

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: AB4525

**Comment [OPCS1]:** The report number is automatically generated by the Internal Documents Unit (IDU) and should not be changed.

<b>Project Name</b>	Maldives Pension and Social Protection Administration Project
<b>Region</b>	SOUTH ASIA
<b>Sector</b>	Compulsory pension and unemployment insurance (50%); General public administration sector (30%); Other social services (20%)
<b>Project ID</b>	P104743
<b>Borrower(s)</b>	GOVERNMENT OF MALDIVES
	Republic of Maldives Maldives
<b>Implementing Agency</b>	Ministry of Health and Family, Government of Maldives
<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	March 16, 2009
<b>Date of Appraisal Authorization</b>	March 2, 2009
<b>Date of Board Approval</b>	May12, 2009

### 1. Country and Sector Background

1. The Republic of Maldives is a chain of Indian Ocean islands spread over a distance of 900 kilometers, and located between northern latitude 4 degrees to slightly south of the Equator. The land area covers about 26 geographic atolls. The population of the Maldives is about 300,000.

2. During the past few decades, poverty in the Maldives has declined and average incomes have risen. However, the challenges posed by shocks that can suddenly reduce household consumption have not been addressed. Pockets of poverty also remain in certain parts of the country. This has led policymakers to look increasingly at programs that can help the population cope with shocks and smooth consumption including pensions, health and social assistance.

3. Since 2003, the Bank has engaged the Government of Maldives (GoM) in the area of social protection, issuing a report in 2006 that covered safety nets and pensions. The report "Social Protection in the Maldives: Options for Reforming Social Assistance and Pensions" was prepared by the South Asia Human Development (SASHD) team and outlined major strategic directions for reform. Bank staff subsequently worked with an inter-ministerial Pension Reform Working Group, that later issued a policy note that summarized the diagnosis and elaborated a reform proposal.

4. The Working Group found two major deficiencies with current pension provisions which in turn motivated the reform package: To begin with, the civil service pension scheme is not designed to produce a reasonable level of retirement income. Specifically, civil servants receive a pension equivalent to 50 per cent of basic salary after every 20 years of service and regardless of age. The pension calculation does not apply to overtime and allowances which on average comprise around 40 per cent of total remuneration. This amount is not indexed in any way. As a result, the scheme does not result in a secure and adequate stream of pension income after a certain age. As there is no mandated retirement, most civil servants maintain their income by continuing to work and receive a wage (although it is clear that many are not actually working either). In this sense, the current practice where wages are paid to elderly civil servants until they die are simply an expensive and inefficient substitute for paying an adequate pension.

5. The second deficiency noted by the GoM Working Group was the absence of any safety net for the elderly in a country where the vast majority of workers do not participate in a pension scheme of any kind. The recommendation for a non-contributory pension recognized the fact that it will take decades to expand coverage of the contributory scheme and for that scheme to mature so as to provide reasonable pension levels. This 'social pension' would be set at a subsistence level in order to ensure financial sustainability as the population ages. The design of the program would explicitly take into account reforms to the civil service pension scheme given the overlap in the population being covered and the need to coordinate overall target pension levels and with other safety net schemes.

6. In 2005, an inter-ministerial working group submitted a proposal that was eventually approved in broad outline by the Cabinet in October 2006. The proposal includes: (i) a new contributory pension scheme based on a defined contribution model with centralized recordkeeping and contracted out asset management and (ii) a non-contributory citizen's pension aimed at providing an income floor for all Maldivians aged 65 and above. The first scheme would be financed out of employer and employee contributions while the latter would be financed from the budget. The scheme would, in the first phase, replace the one that currently operates for civil servants. In the second phase, it would be extended to the entire formal sector labor force and would be open to the self-employed. This would represent the first phase of the implementation of several social protection programs as envisioned by the GoM.

7. Draft legislation had reached its second reading in the National Assembly before the historic elections of 2008. After the new Government took office, it confirmed its continued support for this legislation and the new pension system, along with its desire for support from the Bank during implementation. Moreover, it made clear its intention to introduce a new social protection system that would include expanded safety nets and health insurance for the entire population over time. The introduction of these programs is viewed as a high priority, especially in the context of the current economic slowdown. Successful implementation of the pension system is also viewed as an important element towards rationalizing the size of the state in the economy over time in a socially acceptable manner.

8. The GOM has concurrently initiated a reform program to modernize public financial management, enhance governance and strengthen the overall public sector accountability. In October 2006, the Government received a grant from the European Union (EU), channeled through the World Bank (WB) as a trustee, to part fund (amounting to Euro 4.6 m) the implementation of a modern integrated Public Accounting System (PAS) across the entire government. This enabled the Government to commence implementation of the PAS. There is a need for providing additional financing to PAS to an extent of USD 1.8 million. PAS includes a payroll system for the entire civil service which constitutes a significant segment of the working population of Maldives and will enable tracking of pension contributions for Government employees. Data generated by through PAS would greatly facilitate the recordkeeping function that would have to be implemented under the project by the Pension Authority with regard to civil servants.

## **2. Objectives**

9. The development objective of the Project is to support the Government of the Maldives in the establishment of a new pension authority and additional capacity at existing institutions in order to effectively implement a new pension system and to provide a platform for additional social protection programs in line with the stated intentions of the GOM.

10. The project would achieve these objectives in two ways: First, it would finance the start-up costs of the new Maldives Pensions Administration Office (MPAO). These costs would include both capacity building for the staff of the agency as well as physical infrastructure and information systems as required. It would also provide technical assistance on policy analysis and legal/regulatory drafting related to the new pension system. Second, it would finance an initial public awareness and education campaign to explain the new agency and the new pension system to the general public.

11. Successful implementation by the end of the project would be: (a) a new agency, the MPAO, would be operating with a full complement of staff with a basic level of training sufficient to carry out their mandate; (b) robust collection and recordkeeping systems for a new pension system would have been implemented for public sector workers in such a way that it could be expanded to cover the entire workforce towards the end of the project period; (c) the governing board of the pension fund would have been provided with the tools and advice required to generate a well articulated investment policy (d) the general public would have been made aware of the new agency and a basic level of understanding of the new pension system would have been achieved in the country;

12. The following specific indicators will be used to assess Project performance:

- Progress with establishing a new office of the new pension authority, including appointment of the Governing Board members and the Executive Director and hiring external asset manager(s).
- Progress in implementing a new contributory retirement program, measured by the number of individual accounts opened and maintained by the new pension authority.
- Progress in implementing a new basic pension scheme, measured by the number of new applications processed and payments made as share of the total population over the eligible age.
- Increased public knowledge on pension system due to the public education campaign; public website of pension system established, and key indicators of the system publicly available.
- Effective Supervision of the new pension program instituted. Supervision staff at CMDA designated to review reports from the new pension authority.
- Generation of payroll data for civil service personnel required for assessing mandated contributions for the new pension system.

### **3. Rationale for Bank Involvement**

13. The proposed Project is strongly aligned with the Government of Maldives' priorities and the Bank's FY08-FY12 Country Assistance Strategy (CAS). The World Bank has broad experience supporting governments engaged in pension reforms around the world. In the Maldives, it has been providing technical assistance to the Government since 2003 beginning with a chapter in a major report on social security in the Maldives in 2006. The Government subsequently requested a project to support the implementation of the new program. The additional financing for PAS from Government of Maldives requests for continued support for seamless implementation of integrated PFM systems that allows for swift payroll processing, facilitation of HR and MIS data and implementation of proposed pension Act.

#### 4. Description

14. The proposed Project will have **two main components**.<sup>1</sup>

**Component A: Strengthening Capacity in the GOM** for implementing the new pension program (approx. US\$3.3million). This component would have three sub-components: (a) Strengthening Capacity for Policy Analysis and legal framework; (b) Institution and capacity building for project implementation and (c) additional financing for the Public Accounting System (PAS).

15. *Sub-component A.1. Policy analysis/Legal framework.* Provision of technical advisory services, goods and training to MOHF for the development of:

(a) the new pension policy system, including strategic reform planning, fiscal impact analysis, transitional provisions, policy towards survivors and the disabled, annuities or other forms of benefit withdrawal, etc.

(b) a comprehensive legal framework, including final draft of the Main Law, rules and regulations, institutional by-laws, manuals, policies, operations and procedures of the Pension Authority.

16. *Sub-component A.2. Institution and capacity building.* The activities under this sub-component will include the provision of technical advisory services, goods and training to the MOHF and other entities represented in the Project Technical Committee as follows:

(a) MOHF for establishment of the MPAO including (i) preparing MPAOs departmental and staffing structures, terms of references for its departments and staff, an annual operational budget, and operational instructions; (ii) strengthening the capacity of new staff; (iii) contracting external asset managers and other providers, including insurance companies and accounting firms; (iv) providing basic infrastructure, including office equipment, furniture, air-conditioning and office hardware; (v) developing business process (re)-design including new IT implementation and (vi) capacity building for the administration of related programs;

(b) MOFT for and reform of pension/GPF offices, and establishment of a special board to oversee pension fund management;

(c) PSD/CSC for data consolidation and calculation of individual pension liabilities,

(d) CMDA for establishment of a supervisory unit for pensions

17. *Subcomponent A.3 Additional financing for Public Accounting System.* The activities under this sub-component will include the following implementation a full function Public Accounting System (PAS) that incorporates salary and payroll processing of civil servants, development and implementation of accounting standards policies and operating instructions required for the new system; development and implementation of the new integrated computerized system across the MOFT line ministries and Atolls

---

<sup>1</sup> The Government has requested a third component which would be used to capitalize the fund and reduce the initial unfunded liabilities due to credits given to civil service for past years of service during a transitional period. Availability of IDA and potential donor funds is being assessed for parallel financing possibilities. The technical assistance envisioned in Subcomponent A.2 would provide the foundation and due diligence for a donor-financed buy-out of this kind.

/islands in the country, and training of PAS related functional and technical staff in the use, operation and maintenance of the new system.

18. **Component B: Public awareness campaign (US\$0.5 million)** Provision of technical advisory services, goods and training to the MOHF to design and implement the overall public information campaign to educate members of the new pension system on the objectives and mechanisms of the system including improving awareness of (i) employers on their contributory obligations; (ii) workers on their rights and benefits; and (iii) senior citizens on the mechanism for claiming basic pension.

## 5. Financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	3.8
Total	3.8

## 6. Implementation

19. The Ministry of Higher Education, Employment and Social Security (MOHESS) has been the nodal ministry that for the past four years had been responsible for developing the reform concept and for the implementation of the new pension scheme. The recently elected Government that assumed office after the November 2008 Presidential elections has reorganized the MOHESS (now the Ministry of Employment, Youth and Sports) and moved the social protection functions to the Ministry of Health and Family (MOHF).

20. A project management team that had been created by the MOHESS has now moved to the new MOHF and will continue its functions (currently operating under the PPF). The Unit is currently staffed with a Project Manager, Sr. Project Advisor, Financial Management/Procurement Specialist, and an Accountant. As soon as the new Maldives Pension Administration Office (MPAO) is established under this project, it will become the prime implementing agency for the Government's social protection programs and the current staff will largely be retained and financed under the project.

21. A senior inter-ministerial Steering Committee will approve the annual project implementation plan and review progress semi-annually. It will be supported by a Project Technical Committee (PTC) consisting of representatives of the key agencies (MOHF, MOFT, CSC, CMDA, PSD) at the operational level. The PTC will facilitate project implementation and coordination by providing a forum for information sharing and resolving implementation issues. The PTC will meet at least once a month during the first six months of the project. A Project Preparation Facility (PPF) for US\$1.1 million was approved in early 2008. The PPF will be refinanced from the IDA Credit at effectiveness.

22. The project envisions the establishment of an MPAO and building its capacity for managing the pension program including monitoring and evaluation. This capacity (as in other areas) will focus on supervision and contracting of external agencies to assist with the M&E given the streamlined nature and small staff of the MPAO. During the course of the project, the implementation of the new pension system would be tracked through surveys of participation and understanding of the system and analysis of the administrative data on indicators such as contributions and member balances. The Project Management Unit would be responsible for contracting firms that could provide this information. The PAS component financed under EU Trust Fund is handled by Public Finance (PF) Division in Ministry of Finance and Treasury (MoFT) and there will be a need for PMU in MOHF to coordinate with this division in respect of additional financing that will be available under the proposed IDA credit.

## 7. Sustainability

23. The Government has recently shown its commitment to the current policy by retiring 1800 civil servants in May 2008. This was the first time that mandatory retirement has been applied in the Maldives. In general, the introduction of both elements of the pension system appears to enjoy broad support. The new Government has reaffirmed its commitment to pension reform and is currently shepherding the Pension Legislation through Parliament. Government is fully committed towards implementing PAS which is evident in (i) the fully committed contracts in respect of implementation contractor and the international support consultancy, (ii) in the Public Finance Act, 2006 and Audit Act, 2007 which have successfully legislated and implemented, and (iii) the progress being made in implementation of the activities under PAS financed under the EU trust fund.

## 8. Lessons Learned from Past Operations in the Country/Sector

24. Pension systems of the type proposed by the Government of Maldives have encountered problems in other countries for several reasons that have been taken into account in the project design. First, many individual account-based (or defined contribution) schemes have been implemented without sufficient thought to the efficiency of collection and recordkeeping systems resulting in losses for some members of the scheme and/or higher costs of administration of the system. This kind of mandated savings scheme is also subject to governance problems when inadequate attention is given to investment policy formulation. Both of these problems are addressed in the first component of the project.

25. The second component addresses another observed weakness of schemes which rely on individual accounts and the returns that they earn over time to produce retirement income. Unlike defined benefit schemes, the risks of longevity and investment returns in such a scheme are borne by the members. This requires more individual participation in the process and a basic understanding of the system, along with the availability of transparent sources of information. In addition, the transition from one type of scheme to another may be difficult to understand and could give rise to resentment or loss of support for the reform.

26. Finally, it has been observed that the prime counterpart on the policy dialogue, the MOHF has weak capacity to manage the fiduciary arrangements. To address this it was advised to MOHF to hire a team of consultants to work on the project preparation. This avenue is now being actively pursued.

## 9. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
<a href="#">Environmental Assessment (OP/BP 4.01)</a>	<input type="checkbox"/>	X
Natural Habitats ( <a href="#">OP/BP 4.04</a> )	<input type="checkbox"/>	X
Pest Management ( <a href="#">OP 4.09</a> )	<input type="checkbox"/>	X
Physical Cultural Resources ( <a href="#">OP/BP 4.11</a> )	<input type="checkbox"/>	X
Involuntary Resettlement ( <a href="#">OP/BP 4.12</a> )	<input type="checkbox"/>	X
Indigenous Peoples ( <a href="#">OP/BP 4.10</a> )	<input type="checkbox"/>	X
Forests ( <a href="#">OP/BP 4.36</a> )	<input type="checkbox"/>	X
Safety of Dams ( <a href="#">OP/BP 4.37</a> )	<input type="checkbox"/>	X
Projects in Disputed Areas ( <a href="#">OP/BP 7.60</a> )*	<input type="checkbox"/>	X
Projects on International Waterways ( <a href="#">OP/BP 7.50</a> )	<input type="checkbox"/>	X

## **10. List of Factual Technical Documents**

### **A. Bank Staff Assessments**

Maldives Country Assistance Strategy (2008)

### **B. Other**

Social Protection in the Maldives: Options for Reforming Social Assistance and Pensions. April 25, 2006

## **11. Contact point**

Contact: Robert J. Palacios

Title: Senior Economist (Pension)

Tel: +(91)-11-24619491

Fax: +(91)-11-246199393

Email: Rpalacios@worldbank.org

## **12. For more information contact:**

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Email: pic@worldbank.org

Web: <http://www.worldbank.org/infoshop>