



## 1. Operation Information

<b>Operation ID</b> P163966	<b>Operation Name</b> Maldives 1st DPF
<b>Country</b> Maldives	<b>Practice Area (Lead)</b> Macroeconomics, Trade and Investment

### Non-Programmatic DPF

<b>L/C/TF Number(s)</b> IDA-64550,IDA-D4940	<b>Closing Date (Original)</b> 30-Sep-2020	<b>Total Financing (USD)</b> 20,078,212.06
<b>Bank Approval Date</b> 01-Jul-2019	<b>Closing Date (Actual)</b> 30-Sep-2020	
	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	20,000,000.00	0.00
Revised Commitment	20,000,000.00	0.00
Actual	20,078,212.06	0.00

<b>Prepared by</b> Donna Kaidou Jeffrey	<b>Reviewed by</b> Vandana Chandra	<b>ICR Review Coordinator</b> Sonia Araujo	<b>Group</b> IEGEC
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## 2. Program Objectives and Pillars/Policy Areas

### a. Objectives

The program development objectives (PDOs) of the Maldives First Fiscal Sustainability and Budget Credibility Development Policy Financing Operation (DPF) were to: (1) “improve the policy framework to enhance the sustainability of the public finances; and (2) strengthen the policy framework to increase the credibility of the budget,” (Program Document (PD), p. 2).



For the purpose of this ICR Review, the PDOs are taken to be:

- **PDO1:** To improve the policy framework to enhance the sustainability of the public finances;
- **PDO2:** To strengthen the policy framework for budget credibility.

The Financing Agreement (FA) did not include a PDO statement.

## b. Pillars/Policy Areas

**Pillar 1: Improve the policy framework to enhance the sustainability of public finances.** This pillar sought to support the government's efforts to enhance the sustainability of public finances by: (1) increasing the efficiency of spending on Aasandha [1], a key fiscal expenditure driver; (2) improving revenue collection; and (3) enhancing the long-term fiscal sustainability of the energy sector.

- Fiscal sustainability of health care system
- Fiscal sustainability of the energy sector
- Revenue mobilization.

**Pillar 2: Strengthen the policy framework to increase the credibility of the budget.** This pillar supported a comprehensive reform package to introduce budget appropriations, virement rules and commitment controls, reduce arrears, improve debt management transparency and accountability, and enhance the governance of State Owned Enterprises (SOEs).

- Legal framework for budget appropriation, including virement rules
- Framework to implement commitment controls and reduce arrears
- Debt management
- Monitoring of state-owned enterprises.

## c. Comments on Program Cost, Financing and Dates

The total financing of the operation was US\$ 20,000,000. The actual amount disbursed was US\$20,078,212. It was comprised of:

- An IDA credit of US\$10,000,000
- An IDA grant of US\$10,000,000

The difference between approved and disbursed amounts is attributed to exchange rate fluctuations.

The operation was originally designed as a programmatic 2-series operation. The first operation in the series (DPL1) was approved on July 1, 2019 and became effective on November 7, 2019. The operation was closed, as scheduled, on September 30, 2020. The second operation in the series (DPL2-P172889), which was originally planned for 2021, was subsequently dropped due to the COVID-19 pandemic emergency and the inadequacy of the macroeconomic policy framework (ICR p.10).



At appraisal, the DPF series was complemented by a Disaster Risk Management DPF with Catastrophe Deferred Drawdown Option (Cat-DDO), and a Pandemic Emergency Financing Facility (PEF) to support the government's capacity to manage the impact of climate change and natural disasters, including disease outbreaks through the PEF.

[1] Aasandha is the universal health insurance scheme of Maldives. It is a single-payer healthcare system financed by the Government of Maldives. The name "Aasandha" is used to reference the Scheme as well as the state-owned company which acts as a third-party claims administrator. In the MoF budget classification system, the Aasandha budget is sometimes classified as social protection expenditure instead of health expending. As a health insurance company, Aasandha reimburses MoH health facilities, as well as the private sector for health services and medicines (ICR p. 8, 25).

### 3. Relevance of Design

#### a. Relevance of Objectives

At appraisal of DPF1 in early 2019, the PDOs were relevant to strengthen the macroeconomic framework as well as addressing key structural challenges in the Maldives.

**Country Context:** Macroeconomic performance was strong at appraisal with real gross domestic product (GDP) growth averaging 6.3 percent between 2013 and 2017. Growth was driven primarily by the tourism and construction sectors associated with large scale infrastructure developments to ensure service delivery throughout the country, support tourism and enhance the country's resilience to climate change and natural disasters. However, these large investment projects contributed to increased fiscal deficits and a high level of indebtedness. At the end of 2018, public debt (including guarantees) stood at 72 percent of GDP. Despite high GDP growth rates, the pace of poverty reduction remained below potential due to the low growth elasticity of poverty reduction. The poverty headcount rate was 8.2 percent in 2016 according to the low poverty line (half of the median total expenditures), but could reach as high as 46.5 percent if the high poverty line (median total expenditures) is applied, PD p. 5. This reflects the Maldivians' high level of vulnerability and risk of falling into poverty in the event of negative shocks.

#### Government Priorities

The PDOs of this DPF supported the Government of Maldives (GoM) reform agenda as outlined in the "Coalition Manifesto," and the 2019 Presidential address to the People's Majlis. At the time of appraisal, a National Development Plan and the Long-Term Sectoral Master Plans and Spatial Plans were under development. The PDOs were aligned with the GoM reforms to improve the fiscal stance and mitigate risks. PDO1 was aligned to the reform program which focused on revenue measures to increase fiscal space, while PDO2 was aligned with improving budget credibility. In particular, the reform program proposed to (i) introduce a personal income tax, (ii) revise electricity tariffs, (iii) review health spending (including Aasandha), and (iv) review and improve infrastructure projects in the housing sector, among others.

#### World Bank Strategy

The DPF was aligned with the Country Partnership Framework (CPF) FY16-FY19 and the Maldives Performance and Learning Review (PLR) of the CPF (2018). The PLR had updated the CPF objectives and adjusted its focus to (i) promoting economic opportunities for the Maldivians; (ii) building resilience to climate



change and other exogenous shocks; and (iii) strengthening fiscal sustainability. The CPF’s proposal of an integrated set of operations that would strengthen the Maldives’ fiscal sustainability, preparedness and resilience to natural disasters (financially and physically), and human capital, were aligned with the PDOs of the DPF.

**b. Relevance of Prior Actions**

**Rationale**

**Table 1: Maldives First Fiscal Sustainability and Budget Credibility DPF - Objectives, Prior Actions (PAs) and Indicative Triggers (ITs)**

Prior Actions (PA) of DPF1	Indicative Triggers (ITs) for DPF2
<b>PDO 1: To improve the policy framework to enhance the sustainability of the public finances</b>	
<p><b>PA1(a):</b> Aasandha Company Limited has notified the new harmonized drugs price list.</p> <p><b>PA1(b):</b> The “Guideline for Pharmacies Registered as Service Providers under the Social Health Insurance Scheme” has been issued by National Social Protection Agency (NSPA) stating that drug reimbursements will be received according to a harmonized price list.</p> <p><b>PA1(c):</b> the President’s Office has instructed Ministry of Finance and Aasandha Company/NSPA to appoint TPA to handle claims for overseas health care.</p>	<p><b>IT(1):</b> Aasandha Company Limited issues an open competitive tender to hire a TPA to manage claims for overseas health care.</p> <p><b>IT(2):</b> The Ministry of Finance issues a circular instructing the procurement of drugs with the support of international wholesalers.</p>
<p><b>PA2a:</b> The Government has established the Maldives Green Fund and <b>PA2b:</b> operationalized the Trust Account for the same.</p>	<p><b>IT(3):</b> The Ministry of Environment adopts the legal framework for the use of accumulated proceeds on the Maldives Green Fund.</p> <p><b>IT(4):</b> New electricity tariff structure to allow utilities to recover costs is gazetted.</p>
<p><b>PA3:</b> The amendment to the Import/Export Act was enacted by the People’s Majlis, setting soft drinks duties at MVR 4.60 per litre, energy drinks duties at MVR 33.64 per litre, and cigarettes duties at 25 percent and MVR 2 per cigarette.</p>	<p><b>IT(5):</b> The personal income tax law is gazetted.</p>
<p><b>PA4(a):</b> The Airport Taxes and Fees Act was enacted by the People’s Majlis introducing the Airport Development Fee at USD 25 to be levied on each</p>	<p><b>IT(6):</b> Amendments to the Airport Taxes and Fees Act increasing the Airport Service Charge by USD 25 are gazetted.</p>



foreign passenger and USD 12 on each Maldivian passenger.	
<b>PA4(b):</b> Airport Taxes and Fees Regulation has been issued by the Maldives Inland Revenue Authority.	
<b>PDO2: To strengthen the policy framework for budget credibility</b>	
<b>PA5:</b> The Ministry of Finance has issued the “Guideline on Virement of Funds from Budgets approved by the People’s Majlis” specifying the level of appropriation, regulating virements, and protecting the capital budget.	<b>IT(7):</b> Amendments to Public Finance Law to specify the level of appropriation, regulate virements and protect the capital budget are gazetted.
<b>PA6:</b> The Ministry of Finance has issued a Public Finance Circular requiring all government agencies to use the Materials Management module of SAP when purchasing and procuring assets and services.	<b>IT8:</b> The Ministry of Finance adopts arrears clearance strategy, and the strategy is reflected in the budget.
<b>PA7:</b> The Ministry of Finance has launched a Vendor Purchase Order service in the Bandeyri [web] portal enabling suppliers to check the authenticity of purchase orders and ensuring that unverified purchase or service orders will not be honored.	
<b>PA8:</b> The Ministry of Finance has published on its website the 2019-21 Medium-Term Debt Management Strategy (MTDS).	<b>IT9:</b> The Ministry of Finance publishes on its website two-month borrowing plans. <b>IT10:</b> Amendments to the Fiscal Responsibility Law to clarify the framework and responsibilities in terms of debt management and the fiscal balance are gazette.
<b>PA9:</b> The Ministry of Finance has issued a circular directing SOEs to adopt the Code of Corporate Governance.	<b>IT11:</b> Amendments to the Privatization and Corporatization Act to clarify role of the Ministry of Finance and increase focus on monitoring function of SOEs are gazetted.
<b>PA10:</b> The Ministry of Finance has issued a Circular directing SOEs to link the compensation packages of Managing Directors of such SOEs to achievement of targets outlined in performance agreements.	

**PDO 1: To improve the policy framework to enhance the sustainability of the public finances**

**PA1a, PA1b and PA1c:** P1a sought to contribute to PDO1 by supporting a harmonized price list for pharmaceuticals to generate cost savings since expenditures on drugs accounted for over half of the total Aasandha spending. The Aasandha insurance reimbursed claims for services not delivered at the Ministry of Health (MoH) facilities, including pharmaceutical spending, which accounted for approximately 63 percent of reimbursement spending. At appraisal, the system allowed pharmacies filing claims under Aasandha for drugs to receive different reimbursement amounts for the same drug, depending on when the pharmacy was empanelled under the Aashandha scheme. Harmonizing the prices paid to pharmacies was expected to



generate cost savings, and constituted a first step in a 3-part reform to improve the fiscal sustainability of the health care system overtime. **PA1b** established a new and harmonized price list with the publication of new guidelines by the National Social Protection Agency (NSPA) for all pharmacies using the Aasandha scheme. This allowed pharmacies (new and existing ones) to receive reimbursements according to the harmonized price list (PA1a). The procurement of medicines was inefficient, and the price of pharmaceuticals in the Maldives was very high with some medicines being even more expensive than in the U.S. and other high-income countries. Reforms of bulk procurement of medicine to facilitate the harmonization of drug prices across brands was to be achieved by the MoF instructing the procurement of drugs with the support of international wholesalers but this critical reform was foreseen as an indicative trigger (IT2) for DPF2. **PA1c** instructed the MoF to appoint a Third Party Administrator (TPA) for Aasandha to handle overseas claims. The TPA was expected to help in reducing overseas claims costs for Aasandha under the assumption that the TPA would have better local knowledge of prices for medical care, local presence to monitor cases of fraud and unnecessary care and purchasing power. The appointment of the TPA to implement the Aasandha reforms was foreseen as an indicative trigger (IT1) for DPF2. **Overall Relevance of PA1 (PA1a, PA1b and PA1c): Moderately Satisfactory (MS).**

**PA2a and PA2b:** **PA2a** supported the establishment of the Maldives Green Fund and **PA2b**, the operationalization of the Trust Account in 2019. End-user electricity tariffs and transfers to the State Trading Organization (STO) for purchase of oil were estimated at around 1.0 percent of GDP in 2019. The Green Fund was expected to be leveraged to finance renewable energy projects as well as climate change adaptation and mitigation. Green Tax receipts were earmarked to capitalize the Fund. The Green Tax is payable by tourists who stay in resorts, hotels, vessels and guesthouses. In 2018, total collections from the Green Tax amounted to MVR 811 million (USD 52.7 million or 1.1 percent of GDP). The Green Fund was expected to finance renewable energy projects that overtime would help to reduce electricity subsidies (both to diesel importers and consumers) by promoting alternative energy sources and reducing dependence on fossil fuels. A clear line of sight from PA2a to PDO1 was missing. A series of unknowns and long-term assumptions were part of how PA2a was meant to function in the results chain of PDO1. For example, PA2a did not articulate how the establishment of the Green Fund would materialize into an energy transition that would transpire into reduced energy dependence and fiscal savings. The legal framework for the use of accumulated proceeds on the Maldives Green Fund was foreseen as an indicative trigger (IT3) for DPF2. A new electricity tariff structure, another critical reform, to allow utilities to recover costs was also foreseen to be gazetted as an indicative trigger (IT4) for DPF2. Although, the IT4 reform was not undertaken due to the cancellation of DPO2, weakening the link between the PA and PDO1, establishment of the Green Fund was an important reform. **Relevance of PA2a: Moderately Satisfactory (MS).**

**PA2b** supported the operationalization of the Trust Fund in 2019. This was an important step towards earmarking funding for climate adaptation activities approved under the Green Fund. Despite the cancellation of DPO2, Maldives Green Fund was established in January 2019 as a trust fund under Public Finance Act (Law number 3/2006), and the Fund governed by the Maldives Green Fund Trust Statement (No. 2019/1) issued by the Minister of Finance. Funds are managed according to the management of the protected areas under the Environment Protection and Preservation Act (93/4) **Relevance of PA2b: Satisfactory (S).**

**PA3** supported an increase in revenues through an increase in import duties on soft and energy drinks and cigarettes. Compared to other South Asian countries, Maldives had a high revenue-to-GDP ratio averaging 27 percent between 2015 and 2017 but there was room to raise more revenues. Amendments to the Import and Export Act to increase ad-valorem import duty on energy and soft drinks and import duties on cigarettes was expected to generate an additional 0.6 percent of GDP in tax revenues in 2019. PA3 supported the objective of fiscal sustainability. **Relevance of PA3: Highly Satisfactory (HS).**



**PA4a and PA4b** supported revenue mobilization through the introduction of an Airport Development Fee (ADF). The ADF of US\$25 on the foreign passenger and US\$12 on each Maldivian passenger was introduced (**PA4a**) and the Airport Taxes and Fees Regulation was issued by the Maldives Inland Revenue Authority (**PA4b**). The fee was earmarked for two bond bullet payments in 2022 and 2023 to service external loans related to large infrastructure projects. The GoM had issued two international sovereign bonds of US\$250 million (5-year tenure, 7 percent, bullet payment in 2022) and a US\$100 million (5-year tenure, 5.5 percent, bullet payment in 2023). The ADF was expected to generate an additional 0.8 percent of GDP in revenues in 2018. The proceeds were deposited into the Sovereign Development Fund (SDF). At the time of DPF1's appraisal, the SDF had accumulated US\$124 million. If all assumptions regarding visitor arrivals held, by the end of 2022, it was expected to exceed US\$ 350 million, sufficient to meet both bullet payments due in 2022 and 2023. However, the amendment to the Airport Taxes and Fees Act increasing the Airport Service Charge by US\$25 to meet the necessary debt repayment was foreseen to be gazetted as an indicative trigger (IT6) for DPF2. Despite the cancellation of DPF2, the ADF was subsequently increased in 2021 and 2024. **Relevance of PA4: Highly Satisfactory (HS).**

#### **PDO2: To strengthen the policy framework for budget credibility**

**PA5** supported the objective of strengthening budget credibility (PDO2) with the issuance of guidelines by the Ministry of Finance (MOF) specifying the level of appropriation, regulating virements, and protecting the capital budget. Prior to these guidelines, the Public Finance Law did not clearly define the level of appropriations, nor did it link them to Accountable Government Agencies (AGAs), which contributed to large deviations between budgeted and actual expenditures. The guidelines specified: (a) the level of approved budget appropriations which could be exceeded without the passing of a supplementary budget by the People's Majlis; (b) that an AGA could only exceed its domestic budget by a maximum of 5 percent; (c) the Public Sector Investment Program (PSIP) budget could not be transferred elsewhere, i.e., no virements out of public sector investment projects; (d) a written approval from the President was required for new projects exceeding MVR 1 million or existing projects with cost variations of over 30 percent; and (e) the total PSIP budget could not be exceeded. The guidelines were expected to provide safeguards against budget appropriation and hence, support increased budget credibility. However, the guidelines of PA5 were to be mandated and gazetted through an amendment to the Public Finance Law to specify the level of appropriation, regulate virements and protect the capital budget. This critical step of converting guidelines into law was foreseen as an indicative trigger (IT7) in DPF2. The latter's cancellation weakened the relevance and sustainability of this PA. **Relevance of PA5: Moderately Satisfactory (MS).**

**PA6 and PA7** supported the issuance of a circular by the MOF requiring all government agencies to use the Materials Management Module of SAP Materials Management for purchasing and procuring goods and services. PA6 followed the rollout of the new integrated financial information system SAP which provided an avenue for preventing arrears accumulation and implementing commitment controls. The circular provided instructions to: (a) line ministries and spending entities, mandating them to enter purchase orders through SAP to be eligible for payments by MoF; and (b) the private sector contracting with the government, informing vendors that purchase orders that were not generated through the system with a unique purchase order number code would not be honored. PA6 was supported by a public announcement. PA7 informed suppliers of the launch of a new service named the Vendor Purchase Order (effective April 26, 2018) through the Bandeyri Portal that would enable suppliers to check the authenticity of the purchase orders and confirm that the budget was allocated and approved by the agency for those purchase and service orders. The announcement also noted that orders with unverified purchase or service orders would not be honored. PA6 and PA7 supported the objective of strengthening budget credibility. The adoption of an explicit arrears clearance strategy, and its inclusion in the budget by the MoF was critical for the latter's control over arrears accumulation and efforts to



improve the credibility of the budget. However, the arrears clearance strategy reform was foreseen as an indicative trigger (IT8) under DPF2; DPF2 cancellation significantly reduced the relevance of PA6 and PA7 for PDO2. **Relevance of PA6: Moderately Satisfactory (MS); Relevance of PA7: Moderately Satisfactory (MS).**

**PA8** supported the publication of the Medium-Term Debt Strategy (MTDS) for 2019-21. In addition, the MoF published its Medium-Term Fiscal Strategy (2019-21) and the semi-annual Public Debt Bulletin. The publication of these documents would support increasing transparency and accountability of debt management, and the credibility of the budget in line with PDO2. PA8 was expected to be supported by the publication of two-month borrowing plans on the MOF website (IT9) and amendments to the Fiscal Responsibility Law to clarify the framework and responsibilities for debt management and publishing the fiscal balance in the gazette (IT10). However, IT9 and IT10 were foreseen as indicative triggers in DPF2. Their cancellation weakened the relevance of PA8 for PDO2 although the publication of the MTDS remained an important step in supporting PDO2. **Relevance of PA8: Moderately Satisfactory (MS).**

**PA9 and PA10** supported a new governance code for State-Owned Enterprises (SOEs). Prior to the reform, governance arrangements of SOEs were heterogeneous and not always aligned with international principles and good practices. Given the financial commitments and exposures of SOEs in the context of large public investments, strengthening their governance structures and oversight was an important step towards budget credibility. The MoF and the Privatization and Corporatization Board (PCB) updated the code of corporate governance and made it legally binding. The MoF and PCB issued a joint circular that directed corporate boards to adopt the Code of Corporate Governance by May 1, 2019 (PA9). PA10 supported this reform, and provided further incentives for SOE management by linking compensation packages of SOE managers with the achievement of performance targets that were set in their performance agreements. However, reforms in the form of amendments to the Privatization and Corporatization Act to clarify the role of the Ministry of Finance and increase its ability to enforce and monitor SOE performance were foreseen as an indicative trigger (IT11) during DPF2. The latter’s cancellation diminished the relevance of PA9 and PA10. **Relevance of PA9: Moderately Satisfactory (MS); Relevance of PA10: Moderately Satisfactory (MS).**

## Rating

Satisfactory

## 4. Relevance of Results Indicators

### Rationale

**Table 2: Results Indicators (RIs) Relevance, Baseline, Targets, and Achievement**

Results indicator (RI)	Associated PAs	RI Relevance	Baseline	Target (FY23)	Actual Value as of Target Date	Actual Change in RI Relative to	RI Achievement rating



						Targeted Change	
<b>PDO1: To improve the policy framework to enhance the sustainability of the public finances</b>							
RI1: Reduction in spending on pharmaceuticals and overseas treatment (as % of spending in drug and overseas care reimbursement in 2017)	PA1a; PA1b; PA1c	U	Baseline (2017): 0	Target (2021): 6%	Result at closing (2020): NA. Result in Dec. 2021: -68 (Total Aasandha expenditure increased by 68% in 2021 from 2017 level)  -27 (Expenditure of persons covered under Aasandha policies increased by 27% in 2021 compared to 2017) -15 (Aasandha out-patient and In-patient expenditure increased by 15% compared to the same items in 2017).	Dec. 2021: 0%	Dec. 2021: Negligible
RI2: Transfers to STO (fuel subsidy) and state utilities (tariff subsidy) (as % of 2019 Grants, contributions and subsidies in the Budget)	PA2	U	Baseline (2019): 27.1 percent	Target (2021): 22%	Result at closing (2020): NA. Result in Dec. 2021: 26.6% (MVR 736.5 million spent on electricity subsidy in 2021 including transfers to STO and tariff subsidy. 2019 Grants, contributions and subsidies in budget is MVR 2.77 billion)	Dec. 2021: 9.8%	Dec. 2021: Negligible
RI3: Proceeds deposited towards the Maldives Green Fund	PA2	U	Baseline (2018): 0	Target (2021): US\$150 million	Result in Dec. 2021: US\$136 million cumulative	Dec. 2021: 90%	Dec. 2021: [Substantial]



					deposits as of end-2021		
RI4: Tax revenue (as % of 2016 GDP)	PA3	U	Baseline (2016): 19.6%	Target (2021): 29.6%	Result at closing (2020): NA. Result in Dec. 2021: total tax revenue in 2021 is 21.7% of 2016 nominal GDP	Dec. 2021: 21%	Dec. 2021: Negligible
RI5: Revenue from Airport Development Fee (ADF) (% of 2016 nontax revenues)	PA4a, PA4b	HS	Baseline (2016): 0	Target (2021): 15%	Result at closing (2020): NA. Dec. 2021: revenue from ADF was 9.6% of 2016 non-tax revenue	Dec. 2021: 64%	Dec. 2021: Modest
<b>PDO2: To strengthen the policy framework for budget credibility</b>							
RI6: Aggregate compositional variance of expenditure by AGAs (using PEFA methodology)	PA5	S	Baseline (2018): 21%	Target (2021): 10%	Result at closing (2020): NA. Result in Dec. 2021: 17.3%	Dec. 2021: 33.6%	Dec. 2021: Modest
RI7: Share of agencies/ministries using Materials Management Module of SAP to procure assets and services	PA6, PA7	HS	Baseline (2017): 0%	Target (2021): 95%	Result at closing (2020): NA. Result in Dec. 2021: 100% of all applicable agencies (159) had rolled out the Module as of end-2021	Dec. 2021: Over 100%	Dec. 2021: Substantial
RI8: Outstanding arrears as a share of GDP	PA6, PA7	MS	Baseline (2018): 0.9%	Target (2021): 0.6%	Result at closing (2020): NA. Result in Dec. 2021: Outstanding arrears as of end-2021 was 2.24% of increase 2021 nominal GDP	Dec. 2021: Over 200%	Dec. 2021: Negligible
RI9: Publication of an annual debt management report	PA8	HS	Baseline (2018): 0	Target (2021): 1	Result at closing (2020): NA. Result in Dec. 2021: 1 Medium-Term Debt Management Strategy published annually	Dec. 2021: Met	Dec. 2021: High
RI10: Number of SOEs, that in line with the Code of Corporate	PA9, PA10	MU	Baseline (2018): 0	Target (2021): 10 for	Result at closing (2020): NA. Result in Dec. 2021: NA	Dec. 2021: 0%	Dec. 2021: Negligible



Governance, publish on their website (i) the corporate governance structure and (ii) the corporate governance statement				both (i) and (ii)			
RI11: Share of SOEs with performance agreements signed	PA9, PA10	MU	Baseline (2018): 0%	Target (2021): no data.	Result at closing (2020): NA. Result in Dec. 2021: NA	Dec. 2021: 0%	Dec. 2021: Negligible

Note: A rating in [...] indicates a downgrade in the calculation of the overall outcome rating due to low relevance. Relevance ratings of U or below are rated Negligible.

**PDO1: To improve the policy framework to enhance the sustainability of the public finances**

**RI1** sought to measure the reduction in spending on pharmaceuticals and overseas treatment (as a % of spending in drug and overseas care reimbursement in 2017) that would occur as a part of PA1’s reforms under the Aasandha program. The RI was not clearly defined. Its numerator did not specify whether it measured pharmaceutical expenditures only on Aasandha or all government expenditures on pharmaceuticals including for persons covered by Aasandha but not paid to Aasandha. The item breakdown “overseas treatment” data was not available in the public data available from MoF. It was only available from Aasandha which made measuring the RI difficult. RI1 sought to track the impact of PA1 which led to the publication of a price list for drugs but the RI was imperfect as its denominator could not distinguish or control the expenditures on drugs due to price controls that were related to PA1 from those due to other factors such as increased demand for health care services or the types of drugs prescribed. These factors limited the measurement of RI1. **Relevance of RI1: Unsatisfactory (U).**

**RI2** sought to monitor progress in PA2 towards PDO1 through the reduction in energy sector subsidies. RI2 measured the 2021 energy subsidy (transfers to State Trading Organisation (STO) fuel subsidy and state utilities tariff subsidy) as a share of the 2019 grants, contributions, and subsidies (GCS) in the budget. The RI had severe measurement issues. As the GCS (denominator) was also comprised of items unrelated to the energy/electricity subsidy, changes in RI2 did not accurately reflect progress in energy sector subsidy reform (PA2). Inflation changes would add further measurement challenges to the RI rendering it ineffective for tracking progress in PA2. A better RI would have measured progress in IT4 related to the new electricity tariff structure which was scheduled for DPO2. **Relevance of RI2: Unsatisfactory (U).**

**RI3** measured deposits in the Maldives Green Fund. As the data on deposits was readily available, RI3 could track progress in PA2. However, as noted in the relevance of PA2 reforms, the Green Fund reform itself was not relevant for the achievement of PDO1 aimed at reducing fiscal spending on energy subsidies and improving fiscal sustainability. **Relevance of RI3: Unsatisfactory (U).**

**RI4** sought to monitor the impact of PA3 which set higher import duties on soft and energy drinks and cigarettes but it was not measurable. It was too broad as it measured total tax revenues (including import duties on soft and energy drinks and cigarettes) as a share of the 2016 GDP, resulting in attribution challenges related with the numerator and denominator (ICR, p. 25). For example, various components of the tax revenues changed in heterogenous ways (tourism rebounded, consumer spending declined, and an amendment to the Export-Import Act in July 2020 allowed for a 50 percent waiver on import duties on



all goods). RI4 would have been more useful for measuring PA3's contribution to PDO1 if it was more specific to the reforms undertaken under PA3. **Relevance of RI4: Unsatisfactory (U).**

**RI5** sought to measure the revenue from the airport development tax as a share of non-tax revenues. The baseline was zero. The RI was clearly defined and measurable and would indicate progress in PA4 towards greater fiscal sustainability. **Relevance of RI5: Highly Satisfactory (HS).**

**PDO2: To strengthen the policy framework for budget credibility**

**RI6** tracked progress in PA5 towards improvement in budget credibility (PDO2) by measuring the variance between expenditures and budget appropriations, including the PSIP budget, by AGAs. It was useful for monitoring progress in PA5 and reflected fiscal accountability. **Relevance of RI6: Satisfactory (S).**

**RI7** tracked the impact of PA6 and PA7 on PDO2 by measuring progress (increase) in the share of agencies/ministries which complied with the guidance for using the SAP Materials Management module for purchasing and procuring goods and services (PA6), and the launch of a vendor purchase order service (PA7). The RI was clear and measurable. **Relevance of: Highly Satisfactory (HS).**

**RI8** monitored outstanding arrears as a share of GDP. The launch of the Vendor Purchase Order service portal (which was established by PA7 to implement commitment controls) was not expected to contribute to a reduction in arrears as this also required active debt management. This was one component of the total effort which was expected to contain, to some extent, the increase in arrears. The absence of an explicit arrears clearance strategy for the MoF that was foreseen as an indicative trigger (IT8) for DPF2 weakened the relevance of RI8 to monitor progress in PA6 and PA7. The RI could have been better defined as the denominator (GDP) is too broad and unrelated to the PA. **Relevance of RI8: Moderately Satisfactory (MS).**

**RI9** tracked the publication of the annual and other debt management reports, and clearly measured progress in PA8 by tracking greater transparency in debt reporting and improved budget credibility. **Relevance of RI9: Highly Satisfactory (HS).**

**RI10** measured progress in the number of SOEs who complied with PA9 by adopting the Code of Corporate Governance and publishing corporate governance statements on their websites. While the publication of statements was a useful start towards the adoption of the Code of Corporate Governance by SOEs, RI10 could not measure enforcement and accountability of corporate governance practices by the SOEs. Amendments to the Privatization and Corporatization Act to clarify the role of the MoF and increase its monitoring function of SOEs was foreseen as an indicative trigger (IT11) in DPF2. **Relevance of RI10: Moderately Unsatisfactory (MU).**

**RI11** supplemented RI10 and sought to monitor PA10's contribution to the objective of budget credibility by measuring the number of SOEs whose managers signed performance agreements. However, the relevance of RI11 was weak as it could not measure whether there was adherence and enforcement of the performance agreements after signing. Amendments to the Privatization and Corporatization Act to clarify the role of the MoF and increase its monitoring function of SOEs was foreseen as an indicative trigger (IT11) in DPF2. **Relevance of RI11: Moderately Unsatisfactory (MU).**

The overall relevance rating of the RIs is Moderately Satisfactory (MS). It was significantly impacted by two factors. One, RI1, RI2 and RI4 were not well defined and presented measurement challenges that led to Unsatisfactory ratings. Two, the relevance of the RIs hinged on the foreseen implementation of reforms



(ITs) under DPF2 that would have facilitated credible data for measuring progress in the PAs. An example is RI10 and RI11 that were designed to measure progress in SOE reforms (PA9 and PA10) towards enhanced budget credibility (PDO2). However, this required the MoF to monitor enforcement of the SOE reforms (whether SOEs were complying with the new corporate governance codes and indeed linking manager's compensation to performance) but that step in the reform process was foreseen as the indicative trigger (IT11) for DPF2. In the absence of information regarding compliance and enforceability of the new SOE laws, RI10 and RI11 could not track progress in the SOEs reforms (PA9 and PA10) and their contribution to PDO2. The target dates for all RIs were originally set in December 2021 which was 15 months after the closing of DPF1 (September 30, 2020).

## Rating

Moderately Satisfactory

## 5. Achievement of Objectives (Efficacy)

### OBJECTIVE 1

#### Objective

To improve the policy framework to enhance the sustainability of the public finances

#### Rationale

**RI1** was not achieved, with a baseline of 0, and a target of 6 percent reduction in spending in pharmaceuticals and overseas treatment. As the ICR does not report any achievement-related data for 2020 when the project closed, the achievement for RI1 is rated Negligible. Additional information (ICR p. 26 and TTL interview) shows that instead of the targeted reduction, there was a general increase in spending on Aasandha in 2021. Since 2021, the government has further extended its spending on pharmaceuticals and claims for overseas treatment, and did not proceed with any of the proposed health system financing reforms despite the World Bank's extensive TA support for health sector reforms. **Achievement of RI1: Negligible.**

**RI2** targeted a reduction in the energy subsidy from 27.1 percent in 2019 to 22 percent of the 2019 GCS in the budget in 2021 (ICR p. 27) and was not achieved. In the absence of achievement data for 2020 when the project closed, the achievement of RI2 is rated Negligible. The ICR notes that in addition to cost increases in 2021, there was also a lack of political will to implement reforms that would reduce subsidies in the energy sector. **Achievement of RI2: Negligible.**

**RI3** measured the cumulative deposits in the Maldives Green Fund. As the ICR does not report any achievement-related data for 2020 when the project closed, the achievement of RI3 is rated Negligible. At the end of 2021, the cumulative deposits in the Maldives Green Fund reached US\$136 million or 90 percent of the targeted US\$150 million. Applying the original December 2021 target deadline, achievement is rated as Substantial but downgraded to Negligible due to the Unsatisfactory relevance rating of the RI. Since PA2 was not relevant for PDO1, the achievement of the corresponding RI is also not considered relevant.

**Achievement of RI3: Negligible.**

**RI4** targeted revenues from higher trade taxes at 29.6 percent in 2021 relative to the baseline of 19.6 percent of the 2016 GDP. As no data is reported for December 2020 when the project closed, RI4 is rated Negligible.



The total tax revenue in 2021 was only marginally higher at 21.7 percent, representing 21 percent of the 2021 target. **Achievement of RI4: Negligible.**

**RI5** targeted revenues from the new Airport Development Fee (ADF) at 15 percent of the 2016 non-tax revenue in 2021 compared to a baseline of zero. As no data is reported for December 2020 when the project closed, RI5 is rated Negligible. In 2021, ADF revenues were measured at 9.6 percent of the 2016 non-tax revenue representing 64 percent of the target. **Achievement of RI5: Modest.**

Achievement of PDO1 is rated Unsatisfactory as 4 of 5 RIs are rated Negligible and the remaining RI is rated Modest.

## Rating

Unsatisfactory

## OBJECTIVE 2

### Objective

To strengthen the policy framework for budget credibility

### Rationale

**RI6** was partially achieved at 34 percent of the target of 10 percent (ICR p. 42) by 2021. The aggregate compositional variance of expenditure by AGAs was 17.3 percent in 2021 which was a modest reduction compared to the baseline of 21 percent. COVID-19 disruptions and other external shocks diminished the impact of the PA. **Achievement of RI6: Modest.**

**RI7's** achievement for 2020 when the operation closed is not reported and is implicitly rated Negligible (missing data). The ICR reports that compared to the original target of 95 percent, it was mostly achieved by the end of 2021 with 159 agencies (100 percent) having rolled out the Material Management Module (MMM). Considering that progress in the RI graduated from Negligible to High between the operation's closing and the following year (2021), IEG rates the RI7's achievement as Substantial. **Achievement of RI7: Substantial.**

**RI8** was not achieved in either 2020 (no data) or by December 2021 (original target). There was an increase in arrears to 2.24 percent of GDP at the end of 2021 compared to the target of 0.60 percent of GDP. The reversal in results was partly due to external factors including COVID-19, reduction in tourism, and volatility in global energy prices. **Achievement of RI8: Negligible.**

**RI9** was met with the publication of the MTDS in addition to bi-annual Public Debt Bulletins since 2018. **Achievement of RI9: High.**

**RI10** was not achieved at the end of 2021 (target of 10). The ICR does not report any data for 2020. The ICR notes that even in 2023, "besides the lack of clarity between mandatory and voluntary principles and clauses in the Code, some SOEs lacked awareness of disclosure and publishing requirements. Numerous SOEs encountered both technical limitations and budgetary constraints which hindered their ability to meet the publication requirements," (ICR p 31). **Achievement of RI10: Negligible.**



**RI11** was not achieved by the target date of 2021, and the ICR does not report any data for 2020. **Achievement of RI11: Negligible**

Achievement of PDO2 is rated Moderately Unsatisfactory (MU) as two thirds of the RIs are rated Modest or below (Negligible) and at least one RI is rated Negligible.

### Rating

Moderately Unsatisfactory

## Overall Achievement of Objectives (Efficacy)

### Rationale

PDO1 is rated Unsatisfactory and PDO2 is rated Moderately Unsatisfactory. The overall efficacy rating is Moderately Unsatisfactory (MU). PDO1's ratings were pulled down equally by low achievement and low relevance of the individual RIs. While relevance was better for the RIs for PDO2, only two RIs had an achievement rating higher than Modest.

### Overall Efficacy Rating

Moderately Unsatisfactory

## 6. Outcome

### Rationale

With the relevance of PAs rated Satisfactory (S) and achievement of objectives rated Moderately Unsatisfactory (MU), the outcome rating is Moderately Unsatisfactory (MU).

The overall low achievement rating (Moderately Unsatisfactory) for DPF1 is largely attributable to the cancellation of the indicative triggers (DPF2) that disrupted or stalled the next set of reforms foreseen during DPF2, as well as completion/implementation of the ongoing reforms (after DPF2 was cancelled). The efficacy rating for PDO1 is Unsatisfactory due to low relevance of the RIs which compromised the achievement ratings. The efficacy rating for PDO2 is Moderately Unsatisfactory (MU) as achievement was above Modest in only two areas – use of an online procurement portal and debt reporting. In all other areas such as arrears reduction or SOE reform that were critical for the PDO of budget credibility, achievement was Modest or Negligible.

External factors such as the COVID-19 pandemic and the hike in the prices of petroleum imports due to Russia's invasion of Ukraine conflict contributed to disruptions and delays in implementation. Achievement was



affected by the deterioration in the broader macroeconomic environment and the lack of reform implementation such as the energy subsidy reduction.

### **a. Rating**

Moderately Unsatisfactory

## **7. Risk to Development Outcome**

With the cancellation of the second operation, and high political and governance risks, most of the reforms which were undertaken in DPF1 are at risk of slippage. The TTL interview notes that critical fiscal reforms covering revenue and expenditures were either not implemented or reversed after the closing of DPF1.

## **8. Assessment of Bank Performance**

### **a. Bank Performance – Design**

#### **Rationale**

The analytical underpinnings of the operation were strong at the program preparation stage. Each policy area was addressed with relevant analytical work (see Table 6, ICRR p. 33). Analytical work was extensive given the experience with DPFs in small island economies and a previous unsuccessful DPF in the Maldives. Prior to this DPF operation, the Bank approved a programmatic series in 2010 which was subsequently discontinued due to the lack of implementation capacity and other reasons (ICR p. 34). This operation drew on some of these lessons learnt from the previous engagement with the use of technical assistance which was expected to address the capacity issues...

Some RIs (RI1, RI2 and RI4) were not clearly defined and led to measurement and attribution issues, lessening their relevance.

Some of the PAs for this operation (DPF1) would have been highly relevant for achieving the PDOs of promoting fiscal sustainability and improving budget credibility, but their relevance was weakened because their implementation hinged on critical reforms that were foreseen as indicative triggers in DPF2. This blurred the line of sight from the PAs to the PDO when DPF2 was cancelled. Examples include the PAs related with the expenditure reduction fiscal reforms for the health sector, subsidy reforms for the energy sector and SOE reforms. One PA related with the Maldives Green Fund establishment was only the initial step of a large and complex reform agenda for the energy subsidy reductions to be facilitated by the transition to cleaner sources of power, and was not even outlined in the theory of change presented in the ICR.

The cancellation of DPO2 due to the impacts of COVID-19 and Russia's invasion of Ukraine hindered the achievement of some important reforms as envisioned under the DPO series.



## Rating

Satisfactory

### **b. Bank Performance – Implementation**

#### Rationale

Regular supervision missions were conducted and day-to-day support from the field office was sustained by the World Bank team. As part of regular supervision, the World Bank coordinated with development partners, especially the IMF and the AfDB (ICR p. 36). The World Bank provided technical assistance to various ministries and the President's office to help fill knowledge and technical gaps. It engaged in frequent policy dialogues and fulfilled just-in-time technical support requests from various agencies involved in the operation (ICR p.35). It is unfortunate that despite such close engagement and supervision, the World Bank team did not collect data/information related with the achievement of the RIs.

## Rating

Satisfactory

### **c. Overall Bank Performance**

#### Rationale

The team provided a timely response to the COVID-19 epidemic and designed the operation with actions to support immediate needs of protecting lives, and livelihoods, as well as longer-term reforms.

### **Overall Bank Performance Rating**

Satisfactory

## **9. Other Impacts**

### **a. Social and Poverty**

The program is likely to have a positive impact on poverty reduction but it is too early to tell.

### **b. Environmental**



The program will likely have a positive environmental impact with the establishment and accumulation of the Green Fund (PA2) when the related longer term reforms related to the energy transition are implemented.

**c. Gender**

No specific gender impacts are noted.

**d. Other**

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**10. Quality of ICR**

**Rationale**

The ICR provides a good overview of the context, implementation experience and challenges of the DPL series. It presents a schematic results chain, and the report is focused and clearly written. However, the ICR is not consistent with the guidelines in reporting the achievement data for the RIs. The operation closed in September 2020. In reporting the achievement of the RIs against the original 2021 targets, in all cases except one (RI7), the ICR reports data from 2022 and 2023, while the guidelines require achievement data to be reported at the time of the operation’s closing. The ICR itself was submitted in 2025, four years after the operation’s closing.

**a. Rating**

Modest

**11. Ratings**

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	
Bank Performance	Satisfactory	Satisfactory	
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Modest	



## 12. Lessons

This ICR presents seven lessons and this ICRR adds the following lesson:

**The design of programmatic series operations for small states with limited capacity perform better when supported by strong technical assistance and collaboration with other development partners.** Many of the reforms undertaken in DPF1 benefited from strong technical assistance follow-up implementation support which was identified and programmed in the design of the first operation.

## 13. Project Performance Assessment Report (PPAR) Recommended?

No