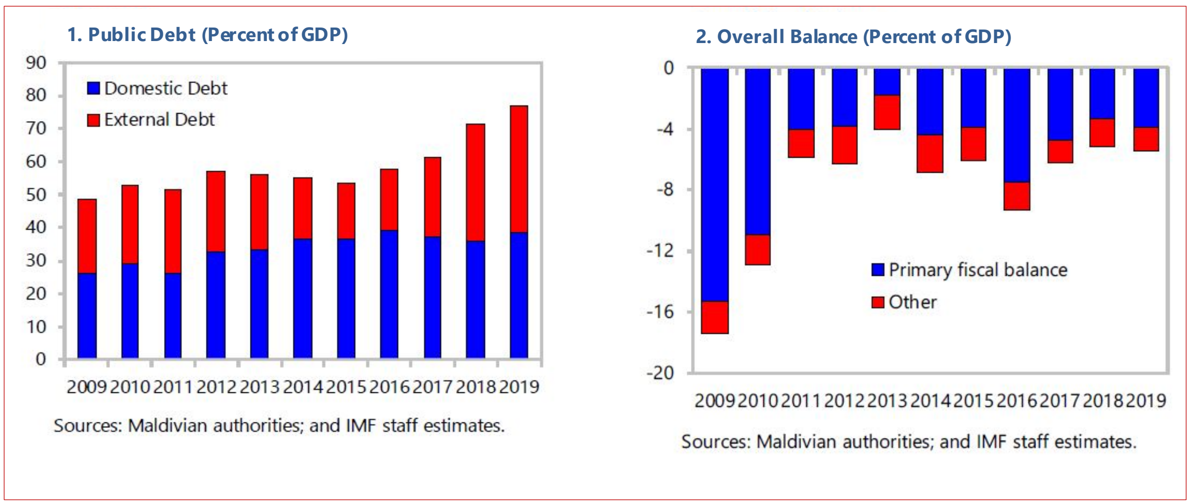
Table 12. Maldives: Fiscal Rules

	Targets/Limits
Public debt	Maintain at or below 60 percent of GDP until 2016 and determine appropriate level after that
Overall balance	Reduce to 3.5 percent of GDP by 2016 and subsequently maintain at that level
Primary balance	Achieve surplus by 2016
Golden rule	Effective 1/1/2016, borrow only for national development projects
Loan guarantees	To follow limits set in annual budgets
Advances from MMA	Not to exceed 1% percent of 3-year average of GDP (to be repaid within 91 days)

Source: Fiscal Responsibilities Act 2013.

75. The ongoing coronavirus pandemic has led to a further deterioration in the fiscal position of Maldives. Although no clear numerical targets were set, the fiscal strategy for 2020–22 intended that the budget deficit would reduce gradually over the medium-term to reach a surplus within the following five years. To ensure sustainability, the strategy aimed to maintain a steady growth rate in debt to nominal GDP, consistent with growth in the budget. The COVID-19 pandemic, however, has had a deep impact on Maldives' public finances. With GDP estimated to have contracted by nearly one-third, and with a massive revenue shortfall, the 2020 budget deficit is projected to widen to 27.5 of GDP and the primary deficit to 24.6 percent of GDP. Debt to GDP is estimated to have reached 115 percent by end-2020. With GDP rebounding and a 13.5 percent growth projected for 2021, the 2021 budget estimates that the deficit for the year is at 18.5 percent of GDP and the primary deficit is at 14.8 percent of GDP. A new FRA—introduction is planned in 2021—is under development that will be expected to revive fiscal rules, address the weaknesses in the current legislation, and provide a more realistic path to fiscal consolidation.

Figure 11. Maldives: Debt and Deficits



2.3.2	Performance Information	Basic

76. A formal system of performance-based budgeting is yet to be introduced in Maldives. Although the budget process draws on a wide range of performance-related information in allocating budgetary resources and setting spending priorities, the budget continues to be largely input-based, classified along administrative, economic, and functional dimensions. The Chart of Accounts, as well as the budget classification structure, incorporate a program segment; the MoF is currently working on developing a set of programs and subprograms, along with performance indicators for major ministries and agencies with USAID technical assistance.

77. The Strategic Action Plan (SAP) formulated and published in 2019 identifies priority policies and programs of the government for the period 2020–23. Strategies, intended objectives, and corresponding actions are laid out and mapped by programs and functions of the government. The lead implementing agency is identified for each strategy, with supporting agencies that will work to achieve the targets. Detailed activities are developed within ministries in addition to the published SAP document. The FAD plans to prepare the 2022 budget on a program structure based on the SAP. Doing this would enable the government to include in the budget information on outputs that are planned for the budget year, as well as a comparison of actual performance against the previous year's targets, along with budgetary allocations and outturns.

2.3.3.	Public Participation	Good

78. Maldives has built a solid platform for encouraging public participation in the budget process with the publication of easy-to-understand economic and fiscal information. The Budget Booklet[31] is designed with the citizen in mind; it is written in plain language and has user-friendly graphics to convey key messages about the budget in a non-technical language. In addition, both the interactive online Budget Summary[32] and the Budget Book provide additional avenues to easily explore budget financial information. The budget booklet discusses key policies, and its intuitive presentation make it easy to develop inferences on the budget's impact on average citizens. This is, however, an area that can be further strengthened.[33]

79. Budget information is disseminated through multiple innovative channels. Budget information and documents are disseminated online, both on the MoF website and on the dedicated www.budget.gov.mv site. These include the English version of selected documents. A Budget App has been developed and was first used to disseminate budget information in 2018. Key budget milestones are also publicized on social media. In addition, budget data are available in free open data format, with Excel tables available for download in a zipped file. Hard copies of the budget papers are also provided to libraries.

80. Opportunities for direct public participation in the budget process could be strengthened and further formalized. The Standing Orders of the People's Majlis set out the procedures for public participation in budget scrutiny. The current Standing Orders allow for the Budget Committee to accept written feedback from the public on the budget. During the hearings for the 2020 budget, public consultations were held, even though this is not explicitly required.[34] The Budget Committee meetings and budget debates are generally broadcast live on television and YouTube. Separately, the planning ministry may hold ad-hoc consultations with the public in advance of introducing major initiatives like the Maldives International Port Project.

[31] https://www.budget.gov.mv/en.

[32] https://www.budget.gov.mv/en/summary/.

[33] See, for example, the Australian budget documents, (https://budget.gov.au/calculator/index.htm?income=100000).

[34] Two virtual expert round table discussions were held with thought leaders and experts. Session one focused on implementing the budget amid COVID-19; session two focused on fiscal strategy and structural reforms.

81. **Going forward, given the large role of the government in Maldives, formalizing arrangements for citizens to provide inputs at the budget formulation stage will bring further transparency.** Such input can be made in a wide variety of formats and events, including verbal or written statements; comments on draft documents; participation on committees; and question-and-answer sessions with public officials, including those delivering public services. Box 3 examines some practices that have been adopted elsewhere. In addition, participating in the International Budget Partnership's Open Budget Survey could bring value and help benchmark the transparency improvements in Maldives.

Box 3. Public Participation in Budgeting-Selected Country Practices

Public participation in the annual budgeting process is a way of strengthening transparency in public management and of responding to citizen's needs with respect to the quality and allocation of public services. Several mechanisms can be used to ensure the direct participation of the public in the broad sense—including civil society, nongovernmental organizations, associations, and trade unions—in the definition of public policies and the allocation of resources.

- **Preliminary public budget discussions**: open to all citizens, who are invited (via radio or television announcements) to attend debates in the presence of the Minister of Finance and civil society organizations. One session is reserved for direct comments by the general public (Malawi, Sierra Leone).
- **Preliminary budgetary consultations**: Key stakeholders are invited to a presentation/debate by the Ministry of Finance (Benin, Botswana, Liberia, Mali, and Nigeria).
- **Preliminary budget proposals**: The Ministry of Finance encourages the public to submit proposals and ideas as part of the budget preparation. This mechanism may be open to all (Democratic Republic of the Congo, Ghana, South Africa, Tanzania, and Zambia).
- **Public gatherings of representatives of civil society**: These assemblies may examine public policies and drafts of budget documents, including those dealing with public investments.
- **Consultations regarding specific public policies**: These are conversations on subjects that may (or may not) be related to preparation of the annual budget (Ghana).
- **Sectoral working groups**: A working group is convened in connection with the preparation of the budget. The Ministry of Finance, government agencies, and participants exchange views on programming and sectoral and intersectoral priorities (Kenya).
- **Bottom-up consultations**: Grassroots consultations are conducted regarding proposed ministerial allocations; the outcomes are then transmitted to the Ministry of Finance (Philippines).

Source: Global Initiative for Fiscal Transparency (GIFT).

2.4. Credibility

2.4.1	Independent Evaluation	Not Met

82. The government's economic and fiscal forecasts and performance are not subjected to an independent evaluation. Currently, an MPCC is primarily responsible for macroeconomic forecasting and related functions. The MPCC functions at two levels: policy and technical.[35] The FRA has not provided any mechanism for the review of economic and fiscal forecasts. In the PFA, there is a general provision requiring the AG to review reports produced under the FRA. This review—performed within a very short period—is currently restricted to commenting on compliance with the FRA reporting requirements. Moreover, the AGO currently lacks the capacity required for a substantive review of fiscal strategy and the robustness of the underlying macroeconomic assumptions.

83. An evaluation of the government's macroeconomic and fiscal forecasts by independent experts helps improve the forecasts' realism and credibility and contributes to the development of forecasting capacity. The assumptions underlying the forecasts should be accurately presented in budget documentation and should be available for scrutiny. An independent evaluation can help foster transparency over the political cycle, improve accountability, and discourage shifts in fiscal policy. As a first step in enhancing transparency, the MoF could consider presenting in the MTFS a comparative view of its forecasts with the forecasts provided by international institutions, such as IMF and the World Bank. Doing this would enhance the credibility of the government's forecasts. Consideration could also be given to introducing a suitable independent evaluation mechanism in Maldives.[36]

2.4.2.	Supplementary Budgets	Good

84. The supplementary budget process, as established in the Constitution and PFA, limits the expenditure to the approved budget. The Constitution Article 96(c) requires a supplementary budget for any additions to an approved budget. PFA (32.e) sets a time frame for submitting such additional budget requests to People's Majlis. These legal requirements have been routinely

[35] The MECC Policy Committee is chaired by the Minister of Finance and Treasury and includes Governor of Maldives Monetary Authority, Minister of Tourism, and Commissioner General of Maldives Inland Revenue Authority. The MECC Technical Committee includes technical staff from Fiscal Affairs Division (FAD) of MoF; the Resource Mobilization and Debt Management Division of MoF; the monetary policy and balance of payments area of Maldives Monetary Authority; the Ministry of Tourism; and the Maldives Inland Revenue Authority.

[36] For example, in the European Union, the 2012 Fiscal Compact, agreed by all members of the euro area, requires that each country put in place an independent body to act as a monitoring institution to support the credibility and transparency of the required fiscal consolidation. Most countries have introduced such fiscal councils, whose roles are to assess whether the fiscal plans meet the European Fiscal rules. Some Latin American countries have entrusted this responsibility to their supreme audit institutions. Some have involved think tanks and research bodies.

complied with. In recent years, the quantum of supplementary budgets has been moderate (Table 13).[37]

Table 13. Maldives: Supplementary Budget, 2017–19

Year	Original Approved Budget	Supplemental Budget		Virements		
	(MVR, billions)	(MVR, billions)	Percent of Original Budget	Number	Amount (MVR, billion)	Percent of Original Budget
2017	30.25	1.7	5.6%	2,080	11.28	37%
2018	27.97	–	–	2,335	15.34	55%
2019	26.79	0.49	1.8%	5,365	NA	NA

Source: Ministry of Finance.

85. Although legal provisions for additional spending have been transparently complied with, the executive has enjoyed complete discretion to alter the approved budget within the overall ceiling (see also 2.2.1). Virements are initiated at the request of the agencies and authorized by the MoF, with no restrictions on their size or purpose. The number of virements and the amount of funds reallocated by executive action has been substantial in recent years (Table 13). As a result, there have been material changes to detailed objects and between the capital and recurrent budgets.

86. Recognizing the need to limit executive discretion, the authorities developed and adopted with the 2020 budget a Virements and Appropriation Procedure; however, its implementation has remained suspended due to the enhanced needs for budget flexibility to respond to the ongoing COVID-19 crisis. The new procedure requires a schedule of domestic budgets by AGAs, which is their appropriation. Contingency expenses, not to exceed 5 percent of their domestic budget, may be utilized to increase AGA budgets. The PSIP budget is established by project. The procedure limits virements in the PSIP to be within the project. The PSIP budget cannot be transferred to programs or activities not included in the budget for the project. Changes to the cost of a project must be documented and approved by the President or parliament, including changes to an ongoing project. The new procedure, when implemented, will be expected to improve budget credibility.

[37] No supplementary budget was obtained in 2018.

2.4.3.	Forecast Reconciliation	Not Met

87. The MTFS and the Budget Book contains limited discussion about the evolution of successive vintages of medium-term forecasts of revenue, expenditure, and financing.[38] The macroeconomic and fiscal forecasts presented in the budget documents are updated during the first semester and presented in the MTFS. There is, however, no reconciliation with the past forecasts for the same period (contained in previous documents) and little explanation for the changes (see also 2.1.3). This lack of reconciliation undermines the credibility of past forecasts; readers have no information about why forecasts have changed and how much of the change is attributable, for example, to macroeconomic developments or to policy changes.

88. A reconciliation tables in the MTFS would help improve the credibility of the government's macroeconomic and fiscal forecasts. The budget documents should clearly identify changes in aggregate-level fiscal forecasts and should discuss the impact of the new policy measures on these forecasts. The introduction of such reconciliation tables—in which difference in successive vintages of fiscal forecasts are broken down into the relative impact of individual policy changes, macroeconomic determinants, and other factors (such as technical and accounting adjustments)—is currently discussed internally. Box 4 illustrates a possible presentation that could be adopted as a starting point.

Box 4. An Illustrative Example of Forecast Reconciliation

This example illustrates a possible way of presenting in MTFS documents a reconciliation between successive vintages of revenue and expenditure forecasts. It compares forecasts for 2020 revenues, expenditure, and fiscal balance as presented in MTFS 2020 and MTFS 2019, and it quantifies the change. A qualitative description of the factors driving the change (for example, revised macroeconomic assumptions and new policies) would help readers to understand the reasons for these changes. Changes from the forecasts contained in the previous budget can be similarly quantified and explained.

Reconciliation between forecasts for 2020 contained in MTFS 2020 and MTFS 2019

	MTFS 2019–21	MTFS 2020–22	Change	Explanation
Revenues (including grants)	24,548	30,732	6,184	Revenues revised upwards due to …
Expenditure	26,006	37,040	11,034	Expenditure revised upwards due to …
Fiscal Balance	(1,458)	(6,308)	(4,850)	Fiscal balance revised downwards due to …

Source: Staff compilation.

[38] The latest MFTS covering the period from 2021–23 presents and discusses the new macroeconomic assumptions and comments on significant changes from past assumptions due to the COVID-19 crisis. However, this discussion does not translate into a comparison or reconciliation of different vintages of forecasts.

Conclusions and Recommendations

89. **Maldives' fiscal forecasting and budgeting practices meet basic or good practices in many areas and compare favorably with global averages.** Table 14 presents a summary heatmap for the fiscal forecasting and budgeting pillar. The budget legal framework is clear and comprehensive. The budget is unified and provides a good sense of government activities through BCG operations. The budget documentation is transparent and timely, as well as innovatively distributed. Opportunities for public participation are possible, and budget information is accessible and written in an easy-to-understand way. The procedures for making in-year adjustments to the budget are defined in law and are well-documented.

90. **Fiscal forecasts and budgeting processes need further strengthening to provide credible projections of the evolution of the public finances and support the achievement of the government's fiscal objectives, thereby ensuring medium-term fiscal sustainability.** The achievement of fiscal policy objectives should be supported by a robust and credible macroeconomic and fiscal framework that is underpinned by reliable forecasts. The approved expenditure ceilings should be preserved to ensure that the budget delivers on the government's policy intentions. The efficiency of public spending offers scope for improvement by strengthening public investment management. Enhanced scrutiny and commitment are needed to reinforce accountability when the government's fiscal outcomes deviate from planned outcomes.

91. **Based on the preceding assessment, the following recommendations could improve transparency in the budgeting and fiscal forecasting areas:**

- **Recommendation 2.1. Fiscal policy objectives need to more effectively guide the fiscal stance.** The budget should execute the government's policy intentions, and significant reallocations by the executive should be avoided.
  - Complete the revisions to the FRA to address the weaknesses in the current legal framework.
  - Establish and disclose in MTFS the clear medium-term objectives for fiscal aggregates to provide a more realistic path to fiscal consolidation —and include a discussion of actual performance.
  - Implement the 2019 Virements and Appropriation Procedure—and eventually elevate their status from administrative guidelines to regulations—to facilitate greater transparency and discipline in the reallocation of the approved budget.
- **Recommendation 2.2. A well-aligned and more integrated medium-term and annual budget framework—supported by robust and reliable macroeconomic and fiscal forecasts—is needed to enhance budget comprehensiveness and credibility.**
  - Improve macroeconomic forecasts by supporting the development of macroeconomic models. Improve the presentation of macroeconomic assumptions within the budget

documentation by including more thorough discussions of key macroeconomic variables (including interest rates, GDP presentation and forecasts by sectors and industries, unemployment and employment growth rate, wages, balance of payments, and international macroeconomics components).

- Improve fiscal forecasts, developed on sound macroeconomic forecasts, both on the revenue and expenditure sides. Enhance linkages between successive vintages of forecasts, including through better rollover provisions.
- Improve the quality of forecasts by systematically conducing ex-post analyses of forecast accuracy.
- Align the processes for preparing the macroeconomic forecasts, MTFS, MTBF, and annual budget, with clear linkages between them

- **Recommendation 2.3. Spending efficiency on public investment projects should be enhanced, reducing waste and supporting the achievement of fiscal objectives.**

  - Enhance public investment management processes by more routinely undertaking cost benefit analyses as part of a robust project appraisal and selection process; implement the findings of the 2019 Public Investment Management Assessment (PIMA).
  - Subject all major projects to an open and competitive tender process, thereby providing the opportunity for value for money from public processes.

Other Supporting Reforms

92. Improved accountability by strengthening the PFM legal framework. The GoM should strengthen the legal framework by clarifying parliamentary approval processes for the budget. Doing this would involve formalizing the timelines for approval of the budget by the Parliament, as well as specifying the continuity provisions to be followed if the budget is not passed prior to the commencement of a new financial year. At the same time, publication timelines for the approved budget could be formalized. In the interim, the MoF should make further efforts to minimize the amount of time that elapses between the approval of the budget and the publication of the full set of budget documents.

Table 14. Summary Assessment of Fiscal Forecasting and Budgeting

Principle		Assessment	Issues and Importance	Recommendations
Comprehensiveness	Budget Unity	**Advanced.** The budget provides a comprehensive picture of budgetary central government operations.	**Low.** A summarized view of financial operations of EBUs in the budget would facilitate better decision-making.	
	Macro Forecasts	**Good.** Budget includes analysis of the macro forecasts and assumptions, but it has limited discussion of all pertinent macro variables.	**High.** Forecasts appear to have an optimism bias that impact the quality of fiscal projections, eroding budget credibility.	2.2
	Medium-term Budget Framework	**Basic.** Maldives publishes an MTBF, but many elements of good practice are missing, for example, outer year forecasts are not rolled over from one MTFS to the next.	**High.** A credible MTBF helps translates policy objectives into budget priorities. A tighter linkage is needed between the MTFS and the annual budget planning process.	2.2
	Investment Projects	**Basic.** Total project obligations are disclosed, but cost benefit analyses are performed ad-hoc and not published. Not all major projects are subject to open and competitive processes.	**Medium.** Robust public investment management processes enhance the efficiency and effectiveness of public spending. More remains to be done in line with the latest PIMA action plan.	2.3
Orderliness	Fiscal Legislation	**Good.** The budget framework is comprehensive, but it lacks clarity on the timing of parliamentary approval and continuity provisions should the budget not be passed by December 31.	**Medium.** Clarity in timelines for parliamentary approval of budget and continuity provisions will further strengthen the legal framework, ensuring the orderly conduct of the annual budget process.	
	Timeliness of budget documents	**Good.** Budget documents are prepared and approved in a timely manner ahead of the start of the new fiscal year.	**Low.** A further reduction in the time lag between the budget approval and the publication of the full set of documents would enhance budget scrutiny.	
Policy Orientation	Fiscal Policy Objectives	**Not Met.** Numerical fiscal rules enshrined within the FRA have not been effectively implemented.	**High.** Fiscal rules are not effectively guiding the fiscal stance, which is important to put public finances on a clear and sustainable path.	2.1
	Performance Information	**Basic.** Budget is largely input-based; a results-based framework is largely absent.	**Medium.** Performance information would help justify the allocation of public resources and improve the accountability for outcomes, enhancing spending efficiency.	
	Public Participation	**Good.** A citizen's budget is prepared, and opportunities exist for public participation in the budget process.	**Low.** Accessible information and opportunities for citizens to engage are important accountability mechanisms. These should be further formalized.	
Credibility	Independent Evaluation	**Not Met.** The government's economic and fiscal forecasts are not subject to an independent evaluation.	**Medium.** Evaluation by independent experts helps to improve realism and credibility and contributes to the development of forecasting capacity. Transparency in macro assumptions is needed help overcome optimism bias.	
	Supplementary Budget	**Good.** Legal provisions for additional spending have been complied with. However, the executive has had complete discretion to alter the approved budget resulting in substantial internal reallocations.	**Medium.** While 2020 was exceptional, the use of supplementary budgets should be limited to truly unforeseen and unavoidable circumstances. Significant budget reallocations by the executive are not subject to scrutiny and erode credibility.	2.1
	Forecast Reconciliation	**Not Met.** Limited explanation is available on the drivers of revisions to successive vintages of fiscal forecasts.	**Low.** Explanations for the movements between successive vintages of fiscal forecasts are important for budget credibility and transparency. Movements should be in terms of new policy measures and changes in macro variables.	

FISCAL RISK ANALYSIS AND DISCLOSURE

Governments should disclose, analyze, and manage fiscal risks to the public finances and ensure effective the coordination of fiscal decision-making across the public sector.

93. This chapter assesses Maldives' analysis, reporting, and management of fiscal risks against the practices of the FTC. Fiscal risks arise from macroeconomic shocks and explicit and implicit contingent liabilities. Explicit contingent liabilities refer to legal obligations or commitments to provide fiscal support should an event occur or circumstance arise. Implicit contingent liabilities arise from events or circumstances, in which the government has no legal obligation but does have a societal or moral expectation to provide fiscal support. Practices are assessed along three dimensions:

- General arrangements for the disclosure and analysis of fiscal risks
- The reporting and management of risks arising from specific sources, such as government guarantees, public-private partnerships, natural disasters, and the financial sector, and
- Coordination of fiscal decision-making with the local governments and public corporations.

3.1. Disclosure and Analysis

3.1.1	**Macroeconomic risks**	**Basic**

94. With the notable exception of the 2021–23 MTFS, macroeconomic risks have had a limited coverage in budget documentation. The Budget Book carries a short qualitative discussion of risks related to the developments in the tourism sector and the international macroeconomic situation, given the openness of the Maldivian economy. Risks related to the political situation, inflation, and impact on the current account are also discussed. The nature of the discussion has been evolving. The 2021–23 MTFS introduced a single-variable scenario analysis, based on three different assumptions for tourist arrivals—a baseline, a moderate scenario, and a worst-case scenario—linked to three different tourism sector reopening dates. This model is then translated into three different growth scenarios and projections for the main fiscal aggregates (revenue, deficit, financing, and debt). Expenditures are progressively shocked in each of the three scenarios—5, 10, and 15 percent of the revised budget—to reflect the prolonged support needed to combat the crisis. This scenario analysis has been developed during the COVID-19 crisis, and the authorities are committed to developing it further in future.

95. The openness of the Maldives' economy and its strong dependency on external factors make the country sensitive to macroeconomic risks. Maldives is sensitive to the evolution of the international macroeconomic environment, through tourism as well as through commodity, trade, aid, interest rates, and exchange rates shocks. Such risks are presented and discussed in a limited manner in the budget documentation. Going forward, a simple way of illustrating the sensitivity of the public finances to these changes will be to present the impact that a unit (for example, 1 percentage point or 1 standard deviation) change in each macroeconomic aggregate will produce on government revenues, expenditure, deficit, and borrowing for the coming year (see, for example, Table 15 for such an analysis in Kenya).[39] A next step would be to build multivariable scenarios that analyze the combined impact of changes in selected key variables on fiscal aggregates.

Table 15. Kenya: Fiscal Sensitivity to Key Macroeconomic Variables, FY2020/21

	Revenue	Expenditure	Budget Balance
Reduction in real GDP (%) by 1.0% point	-18.0	-8.4	-9.6
Increase in inflation rate (%) by 1.0% point	19.9	8.8	11.0
Depreciation in exchange rate (Ksh/US$) by 10%	11.3	7.9	3.4
Increase in value of imported goods (US$) by 10%	9.0	0.0	8.9
All shocks combined	23.1	8.3	14.8

Source: Kenya Budget Policy Statement 2020

3.1.2	Specific fiscal risks	Basic

96. **Public finances in Maldives are exposed to a wide array of fiscal risks generated from discrete sources and events.** Table 16 presents an illustrative list of selected specific risks in Maldives, categorized into explicit and implicit risks.

Table 16. Maldives: Major Specific Fiscal Risks

Specific Fiscal Risks	Magnitude: Percent of GDP	Magnitude: Period	Source of Information and Remarks
Selected Explicit Fiscal Risks			
Present value of unfunded public service pension liabilities	65%	2019	Mission estimation
Guarantees	24%	End of June 2020	Quaterly Disbursed Outstanding Debt
Legal claims against the states	0.1%	2019	Budget in Statistics
Lending schemes (student loans and COVID-19 loans to SMEs)	2.3%	2019	Budget documentation
Natural disasters	N/A		Qualitative description in Budget in Statistics. Historical experience has shown that the estimated cost of the 2004 Indian Ocean Tusnami was 62 percent of GDP
Public-private partnerships	N/A	-	-
Selected Implicit Fiscal Risks			
SOEs unguaranteed liabilities, of which	63%	2019	Financial Statements of indvidual SOEs and staff calculation
Lending and on-lending from Treasury	*12%*		
Long-term Risks			
Long-term debt sustainability	N/A		
Long-term sustainability of the health system	N/A		

Source: Staff calculations.
N/A = Not available.

[39] A more sophisticated approach is to base the change in the value of each macroeconomic aggregate on its historical volatility or forecast error and show its impact, not only on government borrowing but also on government expenditure, revenue, and debt over the medium term.

97. The GoM produces a fiscal risk statement with qualitative descriptions of selected risks considered important by the MoF. The Budget Book includes an overview of the main fiscal risks—as identified by the MoF—impacting the medium-term budget. The qualitative analysis extends to risks related to: (1) recurrent expenditures exceeding budget ceilings; (2) greater devolution to local councils in the form of block grants, pursuant to the amendment of the Decentralization Act; (3) underperformance of revenue; (4) debt management; and (5) SOEs. In addition, information on other specific fiscal risks that have major implications for government finances is disclosed but in a scattered manner; several large fiscal risks are not disclosed regularly:

- Scattered information: (1) data on government guarantees and their gross exposure are not disclosed in the fiscal risk statement but are disclosed in other publications (see 3.2.3); (2) data on debt liabilities and risks surrounding them are disclosed in the MTDS; (3) other sections of the Budget Book cover a qualitative description of the environmental risks and the gross exposure from legal claims.

- Fiscal risks not disclosed routinely, but pertinent, include exposure from the financial sector, risks to government assets, pension obligations, public-private partnerships (PPPs), and long-term health sector spending.

98. The comprehensiveness and transparency of the fiscal risk statement needs to be enhanced by presenting all of the major specific fiscal risks in one place and, where possible, by quantifying them. The MoF intends to publish a comprehensive fiscal risk statement in 2021. A template will be developed with the assistance of the World Bank. The inclusion of information on specific fiscal risks in a summarized statement would facilitate a holistic view and help ensure that these risks are clearly understood, actively managed, and adequately considered in the government's macroeconomic and fiscal strategy. The MoF also needs to strengthen its institutional capacity to conduct risk analysis and management effectively.

3.1.3	Long-term sustainability of public finances	Not met

99. Long-term analyses of the evolution of public finances are limited, especially with respect to debt sustainability analyses, although the risks are sizeable. The MTDS does not present a long-term evolution of the debt.[40] Such an analysis is not currently available.[41] The country is at high risk of debt distress. Public and publicly guaranteed debt is high (estimated at 149 percent of GDP at end-2020). Debt servicing costs for 2020 are estimated at 4 percent of GDP. There are large current account deficits, which exert pressure on the economy. The MTDS presents the main short-term risks to which the debt is exposed. These mainly concern: (1) currency risks associated with foreign currency-denominated debt (82 percent of the total public and publicly guaranteed debt at end-2020); (2) interest rates risk on the debt contracted on variable rate terms (at end-2020,

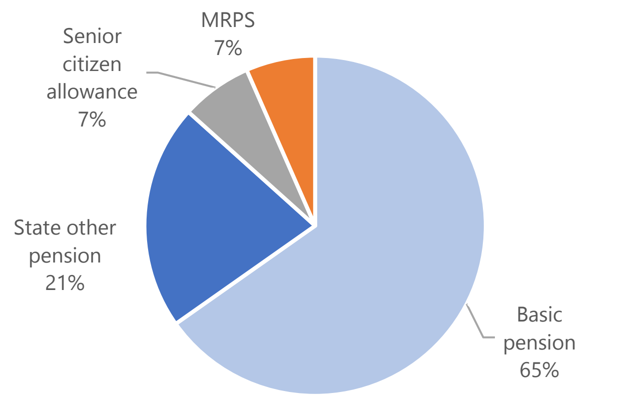
[40] The 2019 IMF Art. IV mission report included a debt sustainability analysis.

[41] The only published long-term analysis covers the debt redemption profile, presented in the public debt bulletin.

51 percent of the public and publicly guaranteed debt is to be refixed within the next year); and (3) refinancing risks, with a significant share of public and publicly guaranteed debt coming to maturity in the next 12 months (14 percent at end-2020).

100. Similarly, long-term analyses of pensions schemes and the health system are limited. The pensions system in Maldives is intricate, with multiple schemes (see Figure 12) that include: (1) the MRPS, a defined-contribution scheme implemented under the Maldives Pension Act 2009; (2) an unfunded basic pension scheme, financed by the government, that entitles citizens reaching 65 years of age to a monthly pension benefit of MVR 5,000;[42] and (3) several unfunded state pension schemes, operated by the various government institutions for their employees. The long-term risks of the unfunded pension schemes are high. For example, this report estimates that the net present value of liabilities under the unfunded state pension schemes alone is 65 percent of GDP (see 1.1.2).

Figure 12. Share of the Different Pension Schemes, 2019 Disbursements



101. Risks on the MRPS mainly arise from any potential devaluation of its portfolio of assets and seem low at present. MRPS carries low funding risks, as it is structured as a draw-down account to be used at retirement. There are, however, risks associated with the investment of the fund. Such risks currently appear low, as the funds are mainly invested in safe assets (55 percent in T-bills and 32 percent in T-bonds at end-2019). However, this creates a strong link between debt financing and the MRPS. Moreover, in the future, if the investment policy were to evolve toward riskier assets to generate higher returns, any resultant losses may have to be covered by the government.

102. There are no long-term studies of the health system and the generous Universal Health Insurance Scheme, although funding of the health system has increased substantially in recent years. The average annual increase in health care funding since the year 2000 has been 23 percent.[43] The cost currently stands at 10 percent of GDP; a large share of this (more than 70 percent) is financed by the government.

103. There is also room for improving the existing analyses of long-term fiscal sustainability, in line with more advanced international practices. A debt sustainability analysis is necessary to understand the long-term risks weighing on the public finances and the evolution of the main fiscal aggregates. Similarly, the absence of actuarial and long-term studies prevents the

[42] According to clause 11(c) of the Pension Act, "Basic Pension is not payable if the benefit received from the Maldives Retirement Pension Scheme is more than twice the amount of Basic Pension."

[43] See Maldives National Health Accounts 2017.

government from making informed decisions about its long-term exposure from demographic changes. As the population grows and ages, the long-term risks to the health system and pension schemes will create elevated pressures on public finances. Those analyses may initially cover the next 10 years, before being extended to a longer horizon (such as 30 years or beyond), in line with good practice.

3.2. Risk Management

3.2.1	Budgetary contingencies	Basic

104. The capital section of the budget includes a provision for contingencies, placed at the disposal of the MoF. The provision has ranged between 1.4–4.3 percent of the total budgeted expenditure in recent years (Table 17).[44] The contingencies budget is utilized during the year by way of virements to the AGAs to meet their additional budget requirements. The absence of virement restrictions has meant that, theoretically, contingencies' provisions can be applied to any type of additional expenditure needs. Indeed, in the past, these have been used to augment provisions for items such as salaries and wages, medical consumables, subsidies, and SOE capital contributions that would not conform to real contingencies.

Table 17. Contingency Budget Provision

Year	Contingency Provision (MVR, millions)	% of Total Expenditure Budget
2018	400	1.4
2019	411	1.4
2020	1,574	4.3
2021	1,395	3.5

Source: Ministry of Finance.

105. Special procedures exist for meeting the additional spending needs arising from events like natural disasters, pandemics, or occasions when the President declares a state of emergency. PFRs (Section 4.10) require offices dealing with such emergencies to estimate, within 48 hours of the event, the requirement for an additional budget and submit it to the Finance Minister for approval. Any requirements pending approval of such estimates can be met with the verbal approval of the Minister for Finance. Such verbal approvals must be notified to the MoF within two days. These requirements are not provided from the contingencies provision in the budget but are met through supplementary appropriations.[45]

106. Maldives' current practices for contingency provision and its utilization need to be revisited and refined to bring them in line with internationally accepted good practices. A robust mechanism to deal with unforeseen spending requirements will include the following:

[44]See Box 4 in 2020 Budget in Statistics.

[45] PFA Section 23 allows making payments from the Advance Fund to meet urgent and unforeseen needs. If payments are made from the Advance Fund, the Minister of Finance is required to seek an appropriation from the Consolidated Revenue Fund or the Loans and Capital Works Fund, or both, either as an additionality to the current budget or in the budget for the following year.

1. Adequate contingency allocation in the budget as a buffer to provide for immediate funding needs[46]

2. Special procedures—often in the form of standing authorization—for extraordinary spending needs arising from emergencies that cannot be met from the contingency allocations in the budget

3. Transparent criteria, specified in the legal framework, for the use of contingency provisions, as well as that of the special procedures, and

4. Clear reporting requirements for the use of such funds.

107. Rules should be framed and a set of criteria specified and published that must be met before expenditure may be charged to the contingency provision to ensure that these funds are utilized for genuine contingencies. The criteria would be preferably specified in the PFA. Such criteria could require that, for an expenditure to be charged against the contingency appropriation, it: (1) must be urgent and cannot reasonably be held over for consideration in a supplementary budget or the next annual budget; (2) must be unforeseeable; (3) must be unavoidable; and (4) cannot be absorbed within the existing budget appropriations. The use of contingency provisions to cover budgeting inefficiencies violates its very purpose and utility as a tool to respond to shocks. Transparency in the use of contingency provisions would be enhanced by publishing and including a report in the budget documentation on the items for which such provisions were used.

3.2.2	**Management of assets and liabilities**	**Basic**

108. Borrowing in Maldives is authorized by law. The legal framework for managing debt is dispersed across several legislations and regulations, including the Constitution, the PFA and its amendments, the FRA, and the PFRs. These legislations and regulations authorize the Minister of Finance to borrow with the approval of the President of the Republic. In addition, the FRA stipulates a ceiling of 60 percent of GDP for public and publicly guaranteed debt; this ceiling, however, has not been enforced since 2016.

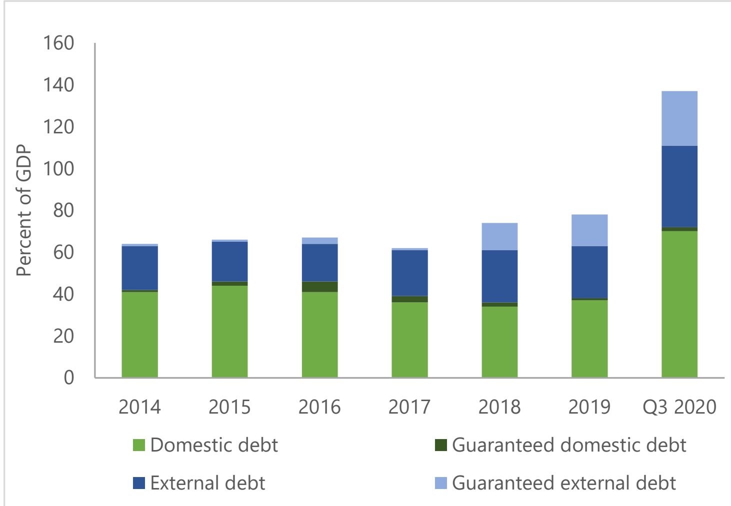
109. The MoF regularly publishes data on its debt portfolio and the risks surrounding the debt holdings. Quarterly and semiannual disclosures include information on the outstanding stock of debt, its maturity profile, creditors, currency composition, and the cost of debt service. The MTDS includes a risk analysis of the debt portfolio that focuses on the refinancing risk, interest rate risk, and currency risk. It specifically highlights currency risk due to the high exposure to foreign currency-

[46] Countries typically maintain contingency provisions in the range of 1–3 percent of the total budgeted expenditure. The provisions need to be calibrated to the country context in terms of its experience with urgent unforeseen spending pressures. Although these provisions provide a cushion, any excess provisioning would be detrimental to the efficiency of expenditure.

denominated debt. Debt and publicly guaranteed debt have risen sharply in recent years (Figure 13) to reach 110 percent and 28 percent of GDP, respectively, by the end of September 2020, well above the ceiling stipulated in the FRA.[47] The present high level poses questions of debt sustainability.

Figure 13. Maldives: Evolution of Public and Publicly Guaranteed Debt, 2014–20

(Percent of GDP)



Source: MoF Disbursed Outstanding Debt.

110. Information on other liabilities and financial assets is relatively scant. For example, liabilities on account of unfunded pension obligations are not recorded and disclosed. The current coverage of stocks (see 1.1.2) does not allow for the identification of risks to the government's assets. For example, no risk analysis is conducted on loans extended to SOEs (estimated at 12 percent of GDP in 2019), although many of these loans are nonperforming due to the cash and liquidity constraints faced by the beneficiary SOEs (see 3.3.2). Also, disbursements under other lending schemes, such as student loans, appear in the budget but are not recognized in the accounting system as assets. No data are disclosed on the stock of these loans, collections, and risks surrounding them. The government's portfolio of equity is somewhat ambiguous in the absence of a published ownership policy. The notes to financial statements present equity at historical cost, which does not reflect the real value of this portfolio. The planned move to accruals accounting, and a proper recording and elaboration of balances, would contribute to the better control and management of financial assets and liabilities. Regular analysis of risks surrounding assets and liabilities needs to be undertaken to identify factors that can cause changes in their valuation.

3.2.3.	Guarantees	Basic

111. The government regularly discloses the outstanding stock of guaranteed loans and individual beneficiaries. Various publications disclose information on guaranteed loans:

- **Active Sovereign Guarantees**, published monthly, presents information on the creditor, beneficiary, sector, guaranteed amount, and the project implementation status. At end-November 2020, 28 sovereign guarantees were active.

[47] The sharp increase in 2020 is partly attributable to the denominator effect of GDP contraction.

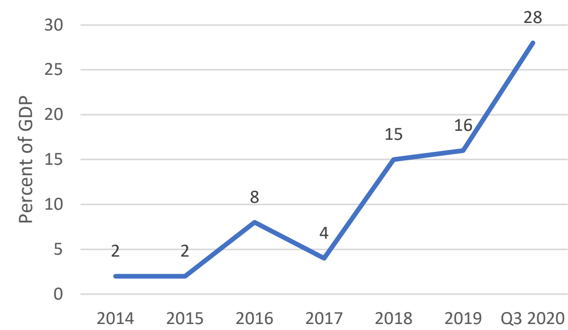
- **Disbursed Outstanding Debt**, published quarterly, includes data on domestic and external outstanding stock of public and publicly guaranteed debt. At end-September 2020, the outstanding stock of guaranteed debt amounted to MVR 16.2 billion (28 percent of GDP).

- **Public Debt Bulletin**, published semiannually, carries a brief analysis of guaranteed debt, and provides information on the outstanding stock by beneficiary.

- **MTDS** includes the outstanding stock of guaranteed debt, as well as the debt service and a brief discussion on the management of guaranteed debt.

112. The stock of government guarantees is relatively high and growing. Government guarantees have been issued to secure funding for major infrastructure development projects undertaken by the SOEs; these are mainly the housing projects undertaken by the Housing Development Corporation. In the past four years, the guarantees increased from 4 percent of GDP in 2017 to 28 percent of GDP by the end of the 3rd quarter of 2020 (Figure 14). The sharp increase in 2020 is, however, largely attributable to the denominator effect of GDP contraction due to the COVID-19 pandemic (total additions in the first three quarters of 2020 are MVR 0.25 billion). Almost the entire guaranteed debt is in foreign currency, exposing government to the related currency risk.

Figure 14. Evolution of the Stock of Guarantees



Source: Disbursed Outstanding Debt; staff calculations.

113. The legal framework includes provisions to limit the issuance and stock of guarantees, but they are not fully implemented. Article 33(A) of the FRA stipulates that any guarantee given in the name of the State should not exceed the amount allocated in the national budget. Successive budgets, however, have not imposed any ceiling either on the total stock of guarantees or annual increments to the stock. In the context of strengthening the legal framework and guidelines for the issuance and monitoring of guarantees, the MoF is planning to introduce controls on the size of guarantees.

114. The government management of its portfolio of guarantees needs further enhancement:

- The Guidelines for Issuance of Sovereign Guarantees set out the procedures to be followed by the MoF in issuing and managing guarantees. The guidelines, however, fall short with respect to the steps to be taken in evaluating a guarantees proposal and in assessing related fiscal risks.

- Provisions related to the eligibility for guarantees, the guarantee limit, and the collection of guarantee fees are not fully complied with. For example, the guidelines stipulate a guarantee fee

(1 percent of the total guaranteed amount) at the issuance and an annual administrative fee (0.25 percent of the outstanding guaranteed debt). The fees so collected would supplement the receipts of the SDF aimed at repaying future debt. So far, only one SOE is paying the administrative fee. The guidelines allow the GoM to amend the fees. The RMDMD does not have the leverage to enforce the collection of these fees, and they are not recorded as receivables in the government books. To that extent, the purpose of creating a reserve by charging fees to meet any obligations arising from guarantees is thwarted.

- Currently, there is no published risk analysis of the portfolio of guarantees. The RMDMD is tasked with processing proposals for guarantees and submitting it with their recommendation to the Minister of Finance and eventually to the President for approval. The RMDMD monitors the stock of guarantees and reconciles the creditors and beneficiaries' data. The RMDMD's capacity to conduct a thorough credit risk assessment, however, needs further augmentation.

- Although technically no government guarantees have been called, the government has been providing capital contributions and direct lending support to certain SOEs to help them meet their debt service obligations.

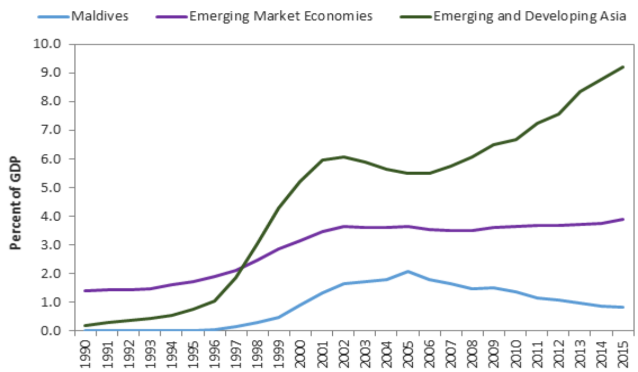
115. The disclosure of guarantees can be further enhanced for greater transparency. The report on active sovereign guarantees could usefully include additional information for each guarantee: (1) expected duration of the guarantee; (2) guarantee fees levied and collected; (3) payments made from the government toward the settlement of guaranteed debt, whether in response to called guarantees or to support the beneficiary discharge its repayment obligations; (4) in case of any called guarantees, claims established by the government on the beneficiary and payments received in recovery; and (5) any receivables from counter claims. The report could also usefully show the movement in the guaranteed amount since the last report.

3.2.4	**Public-private partnerships**	**Not met**

116. There is no disclosure of information related to PPPs. Currently, there is no legal framework to regulate PPPs in Maldives. A legal definition of what constitutes a PPP is not clearly established. The Unsolicited Proposals Policy, issued by the President's Office in 2019, is the only available policy document on this subject. It sets out the procedure under which private sector parties can propose projects that align with the government's strategic plans. There is no central information on the volume or size of PPP contracts, although it is understood that currently there are no such major projects in operation. The MoF's responsibility for the fiscal oversight of PPPs is unclear; it has no role in recording, monitoring, and analyzing the risks related to the accumulation of contingent liabilities arising from PPPs. The current financial regulations do not include explicit rules setting out the budgeting and accounting practices to be used for such contracts.

117. The 2017 PIMA concluded that the government had entered into a number of contracts (contractor-financed projects) akin to PPPs.[48] According to PIMA, these contracts are mainly in the health, housing, energy, and tourism sectors. They appear to be a mix of PPPs and small-scale projects, such as charitable initiatives by the private sector, for example, the building of mosques. However, none have been agreed or initiated in the past four years; and the Maldives has a low level of PPP capital stock, compared to emerging market economies (EMEs) and emerging and developing Asia (Figure 15).[49] In 2010, the government signed a large PPP project for nearly US$500 million to develop the international airport, which was canceled in 2012, resulting in a recently settled lawsuit.

Figure 15. Maldives: Public-Private Partnerships Capital Stock (Percent of GDP)



Source: 2017 PIMA.

118. Although the magnitude of fiscal risks related to PPPs currently appears small, it might become significant in the future if it is not properly managed. Globally, PPP projects are known to have created substantial contingent and firm liabilities for governments. Typically, these contracts bind governments into long-term obligations that are akin to debt. They may also involve government guarantees—explicit and implicit—in various forms. The SAP 2019–23 explores PPPs as a major funding source for key strategic infrastructure projects that will drive business growth and economic diversification. The 2010 Decentralization Act allows local councils to enter into PPPs to fund investment projects. If these projects come to fruition without a proper legal framework, strategy, and strong central oversight and reporting, they may expose the government to substantial risks. Transparency around such projects helps to mitigate some of the attendant risks. As a first step, the GoM should build an inventory of existing PPP contracts and publish a list of total rights, obligations, and other exposures from them. To understand and manage the risks created by such contracts, the MoF should undertake routine assessments of risks and disclose main risks, including estimates of their magnitude.

[48] IMF, "Maldives: Public Investment Management Assessment," 2019, https://www.imf.org/~/media/Files/Publications/CR/2019/cr19102.ashx.

[49] The data used are 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).

3.2.5	Financial sector	Not met

119. The MMA publishes quantitative information on financial stability in Maldives, but there is limited analysis of fiscal risks from the financial sector. The MMA regularly publishes indicators of financial soundness for the banking and insurance sectors. Its annual report, which is oriented to regulatory and other developments in the financial sector, briefly comments on financial stability. The MMA undertakes limited stress-testing exercises, but the results are not published.

120. The banking sector seems well capitalized, and no intervention has been required from the government in recent years. Liquidation schemes and regulatory ratios are defined in the Banking Act of 2010, with standards close to international practices.[50] Current ratios are strong, with a capital ratio at 48.2 percent in Q3 2020 (against a minimum of 15 percent), a Tier 1 capital ratio at 42.9 percent (against a minimum of 6 percent), and limited nonperforming loans and assets. Liquidity ratios are also strong, with a liquid asset ratio at 45.4 percent and a liquid asset to short-term liabilities ratio at 69.4 percent. Finally, profitability, although decreasing in 2020, is still strong, with a ROE at 10.8 percent and a ROA at 2.6 percent. A scrutiny of three public financial institutions,[51] however, points to weaker capital adequacy ratios, ranging between 15 percent and 40 percent, underlining the necessity for closer oversight. Although there has not been any intervention from the government to support the financial sector in recent years, the current strain on the exchange rate may warrant a closer scrutiny.

121. There is no published analysis of support from the government to the financial sector, including to the deposit insurance scheme. Following a 2015 regulation, a deposit insurance scheme was introduced in Maldives to extend insurance coverage up to a maximum of MVR 30,000 per depositor. The scheme covers the entire banking system. A deposit insurance fund, funded mainly by the commercial banks, has also been created. There is no published analysis of the sustainability of this scheme and its potential impact on public finances. The mission understands that the current size of the insurance fund may not be large enough to cover a defaulting bank.[52] There are also few analyses on the potentially sizeable bank-sovereign loop in Maldives, with close to 85 percent of the outstanding T-bills present in the commercial banks' balance-sheets.

122. The publication of detailed analyses regarding financial stability and explicit support from the government is an important first step in capturing the fiscal risks stemming from the financial sector. Analyses of the financial sector will help clarify the risks weighing on public finances, the evolution of those risks according to the economic environment, and the probability of their materialization. Such analyses could rely on improved stress-testing exercises, whose results

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[50] Minimal total capital ratio at 12 percent of risk-weighted assets (RWA), core capital at 6 percent of RWA, and capital at 5 percent of gross assets.

[51] These are the BML, Housing Development Finance Corporation (HDFC), and Maldives Islamic Bank (MIB).

[52] Total deposits at end-2019 reached MVR 36 billion (40 percent of GDP).

could be published. They should detail the explicit support from the government to the financial sector, with a particularly focus on the sustainability of the deposit insurance scheme.

3.2.6	Natural resources	Not met

123. The Maldives economy and its government are highly dependent on natural resources.[53] These resources include the country's biodiversity, a main driver of tourism and GDP; land, which is under threat from sea level rise and natural erosion; fresh water, which is in limited supply; corralite sand, which is mined for use in construction and land reclamation; and commercial fisheries, which are a significant contributor to employment and GDP. Of these, biodiversity and commercial fisheries are the most material.

124. There have been various initiatives to measure and report on the volume and economic impact of biodiversity, but a mechanism for routinely reporting on biodiversity and its fiscal impacts is yet to be established. Biodiversity, as a key driver of tourism, is of enormous importance to the economic prosperity of Maldives and the health of its public finances.[54] It covers a range of biospheres and species, in which coral reefs are an important element, and so a composite or comprehensive measure is challenging. There have been occasional studies of marine species and there are data on protected areas, as well as periodic reports to the UN Conference on Biological Diversity, but these do not represent a systematic and annually updated view of the volume or value of biodiversity. The NBS has now started an initiative to apply standard internationally accepted methodologies[55] for measuring natural resources. This will initially be applied in the area of water and waste, following a pilot study in 2018, and be restricted to volumes rather than values. Over time, this initiative may expand to include other natural resources, including aspects of biodiversity. Budget documents and financial reports provide details on fiscal expenditures (MVR 360 million in 2020) and revenues associated with biodiversity.[56]

125. There is more systematic data collection for commercial fishing, but it does not extend to fish stocks or their depletion, or to the fiscal impacts of commercial fishing. Fishing represents around 4.5 percent of GDP and 40 percent of exports; it is a major source of employment.[57] The Ministry of Fisheries, Marine Resources and Agriculture (MFMRA) collects regular data on fishing fleets and sale volumes. The NBS also collates and publishes annual data on fish catches, fish production, imports and exports, and income from fishing. However, there are no

[53] This indicator usually covers exhaustible natural resource assets and their exploitation—typically, oil, gas, and mineral deposits—but there are no such resources in Maldives. The country is not participating in the Extractive Industries Transparency Initiative.

[54] Tourism accounted directly for 26 percent of GDP in 2019 and was the largest single contributor to the economy.

[55] The UN System for Environmental and Economic Accounts (SEEA).

[56] Related expenditures are brought together in the COFOG heading, "Protection of Biodiversity and Landscape."

[57] According to the 2014 Census, about 13 percent of Maldivian men are employed in the fisheries sector, and this is the most important source of jobs for men in inhabited islands outside Malé.

regular data collected or published on fish stocks in Maldivian waters, the extent of stock depletion, and the value of these fisheries. MFMRA's research arm, the Maldives Marine Research Institute, has conducted reviews of some fisheries stock and the threat from overfishing and depletion, but these reviews are now dated. Details on fiscal expenditures and revenues associated with fisheries can be obtained from budget documents and financial reports.[58]

126. The fiscal risks associated with biodiversity and commercial fisheries, as well as those associated with less material natural resources, will likely materialize over the longer term and indirectly; the risks are nevertheless important enough to be assessed and discussed. Biodiversity and fish stocks, by their nature, are mostly impacted by longer-term trends in climate and human activity. Accordingly, apart from natural disasters or emergencies (see 3.2.7), the fiscal impacts of depletion will be seen in the longer term. Moreover, the fiscal impacts of such depletions will be a mix of direct measures (government interventions through spending programs or revenue-raising initiatives) and indirect measures (through their impact on GDP and employment and thereby on fiscal revenues). The governments should proactively assess stocks and the threats to them to enable longer-term planning and avoid the need for urgent or unplanned interventions.

3.2.7	Environmental Risks	Basic

127. Maldives is highly vulnerable to natural disasters and climate change. Maldives has experienced a number of environmental disasters in recent years and remains exposed to many other environmental hazards. Major risks that have materialized, either wholly or partly, include tsunamis, drought, freshwater contamination, coastal erosion, rising sea levels, and pandemics. In addition, the risk of oil spills and cyclones remain, although there have not been recent occurrences. These risks are interconnected, for example, as sea levels rise, the risk of storm surges, tropical cyclones, persistent flooding, and coastal erosion also rise.[59] At the same time, the crystallization of these risks could be entirely mutually exclusive or occur concurrently, for example, a pandemic and a tsunami may be experienced simultaneously. Table 18 makes an attempt to qualitatively discuss the actual or potential impact of each of these events. In addition, Figure 16, while dated 2007, provides a good picture of the likelihood and severity of the natural disaster risks facing Maldives.[60] Precise data on damages and losses are not fully available, making it difficult to estimate the actual extent of the economic impacts.

[58] These are not classified together under any one heading (in COFOG, it is one component of expenditure on agriculture, forestry, fishing and hunting).

[59] IMF, "Small States Resilience to Natural Disasters and Climate Change—Role for the IMF," 2016.

[60] UNDP, "Detailed Island Risk Assessment in Maldives: Final report Volume I: Disaster Risk Management Programme," UNDP Maldives, December 2007.

Table 18. Maldives: Actual and Potential Impact of Natural Disasters

Event Type	Qualitative Description of Event, Likelihood, and Actual or Potential Impact	Estimated Impact
Sudden Impact Disasters		
Tsunami	**Possible, low frequency but catastrophic.**[a] The 2004 Indian Ocean tsunami had a significant impact. One-third of the population was affected; there were 100 deaths and 1,300 injuries; 5,700 homes needed to be rebuilt. The 53 inhabited islands suffered severe damage, and 10 percent of the islands was completely destroyed. Infrastructure and fishing equipment were badly affected, and there was a significant decline in tourism and fishing revenue. In addition, the domestic banking sector that is highly exposed to the tourism-related income came under pressure during this period.	US$470 million (62% GDP)[b]
Coastal Flooding	**Probable, frequent, medium/high impact.** Wave run-ups at the coast have been found to be the main culprit of coastal flooding, as they are often prolonged during swell wave conditions (Wadney et al., 2017). Other reasons include astronomical tides, high winds, and the gradually rising sea levels.[c]	Estimate not available
Oil spills	**Possible, rare, but potentially catastrophic.** Often close to world shipping lanes, small island and coastal nations are at particular risk from oil spills. Reliant on the marine environment and its biodiversity for tourism, fishing, and aquaculture, islanders face an existential threat when oil spills happen in their waters.[d] Historically, an oil spill has not been a feature of the natural disaster risk landscape in Maldives; however, as recently as August 2020, the nearby island of Mauritius was impacted by a disastrous oil spill from a passing Japanese oil tanker. The ship was carrying 4,000 tons of fuel; more than 1,000 tons leaked into the ocean. This event is expected to have significant and ongoing environmental, social, economic, and fiscal impacts. It has endangered coral, fish, and other marine life, imperiling the economy, food security, health, and the US$1.6 billion tourism industry in the country, which is already suffering from the negative effects of COVID-19. Some work has been done to quantify the average impacts of previous oil spills in Alaska, where, in 2010 dollars, the average oil spill in the United States costs approximately US$16 per gallon in cleanup and damages.[e] Using a proxy like this could help to calculate a range of potential range of impacts, giving thought to available insurance, compensation, and the residual risks that could impact the fiscal position.	Unquantified. Compensation received depends on international shipping treaties and could be around US $68 million, potentially well below the impact on Mauritius.[f]
Cyclones	**Low probability, lower impact.** The Northern islands have the greatest exposure to cyclones. There is a 10 percent probability of a storm hitting the northern atolls in the next 10 years with wind speeds from 118 to 177 km/h (Category 1 and 2 on the Saffir-Simpson Hurricane Scale).[g]	Estimate not available
Slow on-set Disasters		
Climate Change	**Gradual, high impact.** The GoM is also exposed to potential fiscal costs from climate change, including the costs related to adaptation and mitigation. Climate change can undermine tourism-based economies through erosion of beaches, coral bleaching, reduced freshwater supplies, and extreme climate events (floods, storms, and tsunami) that damage critical infrastructure (airports, roads, and hotels). The loss of tourism competitiveness will likely reflect the overall stress from climate change and is a major source of risk to the tourism and fishing sectors of the economy.	At least 15% of GDP[h]

Table 18. Maldives: Actual and Potential Impact of Natural Disasters (Concluded)

Drought	**Periodic, low/medium impact.** During the dry seasons of 2009 and 2010, desalinated water was supplied to over 90 islands at substantial cost to the government. The cost was expected to rise with rising fuel prices as the distance between islands requires significant travel. Thus, each year, government has to assign significant amounts of resources for water distribution to guarantee water availability. The process becomes more expensive and challenging during times of uncertainty. With more volatility in rainfall as a result of climate change, droughts also pose risks to water supplies.	Fiscal cost: (2009/10) MVR 10 million (US$ 640,000; 0.5% of GDP)[i]
Saltwater Intrusion	**Periodic, medium impact.** The vulnerability of freshwater resources to saltwater intrusion and droughts across the atolls is high. Saltwater contaminates freshwater aquifers, reducing access to water for drinking and crop irrigation. This effect has increased demand for bottled and desalinated water.	Unquantifiable
Sea Level Rise	**Gradual but existential.** Maldives is among the few countries that are facing the near-complete or complete submersion of all national territory in the future due to sea-level rise. A one-meter rise in sea level would present the possibility of the Maldives disappearing entirely. Sea level rise also raises the risk of storm surges, tropical cyclones, and tsunamis, as well as persistent flooding and coastal erosion. The impact of sea level rise on coastal areas will have a broader impact on the livelihoods (such as fishing) and habitability in these areas. Over the long term, climate change may make some ecosystems completely uninhabitable.	Unquantifiable.
Epidemic Diseases		
COVID-19 pandemic	**Possible, low frequency but catastrophic**. The global impact of the pandemic severely impacted tourist arrival during 2020. The impact of the shock on the economy has been substantial. The fiscal impact of COVID-19 has also been significant. Tax revenues declined by about 19 percent, compared to 2019, with significantly lower collections of tourism GST and business profit tax; non-tax revenues declined by about 56 percent. The overall fiscal deficit widened significantly from 2019 (from 6.6 percent, to 27.5 percent of GDP), in spite of expenditure containment.	Initial estimates of immediate fiscal impact are US$389 million (7.2 percent of GDP)[j]

Source: Staff compilation.

Notes:

a. Probable, possible, and remote refer to a broad categorization of the likelihood of an event, with decreasing order of probability. Frequency further refines this categorization at a more granular level and is a judgment based on the historical track record.

b. IMF, "Maldives: Rapid Credit Facility Request," Staff Report, 2020.

c. UN Office for Disaster Risk Management, "Disaster Risk Reduction in Republic of Maldives," Status Report, 2019.

d. https://unctad.org/news/mauritius-oil-spill-puts-spotlight-on-ship-pollution.

e. Mark A. Cohen, "Taxonomy of Oil Spill Costs," 2010, https://media.rff.org/archive/files/sharepoint/WorkImages/Download/RFF-BCK-Cohen-DHCosts_update.pdf.

f. https://unctad.org/news/mauritius-oil-spill-puts-spotlight-on-ship-pollution.

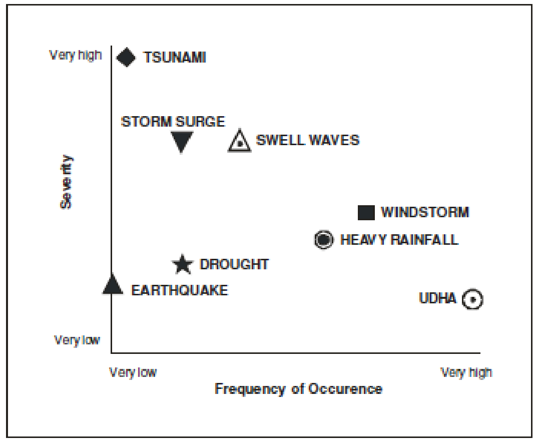
g. UN Office for Disaster Risk Management. "Disaster Risk Reduction in Republic of Maldives," Status Report, 2019.

h. IMF, "Small States Resilience to Natural Disasters and Climate Change: Role for the IMF," 2016.

i. IMF, "Small States Resilience to Natural Disasters and Climate Change: Role for the IMF," 2016.
j. IMF, "Maldives: 2020 Rapid Credit Facility Request: Using the Increase in the Fiscal Deficit from 2019 of 4.2 Percent of GDP to 11.7 Percent of GDP," Staff Report, 2020

128. Historically, natural disasters have had a significant impact on the economy in Maldives and on the lives and livelihoods of its citizens. Most disaster events have been reported to originate from meteorological and hydrological events, which are estimated to account for 45 percent of deaths and 79 percent of economic losses between 1988–2007.[61] The catastrophic tsunami of 2004 alone is estimated to have an impact of 62 percent of GDP (US$470 million).[62] Looking ahead, modelling done by IMF estimates the economic costs of climate change for small states like the Maldives at 15 percent of GDP or more.[63]

Figure 16. Relationship between Hazard Severity and Frequency for Major Hazards



Source: UNDP Maldives December 2007.
Note: UDHA is a type of small wave.

129. When these events occur, the government is expected to respond, and therefore, incidences of natural disasters can have major impact on public finances. Exposure may be explicit, for example, the cost of repairing and rebuilding infrastructure, or implicit, such as public expectations or political pressure to provide assistance and relief to the victims of natural disasters. The GoM is also heavily exposed to fiscal costs from climate change, including costs related to adaptation and mitigation. Further, as a result of climate change, the frequency and severity of hydro-meteorological hazards are predicted to increase.[64]

130. The government identifies and discloses the main fiscal risks from natural disasters in qualitative terms, but these findings are not fully integrated into overall fiscal planning. Across various strategy documents and reports under the purview of the Ministry of Environment and National Disaster Management Authority (Box 5) the government identifies and manages environmental risks to Maldives. However, analysis of these risks is disaggregated and not centrally published, limiting the government's ability to form a firm comprehensive picture of the totality of natural disaster risks and their potential impact on public finances. The risk of natural disasters is mentioned in passing in the Budget Book and MTDS, but only to the extent that it might adversely

[61] UN Office for Disaster Risk Management. "Disaster Risk Reduction in Republic of Maldives," Status Report, 2019.

[62] IMF, "Maldives: Rapid Credit Facility Request," Staff Report, 2020.

[63] IMF, "Small States Resilience to Natural Disasters and Climate Change: Role for the IMF," 2016.

[64] UN Office for Disaster Risk Management. "Disaster Risk Reduction in Republic of Maldives," Status Report 2019.

impact the tourism sector and thereby dampen overall economic activity and impact the government's debt portfolio.

Box 5. Natural Disaster Risk Management Framework

Since the 2004 Indian Ocean tsunami, and with the help of national and international partners, Maldives has been working to improve its institutional capacity to better deal with disasters and emergencies.[a] Natural disaster risk is managed by the National Disaster Management Authority (NDMA), established in 2018, following the recognition that disasters and disaster risk must be addressed systematically. Under the Disaster Management Act, the NDMA is the main coordinating body for disaster management activities at the national level; it is charged with hazard identification, mitigation, and community preparedness, as well as with integrated response and recovery efforts to address issues of vulnerability.[b] The work of NDMA is supported by numerous frameworks, policies, and plans that help to identify and understand natural disaster risks. These include the following:

- **Community-Based Disaster Risk Reduction Framework (CBDRRF) (2014**) guides the NDMA's activities and engagement to mainstream disaster risk reduction into national and local development planning processes.
- **Strategic National Action Plan (SNAP) (2010–20*)*** outlines the impacts of climate change (including considerations for lessened food and water availability) and identifies areas to further adaptation activities. Its major objectives are to create enabling environments, empower communities, increase access to technology and knowledge, and implement risk-sensitive development processes.
- **The Multi-Hazard Risk Atlas of Maldives** is a five-volume atlas that aims to promote the sustainable development of coastal and marine ecosystems and their various components by enhancing the awareness of stakeholders and enjoining them to address the climate and disaster risks (including hazards, exposures, and vulnerabilities) to which ecosystems are exposed. The atlas presents spatial information and maps necessary for assessing future development investments in terms of their risks to climate and geophysical hazards.
- **The Disaster Risk Reduction in Republic of Maldives Status Report 2019** provides a snapshot of the latest DRR progress that Maldives has achieved under the four priorities of the Sendai Framework. It identifies tsunamis, the vulnerability of freshwater to saltwater intrusion, and droughts across Maldives atolls as natural disaster risks that could have significant economic impacts.

Source: Staff compilation; National Community-Based Disaster Risk Reduction Framework

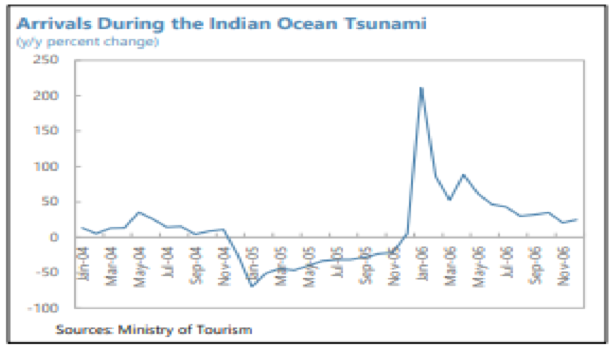
Notes:

a. National Community-based Disaster Risk Reduction Framework.

b. http://ndmc.gov.mv/about/

131. As evidenced by the 2004 tsunami and 2019 pandemic, these events can have wide-ranging impacts on the government's budget. Beyond a loss of revenue from the tourism sector, these impacts can include the expectation, or necessity, of providing support to vulnerable citizens and businesses immediately following the disaster; they may also produce longer-term pressures to rebuild infrastructure. Examining the decline in tourism arrivals that occurred following the 2004 tsunami (Figure 17) could be a powerful tool to help estimate the potential impact of revenue decline should other disasters and emergencies occur. Analysis by the MoF shows that the government has spent approximately MVR 50.2 million from 2012 until 2016 on emergency relief and recovery. This is an average of MVR 10 million a year; a large percentage of this expenditure was for relief from water shortage incidents. It would be useful to publish this type of analysis within a comprehensive fiscal risk statement.

Figure 17. Decline in Tourism Arrivals Following the 2004 Tsunami



132. The MoF should look to centrally consolidate the government's understanding of natural disaster risk and further develop plans to manage the potential fiscal impacts. Doing this would involve attempting to centrally disclose and quantify the potential fiscal impact of natural disasters, based on historical experience. The impact of natural disasters needs to be better integrated into the budget process and budget cycle; in both cases, achieving this would be through better operationalizing the available PFM tools, such as the disaster management fund and risk sharing, and through greater transparency. The potential fiscal impact of natural disasters is not well articulated or comprehensively identified and understood. Inclusion and discussion in the fiscal risk statement would provide impetus to better fiscal risk management.

3.3. Fiscal Coordination

3.3.1	**Subnational governments**	**Not met**

133. Maldives reports annually on the financial performance of local councils, but the coverage and timeliness of these reports need further improvement. The Decentralization Act requires local councils to produce audited financial statements by March 10 of each financial year. In 2019, only six councils met this deadline. Six months after the end of the financial year, 62 percent of councils had submitted their financial statements. The publication of the financial statements is currently on an ad-hoc, voluntary basis by a few councils.[65] The financial reports reportedly include revenue, expenses, and cash balances, as well as some nonfinancial indicators.

[65] Maldives, 2020 Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report, 2020.

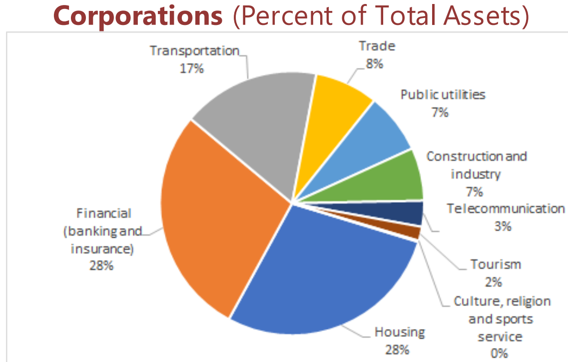
134. Local council borrowings and obligations borne by PPPs or guarantees arrangements are limited by legislative caps; given the low level of borrowing, however, they are not being monitored. The constitution empowers local councils to own property and to incur liabilities. The Decentralization Act allows local councils to borrow from domestic financial institutions, from international financial institutions (through central government on-lending), and on a contractual basis with private parties to build infrastructure. The FRL sets a limit on the total debt stock of an individual council at one-third of the council's income for the previous year. In addition, the FRL empowers the Minister for Finance to set a limit on the aggregate amount of debt for local councils, although this has not occurred. Local council borrowings are subject to ex-ante approval by the LGA and MoF. The LGA advised that local council borrowing is currently insignificant, and, therefore, it is not monitored proactively. Local councils can also create their own SOEs. Evidently, only three local councils have established SOEs of their own; there is currently a pause on the creation of any new entities, as enforced by the MoF. Looking ahead, changes to the debt law are being discussed. With these, and given that local councils have the power to issue their own debt securities, it would be important that a systematic monitoring of local council finances is firmly in place. Improvements in this area are important but not urgent; they should be solidified as the decentralization agenda progresses.

135. A new portal system launched in November 2019 will help to strengthen the oversight and monitoring of local government operations. The 8th Amendment of the Decentralization Act that came into force in early 2020 is being implemented. This implementation will give local councils more power to conduct their own operations. It is critical that, over the longer-term, robust systems are put in place by both the LGA and the MoF to ensure careful monitoring of local council finances. To improve monitoring and reduce the possibility of misuse of funds, a new portal system is being rolled out; through it, the councils can record and share their income, expenses, and other financial transactions with the LGA and MoF.

3.3.2	Public corporations	Basic

136. SOEs play an important role in the economy of Maldives. Their activities are diverse and cover strategic sectors of the economy (Figure 18). In 2019, the total unconsolidated assets of public corporations (excluding MMA) represented 134 percent of GDP. Of the 32 SOEs, five are publicly listed.

Figure 18. Maldives: Sectoral Distribution of Public Corporations (Percent of Total Assets)

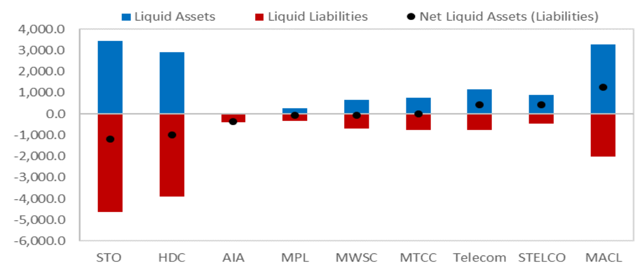


Source: Staff calculation

137. The SOEs rely excessively on government support and are a major source of fiscal risk. Many

SOEs provide goods and services at controlled prices, suffer from weak corporate governance, and rely excessively on government transfers in the form of subsidies and capital contributions (1.4 percent and 2.2 percent of GDP, respectively, in 2019). They also undertake several noncommercial activities that involve cross-subsidization; some remain unfunded or underfunded.[66] In 2019, the unconsolidated liabilities of SOEs represented 84 percent of GDP, of which 21 percent is government guaranteed debt and 12 percent is direct loans and on-lending by Treasury. A review of the net liquid assets of 9 major SOEs shows elevated liquidity risk for more than half (Figure 19).

Figure 19. Maldives: Net Liquid Assets of Selected SOEs, 2019



Source: Staff calculations.

138. Direct transfers between the government and SOEs are published regularly, but there is no disclosure of an ownership policy. Various reports—namely, the Monthly Fiscal Development, the GFS tables, and the Budget Book—publish data on subsidies, dividends, and capital transfers to SOEs (labeled capital contributions or losses of SOEs). The data on guarantees and on-lending operations are published in the semiannual Debt Bulletin and in the quarterly Disbursed Outstanding Debt and Active Sovereign Guarantees reports. The MoF publishes a list of SOEs with government shareholding. However, an ownership policy report—which includes a clear statement of the government's policy and financial objectives as the shareholder of public corporations, as well as their economic and social objectives—is not published.

139. Maldives has done well to analyze and disclose information on the financial performance of SOEs. The MoF's quarterly and annual publications provide an overview of the financial performance of individual SOEs, but the analysis of the SOE sector as a whole needs further development. Also, a comprehensive overview of government support to SOEs is lacking. The annual financial review is based on audited financial statements; it focuses on profitability, liquidity, shareholders' returns, and financial leverage. The quarterly review, based on quarterly submissions by the SOEs, provides a comparison with the corresponding period of the previous year, focusing on revenue, gross profit, net profit, liquidity indicators, and major investments.

140. The timeliness, transparency, and the quality of the analysis presented could be enhanced:

[66] For example, the purchase of fish by MIFCO above market price; sale of fuel at discounted prices by STO to Island Aviation, the national airline; and provision of below cost air travel to citizens. There are also examples of cross-subsidization across business lines and across consumer segments.

- As of January 2021, the 2018 Annual Financial Review (covering 15 SOEs) is the latest annual report published; Quarter 2 2020 (covering 21 SOEs) is the latest quarterly report.

- Financial reviews of some SOEs include a ratio analysis of the various balance sheet components, but it is not a standard feature across reports. Further, standardizing the presentation across such reviews will improve their analytical value and readability.

- Introducing consolidated financial performance of the entire SOE sector—separately for public nonfinancial and financial corporations—would provide a holistic view of the sector.

- A comprehensive disclosure of all direct and indirect transfers between the government and the SOEs, and, where relevant, estimates of any quasi-fiscal activities, will provide a broad measure of the SOEs dependence on the budget and its trends.

141. The integration of all SOEs data into a centralized database would enhance transparency and improve the quality of fiscal risk analysis. Currently, the financial review is prepared manually. Work is underway to develop a web-based portal, whereby SOEs can directly enter their financial data, including the notes to financial statements. The portal is expected to be operational soon, with a limited-functionality beta version planned for launch in March 2021. This tool would facilitate better data collection and improved analysis. There would be an opportunity to develop this portal further into a centralized database that captures all relevant information, such as transfers between the government and the SOEs; this will greatly facilitate the cross-examination of the information and analysis of fiscal risks. The database could be used to develop a standardized format of the financial review reports, with automated computation of financial ratios and risk categorization. Box 6 provides an illustration of a possible fiscal risk analysis that the database could help support.

Box 6. Risk Analysis of Selected SOEs

Using a tool developed by the IMF's Fiscal Affairs Department, the financial performance of major SOEs in Maldives was analyzed, and the likelihood of risk realization impacting the public finances was assessed. The analysis entailed calculating a standardized set of financial ratios focusing on three aspects of financial performance: profitability, liquidity, and solvency. The results were used to determine an overall risk rating (on a scale of five) for each SOE. Table 19 shows ratings for 9 SOEs over a five-year period (2015–19, allowing the tracking of changes in risk ratings over time.

About one-third of the sample is currently in the high-risk category; the rest is at the moderate risk level. The risk profile may deteriorate due to the adverse impact of the COVID-19 pandemic. The liquidity indicators appear to be the main factor behind the deteriorating risk ratings. The worsening liquidity position has resulted in extended budgetary support to assist SOEs to pay their debt service obligations (see principle 3.2.2).

Source: Financial statements of SOEs; staff calculations.

Table 19. Maldives: SOE Risk Ratings, 2015–19

	2015	2016	2017	2018	2019
Addu International Airport	High Risk	Very High Risk	Very High Risk	High Risk	High Risk
Housing Development Corporation	Moderate Risk	High Risk	Moderate Risk	Moderate Risk	High Risk
Maldives Airport Company	Moderate Risk	High Risk	Moderate Risk	Moderate Risk	Moderate Risk
Maldives Port Limited	Moderate Risk	Moderate Risk	Low Risk	Moderate Risk	Moderate Risk
Maldives Transport and Contracting Company	Moderate Risk	Moderate Risk	Moderate Risk	High Risk	High Risk
Male Water and Sewerage Company	Moderate Risk	Moderate Risk	Moderate Risk	Moderate Risk	Moderate Risk
STELCO (Electricity Company)	High Risk	High Risk	High Risk	Moderate Risk	Moderate Risk
State Trading Organization	Moderate Risk	Moderate Risk	High Risk	High Risk	Moderate Risk
Dhivehi Raajjeyge Gulhum (Telecom)	Moderate Risk	Moderate Risk	Moderate Risk	Moderate Risk	Moderate Risk

Conclusions and Recommendations

142. Fiscal risk analysis and management remain weak links in overall fiscal management in Maldives. Maldives' open and tourism-dependent economy exposes its public finances to significant macroeconomic risks, including exogenous factors that negatively influence the tourism sector. Debt is at a significantly high level, exacerbated by the growth reversal in 2020; nearly half of it is in foreign currency, which exposes the government to currency risk. The government has substantial exposure to SOEs—explicitly through guarantees, on-lending, and direct lending by the Treasury, and implicitly through SOEs' unguaranteed debt. The unfunded pension schemes, unless reformed, can threaten fiscal sustainability over the longer term. Environmental risks are gaining significance—directly for the costs imposed on the budget and indirectly through their impact on the tourism sector.

143. Given the high exposure to fiscal risks, greater investment in capacity augmentation in fiscal risk analysis and management is called for. The MoF needs to be commended for introducing a discussion of the fiscal risks in the budget documents, discussing the risks surrounding debt, and highlighting the concerns about the long-term sustainability of public finances. The approach to risk management needs further institutionalization for a systematic risk identification and prioritization and a coordinated development of risk mitigation measures. Greater transparency around fiscal risks faced by the government would promote better all-round understanding and informed debate on policy choices.

144. Based on the above assessment, the evaluation highlights the following priorities for improving the transparency of fiscal risk disclosure and management:

- **Recommendation 3.1. Improve analysis and disclosure of fiscal risks:**
    - Strengthen the fiscal risk management function by augmenting the MoF's institutional capacity, which may include formalizing arrangements with other key stakeholders, such as MMA and NDMA/MoE, for coordinated analysis and decision-making; developing analytical tools and technical knowhow; and broadening the information base.
    - Enhance the content of the fiscal risk statement to include a comprehensive qualitative description of all relevant risks and their magnitude by including the following:

  - A discussion of the main macroeconomic risks relevant to the fiscal aggregates and alternative macroeconomic and fiscal scenarios that incorporate a range of plausible shock to key macroeconomic variables.

  - Analysis of the risks surrounding the government's debt portfolio and longer-term debt sustainability.

  - A discussion of the government's guarantee portfolio, including a list of guarantees by beneficiary and associated risks.

  - Analysis of the risks surrounding the main financial assets—government equity investments; investments in financial instruments; and loans, including loans to SOEs and individuals or businesses.

  - Analysis of the explicit and implicit risks associated with the SOE sector, with a summary of the various fiscal flows between the government (both direct and indirect) and SOEs to provide a broad measure of their impact on the budget.

  - A discussion of the exposure to and preparedness for natural disasters and other environmental risks, including their possible long-term impacts.

  - A discussion of other specific risks that could include the soundness of the financial sector, legal claims, and an analysis of the health of local council finances.

- **Recommendation 3.2. Improve the analysis of pension liabilities, and assess and manage the short-term and long-term liabilities of the different pension schemes in Maldives:**

  - Conduct a comprehensive review of the various pension schemes.

  - Undertake an actuarial study of the different schemes to assess their long-term sustainability and, if needed, develop required reforms.

  - Assess the current funding of the schemes and any short-term fiscal risks.

  - Develop a framework to support the management of long-term fiscal risks, including periodic actuarial reviews, periodic reviews of the funding and sustainability of schemes, and regular publication of sustainability analyses.

- **Recommendation 3.3. Enhance and strengthen the management of guarantees:**

  - Enforce compliance with current procedures, as stated in the Guarantee Issuance Policy Guidelines, on issuance, size limit, eligibility, and fee collection.

  - Review the guarantee issuance policy to include the requirements for (1) a credit risk analysis as part of the guarantee proposal evaluation process; (2) regular reviews of the risks surrounding the portfolio of guarantees; and (3) development of suitable risk mitigation measures, including the adoption of a more risk-based approach to charging guarantee fees.

- Discuss in the Medium-term Debt Strategy the risks surrounding the guarantee portfolio, including the likelihood of financial support to the beneficiaries of government guarantees to avoid calls on guarantees.

- **Recommendation 3.4. Strengthen the transparency in monitoring and reporting on SOEs:**
  - Include in the current publication on SOEs an overview of the financial performance of the overall public corporations' sector, and disclose all of its transactions with the government.
  - Strengthen the risk analysis of individual SOEs with a systematic analysis of their financial performance and position.
  - Identify and disclose quasi-fiscal activities, preferably with their respective size, undertaken by public corporations.
  - Publish an ownership policy to clarify the government's policy and financial objectives as a shareholder.
  - Set up a central database of core financial information, risk indicators, and state support for public corporations to facilitate the assessment of fiscal risks related to public corporations, and require the reporting of the quasi-fiscal activities.

Table 20. Summary Assessment of Fiscal Risks Management and Disclosure

	Principle	Assessment	Issues and Importance	Recom-mendation
Risk Disclosure and Analysis	Macroeconomic Risks	**Basic:** Risk analysis, based on different assumptions on tourism, has been included in the 2021–23 MTFS.	**High:** GDP is expected to be shrinking by 26.7% due to COVID-19 in 2021–23; MTFS highlights the volatility of the macroeconomic variables.	
	Specific Fiscal Risks	**Basic:** Fiscal risk statement is published annually but misses a comprehensive disclosure of all major risks.	**High:** Explicit continent liabilities carry an exposure in excess of 27 percent of GDP.	3.1
	Long-Term Fiscal Sustainability Analysis	**Not Met:** No analysis of long-term fiscal sustainability is undertaken or published.	**Medium:** Age-related spending is projected to double by 2050 (with a present value of unfunded liability estimated at 56% of GDP).	3.2
Risk Management	Budget Contingencies	**Basic:** The contingencies budget is utilized by way of virements to the AGAs for meeting their additional budget requirements.	**Medium:** The provision seems adequate; a transparent access criterion would ensure utilization for real contingencies.	
	Asset and Liability Management	**Basic:** Borrowing is authorized by law; the risks surrounding the government's debt are analyzed and disclosed in the MTDS.	**Medium:** Budgetary central government debt amounts to 84 percent of GDP as of June 2020; risks to assets are significant.	
	Guarantees	**Basic:** A list of government guarantees, including details of beneficiaries and the guaranteed, is published monthly.	**High:** The stock of guarantees is high (24 percent of GDP), and the majority involves external debt; the guarantee policy lacks adequate risk mitigation	3.3
	PPPs	**Not Met:** There is a lack of formal definition of PPPs; there is no disclosure of existing PPPs, including total rights, obligations, and other exposures.	**Low:** Currently, no major contingent liabilities are related to PPPs.	
	Financial Sector Exposure	**Not Met:** No information is available on the explicit support from the government to the financial sector.	**Medium:** The deposit insurance scheme appears largely unfunded, with total deposits estimated at 40% of GDP.	
	Natural Resources	**Not Met**: There is no annual measurement or reporting on key natural resources—biodiversity and commercial fishery stocks.	**Low:** Fiscal impacts are likely to be long-term and indirect, but they should not be lost sight of.	
	Environmental Risks	**Basic:** The government identifies and discloses the main fiscal risks from natural disasters in qualitative terms.	**Medium:** There is high and increasing vulnerability to natural disasters and climate change.	
Fiscal Coordination	Subnational Governments	**Not Met:** Only 62 % of local councils submit their financial statements	**Low:** The new portal system being implemented will facilitate the monitoring of financial performance.	
	Public Corporations	**Basic:** All transfers between the government and public corporations are disclosed in various fiscal reports on a monthly basis and annual basis.	**High:** In 2019, government support by the means of subsidies, capital injections, guarantees, and lending were estimated at around 37 percent of GDP.	3.4

Annex I. Fiscal Transparency Reform Action Plan

Activity		Schedule					
		2021		2022		2023	
		H1	H2	H1	H2	H1	H2
1. Fiscal Reporting							
1.1	**Improve timeliness and reliability of annual financial statements**						
1.1.1	Develop plans to publish credible audited consolidated financial statements, compliant with international standards, and including all material general government finances, within a reasonable period (preferably 6-9 months) after the year end.						
1.1.2	Agree on a plan for timely completion of the audit with the AGO and presentation to People's Majlis for publication. Include a provision to disclose and sign-off the backlog of unaudited consolidated financial statements from previous years.						
1.1.3	Automate wherever possible the collection of data currently outside PAS, to improve data reliability and speed of its collection.						
1.1.4	Establish a roadmap for expanding the coverage of stock items in the accounting system, focusing on the inclusion of the most material stocks and associated flows. An early step should be the resolution of previous audit findings, recommendations, and other identified problems in accounts preparation.						
1.1.5	Revise the budget classification and chart of accounts to support *GFSM 2014* and accrual accounting under IPSAS, and to include functional and program classifications, using bridging tables and automatic report formats within PAS.						

	Activity	Schedule					
		2021		2022		2023	
		H1	H2	H1	H2	H1	H2
1.2	**Improve reporting of tax expenditures**						
1.2.1	Update the legal framework to include a precise definition of tax expenditures, and require annual publication of estimates of the revenue forgone from tax exemptions and benefits by sector or policy area, including a description of the main policy objectives and beneficiary groups.						
1.2.2	Augment TPU capacity to expand the work on tax expenditures to cover all types of major tax exemptions, benefits, or concessions.						
1.3	**Improve GFS and debt reporting**						
1.3.1	Document new GFS and debt reporting processes, including the adoption of *GFSM 2014* and PSDS and the incorporation of the routine use of external reconciliations—especially the tracking and reporting of differences between fiscal reports and financial statements.						
1.3.2	Clarify the reporting basis for fiscal statistics, and explain any differences from previously reported numbers.						
2. Fiscal Forecasting and Budgeting							
2.1	**Establish clear fiscal policy objectives to effectively guide the fiscal stance.**						
2.1.1	Finalize the ongoing development of a new FRA, develop and implement a fiscal strategy consistent with the FRA targets to ensure fiscal targets help to provide a realistic path to consolidation.						
2.1.2	Implement the 2019 Virements and Appropriation Procedure—eventually elevating their status from administrative guidelines to regulations.						
2.2	**Continue to refine the MTBF, supported by robust and reliable macroeconomic and fiscal forecasts, to enhance budget comprehensiveness and credibility.**						
2.2.1	Develop more advanced models, refine the forecasting methodology, and improve macroeconomic forecasts and augment the macroeconomic and fiscal forecasting capacity in the MoF.						

Activity		Schedule					
		2021		2022		2023	
		H1	H2	H1	H2	H1	H2
2.2.2	Improve fiscal forecasts, enhance linkages between successive vintages of forecasts, including through better rollover provisions.						
2.2.3	Improve the quality of the forecasts by systematically conducing ex-post analyses of forecast accuracy.						
2.2.4	Align the processes for preparing the macroeconomic forecasts, MTFS, MTBF, and annual budget, supported by fully integrated documentation.						
2.3	**Enhance spending efficiency on public investment projects, reducing waste and supporting the achievement of fiscal objectives.**						
2.3.1	Make cost benefit analyses a routine for all major projects, using a consistent and published methodology.						
2.3.2	Amend the PFRs to require that all major projects are subject to an open and competitive tender process, including SOEs, thereby providing the opportunity to maximize value for money from public processes.						
2.3.3	Publish aggregate procurement statistics for major projects, by procurement source, amount, and sector.						
2.3.4	Work together with MNPHI and the President's office to continue to implement the findings of the 2019 PIMA.						
2.4	**Strengthen the PFM legal framework and enhance accountability.**						
2.4.1	Formalize timelines for approval of the budget, and specify continuity provisions to be followed if the budget is not passed prior to the commencement of a new financial year.						
2.4.2	Formalize timelines for the publication of the approved budget, minimizing the time elapsed between the approval of the budget and the publication of the full set of budget documents.						

Activity		Schedule					
		2021		2022		2023	
		H1	H2	H1	H2	H1	H2
3. Fiscal Risk Analysis and Management							
3.1	**Improve analysis and disclosure of fiscal risks.**						
3.1.1	Strengthen the fiscal risk management function by augmenting the MoF's institutional capacity, which may include formalizing arrangements with other key stakeholders, such as MMA and NDMA/MoE, for coordinating analysis and decision-making; developing analytical tools and technical knowhow; and broadening the information base.						
3.1.2	Enhance the content of the fiscal risk statement.						
3.1.2.1	Include readily available data in other publications: (1) analysis of risk surrounding the government's debt portfolio, (2) all explicit and implicit risks associated with the SOEs, and (3) all major explicit contingent liabilities.						
3.1.2.2	Include fiscal risks that are identified but for which no quantification or analysis has been done: (1)main macroeconomic risks relevant to the fiscal aggregates, (2) long-term sustainability analysis for pensions, (3) analysis of risk surrounding government main financial assets, and (4) other specific fiscal risks that could include financial sector, subnational governments, legal claims, natural disasters, and other material fiscal risks.						
3.2	**Improve analysis of pension liabilities.**						
3.2.1	Conduct a comprehensive review of the different pension schemes coexisting in Maldives.						
3.2.2	Perform an actuarial study of the different schemes to assess current long-term sustainability and develop the required action plan, if needed.						
3.2.3	Assess the current funding of the schemes to assess their long-term sustainability and, if needed, develop required forms.						
3.2.4	Develop a framework to support the management of long-term fiscal risks, including: (1) periodic actuarial review of the pension schemes, (2) periodic review of the funding and sustainability, and (3) regular publications covering the assessment of the sustainability of the different pensions schemes.						

	Activity	Schedule					
		2021		2022		2023	
		H1	H2	H1	H2	H1	H2
3.3	**Enhance and strengthen the management of guarantees.**						
3.3.1	Enforce the compliance of the current procedures as stated in the Guarantee Issuance Policy guidelines (size, limit, eligibility, and fee collection).	X	X				
3.3.2	Discuss in the Medium-Term Debt Strategy the risks surrounding the guarantee portfolio.	X	X				
3.3.3	Review and revise the guarantee issuance policy to include the requirements for: (1) a credit risk analysis as part of the guarantee proposal evaluation process; (2) regular reviews of the risks surrounding the portfolio of guarantees; and (3) developing suitable risk mitigation measures, including adoption of a more risk-based approach for guarantee fees.		X	X	X		
3.4	**Strengthen the transparency in monitoring and reporting on SOEs.**						
3.4.1	Strengthen the risk analysis of individual SOEs by emphasizing the analysis of financial operations and position.	X	X	X	X		
3.4.2	Include in the current publication on SOEs an overview of the financial performance of the overall public corporations' sector, and disclose all its transactions with government.	X	X	X	X		
3.4.3	Identify and disclose quasi-fiscal activities, preferably with their respective size, undertaken by public corporations.				X	X	
3.4.4	Publish an ownership policy to clarify the government's policy and financial objectives as a shareholder.		X	X			
3.4.5	Set-up a central database of core financial information, risk indicators, and state support for public corporations to facilitate assessment of fiscal risks related to the public corporations, and require the reporting of the quasi-fiscal activities.	X	X	X	X	X	

Annex II. Detailed Assessment against FTC

		BASIC	GOOD	ADVANCED
1	**FISCAL REPORTING**	**Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.**		
1.1	***Coverage***	***Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its subsectors, according to international standards.***		
1.1.1	Coverage of Institutions	Fiscal reports consolidate all central government entities, according to international standards.	Fiscal reports consolidate all general government entities and report on each subsector, according to international standards.	Fiscal reports consolidate all public sector entities and report on each subsector, according to international standards.
1.1.2	Coverage of Stocks	Fiscal reports cover cash and deposits and all debt.	Fiscal reports cover all financial assets and liabilities.	Fiscal reports cover all financial and nonfinancial assets and liabilities and net worth.
1.1.3	Coverage of Flows	Fiscal reports cover cash revenues, expenditures, and financing.	Fiscal reports cover cash flows, accrued revenues, expenditures, and financing.	Fiscal reports cover cash flows, accrued revenues, expenditures, and financing, and other economic flows.
1.1.4	Coverage of Tax Expenditures	The estimated revenue loss from tax expenditures is published at least annually.	The estimated revenue loss from tax expenditures is estimated by sector or policy area, and it is published at least annually.	The estimated revenue loss from tax expenditures is estimated by sector or policy area, and it is published at least annually. There is control of, or budgetary objectives for, the size of tax expenditures.
1.2	***Frequency and Timeliness***	***Fiscal reports should be published in a frequent, regular, and timely manner.***		
1.2.1	Frequency of In-Year Reporting	In-year fiscal reports are published on a quarterly basis, within a quarter.	In-year fiscal reports are published on a quarterly basis, within a month.	In-year fiscal reports are published on a monthly basis, within a month.
1.2.2	Timeliness of Annual Financial Statements	Audited or final annual financial statements are published within 12 months of the end of the financial year.	Audited or final annual financial statements are published within 9 months of the end of the financial year.	Audited or final annual financial statements are published within 6 months of the end of the financial year.

		BASIC	GOOD	ADVANCED
1.3	***Quality***	***Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent.***		
1.3.1	Classification	Fiscal reports include administrative and economic classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic, and functional classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic, functional, and program classifications consistent with international standards, where applicable.
1.3.2	Internal Consistency	Fiscal reports include at least one of the following reconciliations: (1) fiscal balance and financing, (2) debt issued and debt holdings, or (3) financing and the change in the debt stock.	Fiscal reports include at least two of the following reconciliations: (1) fiscal balance and financing, (2) debt issued and debt holdings, or (3) financing and the change in the debt stock.	Fiscal reports include all three of the following reconciliations: (1) fiscal balance and financing, (2) debt issued and debt holdings, and (3) financing and the change in the debt stock.
1.3.3	Historical Revisions	Major revisions to historical fiscal statistics are reported.	Major revisions to historical fiscal statistics are reported, with an explanation for each major revision.	Major revisions to historical fiscal statistics are reported with an explanation for each major revision and a bridging table between the old and new time series.
1.4	***Integrity***	***Fiscal statistics and financial statements should be reliable, be subject to external scrutiny, and facilitate accountability.***		
1.4.1	Statistical Integrity	Fiscal statistics are disseminated in accordance with international standards	Fiscal statistics are compiled by a specific government agency and disseminated in accordance with international standards.	Fiscal statistics are compiled by a professionally independent body and disseminated in accordance with international standards.

		BASIC	GOOD	ADVANCED
1.4.2	External Audit	An independent supreme audit institution publishes an audit report on the reliability of the government's annual financial statements.	An independent supreme audit institution publishes an audit report, which states whether the government's annual financial statements present a true and fair view of its financial position and is without a disclaimer or adverse audit opinion.	An independent supreme audit institution publishes an audit report consistent with international standards, which states whether the government's annual financial statements present a true and fair view of its financial position and is without major qualifications.
1.4.3	Comparability of Fiscal Data	At least one fiscal report is prepared on the same basis as the fiscal forecast/budget.	Fiscal forecast/budget and outturn are comparable; the outturn is reconciled with either the fiscal statistics or final accounts.	Fiscal forecast/budget and outturn are comparable; the outturn is reconciled with both fiscal statistics and final accounts.

2	**FISCAL FORECASTING AND BUDGETING**	**Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.**		
2.1	***Comprehensiveness***	***Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects.***		
2.1.1	Budget Unity	Budget documentation incorporates all gross domestic tax revenues, expenditures, and financing by central government ministries and agencies.	Budget documentation incorporates all gross domestic tax and non-tax revenues, expenditures, and financing by central government ministries, agencies, and extra-budgetary funds.	Budget documentation incorporates all gross domestic and external revenues, expenditures, and financing by central government ministries, agencies, extra-budgetary funds, and social security funds.
2.1.2	Macroeconomic Forecasts	The budget documentation includes forecasts of key macroeconomic variables.	The budget documentation includes forecasts of key macroeconomic variables and their underlying assumptions.	The budget documentation includes forecasts and explanations of key macroeconomic variables and their components, as well as their underlying assumptions.

		BASIC	GOOD	ADVANCED
2.1.3	Medium-Term Budget Framework	Budget documentation includes the outturns of the two preceding years and the medium-term projections of aggregate revenues, expenditures, and financing.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing, by economic category.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing, by economic category and by ministry or program.
2.1.4	Investment Projects	One of the following applies: (1) the government regularly discloses the value of its total obligations under multi-annual investment projects; (2) subjects all major projects to a published cost-benefit analysis before approval; or (3) requires all major projects to be contracted via open and competitive tender.	Two of the following apply: (1) the government regularly discloses the value of its total obligations under multi-annual investment projects; (2) subjects all major projects to a published cost-benefit analysis before approval; or (3) requires all major projects to be contracted via open and competitive tender.	All of the following apply: (1) the government regularly discloses the value of its total obligations under multi-annual investment projects; (2) subjects all major projects to a published cost-benefit analysis before approval; and (3) requires all major projects to be contracted via open and competitive tender.
2.2	***Orderliness***	***The powers and responsibilities of the executive and legislative branches of government in the budget process should be defined in law, and the budget should be presented, debated, and approved in a timely manner.***		
2.2.1	Fiscal Legislation	The legal framework defines one of the following: (1) the timetable for budget preparation and approval; (2) the key content requirements for the executive's budget proposal; or (3) the legislature's powers of amendment to the executive's budget proposal.	The legal framework defines two of the following: (1) the timetable for budget preparation and approval; (2) the key content requirements for the executive's budget proposal; or (3) the legislature's powers to amend the executive's budget proposal.	The legal framework defines all of (1) the timetable for budget preparation and approval; (2) the key content requirements for the executive's budget proposal; and (3) the legislature's powers to amend the executive's budget proposal.

		BASIC	GOOD	ADVANCED
2.2.2	Timeliness of Budget Documents	The budget is submitted to the legislature and made available to the public at least one month before the start of the financial year; it is approved and published up to one month after the beginning of the financial year.	The budget is submitted to the legislature and made available to the public at least two months before the start of the financial year; it is approved and published by the start of the financial year.	The budget is submitted to the legislature and made available to the public at least three months before the start of the financial year; it is approved and published at least one month before the start of the financial year.
2.3	***Policy Orientation***	***Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability.***		
2.3.1	Fiscal Policy Objectives	The government states and regularly reports on a numerical objective for the main fiscal aggregates, which is either precise or time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates, which is both precise and time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates, which is both precise and time-bound, and which has been in place for 3 or more years.
2.3.2	Performance Information	Budget documentation includes information on the inputs acquired under each major government policy area.	Budget documentation reports targets for, and performance against, the outputs delivered under each major government policy area.	Budget documentation reports targets for, and performance against, the outcomes to be achieved under each major government policy area.
2.3.3	Public Participation	Government publishes an accessible description of recent fiscal performance and economic prospects, as well as a summary of the implications of the budget for a typical citizen.	Government publishes an accessible description of recent fiscal performance and economic prospects, as well as a detailed account of the implications of the budget for a typical citizen; it also provides citizens with a formal voice in budget deliberations.	Government provides an accessible description of recent fiscal performance and economic prospects, as well as a detailed account of the implications of the budget for different demographic groups; it also provides citizens with a formal voice in budget deliberations.
2.4	***Credibility***	***Economic and fiscal forecasts and budgets should be credible.***		
2.4.1	Independent Evaluation	Budget documentation includes comparisons between the government's economic and fiscal projections and those of independent forecasters.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts, as well as its performance against its fiscal objectives.

		BASIC	GOOD	ADVANCED
2.4.2	Supplementary Budget	A supplementary budget regularizes expenditure exceeding the approved budget.	A supplementary budget is required prior to material changes to total budgeted expenditure.	A supplementary budget is required prior to material changes to total budgeted expenditure or substantially altering its composition.
2.4.3	Forecast Reconciliation	Differences between the successive vintages of the government's revenue, expenditure, and financing forecasts are shown at the aggregate level, with a qualitative discussion of the impact of new policies on the forecasts.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the overall effect of new policies and macroeconomic determinants.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the effects of individual policy changes, macroeconomic determinants, and other factors, such as technical or accounting adjustments.

3	**FISCAL RISK ANALYSIS AND MANAGEMENT**	**Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.**		
3.1	***Risk Disclosure and Analysis***	***Governments should publish regular summary reports on risks to their fiscal prospects.***		
3.1.1	Macroeconomic Risks	Budget documentation includes discussion of the sensitivity of fiscal forecasts to major macroeconomic assumptions.	Budget documentation includes sensitivity analysis and alternative macroeconomic and fiscal forecast scenarios.	Budget documentation includes sensitivity analysis, alternative scenarios, and probabilistic forecasts of fiscal outcomes.
3.1.2	Specific Fiscal Risks	The main specific risks to the fiscal forecast are disclosed in a summary report and discussed in qualitative terms.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude and, where practicable, their likelihood.

		BASIC	GOOD	ADVANCED
3.1.3	Long-Term Fiscal Sustainability Analysis	The government regularly publishes projections of the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 10 years.	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years, using a range of macroeconomic assumptions.	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years, using a range of macroeconomic, demographic, natural resource, or other assumptions.
3.2	***Risk Management***	***Specific risks to the public finances should be regularly monitored, disclosed, and managed.***		
3.2.1	Budgetary Contingencies	The budget includes an allocation for contingencies.	The budget includes an allocation for contingencies, with transparent access criteria.	The budget includes an allocation for contingencies with transparent access criteria and regular in-year reporting on its utilization.
3.2.2	Asset and Liability Management	All borrowing is authorized by law, and the risks surrounding the government's debt holdings are analyzed and disclosed.	All borrowing is authorized by law, and the risks surrounding the government's assets and liabilities are analyzed and disclosed.	All liabilities and significant asset acquisitions or disposals are authorized by law, and the risks surrounding the balance sheet are disclosed and managed according to a published strategy.
3.2.3	Guarantees	All government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually.	All government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually. The maximum value of new guarantees or their stock is authorized by law.	All government guarantees, their beneficiaries, the gross exposure created by them, and the probability of their being called are published at least annually. The maximum value of new guarantees or their stock is authorized by law.

		BASIC	GOOD	ADVANCED
3.2.4	Public-Private Partnerships	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts, as well as the expected annual receipts and payments over the life of the contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts, as well as the expected annual receipts and payments over the life of the contracts. A legal limit is also placed on accumulated obligations.
3.2.5	Financial Sector Exposure	The authorities quantify and disclose their explicit support to the financial sector at least annually.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and they regularly undertake an assessment of financial sector stability.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and they regularly undertake an assessment of financial sector stability, based on a plausible range of macroeconomic and financial market scenarios.
3.2.6	Natural Resource Stocks and Flows	The government publishes annual estimates of the volume of major natural resource assets, as well as the volume and value of the previous year's sales and fiscal revenue, in line with international standards.	The government publishes annual estimates of the volume and value of major natural resource assets, as well as the volume and value of the previous year's sales and fiscal revenue, in line with international standards.	The government publishes annual estimates of the volume and value of major natural resource assets under different price scenarios, as well as the volume and value of the previous year's sales and fiscal revenue, in line with international standards.
3.2.7	Environmental Risks	The government identifies and discusses the main fiscal risks from natural disasters in qualitative terms.	The government identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences.	The government identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences, and manages them according to a published strategy.
3.3	***Fiscal Coordination***	***Fiscal relations and performance across the public sector should be analyzed, disclosed, and coordinated.***		

		BASIC	GOOD	ADVANCED
3.3.1	Subnational Governments	The financial condition and performance of subnational governments is published annually.	The financial condition and performance of subnational governments is published annually, and there is a limit on their liabilities or borrowing.	The financial condition and performance of subnational governments is published quarterly, and there is a limit on their liabilities or borrowing.
3.3.2	Public Corporations	All transfers between the government and public corporations are disclosed on at least an annual basis.	All transfers between the government and public corporations are disclosed, and based on a published ownership policy, a report on the overall financial performance of the public corporations' sector is published on at least an annual basis.	All direct and indirect support between the government and public corporations is disclosed, and based on a published ownership policy, a report on the overall financial performance of public corporations sector, including estimates of any quasi-fiscal activities undertaken, is published on at least an annual basis.