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Maldives: Public Financial Management—Performance Report

This report on Public Financial Management—Performance Report for the country of Maldives was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on November 2009. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Maldives or the Executive Board of the IMF.

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Fiscal Affairs Department

Maldives

Public Financial Management—Performance Report

November 2009

Prepared by staff from the government of the Maldives, the IMF, and the World Bank

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THE MALDIVES

PUBLIC FINANCIAL MANAGEMENT—PERFORMANCE REPORT

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Contents **Page**

Annexes

ABBREVIATIONS

ADB	Asian Development Bank
AGO	Auditor General's Office
BML	Bank of Maldives Ltd
CSC	Civil Service Commission
CSDRMS	Commonwealth Secretariat Debt Reporting and Management System
DSA	Debt Sustainability Analysis
DIR	Department of Inland Revenue
EMRD	External Resources Management Department
FAD	Fiscal Affairs Department
GoM	Government of Maldives
IA	Internal Audit
IFMIS	Integrated Financial Management Information System
MDAs	Ministries, Departments, and Agencies
MLRF	Maldivian Rufiyaa
MMA	Maldives Monetary Authority
MOFT	Minister of Finance and Treasury
MTEF	Medium-Term Expenditure Framework
PAC	Public Accounts Committee
PAS	Public Accounting System
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PEMEB	Public Enterprises Monitoring and Evaluation Board
PFM	Public Financial Management
SOE	State-owned Enterprise
TEB	Tender Evaluation Board
TES	Tender Evaluation Section
TSA	Treasury Single Account
WB	World Bank

PREFACE

In late 2008, the government of the Maldives asked the Fiscal Affairs Department (FAD) of the IMF to help carry out a Public Expenditure and Financial Accountability (PEFA) assessment for the Maldives. The PEFA methodology provides a framework for governments and other stakeholders to assess the public financial management system in a country. The assessment is based on a standardized format developed by a multi-donor group, including the World Bank (WB), the IMF, the EU and several bilateral donors. Almost 100 countries have carried out or are in various stages of PEFA assessments so far.

The government of the Maldives established a PEFA technical committee to coordinate the assessment process. The committee comprises Aishath Shahuda (chair), Hassan Zareer, Fatmath Nuzuha, Ali Arif, Haifa Naeem, Aishath Saadh, Faruhana Abdull Gafoor, Ali Rasheed Ibrahim, Mariyam Ibrahim Manik, Aminath Sudha, Asma Shafeeu, Fathulla Jameel, and Ali Shareef from the Ministry of Finance and Treasury (MOFT), Ahmed Munnavar from the Maldives Monetary Authority (MMA), Fatimath Nishat Zadi and Mohamed Zaeem from the Auditor General's Office (AGO) and Hassan Luthufee from the Anti-Corruption Commission. Ismail Ali Manik from the MOFT has been the PEFA project manager on the government side.

Beyond the technical committee, the assessment benefited greatly from discussions with several other senior government officials in the Maldives. The mission met with representatives of the Public Accounts Committee (PAC) of the Peoples Majlis, from several different departments of the MOFT, and from the Ministry of Education, the Ministry of Health, the Auditor General's Office, the Anti-Corruption Commission, the Civil Service Commission (CSC), the MMA, and the Ministry of Tourism. The mission also visited the Male Atoll Office on the Island of Thulusdhoo and met with several atoll and island officials there.

The IMF team was headed by Eivind Tandberg, and included Holger van Eden, Tej Prakash, and Suzanne Flynn. From the WB, Manoj Jain, Leslie Kojima, and Dimitri de Pues contributed to the assessment.

The draft report was subject to review by the government of the Maldives, the IMF, and the WB. It was also submitted for comments to the PEFA Secretariat and to the Asian Development Bank (ADB), who all have active programs in the Maldives. The final report was presented at a workshop with the finance minister and MOFT officials in Male on September 16, 2009.

SUMMARY ASSESSMENT

The Maldives has been in a difficult economic and fiscal situation over the last years. Towards the middle of 2009 the Maldives asked for assistance from the IMF, and a stand-by arrangement has been negotiated with Fund staff and is expected to go to the IMF Board later this year. The fiscal challenges are linked to institutional weaknesses, as well as previous policy failures and international economic conditions. This assessment covers many of the institutional weaknesses that have contributed to the problems, but does not address fiscal policies or international market conditions.

In line with the PEFA methodology, this assessment focuses on the fiscal performance during 2005–08, and the institutions and procedures that were in place during this period. Many reforms that were initiated in 2009 will have impacts on some of the indicators covered by this PFM-PR. These impacts cannot be covered in this assessment, but should be reflected in future updates of the assessment.

Main findings

The assessment indicates that budget credibility is weak. When corrected for concessional, external financing, aggregate expenditure estimates are reasonably accurate. However, there are significant variations in the allocation of expenditures by ministry, and actual revenues fell well below estimates in each year except 2006. Budget arrears appear to be limited, but there is no systematic monitoring scheme that can document this.

Budget coverage is very comprehensive, and transparency is quite high in some areas of budget management. The budget classification can provide data that are consistent with GFSM 2001, but there is no subfunction or program classification, and the reporting of foreign-funded projects in the budget is based on ad hoc procedures. Budget documents provide basic information about the government's fiscal policies, including on key macro-economic assumptions and the financing of the deficit. Unreported government operations are insignificant, and there is no subnational government sector before 2009. Fiscal risks related to public enterprises (PE) are systematically monitored, but there is no comprehensive statement on government fiscal risks. The public has access to important fiscal information, such as the budget documents themselves, the AGO's reports and resources allocated to service delivery units.

Budget documents do not provide clear linkages between budget figures and underlying policies. The annual budget process is stable from year to year, but there was no explicit multi-year perspective in fiscal planning before 2009. There are usually no comprehensive explanations of the fiscal implications of specific policies.

There are significant shortfalls in the predictability and control of budget execution, particularly on the expenditure side, and in the management of cash, debt and guarantees. Taxpayer obligations are quite transparent, and there is limited discretion in applying tax rules. Coordination between taxpayer databases for different taxes is inadequate. Tax arrears are limited, due to the simplicity of the taxes and current collection practices. Funds for discretionary spending, including domestically-financed capital spending and travel, are released on an ad hoc basis, which makes it difficult for the ministries and agencies to plan for effective use of these funds. There are critical weaknesses in the management of government cash, debt and guarantees. These areas are fragmented, public reporting is very limited and there is no systematic disclosure of the sizable risks involved. Internal control procedures are not fully defined, and there is no systematic internal audit function.

There is a lack of data relating to procurement below MLRF 1.5 million that takes place at the ministerial/agency level, and it is not known what percentage high value contracts represent on the entire procurement scale per annum. The procurement rules make it clear that competition is the preferred method at all times, but there is a lack of data to assess how many contracts were awarded on less competitive basis and whether they were justified. Finally, there is no independent procurement grievance mechanism in place in Maldives at the moment. Complaints can, and are regularly, submitted to the Tender Evaluation Board, who studies the case and makes a ruling. The TEB, however, is also the body that approves the award of contracts. This creates an apparent conflict of interest.

There is a need to develop the accounting, recording and reporting function within the government. Consolidated financial statements have not been prepared and therefore not audited. The Public Accounting System (PAS) which is currently under implementation will enable the government to prepare full-fledged financial statements in line with acceptable international standards with effect from the 2009 fiscal year.

The establishment of an independent AGO in early 2008 has led to significant improvements in external audit. Legislative oversight, however, has been weak**.** The AGO aims to cover all government sectors each year, and applies risk-based sampling techniques in their selection of audit subjects. However, the absence of a comprehensive government accounting system has inhibited the AGO's ability to do financial audits. Many audit reports have had highly visible impacts.

Donors fail to follow many established good practices for donor funds. The Maldives did not receive significant direct budget support before 2009. Only a few donors provide reliable estimates for project support for the next budget year, but reporting on actual disbursement is somewhat better. Donor funds are generally managed through donor procedures.

The deviations between planned and actual budget figures demonstrate that the level of fiscal risk in the Maldives is high and that the existing public financial management (PFM) system is insufficient to ensure effective control of the fiscal aggregates. Some of the fluctuations are a result of external developments, such as the Tsunami in late 2004 and the global financial crisis in the latter part of 2008. In addition, the comprehensive budget coverage, the absence of borrowing at the subnational government level, and the strong role of the AGO, has positive impacts on the ability to handle fiscal risks. However, many of the identified weaknesses in the PFM system add significantly to the level of fiscal risk, and undermine the government's capacity to undertake necessary fiscal adjustments in an efficient manner.

The reliance on uncommitted, external project financing for a large share of budgeted expenditures creates great uncertainty and undermines the credibility of the budget as a planning and decision-making tool. Fragmentation and weaknesses in cash and debt management, and in particular the absence of a transparent framework for decisions, disclosure and management of government guarantees, creates additional uncertainty. Similarly, the lack of a transparent budget release and commitment control system, and the absence of reliable and timely reporting mechanisms, leads to an ad hoc, non-transparent approach to in-year budget adjustments.

The deviations between planned and actual budget figures, particularly at the ministry level, demonstrates that there are also shortfalls in the budget process as an instrument for allocating resources to priority sectors. The budget preparation process has a one-year focus, but even within this horizon, budget planning is not reliable. The initial annual budget allocations may well be in line with medium-term government priorities, but these allocations change considerably during the year, and the final allocations may be more a result of ad hoc decisions and arbitrary developments in the processing of project loans and grants, than of any systematic, medium-term objectives. The weaknesses in cash management and the absence of reliable reporting of actual spending, in particular in the atolls, compounds the uncertainty further. On the other hand, the availability of information about resources allocated to many of the service delivery units in the health and education sectors does provide some assurance regarding the allocation of resources at the micro-level.

So far, efficient service delivery has not been a prominent priority for public financial management in the Maldives. The budget process has a very strong focus on the input side, and identifies some of the activities that these inputs will finance. However, there has been very little focus on outputs and outcomes. Such outputs and outcomes are identified in national development plans and to some extent in sector strategies, but these strategies have not been costed and the linkages to the budget have been unclear. The budget does put significant focus on facilitating public investments, but the recurrent cost implications of these investments are not fully taken into account, often leading to maintenance gaps. As mentioned above, financial reporting systems are inadequate, and there is no systematic monitoring and reporting on performance indicators. Weaknesses in procurement and internal control also undermine the efficiency of public expenditure.

The government's PFM reform agenda

The current political environment provides fertile ground for reforms in public governance and public financial management. Following the new Constitution and the Presidential elections in 2008, the first fully open parliamentary elections in the history of the country took place in May 2009. Increased openness and transparency in the political process is also leading to more vocal demands for transparency, efficiency and accountability in the design of fiscal policies and the use of government resources. The AGO, after its reformation in early 2008, is playing an important catalytic role in this regard. The government has signaled that it is prepared to meet the increased demands in the area of public financial management, as demonstrated by its active participation in this PEFA assessment and its endorsement of the main findings.

The government of the Maldives is fully aware of many of the weaknesses described above, and is already taking steps to address many of them. In particular, successful completion of the new PAS will facilitate substantial improvements in budget execution, internal control, cash management, accounting and fiscal reporting. This will again create a basis for improvements in budget planning and in management of fiscal risks. The government is also working hard to improve public procurement. In the area of budget efficiency, line ministries are requested to begin basing their sector strategies and budget submissions explicitly on national priorities, and to ensure realistic costing of the strategies. The preparation of audited financial statements will enable the Peoples' Majlis to strengthen its oversight, further enhanced by planned amendments to the internal rules of the legislature. This PEFA assessment provides a baseline for monitoring the impacts of the on-going PFM reforms. Successful implementation of these reforms should lead to improvements on many of the indicators.

Following the PEFA assessment, the MOFT is committed to developing a comprehensive action plan for improvements in public financial management, This action plan will provide a clear prioritization of the necessary actions and a specific timetable for different steps. The plan will build on inputs from the IMF, the WB, the ADB and other development partners and will identify their possible contributions to the further reforms, but will be based on the government's own priorities and objectives.

I. INTRODUCTION

1. **The purpose of this PEFA assessment is to help the Maldives ensure that its public financial management systems promote effectiveness, efficiency and transparency.** The assessment will help the authorities define a coherent and consistent PFM reform strategy, with clear prioritization and sequencing of different steps. The assessment also provides a basis for identifying reform areas where different development partners can provide assistance, and for ensuring that this assistance is well coordinated. The assessment provides a starting-point for monitoring progress in the different areas of PFM reform. Regular updates of the assessment, for instance every three years, will allow the government to measure and evaluate the impacts of the reforms.

2. **This assessment is prepared jointly by the authorities, IMF and World Bank staff.** The IMF task team leader visited the Maldives in February 2009 to agree on the arrangements for the assessment. During February–April, the members of the Maldives PEFA technical committee prepared initial self-assessments. These self-assessments were reviewed and discussed during a mission by IMF and WB staff in April/May, resulting in this joint draft PFM Performance Report. Following review by the involved institutions and other stakeholders, including other development partners, the final report was presented at a workshop in Male in September 2009. This workshop also discussed the impacts of the report on the authorities' PFM reform strategy and action plan, and the possible contributions of different development partners in pursuing this strategy further.

3. **The report focuses on the central government sector in the Maldives.** During 2005–08 there were no subnational governments, no major extra-budgetary funds and no autonomous agencies, and PE were generally separated from regular government activities. This means that the scope of the report also coincides with the GFSM 2001 definition of general government.

4. **The assessments in the report are generally based on publicly available documents, in particular the annual budget documents, for 2005–08, and on supplementary material provided by government ministries and agencies.** To the extent possible, the information is cross-checked between different sources. In several cases, official documents are only available in local language, and the assessment had to rely on informal translations.

II. COUNTRY BACKGROUND INFORMATION

A. Country Economic Situation

5. **Following a long period of rapid economic growth, the Maldives is a now a middle-income country.** GDP/capita increased from about US$ 2,000 in 2000 to US$ 4,000 in 2008, largely driven by the expanding tourism industry. This period also saw a rapid

reduction in poverty and improvements in social indicators. The exchange rate has been pegged at MLRF 12.8 to the U.S. dollar since 2001.

6. **In early 2009, the Manifesto of the government coalition that took power after the presidential elections in October 2008 was defined as the national development strategy.** The previous development strategy, covering the period from 2006–10, was suspended, and line ministries were asked to prepare their sector strategies and budget proposals in line with the new development strategy. The strategy highlights the following priorities:

- Nationwide transport system
- Affordable living costs
- Affordable housing
- Affordable and quality health care for all
- Prevention of narcotics abuse and trafficking

7. **The new development strategy puts significant emphasis on improvements in governance and public administration.** It promises to "immediately stop wasteful expenditure, base government spending on realistic assessments of revenue, and ensure spending on sustainable constructive causes," to "appoint an independent PAC to ensure government expenditure is transparent and accountable" and to "plan economic development and government expenditure at sustainable levels in accordance with the country's resources." Two of the government's first steps were to centralize payments in the MOFT and to integrate the current and capital budget processes in the MOFT. The Manifesto/development plan also includes objectives to:

- Provide good quality, responsible services to ensure social justice, sustainable development and to guarantee equitable distribution of wealth.
- Introduce decentralized governance within the country based on seven administrative and economic centers to promote autonomy and self-sufficiency.
- Ensure the government is cost-efficient and its services are reliable, speedy and of high standards.
- Ensure all government services are responsible, relevant to public needs and utilize current technology.

B. Budgetary Outcomes

8. **Government spending has outpaced GDP growth over the last 10 years, in particular after the Tsunami in 2005.** Total government spending increased from 31 percent of GDP in 1998 to 62 percent in 2008. Revenue has also grown over the period,

but at a slower pace. The global and financial economic crisis that started in 2008 has had major impacts on the Maldives, in particular through reduction in tourism arrivals. While the budget deficit remained between 2–5 percent of GDP for most of the last 10 years, it deteriorated sharply in 2005 and 2006, after the Tsunami, and again in 2008, when it reached 12.6 percent. Table 1 provides an overview of key fiscal indicators for 2006–08. The data for 2008 are preliminary.

Table 1. Central Government Budget
(In percent of GDP)

	2006	2007	2008
Total revenue and grants	53	56	49
- Total revenue	45	48	45
- Grants	7	8	5
Total expenditure	60	62	62
- Non-interest	58	60	60
- Interest	2	2	2
Overall balance	-7	-5	-14
Primary balance	-5	-3	-12
Net financing	7	5	14
- Domestic	5	5	5
- External	2	0	9
Memo item: GDP (million MLRF)	*11.717*	*13.492*	*16.137*

Source: Maldives fiscal and economic outlook 2009–11, Budget 2008, staff estimates.

9. **The budget deficit is projected to increase further in 2009.** Midyear estimates indicated a 2009 deficit of 33 percent of GDP, but this has been limited to about 28 in subsequent estimates. The authorities are planning reductions in the deficit for 2010 and 2011.

10. **Aggregate sector spending allocations have been fairly stable over the last 10 years.** There has been a modest increase in allocations to social services, which comprises health, education, welfare and community programs. Public services, comprising general administration, defense, public order, internal security and environmental protection, are at about the same level in 2008 as in 1998. There has been a reduction in economic services, comprising agriculture, fisheries, transportation, telecommunication, tourism, trade and electricity. Table 2 provides an overview of the aggregate functional breakdown of the budget in the last three years. The 2008 data are preliminary.

Table 2. Functional Classification of Budget Expenditures
(In percent of total expenditures)

	2006	2007	2008
Public services	34	37	37
Social services	52	53	52
Economic services	12	7	8
Interest	3	3	3
Memo item: Total expenditures	*7.066*	*8.325*	*10.317*

Source: Maldives fiscal and economic outlook 2009–11.

11. **There has been more variability in the economic break-down of budget expenditures.** Capital spending decreased from 39 percent of total expenditures in 1998 to 20 percent in 2008. Within the current expenditures, wages and salaries declined relatively to other expenditures in 2005–07, because of increasing social assistance payments after the Tsunami, but have rebounded after 2007. Other current expenditure, which includes operational and maintenance costs, has had a steady decline for several years. Table 3 provides an overview of the economic breakdown of the budget in the last three years.

Table 3. Economic Classification of Budget Expenditures
(In percent of total expenditures)

	2006	2007	2008
Current expenditures	79	79	80
- Salaries and wages	27	26	33
- Other current	22	21	21
- Social assistance	25	27	19
- Subsidies and transfers	2	2	4
- Interest payments	3	3	3
Capital expenditures	21	21	20
Memo item: Total expenditures	*7.066*	*8.325*	*9.963*

Source: Maldives fiscal and economic outlook 2009–11, staff estimates.

C. Legal and Institutional Framework for PFM

12. **For the purposes of the PEFA assessment, the public sector in the Maldives consists of the central government and the public enterprises.** Until 2009, there are no independent subnational governments, but the current government is committed to

establishing such entities, partly by transforming current, deconcentrated arms of the central government in the regions. The central government consists of 14 ministries, as well as the President's office, the parliament and the judiciary system. There are also seven independent offices or commissions (elections, civil service, human rights, anticorruption, auditor general, prosecutor general, police integrity), which are appointed by parliament and financed through separate budget lines. There are approximately 230 other government spending units. Many of these have a separate budget line, but for planning purposes they are consolidated with the parent ministry. There are no significant extrabudgetary funds in the Maldives.

13. **The MOFT comprises four main directorates, three agencies (with separate budget lines) and two boards.** The directorates include corporate affairs, treasury and public accounts, fiscal affairs and economic policy, and External resources. The agencies include national planning, inland revenue, and customs. The tender evaluation board has both internal and external board members, whereas the Public Enterprises Monitoring and Evaluation Board (PEMEB), despite the name, has no separate board.

14. **The MOFT is responsible for most aspects of public financial management.** In addition to budget preparation and execution, tax policies and tax management, the MOFT is also responsible for oversight of PE, and for handling large public procurement processes. The ministry of planning, which had responsibilities for macrofiscal projections and capital project planning, was incorporated into the MOFT in late 2008. AGO was previously an independent office under the president, but became a separate organization in early 2008. The MMA acts as a fiscal agent for the government. It sells treasury bills and is also involved in management of government cash reserves.

15. **The PFM system in the Maldives shifted from a decentralized model to a much more centralized approach in late 2008.** Prior to November 2008, spending agencies in Male made payments from their own budget accounts at the MMA. The government decided to centralize all payments in the MOFT and to start consolidating the government's financial resources in a Treasury Single Account (TSA) system in the MMA. This process is not completed, and considerable funds are still outside the central treasury account.

16. **PFM is governed primarily by the public finance law of 2006 and the government financial regulations of 2002**. The law includes a paragraph that allowed the president to defer the implementation of some of its provisions for up to three years, but since January 2009 all provisions of the law have been in force. While the law's provisions regarding the annual budget process and safeguarding of public money are quite consistent with existing practices, the requirement to produce an annual financial statement is a major change, and the first annual statement is expected in 2010 for the 2009 budget year. The government financial regulations were issued by the AGO and provide detailed guidance on financial management practices within the spending agencies. The AGO issued a supplementary regulation, which added an additional chapter on procurement, in 2007. The regulations do not reflect the move to centralized payments in late 2008 or the planned

changes in procedures under the new PAS, and the MOFT has been working on developing new financial regulations that incorporate these changes.

17. **The parliament will play an increasingly important role in overseeing PFM**. As mentioned, the first fully open parliamentary elections in the history of the country took place in May 2009. The PAC has indicated its intention to closely monitor developments in the PFM area, drawing in particular on the increasing body of audit reports from the AGO.

III. Assessment of PFM Systems, Processes, and Institutions

A. Budget Credibility

PI–1. Aggregate expenditure out-turn compared to original approved budget

Dimension (Scoring method M1)	Score
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e., excluding debt service charges, but also excluding externally financed project expenditure)	B

18. **Actual primary expenditure deviated from budget estimates with more than 10 percent in one of the three years considered.** The deviations were 5.9 percent in 2005, -5.8 percent in 2006 and -13.2 percent in 2007.[1] As required by the PEFA guidance debt service was deducted from the calculations, as was donor-funded project expenditure. The latter included cash grants from donors, project grants and concessional project loans. All these items are subject to donor decision-making and controls and thus not fully predictable by MOFT. For the same reason debt service was deducted. Exchange rate and interest rate fluctuations are not under control of the fiscal authorities. Annex III presents the calculation of the expenditure deviations.

19. **In general, capital expenditure is substantially more difficult to project for the MOFT than current expenditure**. In 2007 especially there was substantial underutilization of the nonconcessionally funded capital expenditure. If these capital expenditures are excluded from the calculation, this indicator would score an A. Nonconcessionally funded projects should not be dependent on foreign donors, however, so the estimation of disbursement should be under control of the authorities. Because of the inclusion of the nonconcessionally funded projects, the rating is a B instead of an A.

[1] At the time of the assessment, only preliminary budget actuals for 2008 were available. The mission agreed with the authorities to base the assessment of indicators 1–3 on 2005–07 budget data.

PI–2. Composition of expenditure out-turn compared to original approved budget

Dimension (Scoring method M1)	Score
(i) Extent to which variance in expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years	D

20. **The variance in expenditure composition exceeded the overall deviation in primary expenditure by more than 10 percent in two of the last three years**. The difference was 13.5 percent in 2005, 6.8 percent in 2006, and 12.2 percent in 2007. For this calculation the absolute variances[2] of the 20 largest expenditure headers were used, on expenditure weighted basis, as defined in the budget, with the remaining expenditure grouped as a separate header.[3] Debt service and donor-funded project expenditure was again excluded. See Annex IV for the calculation of variances in expenditure composition in excess of the overall deviation in primary expenditure for the years 2005–07.

21. **The budget is prepared, discussed, and approved on basis of allocations per header (and subheader), and thus this indicator measures the credibility of the budget at that level.** The budget in 2007 had 42 headers, or first level budget users, of which 14 were line ministries. Others headers included high-offices of state, independent commissions, cash grants, project grants, and project loans. From the latter, the concessional part was deducted. See the calculation sheet for this PI in annex 2. The deviation on a functional basis is less than on a per header basis. This is partly related to the fewer number of first level functions. As the budget is not prepared on the basis of functions of government, calculating the PI on this basis would say less about the credibility of the budget and the quality of its preparation.

22. **The weak performance on the indicator points again to problems in estimating capital expenditure, but perhaps also to more general budget preparation issues.** The relative importance of commercially funded capital expenditure means that problems in estimation of this expenditure weigh on the overall indicator. The relative poor performance in 2005 is probably in large part due to post-tsunami budget reallocations. In 2007, considerable belt tightening caused by lower than estimated revenues, seems to have affected budget composition. The indicator, however, also points to other potential issues, such as poor information gathering through the budget circular or poor cost estimation by ministries, departments, and agencies (MDAs). The budget circular was not reviewed in-depth but

[2] The PEFA guidance speaks of variances, but it would be more accurate to speak of deviations (between actuals and estimates at the header level).

[3] The 20 largest headers in the budget were determined on the basis of the 2007 budget.

seems to contain little methodological guidance. The indicator could also be affected by the regularity with which in-year changes to the budget are made, either due to frequent changes to policy priorities or difficulties in budget implementation. For the efficiency of budget execution an annual (or even multiannual) planning and execution discipline tends to have substantial rewards for the effectiveness of government programs.

PI–3. Aggregate revenue out-turn compared to original approved budget

Dimension (Scoring method M1)	Score
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	D

23. **Domestic revenue collections were below 92 percent of budgeted estimates for two of the last three years reviewed.** In 2005, revenues were at 86.4 percent of budgeted estimates, in 2006 they were at 109.3 percent, and in 2007 at 91.7 percent (see Annex V for further details on domestic revenue projections and actuals). The revenue figures are reported by the treasury based on the monthly transfers by the customs service, the department of inland revenue, and by various MDAs, which collect smaller nontax revenues, to the MOFT's main account at the MMA. These data are reconciled with accounting statements of the various collecting entities on a monthly basis. The domestic revenue data contains (modest amounts of) repayment on loans from the government to, for example, state-owned enterprises (SOEs). Up to the end of 2008 this was how the chart of accounts was set up.

24. **Revenue collections in 2005 and 2007 were lower for a variety of reasons.** In 2005, revenue collections were severely affected by the aftermath of the Tsunami disaster.[4] Especially nontax revenues suffered as resort leases, land rent, and royalties were substantially lower than expected. SOEs also provided lower profit transfers. In 2007, both tax and nontax revenues were substantially lower than forecast, after a very strong performance in 2006. The sources lay in lower-than-expected import duties, SOE transfers and lease and land rents.

25. **Revenue forecasts will remain subject to macroeconomic uncertainty, but improvements in forecasting capacity and a revenue regime more geared to stability could be helpful.** MOFT seems to have some capacity in macro forecasting, but macroeconomic modeling is not really used, while forecasting of revenues could be further explored given the relative simplicity of existing taxes. On the nontax revenue side, a more policy-based framework for SOE profit retention that could help stabilize revenue flows is

[4] The PEFA guidance explicitly takes into account the possibility of natural disasters and other national emergencies affecting the scores of the performance indicators. For this reason PI-1, 2, and 3 all generally allow for one year of divergence from the grade for a certain performance level. This means the Tsunami cannot be seen as a reason for diverging from the scoring methodology.

absent. Cash flow needs appear to influence profit transfers. This seems also be the case for the MMA's profit transfer. Another aspect is that the framework for nontax revenues collection could be adapted, for example foregoing capitalization of lease agreements could also stabilize revenue intake.

PI–4. Stock and monitoring of expenditure payment arrears

Dimensions (Scoring methodology M1)	Score	
(1) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock	A	D^+
(ii) Availability of data for monitoring the stock payment arrears	D	

26. **Information from various counterparts, including statements from the auditor general's office, indicates that the stock of arrears has generally been very low (below 2 percent of total expenditure).** Until quite recently the liquidity in the public sector was high, so there was no reason to delay payment once good or services were delivered. Also, the government has no regulatory limit on the payment term, but relies on those provided by suppliers. For goods and services this term is usually 14 days, but for capital expenditure 45 days seems to be the norm. This means that supplier can provide implicit credit to MDAs if so desired. By not having a government norm—internationally 30 days is quite common—arrears can easily be avoided. Regulation provides for personal penalties on financial officers who do not respect payment terms, but there is in practice little evidence that this fine is ever imposed, even if there is cause. All in all, circumstantial evidence lends weight to the claim that arrears are very low. The only exception has been the period at the end of last year when central government was faced with serious liquidity constraints. A centralized payment system was set up in response, and this also may have had some "teething" problems. One of the counterpart ministries indicated some limited delays in payments by the treasury in recent months under the new system. This dimension scored an A.

27. **No reliable data on the stock of arrears exist due to lack of a monitoring system, and ad hoc surveys have not taken place.** Neither MDAs under the previous decentralized payment system, nor the treasury presently under the centralized payment system (limited to Male-based government institutions) record accounts payable or payments past due dates. Only the payment date itself is recorded in accounts. There have also been no surveys by MOFT or auditor general on the stock of arrears. The dimension on monitoring of arrears scored a D.

28. **Under the new automated PAS being developed payment invoice and due dates will be recorded and arrears will be monitored and reported on centrally.** Importantly, the new PAS will introduce centralized commitment controls. This will make contracting without budget authorization impossible. This in turn will make the development of payment

arrears unlikely even under tight liquidity conditions. Presently expenditure control relies on decentralized controls at the MDA level, and on budget release policies of the budget office for a number of discretionary spending categories.

B. Comprehensiveness and Transparency

PI–5. Classification of the budget

Dimension (Scoring method M1)	Score
The classification system used for formulation, execution and reporting on the central government's budget	B

29. **The domestically-financed budget is presented according to organizational, economic, and functional classifications.** There is currently no subfunction or program classification. The organizational classification is very detailed, providing data for allocations down to several (but not all) individual service delivery units such as schools and health centers.

30. **Projects funded by external grants and loans are presented according to funding source and are included in the aggregate economic and functional break-down of the budget.** These projects constitute a considerable amount of the budget. In the draft budget for 2008 they amounted to 22 percent of planned expenditures. In the English summary of the budget, these project expenditures are included as two lump sums in the organizational break-down and are not explicitly linked to organizational entities. However, the local language budget documents provide a list of the projects by implementing ministry or agency.

31. **The economic break-down of foreign-funded project expenditures in the budget and in fiscal reports is done by the MOFT budget section.** This is an ad hoc procedure, and it is not based on detailed project budgets or accounting data. Project reporting systems provide for a detailed economic classification, but this facility is generally not used for preparing consolidated reports. It is acknowledged that this ad hoc procedure leads to misclassification of expenditures, particularly by including some current spending in capital spending estimates. However, this is due to weaknesses in budgeting and accounting procedures, not in the budget classification itself, and it should not impact the scoring of this indicator.

32. **Before 2009, the economic classification deviated from GFS standards in some important respects.** In particular, loan proceeds and loan amortization were included under revenue and expenditure, not as financing items. This led to underestimation of the budget deficit. The English translation of the budget documents included a supplementary table showing the budget figures according to GFSM 1986 definitions, but this was not a part of the formal appropriation. A 2006 report from the IMF Statistics Department provides

detailed bridge tables from the economic classification used in the Maldives to the GFSM 1986 and 2001 formats.

33. **The functional break-down of the budget is derived from the organizational and project classification.** Each organization or suborganization and each project is mapped to a specific functional group. There is no separate allocation of resources to functions, neither at the budgeting stage, nor during execution and reporting. The chart of accounts does not have separate functional codes. The functional classification includes 14 different groups, whereas COFOG comprises 10 functional groups. Eight of the functional groups in the Maldives budget are the same as in COFOG, two COFOG groups are combined in the Maldives budget, and the COFOG group economic services is divided in 6 different groups.

34. **From the 2009 budget, the economic classification in the budget presented to the parliament is broadly consistent with GFSM 1986 definitions.** Loan receipts and amortizations are now treated below the line. The PAS project includes a new chart of accounts, which will facilitate more accurate recording of spending against the budget classification. The PAS also provides for a program classification, but there are no concrete plans for when to apply this classification.

PI–6. Comprehensiveness of information included in budget documentation

Dimension (Scoring method M1)	Score
Recent budget documentation fulfils 4 of the 9 information benchmarks	C

35. **The budget documentation in the Maldives consists of the minister's budget speech, and the detailed budget estimates, which are presented to the executive and parliament.** Information on financial assets and debt stock are not published in the budget documents. Budgetary implications of new initiatives are not covered. The 2008 budget documents broadly outline the assumptions and impact of tax collection on state revenues, but information on major initiatives on the expenditure side is not yet systematically reported.

36. **Additionally the MOFT produces "the budget in statistics," a summarized version of the budget, which is also available in English.** The budget in statistics is an easy reference documents, which is not presented to parliament. The document includes an overview of the budget system and processes, highlights of the budget, economic and fiscal outlook for the forthcoming year, detailed breakdowns of expenditure by MDA, and tax revenue by source. Nontax revenue is detailed by type. Statistical tables detailing the deficit and financing in the IMF/COFOG classification are included, but these are not part of the budget documentation presented to parliament and are widely available for reference after the budget is approved.

Table 4. Comprehensiveness of Budget Documentation

No.	Item	Included	Source
1	Macroeconomic assumptions, including at least estimates of aggregate growth, inflation, and exchange rate	Yes.	In Part II of the budget documentation and the Medium-Term Expenditure Framework (MTEF) 2009–11.
2	Fiscal deficit, defined according to GFS, or other internationally recognized standard	No.	Part VI of the budget in statistics in English includes this information. This is not presented to parliament.
3	Deficit financing, describing anticipated composition	No.	Included in Part VII of the budget documents describes the expected composition of deficit financing in terms of domestic borrowing and external borrowing. This is not presented to parliament.
4	Debt stock, including details at least for the beginning of the current year	No.	Disbursements in the year are published, but the debt stock is not detailed.
5	Financial Assets, including details at least for the beginning of the current year in a timely manner	No.	Financial assets are not detailed.
6	Prior year's budget outturn, presented in the same format as the budget proposal	Yes.	Previous years reported for both revenue and expenditure outturns are presented.
7	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes.	Yes, the revised budget for the current year is included in the budget documentation at detailed level.
8	Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year	Yes.	See item 6.
9	Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	No.	Some explanation of revenue measures but no explanation of expenditure measures.

PI–7. Extent of unreported government operations

<table>
<tr><th>Dimension (Scoring method M1)</th><th colspan="2">Score</th></tr>
<tr><td>(i) The level of unreported extra-budgetary expenditure (other than donor funded projects which is unreported, i.e., not included in fiscal reports)</td><td>B</td><td rowspan="2">B+</td></tr>
<tr><td>(ii) Income/expenditure information on donor funded projects which is included in fiscal reports</td><td>A</td></tr>
</table>

37. **There is little unreported extra-budgetary expenditure. Such expenditure is** likely to be related to transactions on trust fund accounts. The trust fund accounts are in principle covered by the budget, but there may be expenditures and revenues on these accounts that are not included in the budget. The trust fund accounts themselves are fairly limited , constituting less than 5 percent of total expenditure, and any unreported spending through these accounts is assumed to be considerably below 5 percent, which is the threshold for a B rating.

38. **Budget organizations have sizable balances in various accounts in the MMA, outside their budget accounts.** These include fund accounts, office accounts, and nonbudget revenue accounts. In principle, the agencies are required to budget and account for spending through these accounts. A budget estimate is required for the total revenue and expenditure transactions through the accounts, but this may not include details of the in-year transactions on all accounts. The MOFT does not systematically check that all trust funds are budgeted and accounted for. It is unclear how strictly the rules in this area are enforced, but neither the MOFT or the AGO has identified irregular spending through such accounts as a major concern.

39. **Donor funded projects (grants and loans) are reported in the budget.** Income data on donor funded projects (loans and grants) is readily available (excluding inputs provided in-kind) and presented in a table in the budget document. This data is managed centrally in the MOFT (External Resources Management Department) using the Commonwealth Secretariat Debt Reporting and Management System (CSDRMS) for loan data and a separate system for grants. Local counterpart funds for donor funded projects are included within the budget of the individual MDA and are not separately identifiable in the English version of the budget. There is no evidence that the information is incomplete or unreliable.

PI–8. Transparency of Inter-government Fiscal Relations

Dimension (Scoring method M2)	Score	
(i) Transparency and objectivity in the horizontal allocation among Subnational governments	N/A	
(ii) Timeliness of reliable information to Sub National governments on their allocations	N/A	N/A
iii) Extent of consolidation of fiscal data for general government according to sectoral categories	N/A	

40. **There is currently no subnational government in the Maldives.** The central government is responsible for delivery of most public services at the local level, including schools and health centers. The capital Male is a municipality and there are community administrations in the atolls. These bodies have limited functions and no financial independence, and are financed directly from the central government. They cannot incur debt or take on any form of liability.

41. **Parliament is currently considering a draft law on administrative decentralization, which would establish a subnational government level in the Maldives**. Under the draft law, the country would be divided into seven regions, which would have elected assemblies and officials, and gradually take over fiscal responsibilities. As an interim step, some of the regions are being established with appointed officials.

PI–9. Oversight of aggregate fiscal risk from other public sector entities

Dimensions to be assessed (Scoring method M1)	Score	
Extent of central government monitoring of autonomous government agencies and PE	C	C
Extent of central government monitoring of subnational governments' fiscal position	N/A	

42. **The PEMEB is responsible for overseeing SOEs.** The Board is currently overseeing about 37 enterprises. This includes all the major PE in the country, except the telecommunications company, which is subject to oversight from the ministry of infrastructure. There is no separate legislation for the oversight of PE, but for most of these enterprises their articles of incorporation specify specific reporting arrangements to the government. PEMEB safeguards the ownership interests of the government, monitors and evaluates the financial performance of the enterprises, forecasts dividends, subsidies and capital injections from the budget, and ensures that dividends are collected on a timely basis.

43. **Most public enterprises provide extensive information to PEMEB, including draft budgets and business plans, midyear budget updates, monthly cash flow**

statements and quarterly financial statements. Four enterprises, including the BML, are publicly listed companies that also have private shareholders. They are required by law to provide the same financial information to all its shareholders, and cannot give special preference to PEMEB. All PE provide audited annual financial statements to PEMEB. These are audited by private, licensed auditing companies, and also by the auditor general.

44. **Before 2009, there was no separate level of subnational government and no autonomous government agencies in the Maldives.** The central government is responsible for delivering public services at the local level, including schools and health stations. The capital Male is defined as a municipality, but there is no elected municipal assembly, and the mayor is appointed by the central government. In the atolls and islands there are community administrations. These bodies have limited functions and the officers are appointed by the central government. They are financed directly from the central government budget, and they cannot incur debt or take on any form of liability.

45. **The budget document provides a summary statement of fiscal risk, but it is very cursory and does not comment on risks related to public enterprises.** PEMEB carries out extensive analysis of risks related to the PE, based on its regular monitoring, and provides a detailed annual report, including a brief overview of future prospects for the companies, to the president's office. However, this report is not publicly available and it is not shared with the parliament.

46. **The government is planning to privatize many of its public enterprises and this may change the risk profile of these activities**. The stated policy is to handle natural monopolies and potential externalities through regulation, not through ownership. For many of the enterprises, the government plans to retain a minority share and it will continue to be exposed to risks in this regard. Government guarantees and public-private partnerships agreements may also pose considerable risks.

47. **Parliament is currently considering a draft law on administrative decentralization, which would establish a subnational government level in the Maldives.** The country would be divided into seven regions, which would have elected assemblies and officials, and gradually take over fiscal responsibilities. These regions are likely to create fiscal risks for the central government in the future, but there is no basis to assess the magnitude of these risks at the moment.

PI–10. Public Access to key fiscal information

Dimension (Scoring method M1)	Score
Recent budget documentation fulfils 3 of the 6 information benchmarks	B

48. **The annual budget documents are published on the website of the MOFT in late November, at the time of presentation to the parliament.** This is published in great detail in the local language (Dhivehi) and a summary version is made available, in the local language and translated into English. Budget documents now comprise three volumes of detailed budgetary information. The budget is lodged in the National Library, and the budget speech, identifying key policy initiatives is widely published and available on the MOFT's website. Many people in Male have internet access and the atoll main islands have access to the internet at the atoll offices. Over a hundred copies of the three volume budget books are printed and made available to the People's Majlis, the President's Office, and MDAs. The budget is widely discussed in the media.

49. **The MOFT does not publish in-year budget execution reports.** Whilst expenditure outturns are sent to the MOFT by all budget spending agencies on a monthly basis, this information is not consolidated at the detailed level and a financial report of execution of the budget is not produced or published.

50. **The government of the Republic of Maldives currently does not produce end-of-year financial statements.** The annual expenditure and revenue information for the prior fiscal year is published as outturn data at the time of publication of the following year's budget.

51. **Each audit report produced by the auditor general is published on the auditor general's website.** The reports are posted on the website as soon as possible after the report is presented to the parliament. There are currently 21 audit reports published on the website, 2 in English and 19 in the local language. These reports are widely reported in the media.

52. **Contract awards over US$ 100,000 are not systematically published.** There is no requirement in Chapter 8 of the government Financial Regulations for publication of contacts awarded.

53. **Resources made available to individual service delivery units are partially published in the budget documentation.** The budget documents detail the estimated expenditures of service delivery units in cases where an individual school or health center is a separate budget entity in its own right. In the case of schools, this is usually those with over 500 pupils. For the smaller schools (which represent 48 percent of expenditure on schools), individual schools are grouped together in geographical zones in the budget documents. The detailed information is available in the ministry of education; however it is not published for

these grouped schools. Hospitals and some health centers (63 percent of expenditure on individual hospitals and health centers plus medical services) are identified as separate budget accounts. The remaining hospitals and health centers are budgeted under one line item (medical services) and the entity budget is not published. At atoll level, some offices publish amounts received on notice boards, although this is not a requirement.

54. The Maldives meets three of the prescribed criteria; these are shown in the table below.

Table 5. Access to Fiscal Information

No.	Item	Available	Source
1	Annual Budget Documentation	Yes.	Available on the MOFT website www.finance.gov.mv.
2	In-year execution reports	No.	Not applicable
3	Year-end financial statements 6 months after end of fiscal year	No.	Not applicable
4	External audit reports	Yes.	The external audit reports are available on the Auditor General Offices' website www.audit.gov.mv.
5	Contract awards	No.	Contract awards are not required to be published and they are not.
6	Resources available to primary service units	Yes.	Budget documentation

C. Policy-based Budgeting

PI–11. Orderliness and participation in the annual budget process

Dimension (Scoring method M2)	Score	
(i) Existence and adherence to a fixed budget calendar	A	B
(ii) Guidance on the preparation of budget submissions	D	
(iii) Timely budget approval by the legislature	A	

55. **A clear annual budget calendar exists and is published in the budget documentation.** The calendar allows MDAs seven to eight weeks from receipt of the budget circular to presentation of estimates to MOFT. The deadline for submission to MOFT is July 31 for recurrent expenditures and August 31 for capital expenditures. However the budget circular effectively allows budget agencies and extra month for recurrent, by stating in the circular that if the submission is not received by August 31, the MOFT will prepare the budget for the MDA, which would not be in the interest of the MDA. The vast majority of MDAs comply with the later deadline, with only one or two occasional offenders.

56. **The budget circular has been issued to MDAs, in early June for the past four years.** For the 2009 budget it was dispatched by fax on June 8, in 2008 on June 4, and in 2007 on June 5. The last circular issued included expenditure guidelines, notably constraints on expenditure increases over last year's budget (5 percent) for both capital and recurrent expenditures. Most units do not comply with this guidance and propose budgets much higher than the limit, and a review of the 2008 budget suggests that many MDAs receive significantly more, making this guideline somewhat meaningless. The circular also contains methodological guidance on coding, a requirement to prioritize capital projects, the data requirements and deadlines.

57. **The budget estimates are reviewed and approved by cabinet only after they have been completed in detail by MDAs.** This constrains the cabinet's ability to make adjustments. The new forward budget for the period 2009–11 reflects ceilings approved by the cabinet over the medium term; however this is beyond the scope of the assessment which focuses on the past two completed financial years, that is 2007 and 2008.

58. **The legislature has, during the last three years, approved the budget before the start of the fiscal year.** Section 78 of the constitution and section 32a of the Public Finance Law state that for each financial year, the minister must prepare and submit to the parliament the annual state budget at least one month before the beginning of the financial year to which the budget relates and this deadline has been complied with in each of the past three years.

PI–12. Multiyear perspective in fiscal planning, expenditure policy, and budgeting

Dimension (Scoring method M2)	**Score**	
(i) Multiyear fiscal forecasts and functional allocations	D	D
(ii) Scope and frequency of debt sustainability analysis	D	
iii) Existence of costed sector strategies	D	
(iv) Linkages between investment budgets and forward expenditure estimates	D	

59. **For the past two fiscal years, no forward estimates of fiscal aggregates have been undertaken, and the government of Maldives (GoM) has never itself undertaken a Debt Sustainability Analysis (DSA).** DSAs have been undertaken by the IMF as part of the 2008 Article IV Consultation and the ADB in 2006. Both of these analyses were completed using government data without direct involvement of staff of the MOFT External Resources Management Department and the results of the analyses are not used to influence policy on medium term borrowings. However the relevance and importance of DSA has been acknowledged by GoM and there are plans to undertake the analysis in the future with TA.

60. **Sector strategies or master plans have been prepared for major sectors, such as the education, health, and tourism sectors, but none of them have substantially complete costing of investments and recurrent expenditure.** Within the new medium-term

budget, and with the advent of the new government manifesto which replaces the 2006-11 seventh national development plan, there are plans to develop sector strategies will be which will be costed and will be broadly consistent with the fiscal forecasts. The 2009 budget was not therefore based upon costed sector strategies.

61. **Budgeting for investment and recurrent expenditure for the 2009 budget were separate processes with weak linkages between the two processes.** The preparation of the investment budget has until late 2008 been undertaken by the ministry of planning whilst the recurrent budget was prepared by the MOFT. The planning guidelines required ministries to state the recurrent implications of capital programs, but this was not routinely complied with or systematically enforced. In late 2008, the planning function transferred to the MOFT, as a National Planning Department within the MOFT and the preparation of the capital estimates will from 2009 be prepared by the budget department of the MOFT. However, the full integration of capital and recurrent budgeting did not occur for the preparation of the 2009 budget.

62. **Government is working towards development of a MTEF.** Budget estimates for the period 2009–11 were approved by parliament, which included the base budget for 2009 and forecasts for the next two years at a detailed level. From 2010 onwards the forward estimates will be prepared for three years with links between the budget and the multiyear estimates. Annual budget ceilings will be clearly set out.

D. Predictability and Control in Budget Execution

PI–13. Transparency of taxpayer obligations and liabilities

Dimensions (Scoring methodology M2)	Score	
(i) Clarity and comprehensiveness of tax liabilities	B	C^+
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	B	
(iii) Existence and functioning of a tax appeals mechanism	D	

63. **The main taxes, import duty, the tourism tax, and the bank profit tax, are clearly defined, relatively simple taxes, with little scope for discretion.**[5] The bases of

[5] Tax revenue in the Maldives comprises only around 45 percent of domestic revenue, due to the absence of broad-based taxes like a general sales tax, VAT, or personal income tax. A business profit tax has recently been submitted to parliament, and is the first attempt to substantially widen the tax base. Nontax revenue includes royalties on fishing rights, profit remittances from SOE's, lease and rental payments from tourism resorts (part of which is capitalized and paid up front), and a score of fees, charges and penalties. PI-13 does not discuss the performance of nontax revenue collection. The regulation and collection of nontax revenues is generally seen as

(continued...)

taxation are straightforward, with limited exceptions and exemptions. The tourism tax, for example, is a simple "bed tax," calculated on the basis of the number of overnight stays per resort. The bank profit tax is limited to the domestic banking sector. From an equity and tax policy point of view, such a tax could cover all sectors in the economy and is thus not really a comprehensive tax. All three taxes are collected on the basis of self-assessment, although the customs service still practices full documentary and physical inspections of all imports and does not rely yet on ex post audit (which it does perform). Table x provides an overview of main revenue sources. The main discretionary power exists with regard to import duties which the President can waive for any designated importer. In practice, well-defined groups, as foreign investors, the tourism industry and government offices are exempted for particular import duties, mostly on construction material. The customs office keeps track of the amount of import duties waived on a monthly basis. Given the overall clarity of tax legislation, the limited recourse to discretion, and the possibility of a more comprehensive profit tax, this dimension scored a B.

Table 6. Main Revenues (2006–08)

	2006	2007	2008
Total revenue and grants	**6154**	**7571**	**7757**
Taxes	2370	2905	3393
- *Import duty*	*1684*	*2087*	*2460*
- *Tourism tax*	*496*	*547*	*589*
Nontax revenue	2867	3586	3766
- *Rents*	*1424*	*1854*	*1723*
Grants	867	1044	558
Capital revenue	50	37	41

64. **Tax laws are accessible to the public but not in one place, and not always in user-friendly formats.** Tax laws and procedures are in part published on the websites of respective tax administrators, or available freely on request, including from the ministry of information. Import duty is administered by the customs service, while the Department of Inland Revenue (DIR) administers the bank profit tax, and shares responsibilities with the ministry of tourism on the tourism tax. The customs service has a website with the most

less transparent and more subject to discretionary action than of tax revenues. The scoring of this indicator thus benefits somewhat from the relatively limited share of tax revenue in overall revenue.

relevant information for taxpayers, as does the ministry of tourism. The DIR shares responsibilities also for a number of smaller taxes (and a larger number of fees and charges) with sectoral ministries. This can potentially be confusing for taxpayers as it is not always clear who they should address. Internally within government the joint administration also provides considerable “red-tape” and delays. Information by customs and tourism ministry is provided mostly in the local language which does not seem optimal given the target group of taxpayers. Amendments to tax legislation and procedures are provided to taxpayers through circulars and notifications in the media. Given the various sources for tax laws and procedures, and the unavailability of some tax laws in English, this dimension scored a B.

65. **None of the existing taxes has a clearly defined, formal appeals mechanism.** Taxpayers can complain directly to the various tax administrators, but there is not a clearly regulated response mechanism. Importantly, there is no independent tax appeals tribunal. The customs service, to its credit, has set up an internal tribunal, but this is not regulated by law. It also has included foreign experts in its commission on valuation disputes. These measures need to be grounded in legislation. The recourse that taxpayers do have is the regular court system, but this is a long and protracted process. This dimension scored a D.

66. **New tax administration and customs legislation is to strengthen and provide more safeguards, to the tax administration processes; this should improve the score on tax related indicators.** The new tax administration law is to establish an independent revenue authority, with a more effective organizational structure. Its powers would be would be enhanced, especially with regard to taxpayer audit and the possibility of imposing fines. The law would also establish a formal, independent appeals tribunal. The new law has been submitted to the People’s Majlis, but it is uncertain when it will be enacted. Similarly, a new customs law has also been submitted to parliament. Its main goal is to bring customs valuation and clearance procedures up to international standards and treaty obligations. It will also establish an independent customs tribunal.

PI–14. Effectiveness of measures for taxpayer registration and assessment

Dimensions (Scoring methodology M2)	**Score**	
(i) Controls in the taxpayer registration system	C	C+
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	
(iii) Planning and monitoring of tax audit and fraud investigation programs	B	

67. **For the major taxes there are taxpayer databases but these are not linked either to each other or to other government databases.** The DIR has unique taxpayer identification numbers for all taxpayers and taxes it is responsible for, both corporate and individual. This identification number is not linked, however, to, for example, business

license registrations by the ministry of economy and trade. The customs service has its own registration system which is not linked to the ministry of economy and trade's trade license registration system. This dimension scored a C, given the existence of individual, but not linked databases.

68. **Penalties for taxpayers for noncompliance with tax legislation and procedures are limited, and not always imposed.** Given the dominance of customs duties and tourism tax, where tax payers are very visible, there are no significant compliance issues related to registration. However, the customs service is confronted with a large number of declaration errors on its assessments (reportedly on 20 percent of the total) despite considerable taxpayer training efforts.[6] Penalties are only imposed if intent to defraud is seen as provable. Administrative penalties are also hardly imposed with regard to the tourism tax, although evasion of the tax through incomplete declaration is from time to time suspected. Penalties are generally quite low, and not related to the value of the transgression. The penalty regime does not seem to effectively promote tax compliance, especially in the customs area. This dimension scored a C.

69. **Tax audits are conducted by the customs service in a substantive fashion, but other administrators mostly limit themselves to desk checks of provided documentation.** Customs has a unit of 14 staff which carries out ex post audit controls on cleared transactions and also carries out some performance audits on internal processes. The audit process is planned, takes account of risk criteria and reports are produced for management. These are shared with the auditor general. Customs monitors errors and other transgressions identified by the ex post audit process and takes corrective actions, including retraining of staff and disciplinary actions. The DIR does not perform ex post audits with any regularity. It carries out "desk audits" which seem to be mostly documentary checks. The new legislation mentioned in the discussion of PI-13 will also increase the powers of customs and inland revenue to perform audits on tax payers' premises and inspects their accounts and financial statements. Given the good practices of the customs service and the dominating position of custom revenues in total government revenues this indicator scored a B.

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6 The Auditor General has in a recent report argued that imports are systematically undervalued to the detriment of overall public finances. While issues of malfeasance may be at play here, it is also clear that the present valuation regime draws heavily on past valuations, that is if undervaluation was practiced in the past, it is likely to continue. Customs agrees that its valuation methodology is not up to WTO standards, but that a new customs law has been prepared and submitted to the Majlis a number of years ago. This law would enforce adherence to WTO valuation methodology. That would assure a more objective and fair system of valuing goods at "transaction" value. Introducing WTO standards would, however, by itself not increase tax revenues without significant improvements to clearance, post clearance, and audit processes. The IMF Fiscal Affairs Department advised the ministry of finance on these issues in 2007.

PI–15. Effectiveness in collection of tax payments

Dimensions (Scoring methodology M1)	Score	
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years), and/or significance of total amount of tax arrears	A	
(ii) Effectiveness of transfer of tax collections to the treasury by the revenue administration	C	C^+
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the treasury	A	

70. **Tax arrears are, reportedly, less than 2 percent of annual tax collection, and collections of liabilities take place within a relatively short time-span.** This was indicated by various counterparts on the three main taxes. The reasons for this fortunate circumstance vary. The main taxes all have are clear and simple tax bases, leading to few disputes over the assessment. Import duties are cleared only after payment is received, and bounced checks lead to immediate blacklisting of the importer. The bank profit tax is aimed at a very small and professional target group of five domestic banks. The tourism sector is also limited in number, professional, and licenses can be revoked at any time if taxes are due. Given that there are no significant tax arrears, this dimension scores an A.

71. **Revenue collections are transferred to the treasury's main account only once a month (until May 2009).** customs and inland revenue maintain their accounts at the MMA where MOFT also maintains its main account. No expenditures can be funded from them, except for the customs service which is allowed to retain 2 percent of collections for tax refunds (which are transferred to a separate account). The treasury is planning to improve cash management in the coming years with support of the new PAS. This will mean that the regularity of settlement of revenue accounts with the treasury's main account will increase. Based on the practices until now, this dimension scored a C.

72. **Reconciliation takes places on a monthly basis.** Tax assessments, collections, arrears, and transfers to the treasury take place every month within, reportedly 15 days of the end of the month. For the bank profit tax and the tourism tax, this reconciliation is not that complicated given the limited target group of these taxes. The process in the customs service is supported by the ASYCUDA software package. This dimension scores an A.

PI–16. Predictability in the availability of funds for commitment of expenditure

Dimensions (Scoring methodology M1)	Score	
(i) Extent to which cash flows are forecast and monitored	C	D^+
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	D	
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	B	

73. **Cash flows are estimated by the treasury on an annual basis but not updated periodically.** The treasury makes cash in- and outflow forecasts for the 12 months of the budget year based on past seasonal patterns. It does not use expenditure planning information from line ministries. The treasury does monitor cash flows over its own accounts at the MMA, as well as revenue and trust fund accounts. It produces a monthly cash flow (and balance) report. The quality of the annual cash forecasts are, according to some sources, not very good, and the MMA, as the government's banker has generally accommodated cash flow shortages by providing T-bills to the banking system (on behalf of government) through tap issuance, providing access to an overdraft facility (the ways & means account) and extending direct short term loans. The treasury does not provide any in-year cash flow updates to the MMA, leaving the task of in year liquidity forecasting solely to the central bank. This dimension is scored a C.

74. **MOFT's main support for cash management takes places through expenditure control measures.** In certain cases, for example when the treasury approaches its agreed overdraft limit at the MMA, MOFT can delay spending of MDAs. Spending seems to surge towards the end of the year when revenue intake is largely certain. In cases of severe downturn of revenue realization, MOFT, with support of cabinet, will enforce informal budget amendments or a formal supplementary budget to limit budget expenditure.

75. **The budget is released in full for non-discretionary expenditure, but a substantial part of discretionary expenditure is only released after approval by the budget office.** The approach is to freeze a number of expenditure categories such as investment projects, capital expenditure, travel, and scholarships. For such nonregular expenditure, planning certainty would provide important benefits for the efficiency of budget execution. This certainty is not provided even though in years with buoyant revenues, requested budget authorization is always provided, according to MOFT. The dimension on reliability and horizon for expenditure commitments scored a D.

76. **While virements requested by MDAs are very frequent, those imposed by MOFT or cabinet are rather infrequent.** Only 2005 and 2008 had in-year budget adjustments imposed by the center of government. In 2005, in the aftermath of the Tsunami a supplementary budget was submitted and approved by the Majlis. In 2008, however, a sizeable reduction in, mostly discretionary, spending was agreed in cabinet and through

subsequent bilateral negotiations between MOFT and individual MDAs. This was done without parliamentary notification or approval. The spending reductions in such cases quite logically protect mandatory and recurrent expenditure, but transparency on such cut-backs could be improved. This dimension is scored a B.

77. **Budget release policy is planned to become more transparent and predictable under the new PAS.** A quarterly disbursement of budget authorization has been discussed at the technical level. Creation of more expenditure planning certainty will only be possible with enhanced cash planning and management, as budget can only be released if there is reasonable certainty on cash availability. Budget and cash releases are usually discussed within ministries of finance by a joint committee of the budget office and treasury. As the full roll-out of the PAS will take some time it would be expedient for MOFT to already start upgrading its capacities in cash planning and management.

PI-17. Recording and management of cash balances, debt, and guarantees

Dimensions (Scoring methodology M2)	Score	
(i) Quality of debt data recording and reporting	C	D+
(ii) Extent of consolidation of the government's cash balances	D	
(iii) Systems for contracting loans and issuance of guarantees	C	

78. **Domestic and foreign debt are recorded and managed separately.** External debt consists solely of project-related foreign currency loans, both concessional and nonconcessional. The MOFT carries out the back-office function of debt management, and also provides some support to line ministries and the president's office who playing a substantial role in debt contracting and project definition. The minister of finance does sign or co-sign all loan agreements. The middle office function, that is the strategy development, planning, and analysis of debt management seems underdeveloped. The overall debt stock is reported on, and reconciled, on an as needed basis, but at least annually. The external debt reports contain little analysis. Summary information on external debt indicators is produced in the budget.

79. **The External Resources Management Department (EMRD) is responsible within MOFT for external debt management, as well as external grant management, while the Treasury is responsible for domestic debt.** EMRD is planning to start producing quarterly external debt reports this year. The department uses the CSDRMS software package, implemented in many commonwealth countries. This package provides scope for considerable portfolio description, forecasting and scenario analysis. Domestic debt records are nominally the responsibility of the treasury, but are maintained in practice by the MMA. Domestic debt is not reported on. The debt recording and reporting dimension scored a C.

80. **Only part of government cash holdings are monitored and consolidated on a regular basis.** The treasury operates a number of accounts at the MMA: a main payment and

overdraft account, and various trust fund accounts. EMRD monitors the project accounts set up for accepting project loan disbursements and donor grants. The treasury keeps track of all MOFT accounts and the revenue accounts of MDAs, especially the major ones held by the DIR and the customs service. The revenue accounts are all settled with the main treasury account on a monthly basis, and a monthly cash report is produced for internal purposes, but cash figures are not published in any public document.

81. **Until quite recently, most other cash balances of government departments and of atoll offices were not monitored by the treasury.** In addition to the accounts controlled by the treasury, the liquidity in the government sector incorporates expenditure (or office), revenue, trust fund and other accounts of individual MDA's, atoll offices and atoll based government entities. Government institutions in Male keep all their accounts in the MMA. In addition, Male-based entities also maintain so-called budget accounts at the MMA, and these accounts are the main accounts used for budget execution. The budget accounts were used for the decentralized execution of the budget by the MDAs. The accounts were zero-balanced with the payment and overdraft account on a daily basis. In the past transfers would often take place from the budget accounts to MDA expenditure (office) or trust fund accounts. These transfers would at that juncture be registered as expenditure by the treasury, but not necessarily used immediately by the MDA. These expenditure and trust fund accounts have accumulated considerable liquidity over the years.

82. **All atoll offices and other government entities outside Male hold their bank accounts at the Bank of Maldives Ltd (BML)**. This bank is a domestic, commercial bank owned for 51 percent by government. The atoll offices and other entities outside Male use this bank because it has more offices spread out over the atolls, although its coverage is by no means complete. As the MDAs in Male, outside Male entities hold expenditure, revenue, trust fund and other accounts. Treasury does not keep track of the transactions through these accounts, nor do they need to be reported on when they are opened. Budget advances were in the past made to outside Male entities on a quarterly basis. MOFT did and does not verify actual use of the advances, although monthly expenditure reports are submitted. Both on and outside Male government entities have largely ignored the regulation that unspent budget funds need to be returned to the treasury's main account after the end of the budget year

83. **The recent centralization of payments has not closed any accounts as yet; liquidity pooling could still reap important benefits.** While no accounts have been closed, the check books of the budget, expenditure and trust fund accounts of MDAs on Male have been transferred to the treasury. This centralization of payment authority has increased expenditure control considerably. Cash accounts of MDAs have, however, not been swept yet into the main government account. Atoll based accounts are still fully outside treasury control. There is clearly an incentive to investigate further whether the management of overall government liquidity could not be improved. The monitoring and consolidation of cash balances scored a D.

84. **On-lending and issuance of guarantees is managed by the MOFT, but policy on use and reporting could be strengthened.** On-lending and guarantees are mostly provided to SOEs. The PEMEB within MOFT is responsible for processing and preparing for approval all on-lending and nondomestic guarantees to SOEs. Domestic currency guarantees are handled by the treasury. The process of on-lending and guarantee issuance itself is well-regulated. There is, however, not a clearly specified policy or set of criteria defining when on-lending or guarantees are appropriate, nor is an annual or absolute ceiling set for either instrument. On-lending is reported on as expenditure in the budget. government guarantees are not reported on. This dimension scored a C.

85. **Cash monitoring is expected to improve substantially once the new PAS has been fully rolled out.** The PAS will route all payments to the treasury and effectuate payment from a central payment account. PAS implementation is expected to coincide with bringing remaining MDA and atoll accounts gradually under treasury control and integrating them into a TSA structure. A first step in activating the PAS was taken on May 1, 2009. It has effectively integrated all budget accounts into the TSA. Advances to atolls are also being better controlled to some extent as they are now being provided on a monthly basis. The centralization of payments since December this year of Male MDA spending has made it impossible for departments to further transfer liquidity from their budget accounts to their expenditure accounts (where they could be kept idle in the past).

PI–18. Effectiveness of payroll controls

Dimension (Scoring method M1)	**Score**	
(i) Degree of integration and reconciliation between personnel records and payroll data	D	D+
(ii) Timeliness of changes to personnel records and the payroll	B	
(iii) Internal controls of changes to personnel records and the payroll	C	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	

86. **The GoM currently operates a partially decentralized payroll system**. MDAs prepare the budget for staff and compile salary lists and allowance requests for the staff in the agencies within their mandate.

87. **Each MDA keeps its own records of personnel and the payroll and it is on the basis of these records that payments to staff are made.** The MDA processes the payroll for its own employees and produce pay advice slips for staff, requests are sent to treasury, who checks the payment voucher (salary sheet) and sends a request to the MMA to transfer payments to individual’s bank accounts. Salary payments to staff are made by bank transfer

in the majority of cases, except where it is impractical for staff to draw salaries from bank accounts (for example in islands where banks are not present), in this case, payments are made to the relevant local account and staff are paid in cash. For atoll offices and other non-Male based staff, the treasury sends a lump sum check to the BML to credit the entity's account. The check is then drawn by the entity and payments made to staff. MDA Staff lists are sent to the MOFT for the purpose of preparation of the budget, before the budget preparation stage when reconciliation is undertaken between the establishment list, the MDA list and the payroll on an annual basis.

88. **Personnel records are generally updated monthly, but updates take up to three months in some cases.** There have been some reports of salary delays since the introduction of the central payments for MDAs located in Male due to rejection of payments by the treasury and late receipt of requests from some atolls. Additionally, primarily in the ministries of health and education, when doctors and teachers are relocated between islands and atolls, there are reports of delays in amending the records and payment schedules, particularly for staff on temporary contracts, representing 16 percent of the establishment, however no quantification of the extent of these delays has been provided.

89. **The auditor general audits the MDAs based on an audit plan which aims to cover all of the MDAs each year.** Service delivery units are audited on a sample basis. Within each audit, a sample of 30 payees on the payroll will be tested and checked for compliance with the financial regulations; a further sample is tested if irregularities are found. There have been no issues related to ghost workers, the major area of weakness reported by the auditor general relate to inflated overtime claims, which indicates a lack of control at the MDA or facility level. A higher score would require regular audits of the payroll function.

90. **The CSC is responsible for endorsement of the appointment, recruitment, promotion, demotion, and retirement of staff.** It is a relatively new institution, having been formed in February 2009 when the function was moved from the president's office which had responsibility for maintenance of central personnel records before February. The Commission has responsibility for civil servants throughout government with the exception of autonomous agencies. There is currently approximately 30,000 staff on the establishment. The detailed central personnel records are kept on a database, with controlled access and a procedures manual for changes.

91. **In principle, there is a post number and unique record number for each employee, but the MOFT have received reports that post numbers have been duplicated.** The 6,000 temporary posts on the establishment are not currently captured, representing a control weakness. The "uniformed services" (military and police) are not included in the database. In addition to this, there are around 250 political appointees, comprising advisors, managed through the president's office. There are also shortfalls in the

coverage of the payments that are made, in particular related to allowances, which may be a very substantial part of total remuneration.

92. **The PAS system has a payroll module which is planned to be rolled out to MDAs by the end of 2010.** This will allow greater controls of transactions between MDAs and treasury, however it has not yet been confirmed whether the CSC will use the system functionality to capture and store the establishment data.

PI–19. Competition, value for money in controls in procurement

Dimension (Scoring method M1)	**Score**	
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	D	D+
(ii) Justification for use of less competitive procurement methods	C	
(iii) Existence and operation of procurement of complaints mechanism	C	

Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases

93. **The normally established monetary threshold for small purchases is tenders below MLRF 1,000.** There are a total of three thresholds stipulated in chapter 8 of the financial regulations. All items below MLRF 1,000 can be bought from the market directly without competition. When the values are between MLRF 1,000 and MLRF 25,000 the regulations stipulate that at least three quotations or three proposals are to be received/invited before making a final selection. When the values of goods/consultancy/work contracts are more than MLRF 25,000 then invitations should be published, proper evaluations conducted and records should be kept at all times when awarding the contract. The contract award will also be published. For all procurement below MLRF 1.5 million, the procurement is carried out by the line agencies and ministries themselves. For all procurement above this aforementioned threshold, the Tender Evaluation Section (TES) of the MOFT conducts the procurement on behalf of the spending agencies/ministries. Taking in to account the new financial regulation which clearly explains the tender process for different thresholds, it is clear that the regulations do pave the way for open competition for award of contracts as the preferred option for all procurement above the small purchases threshold.

94. **As TES does not carry out a monitoring function of the government procurement it is not possible to ascertain whether open competition has been used by line ministries in awarding contracts.** Data is insufficient. This means that TES is not able

to estimate the number or the percentage of contracts that were awarded on an open competition basis with certitude. Based on some of the complaints that the TES receives, there appears to be an indication that open competition is not always effectively used in awarding contracts by procurement performed at the agency level.

95. **On the other hand all the government procurements of higher value tenders which are above the MLRF 1.5 million threshold goes through the Tender Evaluation Board (TEB)**, which is appointed by the president. MOFT acts as the administrator to TEB. In this regard TES of the MOFT carries out the procurement functions for the government. Open competition is used as the basis for awarding contract by TES. Invitations were previously published in three daily local news papers, broadcasted by the national radio and web-hosted on the MOFT website. However due to budgetary constraints and as initiatives to reduce expenditure, invitation is no longer published in the news papers. Invitation is now published on the MOFT website (www.finance.gov.mv) and it is placed on the MOFT notice board. For international tenders, invitations are also sent to the Maldivian embassy's located in foreign countries to circulate. However it is not clear through which media the foreign embassies publish these invitations.

96. **A bidding period of 30–45 days is given, and 45–60 days for international bidding.** Pre-bid meetings are regularly conducted during the bidding process and tenders are publicly open at the presence of the bidders, client and observers. However, the duration may be shortened for projects such as medical consumables, and for items which needs to be bought immediately. These items are considered as life saving and this is justified by clause 8.06 of chapter 8 of the new financial regulation. The selection process practiced by TES is based on least-cost selection for goods and works and QCBS is commonly used for consultancy.

Justification for use of less competitive procurement methods

97. **Public procurement is governed by chapter 8 of financial regulation of the GoM.** As explained earlier this chapter clearly stipulates the various thresholds for various procurement practices. Clause 8.09 states the values to be considered in making low-value purchases. If the purchase value is less than MLRF 1,000 the items could be bought from the market. If the purchase value is more than MLRF 1,000 and less than MLRF 25,000 three quotations should be taken and the items should be bought from the lowest bidder.

98. **Clause 8.14 explains about procurement of goods and services.** This clause states that if the value of the work is more than MLRF 25,000 minimum three parties are required to submit bidding documents and the project be awarded to the most competitive bidder. This clause also states that a record be maintained, explaining the criteria and the basis on which the bidder was selected.

99. **Additionally clauses 8.06 and 8.21 explain procurement in emergency situations, where open competition need not be applied when awarding contracts.** For instance clause 8.06 states that an item which is not included in budget can be procured only when not having such item would affect a person's life, or it will have dampening impact on the basic service provided to the general public. Clause 8.21 explains about immediate works contract. This clause states that although for certain works, it is necessary to enter in to contracts without delays, due the nature of the work, it is necessary to ascertain the quality of work, and that both parties are satisfied with the terms and conditions of the work. However this chapter is limited in describing other scenarios such as direct contracting or single sourcing, and hence more elaborations is required in chapter 8 to address these methods of less competitive procurement methods. Due to lack of data it is not possible to ascertain whether justifications have always been given for choosing less competitive methods of procurement. For this reason again a score of C is given to this dimension.

Existence and operation of procurement of complaints mechanism

100. **Currently there is no independent complaint mechanism to which bidders can submit complains regarding the procurement issues.** With the absence of a procurement legislation to govern the procurement function it is difficult to interpret procurement rules, understand procurement practices and make informed decision. Contractual disputes, which arise during the contract implementation, are not properly addressed as there is no effective mechanism to address procurement issues, there is lack of incentive for compliance or proper implementation. In most cases bidders submit complains to tender evaluation section, which is then taken to tender evaluation board, but this does not justify meaningfully the purpose of submitting the complains. As procurement is under chapter 8 of financial regulations, bidders can submit a complaint to the anticorruption board or it could also be taken to court. So far most of the complaints have gone through the TEB, and it has been resolved. However, the TEB is also the body which awards the contracts for procurement conducted by the TES (based upon the latter's recommendation for award), so there is a clear conflict of interest if they are also the body that reviews and decides on the outcome of logged complaints. Therefore there is no independent review mechanism for handling procurement complains. In this regard, this dimension is given a grading of C.

PI–20. Effectiveness of internal controls for non salary expenditure

<table>
<tr><th>Dimension (Scoring method M1)</th><th colspan="2">Score</th></tr>
<tr><td>(i) Effectiveness of expenditure commitment controls</td><td>D</td><td rowspan="3">D+</td></tr>
<tr><td>(ii) Comprehensiveness, relevance, and understanding of other internal control rules and procedures</td><td>C</td></tr>
<tr><td>(iii) Degree of compliance with rules for processing and recording transactions</td><td>D</td></tr>
</table>

101. **Internal Controls for nonsalary expenditure are specified in the government financial regulations.** The regulations were published by the audit office in 2002 and subsequently amended with additional procedures for procurement and payments in 2007. The full implementation of the Public Finance Act (Law No 3/2006) in January 2009 has necessitated further amendments which were issued by the minister of finance in February 2009, which are applicable at the time of assessment. These amendments include chiefly provisions for the centralized payments system introduced in November 2008. The forms required to be completed for accounting purposes are presented in the regulations. Unfortunately the latest version of the regulations were not available in English at the time of the assessment, however based on advice from the MOFT, the following assessment is based on the 2007 amended version.

102. **The financial regulations are weak on specifying levels of approval and authorities. Segregation of duties is discussed in principle; however, clear roles and responsibili**ties are not framed in the document. For example, there is no authority specified for the sale of government assets, apart from "discussions with" the president's office and there is no guidance as to accounting for such assets. There is also no mention of controls over IT systems, which will become increasingly important as the PAS is rolled out.

103. **There is no formal commitment control system that records, reports, monitors, or controls spending commitments during the year against approved budgets and cash availability**. MDAs are required to control their expenditure within their individual budgets (s8.04 of the Financial Regulations). However this has not been centrally monitored and there is anecdotal evidence that virement authorization from the MOFT is sometimes sought retrospectively by the MDAs.

104. **Monitoring adherence to regulations, policies and directives has been weak due to the lack of internal audit within government.** This is dealt with in more detail under PI-21. The lack of documentary evidence on compliance with the regulations has mean that the assessment of this indicator is largely based on anecdotal evidence.

105. **The auditor general reports a low level of compliance with rules, or circumvention of regulations.** This low level of compliance is partly due to an over bureaucratization of procedures and in some cases the use of "emergency measures" for advantage of the individual or organization.

106. **The GoM is currently rolling out its computerized PAS.** Transaction processing at the treasury using the central payments and general ledger modules commenced in May 2009. The system will be rolled out on a phased basis, beginning with MOFT. The system has built-in internal controls including a commitment control module and as a result of this, we would expect to see a measurable increase in this indicator after 2010.

PI–21. Effectiveness of internal audit

Dimensions (Scoring methodology M1)	Score	
(i) Coverage and quality of internal audit function	D	D^+
(ii) Frequency and distribution of reports	D	
(iii) Extent of management response to internal audit findings	C	

107. **Internal Audit (IA) has hardly been developed in the Maldives.** No IA legislation or standards exist. The treasury has an embryonic IA unit, which investigated processes in the DIR and the MOFT's relations with SOEs. Since managers have left for other employment, staff have mostly been used for pre-audit checks of payment orders. Some larger line ministries, like education, also have internal audit units, but the tasks carried out resemble inspection activities. The customs service has perhaps the most developed IA capacity. It has a unit with around 14 staff. In part these perform ex post based audit checks on customs assessments; in part they perform system reviews and advise management on improving internal processes. Given the very limited use of internal audit in government the first dimension scored a D.

108. **IA reports are infrequent but seem to have some impact in customs.** Reports seem to be produced infrequently, and mostly by the customs service. Customs shares their reports with the auditor general, which is good practice. The dimension for the frequency of reporting for the whole of government scored a D. The very limited number of reports produced seem to have some impact when produced. This is mainly based on practice in the customs service only, where internal audit has led to retraining of staff and changes to business processes. The dimension on management response to internal audit is scored a C given that the overall limited use of IA was already addressed by the other two dimensions.

E. Accounting, Recording, and Reporting

PI–22. Timeliness and regularity of accounts reconciliation

Dimensions (Scoring method M2)	Score	
(i) Regularity of bank reconciliations	B	C
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	D	

109. **Current financial regulations require ministries and departments to reconcile their books of account and the balance of the related MMA account on a monthly basis.** There are 1,623 government bank accounts in the central bank and a significant, but unknown, number are in various other banks. The government bank accounts can be divided into budget accounts used by MDAs in Male to execute the budget, and expenditure (office), revenue, trust fund, and other accounts. Entities in Male hold all their accounts in MMA; most entities outside Male have no budget accounts at MMA, and only hold expenditure,

revenue, trust fund, and other accounts at the BML. Prior to November 2008, budget accounts and revenue accounts at the MMA were generally reconciled on a monthly basis. Funds were withheld by the finance department from those spending agencies that did not submit the monthly reconciliations along with their monthly expenditure statements.

110. **With effect from November 2008, to promote fiscal prudence, the new government put in place centralized payment processing in MOFT by withdrawing the check signing rights of the spending agencies based in Male.** As this was expected to be implemented later as a part of the PAS implementation, this immediate measure by MOFT added significantly to the workload of the public finance division, and disrupted the accounting and reconciliation process in the early part of this year. Prior to November 2008, the bank accounts receiving moneys directly from the budget were being monitored, but the bank accounts established by spending agencies for various types of expenditure, trust funds, temporary funds and suspense funds were not being monitored.

111. **Prior to implementation of PAS, the single entry accounting system also limited the effectiveness of reconciliation.** While the budget accounts were reconciled with a "cash book running balance" established in the expenditure ledger kept by the spending agency, due to the absence of a self–balancing ledger system it was not clear that all amounts were recorded appropriately in the ledger accounts. Transfers from budget accounts to other accounts were registered as expenditure and reconciliation of the nonbudget spending accounts did not take place, except in principle at the end of the year.

112. **Reconciliation and clearance of suspense accounts does, in practice, usually not take place.** Atoll-based government entities generally report on expenditure on a monthly basis but do not reconcile all the various accounts they hold. Similarly, MDAs based in Male have tended not to reconcile their expenditure/office or trust fund accounts.

113. **The two dimensions assessed under this indicator and their respective subratings are as below:**

i. Bank reconciliation for all budget-funded bank accounts take place on a monthly basis. Subrating B.

ii. Reconciliation and clearances of suspense accounts and advances generally does not take place as required. Advances to atoll-based entities are treated as expenditures. Subrating D.

Overall, therefore, the indicator is rated C according to the framework.

PI–23. Availability of information on resources received by service delivery units

Dimension (Scoring method M1)	Score
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units	A

114. **Resources received by individual health centers and schools are published in the budget in the majority of cases.** Fifty-two percent of schools expenditure is available for individual schools in the budget documentation, the remaining schools expenditure is clustered on a zonal basis in the budget. Health centers and hospitals are also either budgeted separately (in 63 percent of cases in the 2008 budget) or appear under the line medical service in the budget. Ministries can make the detailed information available for each school or health center, as each reports on a routine monthly directly to the respective "parent" ministry, that is the ministries of health and education to the audit office, as required by the public finance law. Revenues collected locally are reported on as trust fund revenues.

PI–24. Quality and timeliness of in-year budget reports

Dimensions to be assessed (Scoring method M1)	Score	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C+
(ii) Timeliness of the issue of reports	A	
(iii) Quality of information	C	

115. **Each budget organization is required to send the monthly expenditure report within 15 days of the end of the month.** The budget entities that do not submit the monthly expenditure reports on time do not get the next tranche of release, ensuring their prompt receipt and reporting by the finance department. The reports usually cover the month's expenditure, the year-to-date expenditure, and the net available budget balance. These are then consolidated at an aggregated level, and a month-end budget-to-actual report along with a cash flow statement is sent to the president's office. This report is usually sent within four weeks of the end of the month being reported. Compiling the monthly expenditure reports from various agencies at the end of the month currently is a manual process and requires a laborious effort. Quality issues also arise due to manual interventions. Under PAS, this process of consolidation of monthly budget to actual expenditure report is intended to be fully computerized, making the process much better in terms of time and quality.

116. **The monthly expenditure reports are prepared according to the economic classification, but do not provide program or project details.** With the implementation of

PAS, under the new budget chart of accounts which have been put into practice for the first time in FY 2009, it will be possible to get data accounting to the spending unit, the organization, the economic classification, and program/project wise classification.

117. **The three dimensions assessed under this indicator and the respective subratings are as below:**

i. Classification of data allows direct comparison to the original budget, but at a very aggregate level; expenditure is covered at the payment stage only. Overall **subrating C** as per PEFA guidelines.

ii. Reports are prepared monthly and issued within four weeks of end of period. **Subrating A**.

iii. Spending agencies who do not submit their reports within 30 days are left uncovered in the report. This is however not highlighted in the overall consolidated report. The in-year budget reports do not provide for program and/or project classification of the expenditures. **Subrating C**.

On the basis of the above, the overall rating for the indicator is C+, using the M1 scoring methodology.

PI–25. Quality and timeliness of annual financial statements

Dimensions to be assessed (Scoring method M1)	**Score**	
(i) Completeness of the financial statements	D	D
(ii) Timeliness of submission of the financial statements	D	
(iii) Accounting standards used	D	

118. **Fully fledged financial statements of the government were not prepared and published in Maldives until now.** The Annual Budget presented to the Peoples Majlis every year presents a “budget to actual” utilization report, usually within 12 months of the end of the fiscal year. However, due to anomalies that creep into the “budget to actual’s report, this cannot be considered as formal government financial statements but rather as spending estimates. The anomalies are: (i) keeping the budget year open for a period as long as nine months (in cases of capital expenditures) after the close of the fiscal year; (ii) adjustments made by the budget department while consolidating the spending units” annual expenditure reports, without making adjustments in the books maintained by spending agencies; and (iii) this “budget to actual” report is not submitted to the audit office for audit.

There were no specific accounting standards for government budget reports.

119. **The Law on Public Finance 2006, which became effective from FY 2009, requires the accountable officers to prepare and submit the agencies’ overall financial**

statements to the auditor general within three months after the end of the financial year. It also requires the financial controller to prepare and submit the State's financial statements within the same timeframe. According to the law, the auditor general has to audit the financial statements and submit his report to the accountable officer/financial controller within two months from the date of receiving the report. These audited statements then need to be submitted to the parliament and the president within 14 days of receiving the auditor general's report.

120. **The GoM with the assistance from the WB has procured a comprehensive accounting software package for the full implementation of the 2006 law on public finance.** This system is going live in phases starting from May 2009 and will become fully operational in FY 2010. As required under the 2006 public finance law, the first fully fledged financial statements will be prepared for FY 2009.

121. **The three dimensions assessed under this indicator and the respective subratings are as below:**

i. A consolidated government statement is currently not prepared, but will be prepared for FY 2009 as required under the 2006 public finance law. **Subrating D**.

ii. These financial statements will be submitted for audit for first time for FY 2009, as required under the 2006 public finance law and the 2007 public audit law. **Subrating D**.

iii. Before 2009, there were no specific accounting standards for government budget reports. **Subrating D**.

Overall, a rating of D is assigned.

F. External Scrutiny and Audit

PI–26. Scope, nature, and follow-up of external audit

Dimensions to be assessed (Scoring method M1)	Score	
(i) Scope/nature of the audit performed (including adherence to auditing standards)	C	D+
(ii) Timeliness of submission of audit reports to legislature	B	
(iii) Evidence of follow-up on audit recommendations	D	

122. **Until April 2007, the AGO reported to the president.** The auditor general's reports were not sent to or scrutinized by the People's Majlis (parliament), and his reports were not made available to the public. The auditor general was appointed by the president to serve at the pleasure of the president, meaning he had no fixed term and could be removed from office without cause at any time. The staff of the AGO similarly were appointed, remunerated and promoted through the public service division of the president's office. Until

April 2007, in other words, the AGO was effectively an internal audit function within the GoM, and there was no supreme audit institution independent of the executive branch of the government.

123. **The audit act of April 2007 and subsequent amendments to the constitution established AGO as the supreme audit institution of the Maldives.** The new act provided for the president to appoint an auditor general on the advice of the People's Majlis. The auditor general was provided with a fixed term of seven years, renewable for a single term of not more than five years, and he may only be removed from office by majority vote of the People's Majlis. The auditor general has been given the power independently to hire, fire, promote, and set the pay scales for his staff, and to set his budget and annual work plans which are submitted to the PAC of the People's Majlis 90 days prior to the beginning of each fiscal year. The first independent auditor general was appointed under the new audit act on January 16, 2008. Dimensions of performance for PI-26 are assessed below only for the relatively recent period subsequent to the passage of the new audit act and the establishment of an independent audit office. Although by the date of the PEFA assessment only two years had passed since the passage of the act, only this period is considered relevant to an assessment of the scope, nature, and follow-up of external audit.

124. **With the appointment of the first independent auditor general, the AGO was transformed.** The work being carried out under the previous work plan was halted and a new strategic audit plan was prepared which included all government MDAs, including the president's office, president's palace, police, parliament, courts of law, funds provided to political parties, high commissions, atolls offices, schools, hospitals, special projects, statutory authorities, and independent commissions. Some 37 separate central government audit entities were included in the first strategic audit plan, as well as all 25 SOEs. The inclusion of all entities receiving public monies in the first annual audit work plan was clearly ambitious—several of these entities had never been subjected to audit before, and several audits entailed review of expenditures and revenues for more than one year. In addition, as mentioned above, the auditor general was only appointed in January 2008, and he would need to reorganize and reorient his staff before he would be able to commence the work called for by the plan.

125. **The nature of audit performed was also expanded, from the detailed transactions-level compliance audits conducted in the past, to also include performance audits.** The auditor general's first strategic audit plan recognized that central government entities did not prepare financial statements (see discussion on PI-25 above) and that the financial audits of SOEs were already being conducted by private sector auditors. For each of the 62 audit entities identified in the strategic audit plan, high-level risk areas were identified and performance audits were carried out in order to provide the People's Majlis with audit assurances in respect of governance and value-for-money issues covering all public monies.

126. **By the first week of May 2009, (i.e., approximately four months after the end of the period covered by audit), 17 audit reports had been issued.** All audit reports were posted on the AGO website as soon as they were tabled in the People's Majlis, and received good press coverage. In response to extensive public interest in the new audit reports, the auditor general held two press conferences in October 2008, to explain the role of the AGO in providing ex post oversight over government systems of PFM.

127. **Formal responses have not routinely or consistently been made to the audit reports to date.** Nonetheless, it is clear that the audit reports have had considerable impact. Three government ministers resigned following enquiries by the PAC into a June 2008 report by the auditor general disclosing the role of those ministers in presenting an unrealistic and misleading budget estimate to the People's Majlis. The audit report on a share offering by Maldives Tourism Development Corporation disclosed certain measures undertaken by three individuals to circumvent the intent of the offering to provide for widespread public ownership, and resulted in referrals to the anti-corruption commission for further investigation. Other audit recommendations, such as to strengthen the TEB and procurement procedures followed by government MDAs, will take longer to show evidence of impact or follow-up by the government.

128. **With the year ending December 31, 2009, the law on public finances requires unaudited financial statements to be presented to the auditor general within three months of the end of the fiscal (calendar) year.** The auditor general shall submit his audit report on those financial statements within two months of receipt of the unaudited financial statements.

PI–27. Legislative scrutiny of the annual budget law

<table>
<tr><th>Dimensions to be assessed (Scoring method M1)</th><th colspan="2">Score</th></tr>
<tr><td>(i) Scope of the legislature's scrutiny</td><td>B</td><td rowspan="4">D+</td></tr>
<tr><td>(ii) Extent to which the legislature's procedures are well-established and respected</td><td>C</td></tr>
<tr><td>(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparations cycle</td><td>C</td></tr>
<tr><td>(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature</td><td>D</td></tr>
</table>

129. **In each of the three most recent years, the minister of finance has presented the annual appropriation bill to the People's Majlis in the last week of November in respect of the budget estimates for the fiscal year commencing January 1, thereby providing the**

legislature with approximately one month to respond to the budget proposal. There is no standing committee of the People's Majlis to review the budget, and the budget proposal is not referred to the PAC. Rather, an ad hoc committee is elected by the People's Majlis each year when the appropriation bill is tabled. In recent years, the Budget Review Committee has consisted of 15 members. There are no formalized procedures for review of the budget estimates, and there is no expert research support provided to assist the committee in its deliberations. In addition, there is no mechanism for seeking public consultations on the budget.

130. **In addition to the deliberations by the budget review committee, the People's Majlis as a whole also debates the appropriation bill.** The discussions of the People's Majlis are informed by the report of the budget review committee, which is discussed in the People's Majlis before the vote on the appropriation bill is taken. A budget estimate may be modified by the People's Majlis without introducing a question of confidence in the government.

131. **The People's Majlis provides authorization for an aggregate budget, which allows the ministry of finance to make reallocations during the year without ex ante approval by the legislature.** MDAs, on the other hand, must obtain prior MOF approval for any adjustments to their budgets, including reallocations as well as adjustments to ceilings. Ex ante approval by the legislature would clearly be required if additional budget authorizations were ever required, but this situation has not arisen in Maldives in recent years. The MOF is unclear as to when it would be appropriate to present a supplemental budget estimate to the People's Majlis and in practice, revised budget estimates have not been routinely presented to the legislature.

PI–28. Legislative scrutiny of external audit reports

Dimensions to be assessed (Scoring method M1)	**Score**	
Timeliness of examination of audit reports by the legislature	D	D+
Extent of hearing on key findings undertaken by the legislature	C	
Issuance of the recommended actions by the legislature and implementation by the executive	A	

132. **As noted above, the reports of the auditor general were not submitted to the legislature prior to the passage of the audit act in 2007.** Nonetheless, the PAC of the People's Majlis had a responsibility to scrutinize the public accounts, and as also mentioned above, the financial statements of SOEs were audited by private sector auditors. In 2007, the PAC provided AGO with four days' notice to review the audited financial statements of national shipping line and to prepare a written submission to the committee. The auditor general was not asked to appear before the committee as an expert witness, but he was asked

to prepare a first draft of the first-ever PAC report, based on the audited financial statements of the SOE and on a transcript of the PAC hearings. The PAC report was tabled in the People's Majlis where it was discussed for approximately 30 minutes. The PAC report contained a recommendation to restructure the company, and the debt of the company was restructured some time later.

133. **In addition, two audit reports issued in June 2008 were the subject of PAC hearings in the same month.** In addition to expert testimony from the auditor general, three cabinet ministers were summoned to appear before the committee. The PAC prepared its own report to the People's Majlis on the results of these hearings. It is unclear as to whether that report contained any recommendations, but the report was discussed in the Majlis for approximately 30 minutes, and the three cabinet ministers resigned following the PAC hearings. Whilst the above instances of legislative scrutiny were timely and effective, they represent scrutiny of only three audit reports.

G. Donor Practices

D–1. Predictability of direct budget support

Dimensions to be assessed (Scoring method M1)	Score	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature	N/A	N/A
(ii) In-year timeliness of donor disbursements	N/A	

134. **The Maldives did not receive any significant budget support before 2009.** Although the authorities have been seeking this type of support, this has not had tangible results before now. There was one minor exception in 2005, when the government of India provided a grant of US$ 2.4 million.

135. **In 2009, the government of India will provide a loan of US$ 100 million.** Half of this will be for budget support, whereas the other half will finance imports from India. According to the Maldives authorities, the budget support portion of this loan was disbursed as planned.

D–2. Financial information provided by donors for budgeting and reporting on project and program aid

Dimensions to be assessed (Scoring method M1)	Score	
(i) Completeness and timeliness of budget estimates by donors for project support	D	D
(ii) Frequency and coverage of reporting by donors on actual donors flows for project support	D	

136. **Donors have a mixed record in providing estimates of project support.** The six largest donors (grants and noncommercial loans) during 2006-08 where the European Investment Bank, the Islamic Development Bank, the ADB, the WB, Japan, and Saudi Arabia. Not all of the major donors provide forecasts on a timely basis. A number of smaller donors also fail to provide such forecasts. A rating better than "D" would require that all the five largest donors provide complete budget estimates for disbursement of project aid at least three months before the start of the fiscal year. This is not the case in the Maldives.

137. **Almost all lending institutions provide reports on disbursement of project loans, but reporting on project grants is variable.** For ADB and the WB these reports are available online, while other lending institutions provide data electronically or by mail. However, a number of small donors do not provide regular reporting on disbursements. Over the period 2006–08, regular and timely reports were received for projects amounting to 25 percent of total disbursements in 2006, 30 percent in 2007 and 35 percent in 2008.

D–3. Proportion of aid that is managed by use of national procedures

Dimension to be assessed (Scoring method M1)	Score
(i) Overall proportion of aid funds to central government that are managed through national procedures	D

138. **External grants and loans are generally managed through donor procedures.** The government does not have mechanisms in place that would meet donors' requirements for management of projects through national procedures. A score better than "D" would require that at least 50 percent of aid funds were managed through national procedures.

IV. Government Reform Process

139. **The Maldives authorities have embarked on a number of PFM reforms in recent years.** Prominent amongst these are a large project aimed at modernizing budget management, public accounting, fiscal reporting and cash management through introduction of an integrated financial management information system (IFMIS). The project is referred to as the PAS project and guided by WB-funded consultants and an IMF treasury advisor. Another major WB project involves upgrading of auditor general processes and institutional structure. The budget office has worked hard in recent years to introduce fiscal and budgetary projections on a medium-term basis as part of its budget process. Laws on public finance and the auditor general have been modernized. On the tax side, capacity building and modernization of the customs service has had considerable effect. New laws on customs and tax administration will widen the scope for structural reforms.

140. **The PAS project will have a substantial impact on PFM system and will lead—if implemented successfully—to improvement of a significant number of indicators and**

subindicators in this assessment. The box below provides an overview of the main components of the PAS system and the planned roll out over MDAs and atoll-based offices and government entities. Concretely, improvement can be foreseen in the following areas: arrears monitoring (PI-4), classification of the budget (PI-5), predictability in the availability of funds for commitment of expenditure (PI-16), recording and management of cash balances, debt and guarantees (PI-16), effectiveness of payroll controls (PI-17), effectiveness of internal control on nonsalary expenditure (PI-20), and the accounting, recording, and reporting indicators (PI-22-25). It will also support the work of external and if established the internal audit function (PI-26-28), and PI-21. Such improvements of course do not necessarily lead to one-on-one changes in the respective indicator ratings.

Box 1: The PAS Project

The PAS project is expected to lead to the development of a modern public accounting and financial management information system that will automate virtually all aspects of the accounting and budget management functionality of government. Such a system will enhance considerably the quality and timeliness of fiscal reporting in the Maldives, aligning it with international standards, and, more broadly, support and make more efficient both budget preparation, expenditure management and control processes. It will also enhance cash management by centralizing the more than 2,000 government bank accounts in a TSA structure at the MMA. A MTEF, performance budgeting, and accrual accounting are reforms that could be supported by the PAS system in the medium to long term.

The PAS design encompasses all the elements of a modern government IFMIS. The primary components are a general ledger, reporting, payments and banking systems, accounts payable, and budget funds availability checking. Secondary modules include budget formulation, assets register, accounts receivable, payroll, and project management.

Project implementation has run into some delays, but is now largely back on track. A series of problems arose early in the project on personnel issues and the delivery of hardware. Recently the project was temporarily put on hold following the sudden decision of the new government to use the government PAS team to run the centralised payments processing decided on in November 2008. However, on May 1, 2009, the project team and consultants decided that the system could “go live” with respect to general ledger and payment processing for Male-based MDAs. Presently, the overall project is about eight months behind planned milestones, but the plan is still to reach completion of roll-out of all primary components for all Male agencies and some pilot atoll agencies by end-2009. From that point, the overall project will be taken over by a MOFT-led government team.

141. **Under the new automated PAS payment invoice and due dates will be recorded and arrears will be monitored and reported on centrally.** Importantly, the new PAS will introduce centralized commitment controls. This will make contracting without budget authorization impossible. This in turn will make the development of payment arrears less likely even under tight liquidity conditions. Presently expenditure control relies on decentralized controls at the MDA level, and on budget release approval policies of the budget office for a number of discretionary spending categories.

142. **Budget release policy is planned to become more transparent and predictable under the new PAS.** A quarterly disbursement of budget authorization has been discussed at

the technical level. Creation of more expenditure planning certainty will only be possible with enhanced cash planning and management, as the budget can only be released if there is reasonable certainty on cash availability. Budget and cash releases are often discussed within ministries of finance by a joint committee of the budget office and treasury. As the full roll-out of the PAS will take some time it would be expedient for MOFT to already start upgrading its capacities in cash planning and management.

143. **Cash monitoring is also expected to improve substantially once the new PAS has been fully rolled out.** The PAS will route all payments to the treasury and effectuate payment from a central payment account. PAS implementation is expected to coincide with bringing remaining MDA and atoll accounts gradually under treasury control. Advances to atolls are already being better controlled to some extent as they are now being provided on a monthly basis. The centralization of payments since December this year of Male MDA spending has made it impossible for departments to further transfer liquidity from their budget accounts to their expenditure accounts, where they could be kept idle in the past.

144. **New tax administration and customs legislation is to strengthen and provide more safeguards to the tax administration processes; this should improve the score on tax related indicators.** The new tax administration law is to establish an independent revenue authority, with a more effective organizational structure. Its powers would be enhanced, especially with regard to taxpayer audit and the possibility of imposing fines. The law would also establish a formal, independent appeals tribunal. The new law has been submitted to the People's Majlis, but it is uncertain when it will be enacted. Similarly, a new customs law has been submitted to parliament. Its main goal is to bring customs valuation and clearance procedures up to international standards and treaty obligations. It will also establish an independent customs tribunal. The new legislation will increase the powers of customs and inland revenue to perform audits on tax payers' premises and inspect their accounts and financial statements. The planned new tax and customs legislation would improve PI-13 on transparency on tax payer obligations, PI-14 on effectiveness of tax payer registration and assessment, and PI-15 on effectiveness of tax collection.

145. **A WB IDF grant supports the efforts of the GoM to evaluate its existing procurement arrangements and develop and implement an action plan for the modernization and improvement of a sustainable country procurement system.** The overall activities under the grant are:

- Regulatory and Institutional Reform;
- Capacity Development;
- Public Awareness; and
- Preparatory Work for Introduction of e-Procurement.

146. **The purpose of the procurement reform process will be to build upon the existing national system and structures to develop a procurement system which is consistent with international best practice and which would enable donors to rely on the country procurement system.** Such a system must be based on the achievement of economy and efficiency in procurement, guaranteeing the transparency and fairness of the process leading to improved competition. In particular, such a system must also provide for clear lines of responsibility and accountability in a system which demonstrates a high degree of integrity where bidders are able to seek rapid and effective redress of any complaints they may have concerning the procurement process. Successful completion of this project should have substantial impacts on indicator 19.

147. **The government is well aware of the potential risks to the PFM reform processes, and is taking steps to mitigate these risks.** Based on previous experiences, the following risks seem to be particularly important:

- Initiation of reforms that have limited support among key stakeholders.
- Inadequate staffing of new and modernized functions, or inadequate training of staff to perform new functions.
- Failure to upgrade business processes to benefit from new information systems and capacities.

148. **The government is developing a comprehensive action plan for improvements in PFM;** This action plan will provide a clear prioritization of the necessary actions and a specific timetable for different steps. The plan will incorporate the ongoing reform processes, mentioned above. It will build on inputs from the IMF, the WB, the ADB and other development partners and will identify their possible contributions to the further reforms, but will be based on the government's own priorities and objectives.

Annex I. PFM-PR Summary Table

Indicator	Scoring	Explanation
PI–1. Aggregate expenditure out-turn compared to original approved budget	B	Actual total primary expenditure exceeded budgeted total primary expenditure with more than 10 percentage points in no more than one of three years.
PI–2. Composition of expenditure out-turn compared to original approved budget	D	Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in 2 of the last 3 years.
PI–3. Aggregate revenue out-turn compared to original approved budget	D	Actual domestic revenue collection was below 92 percent of budgeted domestic revenue estimates in 2 of the last 3 years.
PI–4. Stock and monitoring of expenditure payment arrears	D^+	Anecdotal evidence suggests that the stock of arrears is low (below 2 percent of expenditure), but there is no reliable data due to lack of arrears monitoring or ad hoc surveys.
PI–5. Classification of the budget	B	Budget formulation and execution is based on administrative, economic, functional and funds classification, using standards that can produce consistent documentation according to GFS/COFOG.
PI–6. Comprehensiveness of information included in budget documentation	C	The budget documentation omits a definition of the fiscal deficit according to GFS; deficit financing including domestic and foreign financing; debt stock, and an explanation of budget implications of new policy initiatives.
PI–7. Extent of unreported government operations	B+	Unreported extra-budgetary expenditure is estimated to be less than 5 percent of total expenditure. Over 90 percent of donor funded projects are included in the budget reports.
PI–8. Transparency of inter-governmental fiscal relations	N/A	There is currently no subnational government in the Maldives.
PI–9. Oversight of aggregate fiscal risk from other public sector entities	C	All PE are closely monitored and submit regular financial statements to the government, but there is no consolidated report on fiscal risks. At the moment, there are no subnational governments in the Maldives.
PI–10. Public access to key fiscal information	B	The government publishes the annual budget on the MOFT website at the time of presentation to parliament. External audit reports are posted on the website as they are presented to parliament. Resources available to primary service units are published in the budget for the majority of units and are available for other units upon request.
PI–11. Orderliness and participation in the annual budget process	B	There is a clear and widely known budget calendar and a budget circular to guide MDAs in preparing budget submissions. The budget has been approved before the start of the financial year for at least the past 3 years.
PI–12. Multiyear perspective in fiscal planning, expenditure policy, and budgeting	D	There is no medium-term fiscal planning. A 3-year budget was prepared for 2009-11. There has been no DSA and there are no costed sector strategies. Linkages between recurrent and investment budgets are very weak.
PI–13. Transparency of taxpayer obligations and liabilities	C^+	The main taxes are clear and reasonably comprehensive, with little scope for discretion. Information is available on websites, or on demand, but not always in English. No formal appeals mechanism has been established.
PI–14. Effectiveness of measures for taxpayer registration and tax assessment	C^+	Separate tax databases are maintained, but these are not linked to other government databases. Penalties for non-compliance are low and often not imposed. Risk-based audit plans are carried out by customs.

Indicator	Scoring	Explanation
PI–15. Effectiveness in collection of tax payments	C+	Tax arrears are negligible. Revenues are transferred to the treasury on a monthly basis. Reconciliation takes place on a monthly basis within 15 days of the end of the year.
PI–16. Predictability in the availability of funds for commitment of expenditures	D+	Cash flow forecasts are made at the start of the year only. MDAs are not informed on commitment ceilings for discretionary spending. Significant in–year budget amendments take place only once or twice a year.
PI–17. Recording and management of cash balances, debt, and guarantees	D+	Debt records are complete but managed separately. External debt is reported at least annually. Cash balances are not consolidated and monitored only partially. On-lending and guarantees are managed and approved by MOFT, but no criteria or ceilings are set.
PI–18. Effectiveness of payroll controls	D+	A personnel database is maintained at the CSC and in the MDAs. These records are updated regularly, but controls are inadequate, and full reconciliation is only done annually. There are some delays. Payroll audits take place as part of the external audit of entities.
PI–19. Competition, value for money and controls in procurement	D+	There is a lack of data regarding whether procurements above the minimum threshold were based on open competition, and about how many contracts were awarded on less competitive basis and whether they were justified. There is no independent grievance mechanism.
PI–20. Effectiveness of internal controls for nonsalary expenditure	D+	Expenditure commitment control procedures exist but are not monitored. Internal control procedures are ad hoc and weak in clearly defining responsibilities. The auditor general has concerns about the level of compliance.
PI–21. Effectiveness of internal audit	D+	Internal audit has hardly been developed. Reports are infrequent Some impact is evident of IA in customs.
PI–22. Timeliness and regularity of accounts reconciliation	C	While bank accounts that receive budget funds are reconciled on a monthly basis within 4 weeks (B), the suspense accounts and advances are generally only fully reconciled at the end of the year (C).
PI–23. Availability of information on resources received by service delivery units	A	Information is publicly available in the budget documents on resources received in the majority of cases. Where SDUs are grouped in the budget due to their relative size, the information is produced and is available in the relevant parent MDA.
PI–24. Quality and timeliness of in-year budget reports	C+	In-year budget-to-actuals reports are prepared on a monthly basis providing cash flow and economic classification of expenditures. Commitment accounting is not in place and the quality of information could be improved.
PI–25. Quality and timeliness of annual financial statements	D	Currently no annual financial statements are prepared in the Maldives.
PI–26. Scope, nature, and follow-up of external audit	D+	Less than 50 percent of central government entities are subject to financial audits. However, all entities of central government are subjected to performance audit, focusing on significant and systemic issues. No formal response to audit reports has yet been made.
PI–27. Legislative scrutiny of the annual budget law	D+	The legislature's review covers fiscal policies and aggregates for the coming year and detailed estimates of revenues and expenditure and revenue. There are no clear rules regarding in-year budget amendments.
PI–28. Legislative scrutiny of external audit reports	D+	Examination of only 2 of 17 reports made by first independent auditor general. Prior to passage of the audit act of 2007, only 1 SOE audit report reviewed. In-depth hearings on key findings cover only a few audited entities.

Donor Practices		
Indicator	Scoring	Explanation
D–1. Predictability of direct budget support	N/A	No significant budget support before 2009.
D–2. Financial information provided by donors for budgeting and reporting on project and program aid	D	Most donors, including some major donors, fail to provide estimates for disbursements of project aid prior to the budget year. Donors provide regular quarterly reports for disbursements of at less than 50 percent of externally financed projects.
D–3. Proportion of aid that is managed by use of national procedures	D	No significant share of aid funds are managed through national procedures.

Annex II. Background Documents and Previous Analytical Work

English summary of budget documents for 2005, 2006, 2007, and 2008.

Maldives fiscal and economic outlook for 2009–11.

Public finance law, 2006.

Government financial regulations, 2002.

Payment voucher system and chapter eight: procuring goods and services. Addendum to government financial regulations, 2007.

National development plan, 2006.

Constitution of 2008.

Manifesto of government coalition, 2008.

Website of the MOFT: www.finance.gov.mv

Website of the AGO: www.audit.gov.mv

WB Public Expenditure Review, 2002.

Annex III. Aggregate Central Government Expenditure Out-turn Compared to Original Approved Budget[7]

	2005				2006				2007			
	Approved	Actual	Variance	%	Approved	Actual	Variance	%	Approved	Actual	Variance	%
Total Expenditure	4,979.9	6,025.3	1,045.4	21.0%	9,020.8	7,345.6	-1,675.2	-19%	12,343.8	8,725.1	-3,618.7	-29%
Budget Expenditure excluding debt service and donor funded project expenditure	4,186.6	4,435.7	249.1	5.9%	6,006.6	5,660.7	-345.9	-5.8%	7,970.3	6,917.2	-1,053.1	-13.2%
Debt Servicing	373.2	387.2	14.0	3.8%	505.7	475.7	-30.0	-6%	768.0	627.0	-141.0	-18%
Cash Grants	50.0	49.7	-0.3	-0.6%	55.1	60.7	5.6	10%	54.6	61.7	7.1	13%
Project Grants	32.6	766.3	733.7	2250.6%	1,643.8	793.2	-850.6	-52%	905.5	935.9	30.4	3%
Project Loans	640.8	467.3	-173.5	-27.1%	1,408.5	806.1	-602.4	-43%	4,151.5	1,007.7	-3,143.8	-76%
Of which concessional	*337.5*	*386.4*	*48.9*	*14.5%*	*809.6*	*355.3*	*-454.3*	*-56%*	*2,645.4*	*183.3*	*-2,462.1*	*-93%*

[7] Data used for calculation of PI–1.

Annex IV. Calculation Sheet for PFM Performance Indicator PI-2

Step 1: Enter the three fiscal years used for assessment in Table 7.

Step 2: Enter **budget** and **actual** expenditure data for each of the three years in Tables 8, 9, and 10 respectively, for the largest 20 budget heads (reference year 2007).

Step 3: Read the results for each of the three years for each indicator in Table 11.

Step 4: Go to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score (A, B, C or D) for each indicator.

Table 7. Fiscal Years for Assessment

Year 1 = 2005
Year 2 = 2006
Year 3 = 2007

Table 8. Data for 2005

Functional Head	Budget	Actual	Difference	Absolute	Percent
1. Non-concessionally funded capital expenditure	303.3	80.9	-222.4	222.4	73.3%
2. Ministry of Education	671.3	671.3	0.0	0.0	0.0%
3. Ministry of Finance and Treasury	311.3	379.3	68.0	68.0	21.8%
4. Ministry of Defense and National Security	399.9	586.1	186.2	186.2	46.6%
5. Ministry of Health	454.1	501.9	47.8	47.8	10.5%
6. Ministry of Home Affairs	298.7	387.6	88.9	88.9	29.8%
7. Ministry of Atolls Development	364.0	394.8	30.8	30.8	8.5%
8. Ministry of Higher Education, Employment and Social Security	129.6	129.6	0.0	0.0	0.0%
9. Presidential Palace	129.6	142.9	13.3	13.3	10.3%
10. Ministry of Information and Arts	87.8	96.9	9.1	9.1	10.4%
11. Supreme Council of Islamic Affairs	76.5	74.6	-1.9	1.9	2.5%
12. Ministry of Foreign Affairs	60.6	63.7	3.1	3.1	5.1%
13. President's Office	117.8	100.4	-17.4	17.4	14.8%
14. Ministry of Tourism and Civil Aviation	61.4	60.9	-0.5	0.5	0.8%
15. Ministry of Transport and Civil Aviation	82.3	101.6	19.3	19.3	23.5%
16. Ministry of Environment, Energy and Water	29.2	29.2	0.0	0.0	0.0%
17. Ministry of Justice	71.3	70.6	-0.7	0.7	1.0%
18. Ministry of Fisheries, Agriculture & Marine Resources	93.3	52.9	-40.4	40.4	43.3%
19. Ministry of Youth & Sports	59.4	60.0	0.6	0.6	1.0%
20. People's Majilis	26.9	26.6	-0.3	0.3	1.1%
21. Sum of rest	358.3	423.9	65.6	65.6	18.3%
Total Expenditure	**4186.6**	**4435.7**	**249.1**	**249.1**	**5.9%**
Composition Variance	**4186.6**	**4435.7**		**816.3**	**19.5%**

Table 9. Data for 2006

Functional Head	Budget	Actual	Difference	Absolute	Percent
1. Non-concessionally funded capital expenditure	598.9	450.8	-148.1	148.1	24.7%
2. Ministry of Education	937.6	828.6	-109	109	11.6%
3. Ministry of Finance and Treasury	816.1	657.6	-158.5	158.5	19.4%
4. Ministry of Defense and National Security	418.8	433	14.2	14.2	3.4%
5. Ministry of Health	677.4	667	-10.4	10.4	1.5%
6. Ministry of Home Affairs	440.9	500.1	59.2	59.2	13.4%
7. Ministry of Atolls Development	464.4	411.2	-53.2	53.2	11.5%
8. Ministry of Higher Education, Employment and Social Security	212.9	190.4	-22.5	22.5	10.6%
9. Presidential Palace	143	161	18	18	12.6%
10. Ministry of Information and Arts	118.2	117.3	-0.9	0.9	0.8%
11. Supreme Council of Islamic Affairs	82.5	83.8	1.3	1.3	1.6%
12. Ministry of Foreign Affairs	77.4	94.9	17.5	17.5	22.6%
13. President's Office	116.8	92.2	-24.6	24.6	21.1%
14. Ministry of Tourism and Civil Aviation	112.1	105.6	-6.5	6.5	5.8%
15. Ministry of Transport and Civil Aviation	125.2	110.2	-15	15	12.0%
16. Ministry of Environment, Energy and Water	64	82.8	18.8	18.8	29.4%
17. Ministry of Justice	77.7	75.7	-2	2	2.6%
18. Ministry of Fisheries, Agriculture & Marine Resources	61.6	90.9	29.3	29.3	47.6%
19. Ministry of Youth & Sports	72.8	74.1	1.3	1.3	1.8%
20. People's Majilis	44.2	43.8	-0.4	0.4	0.9%
21. Sum of rest	344.1	389.7	45.6	45.6	13.3%
Total Expenditure Deviation	**6006.6**	**5660.7**	**-345.9**	**345.9**	**5.8%**
Composition Variance	**6006.6**	**5660.7**		**756.3**	**12.6%**

Table 10. Data for 2007

Functional Head	Budget	Actual	Difference	Absolute	Percent
1. Non-concessionally funded capital expenditure	1506.1	824.4	-681.7	681.7	45.3%
2. Ministry of Education	978.1	1143.1	165	165	16.9%
3. Ministry of Finance and Treasury	973.6	645.6	-328	328	33.7%
4. Ministry of Defense and National Security	755.3	622.9	-132.4	132.4	17.5%
5. Ministry of Health	728.1	893.2	165.1	165.1	22.7%
6. Ministry of Home Affairs	625.4	710	84.6	84.6	13.5%
7. Ministry of Atolls Development	378.2	358.8	-19.4	19.4	5.1%
8. Ministry of Higher Education, Employment and Social Security	307.8	307.8	0	0	0.0%
9. Presidential Palace	177.3	176.5	-0.8	0.8	0.5%
10. Ministry of Information and Arts	143.0	123.3	-19.7	19.7	13.8%
11. Supreme Council of Islamic Affairs	135.6	115.3	-20.3	20.3	15.0%
12. Ministry of Foreign Affairs	132.6	104.9	-27.7	27.7	20.9%
13. President's Office	122.3	111.1	-11.2	11.2	9.2%
14. Ministry of Tourism and Civil Aviation	117.2	117.2	0	0	0.0%
15. Ministry of Transport and Civil Aviation	108.3	45.6	-62.7	62.7	57.9%
16. Ministry of Environment, Energy and Water	98.3	98.3	0	0	0.0%
17. Ministry of Justice	93.5	94.3	0.8	0.8	0.9%
18. Ministry of Fisheries, Agriculture & Marine Resources	87.4	110.1	22.7	22.7	26.0%
19. Ministry of Youth & Sports	83.0	129.3	46.3	46.3	55.8%
20. People's Majilis	63.5	63.5	0	0	0.0%
21. Sum of rest	355.7	122.0	-233.7	233.7	65.7%
Total Expenditure Deviation	**7970.3**	**6917.2**	**-1053.1**	**1053.1**	**13.2%**
Composition Variance	**7970.3**	**6917.2**		**2022.1**	**25.4%**

Table 11. Results Matrix

Year	For PI-1		For PI-2
	Total Exp. Deviation	Total Exp. Variance	Variance in Excess
2005	5.9%	19.5%	13.5%
2006	5.8%	12.6%	6.8%
2007	13.2%	25.4%	12.2%

Annex V. Domestic Revenue: Projections and Actuals, 2005–07[8]

	2005		2006		2007	
	Proj	Actual	Proj	Actual	Proj	Actual
Tax Revenue	1,877,483,717	1,722,845,313	2,114,935,000	2,370,414,282	3,193,925,710	2,905,168,797
Nontax Revenue	2,334,088,147	1,915,384,197	2,762,023,000	2,957,916,339	3,971,686,000	3,662,279,054
Total	4,211,571,864	3,638,229,510	4,876,958,000	5,328,330,621	7,165,611,710	6,567,447,851
			Comparison			
	MLRF	%	MLRF	%	MLRF	%
Tax Revenue	-154,638,404	-8.2	255,479,282	12.1	-288,756,913	-9.0
Nontax Revenue	-418,703,950	-17.9	195,893,339	7.1	-309,406,946	-7.8
Total	-573,342,354	-13.6	451,372,621	9.3	-598,163,859	-8.3
Domestic Revenue Actuals as percent of Projections		86.4		109.3		91.7

[8] Data used for calculation of PI–3.