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Report No: PAD742

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 4.3 MILLION
(US\$6.5 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MALDIVES

FOR A

PUBLIC FINANCIAL MANAGEMENT SYSTEMS STRENGTHENING PROJECT

May 29, 2014

Financial Management Unit
Operational Services & Quality Department
South Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective = February 28, 2014)

Currency Unit = Maldivian rufiyaa (Rf)

Rf15.43 = US\$1

US\$1.5474 = SDR 1

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	IT	Information technology
BER	Budget execution report	M&E	Monitoring and evaluation
CAS	Country Assistance Strategy	MIRA	Maldives Inland Revenue Authority
CS-DRMS	Common Wealth Secretariat Debt Recording and Management System	MOFT	Ministry of Finance and Treasury
CGE	Central government entities	MTFF	Medium-term fiscal framework
CFF	Cash flow forecasting	NCB	National competitive bidding
DeMPA	Debt Management Performance Assessment	OP/BP	Operational Policy/Bank Procedure
DMS	Debt management strategy	ORAF	Operational Risk Assessment Framework
EPP	Economic policy planning	PAS	Public accounting system
ERP	Economic Recovery Program	PDO	Project development objective
FM	Financial management	PEFA	Public Expenditure and Financial Accountability
GDP	Gross domestic product	PFM	Public financial management
GoM	Government of Maldives	PMU	Project management unit
HR	Human Resources	SAP	Systems, Applications and Products in Data Processing
IBRD	International Bank for Reconstruction and Development	SOE	State-owned enterprise
IDA	International Development Association	TOR	Terms of reference
IDF	Institutional Development Fund	TPAD	Treasury and Public Accounts Division
IMF	International Monetary Fund	TSA	Treasury single account
IPSAS	International Public Sector Accounting Standards	UNOPS	United Nations Office for Project Services
IFMIS	Integrated Financial Management Information System		

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Country Director:	Francoise Clottes
Sector Director:	Idah Z. Pswarayi-Riddihough
Sector Manager:	Fily Sissoko
Task Team Leader:	Jiwanka B. Wickramasinghe

REPUBLIC OF MALDIVES
Public Financial Management System Strengthening Project

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PAD DATA SHEET*Republic of Maldives**Public Financial Management Systems Strengthening Project (P145317)***PROJECT APPRAISAL DOCUMENT***SOUTH ASIA**SARFM*

Report No.: PAD742

Basic Information			
Project ID P145317	EA Category Category C	Team Leader Jiwanka B. Wickramasinghe	
Lending Instrument Specific Investment Loan	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 01-August-2014	Project Implementation End Date 31-July-2019		
Expected Effectiveness Date 01-August-2014	Expected Closing Date 31-July-2019		
Joint IFC No			
Sector Manager Fily Sissoko	Sector Director Idah Z. Pswarayi-Riddihough	Country Director Francoise Clottes	Regional Vice President Philippe H. Le Houerou
Borrower: Ministry of Finance and Treasury			
Responsible Agency: Ministry of Finance and Treasury			
Contact: Telephone No.:	Ismail Ali Manik 9607909196	Title: Email:	Permanent Secretary, MOFT ismail.alimanik@finance.gov.mv
Project Financing Data(in USD Million)			
[]	Loan	[]	Grant
[]	Credit	[X]	IDA Grant
[]		[]	Guarantee
[]		[]	Other
Total Project Cost:	6.50	Total Bank Financing:	6.50
Financing Gap:	0.00		

Financing Source	Amount
BORROWER/RECIPIENT	0.00
IDA Grant (SDR 4,300,000.00)	6.50
- Recommitted(SDR 980,155.13)	1.50
- New (SDR 3,319,844.87)	5.00
Total	6.50

Expected Disbursements (in USD Million)

Fiscal Year	2015	2016	2017	2018	2019	2020	0000	0000	0000
Annual	1.425	1.400	1.450	1.120	1.100	0.005	0.00	0.00	0.00
Cumulative	1.425	2.825	4.275	5.395	6.495	6.500	0.00	0.00	0.00

Proposed Development Objective(s)

The proposed project development objective (PDO) is to enhance budget credibility, transparency, and financial reporting of central government finances.

Components

Component Name	Cost (USD Millions)
Strengthening the PFM Environment	1.45
Strengthening Budget Execution	4.40
Project Management	0.55
Contingency	0.10

Institutional Data

Sector Board

Financial Management

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	General public administration sector	100		
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%	
Public sector governance	Public expenditure, financial management and procurement	100	
Total		100	
Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?		Yes []	No [X]
Does the project require any waivers of Bank policies?		Yes []	No [X]
Have these been approved by Bank management?		Yes []	No [X]
Is approval for any policy waiver sought from the Board?		Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?		Yes [X]	No []
Safeguard Policies Triggered by the Project		Yes	No
Environmental Assessment OP/BP 4.01			X
Natural Habitats OP/BP 4.04			X
Forests OP/BP 4.36			X
Pest Management OP 4.09			X
Physical Cultural Resources OP/BP 4.11			X
Indigenous Peoples OP/BP 4.10			X
Involuntary Resettlement OP/BP 4.12			X
Safety of Dams OP/BP 4.37			X
Projects on International Waterways OP/BP 7.50			X
Projects in Disputed Areas OP/BP 7.60			X
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Appointment of a Management Implementation Support Consultant		September 30, 2014	
Description of Covenant			
The Recipient shall, by no later than two (2) months after the Effective Date, obtain and retain throughout the implementation of the Project, the services of a Management and Implementation Support Consultant, with qualifications and experience and under terms of reference acceptable to the Bank, in order to assist the PMU with coordination and monitoring of the Project.			
Conditions			
Name		Type	

Description of Condition					
Team Composition					
Bank Staff					
Name	Title	Specialization	Unit		
Leslie Isao Kojima	Sr. Financial Management Specialist	Financial Management	SARFM		
Haider Raza	Sr. Procurement Specialist	Procurement	SARPS		
Sunethra Chandrika Samarakoon	Procurement Specialist	Procurement	SARPS		
Charles Undeland	Sr. Governance Specialist	Governance	SASGP		
Manoj Jain	Lead Financial Management Specialist	Financial Management	SARFM		
Gloria Avershima Kwembe	Program Assistant	Administration	SARFM		
Jiwanka B. Wickramasinghe	Sr. Financial Management Specialist	Team Lead	SARFM		
Camilo GoMez Osorio	Economist	Economics	SASEP		
Cigdem Aslan	Sr. Financial Officer	Debt Management	FABDM		
Susrutha Pradeep Goonesekera	E T Consultant	Social	SASDS		
Priyantha Jayasuriya Arachchi	Program Assistant	Administration	SARFM		
Supul Chamikara Wijesinghe	Financial Management Specialist	Financial Management	SARFM		
Sandya Kumari Salgado	Sr. External Affairs Off.	Communication	SAREX		
Mokshana Nerandika Wijeyeratne	E T Consultant	Environment	SASDI		
Chau-Ching Shen	Sr. Finance Officer	Disbursements	CTR		
Non-Bank Staff					
Name	Title	Office Phone	City		
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments

I. STRATEGIC CONTEXT

1. Until recently, Maldives has been a development success story. In the early 1980s, the Maldives had a population of 156,000 and was one of the world's 20 poorest countries. Today, with a population of over 326,000, it is a middle-income country with a Gross Domestic Product (GDP) per capita income of US\$7,177.¹

A. Country Context

2. Showing continuous improvement over the years, Maldives remains the best-ranked country in the UNDP Human Development Index in South East Asia (2011). Poverty rates, as measured by the headcount ratio of 15 Maldives rufiyaa per person per day, have fallen steeply from 21 percent in 2003 to 15 percent in 2010.² Vulnerability and inequality are still a concern when considering a significant number of people are one shock below falling into poverty, and the disparities remain substantial between remote, sparsely populated islands and the capital Malé region. Despite this vulnerability, Maldives has good health and education indicators. Life expectancy is 74.8 years. For children under age 5, mortality is 11 out of 100,000. The maternal mortality ratio is higher at 37 out of 100,000. Adult literacy stands at 98.4 percent. Public expenditures on combined health and education stand at 17.86 percent of GDP. Growth moderated to 3.4 percent in 2012 from 7.1 percent in 2010, but the outlook is positive at over 4 percent for 2014

3. **The Maldives has however been in a difficult economic situation over the last years.** The underlying imbalance in the Maldives' public finances is spending beyond its means. Trends over the past five years show an increasing gap between revenues and expenditures, financed by unsustainable levels of public debt at increasingly high interest rates. The fiscal deficit increased from around 11.3 percent of GDP (including grants) in 2008 to 13.5 percent of GDP in 2012 — purely in cash terms. When one includes payment arrears, the deficit is considerably higher and is estimated to be 16.5 percent of GDP.³ This is the result of higher-than-budgeted expenditures from increased subsidies, social welfare payments, and transfers to state-owned enterprises (SOE).⁴

4. **Public finance imbalances in Maldives seem to lie on the expenditure side rather than on the revenue side.** Sources of government revenues changed considerably during the last few years primarily due to the introduction of new taxes, which now account for 40 percent of total revenues. Tourism Goods and Services Tax and General Goods and Services Tax collectively represented 26 percent of total revenues in 2012. Maldives also introduced income tax in 2012; this tax brought in 14 percent of total revenues in 2012. These new measures increased the total revenues to 29 percent of GDP in 2012 (the highest in the South Asia Region) from 25 percent in 2003.⁵

5. **The economy is vulnerable to external shocks as witnessed by the economic recession following the tsunami of December 2004.** The economy is largely dependent on tourism and fisheries. Since 2008, tourism has taken a hit from weaker demand from Europe, the country's largest market. Fortunately, the growing Chinese tourist segment is compensating for the weaker volume of

¹ World Development Indicators, World Bank.

² Maldives Development Update, October 2013.

³ While the Ministry of Finance and Treasury estimates arrears at 3 percent, the World Bank estimate is 6 percent or higher according to the Maldives Development Update, October 2013.

⁴ World Bank estimates 2013.

⁵ World Bank estimates 2013.

arrivals from Europe. The non-tourism sectors such as construction, communications, and fisheries will remain dynamic with a positive contribution to the economy.

6. **Compared to international standards, Maldives public spending is high at 42 percent of GDP in 2012, up from 28 percent in 2003.** The public sector wage bill at US\$290 million, or 14 percent of GDP in 2012, is unsustainably high. The public service, employing 11 percent of the population, is large by international standards. Consequently, the public sector debt dynamics worsened, reaching about 80 percent of GDP in 2012 and is estimated to rise further to 86 percent. Domestic financing is increasingly unavailable; Treasury bill auctions have routinely been undersubscribed, particularly for longer maturities. Debt repayments doubled from 2007 to 2011 and in 2013 stand at 3 percent of GDP. Current account deficit is over 25 percent of GDP and gross international reserves have fallen to around two months of imports. The serious cash flow constraint faced by the Government has severely compromised macro fiscal stability. Increasing the quality of service provision to a standard commensurate with the country's income levels is a challenge in this environment.⁶

7. **The country's politics also underwent major changes in the past decade in line with the economic transformation and changes in demographics, reflecting the needs and aspirations of Maldivians.** The adoption of a new Constitution in August 2008 paved the way for the country's first-ever multiparty presidential and parliamentary elections. The politics of the Maldives take place in the framework of a presidential representative democratic republic, whereby the President is the Head of Government. Executive power is exercised by the Government. The President heads the executive branch and appoints the Cabinet. Political parties in the Maldives were legalized on 2005, which allowed a multiparty system to contest in presidential and parliamentary elections. The archipelago's first multiparty presidential election was held in October 2008. In the run-up to the elections, public spending increased considerably to reach 63 percent of GDP in 2008 from 36 percent of GDP in 2004. The public service wage bill increased by over 150 percent from 2004 to 2008, and public service came to represent one-third of the labor force. In February 2012 the first democratically elected president of the Maldives, President Mohamed Nasheed, resigned; Vice President Mohammed Waheed Hassan Manik was sworn in as the new president of Maldives. His presidential term ended in November 2013 and Abdulla Yameen succeeded Mohammed Nasheed to become the new President of Maldives.

8. **Senior officials have articulated several important policy priorities for addressing the economic and social challenges facing the Maldives and sustaining the country's development.** As highlighted in the government's Manifesto, a key objective going forward is to achieve higher economic growth and diversification, notably through the creation of Special Economic Zones and the launching of large, government-sponsored infrastructure projects. This broad objective needs to be translated into a medium-term development strategy and program, which the government plans to elaborate over the next few months. A key challenge in designing the strategy will be to ensure that the government's social and economic goals are fully consistent with the urgent need for fiscal consolidation to restore fiscal and debt sustainability going forward.

⁶ World Bank/IMF Debt Sustainability Analysis 2013.

B. Sectoral and Institutional Context

9. The fiscal challenges are linked to institutional weaknesses in public financial management (PFM) in addition to a volatile political environment that has taken a significant toll on the whole of budget policy and management. Part of the solution is reforms (e.g., civil service, wage cuts, cutting expenditures, SOE, devaluation of the rufiyaa). Part of the solution is technical, which the proposed PFM Systems Strengthening Project aims to support.

10. **Many of the identified weaknesses in the PFM system add significantly to the level of fiscal risk.** These weaknesses undermine the government's capacity to undertake necessary fiscal adjustments in an efficient manner. The Public Expenditure and Financial Accountability (PEFA) assessment carried out by the IMF jointly with the World Bank and the Government of Maldives in May 2010 and an update to the PEFA presently underway underscores the need for significant improvements in its PFM systems, namely in the broad PFM areas of budget credibility; predictability; and control in budget execution and accounting, recording, and reporting.

11. **The Government of Maldives put together a comprehensive adjustment program in 2009 to address severe fiscal and external imbalances.** The international community came together in 2010 to provide budget support and technical advice to allow the democratic government of President Nasheed the ability to make the needed changes to address an acute episode of macroeconomic instability that began with the tsunami of 2004 and was later aggravated in the wake of the 2008 financial crisis. Based on the respective mandates, the IMF stand-by arrangement (US\$92.5 million) focused on supporting the aspects of the government's reform program related to short-term macroeconomic imbalances. The World Bank's smaller development policy credit (US\$8.5 million) focused on supporting aspects of the government's reform program related to the PFM structural problems and public enterprises that constrained fiscal adjustment and protection of the vulnerable during the recovery. The Asian Development Bank (ADB) followed with an Economic Recovery Program (ERP) for US\$35 million of budget support and US\$3 million of technical assistance. These operations were organized around areas and actions that were part of the Government's own program, and close donor coordination ensured complementarity in operations. Unfortunately, the programmatic series of the IMF and World Bank lapsed before most of the objectives could be realized as the political environment and technical capacity within the Government of Maldives made it difficult to follow through on the program's actions.

12. **The Government on the other hand was successful in meeting the triggers to receive both tranches of the ADB-supported Economic Recovery Program.** With the first tranche released in October 2010 and the second in September 2012, the ERP support helped to accomplish the following: (a) enactment of the Fiscal Responsibility Act that identifies medium-term fiscal objectives, (b) preparation of a debt management strategy, and (c) establishment of internal audit units and preparation of an audit charter and guidelines and manual. While these have been great initiatives, a significant amount of capacity building remains to be done together with the basic foundations of PFM processes for these initiatives to be sustainable.

13. **A comprehensive legislative framework and robust organizational structures for PFM institutions — two key pillars for creating an enabling PFM environment — are still lacking in the country.** Several pieces of PFM legislation passed in recent times, some in an uncoordinated manner without the involvement of key stakeholders, have resulted in gaps, overlaps, and inconsistencies in the PFM legislative framework; and its interpretation has led to an undermining of

budget discipline and financial controls. In particular, the de facto discretion provided for expenditures without proper appropriations due to the absence of appropriation legislation. The timing is appropriate to review the entire legal PFM framework in order to provide a sound foundation for an efficient PFM architecture.

14. **As part of the process of strengthening public financial management in Maldives, it is important to strengthen the organizational structure of the Ministry of Finance and Treasury (MOFT).** There are many positive features in the existing MOFT organization but also areas needing improvements. With around 180 staff, MOFT is quite large when compared with finance ministries of other small countries with comparable functions. There are however shortages of skilled professional staff in critical areas. Recent policy initiatives such as the Fiscal Responsibility Act, revenue collection measures, and Decentralization Act are likely to add pressure on the analytical capacity of MOFT. Shortages of skilled staff are also found in critical areas such as debt management, procurement, finance, and accountancy. A comprehensive medium-term strategy for developing MOFT human resources (HR) capacity is not in place. A pay review board is being set up to review pay scales systemwide with an aim to rationalize remuneration. Creation of a separate cadre for MOFT staff is also under discussion. The Maldivian Government is pleased with the non-lending technical assistance support extended by the World Bank in FY13 aimed at improving MOFT capacity on budget formulation and cash flow projections. This work will provide a good start for the activities planned under the proposed PFM Systems Strengthening Project.

15. **Some concerns are prevalent in the area of budget credibility.** Noted in the PEFA report, the budget documents do not provide clear linkages between budget figures and underlying policies, and there was no explicit multi-year perspective in fiscal planning. Directly linked to this are the significant variations in the ministerial allocation of expenditures. More recently, the 2012 budget deficit estimate was 6 percent, but the actual budget deficit in 2012 was over 13.5 percent, on a cash basis indicating a serious concern in budget credibility.

16. **The Cabinet approved the medium-term debt-management strategy in June 2012.** The strategy will be aligned with the Fiscal Responsibility Act (enacted May 2013). Support is required by the Debt Management Division to meet the following requirements of the Act: (a) the national debt shall be maintained at sustainable levels and (b) a national debt strategy shall provide the required information, which determines the steps being taken by the Government to repay and maintain national debt in an efficient manner. The PEFA and the Debt Management Performance Assessment (DeMPA) diagnostic studies point to many weaknesses in the management of government cash, debt, and guarantees. These areas are fragmented, public reporting is limited, and there is no systematic disclosure of the sizable risks involved. DeMPA identifies 4 key reform areas: institutional framework, debt management strategy, cash management, and domestic debt market development.

17. **A public accounting system (PAS) is widely recognized as a tool for better budget execution through strengthened internal control, cash management, accounting, and financial reporting.** PAS implementation in the Maldives is an area that has received continuous support from the World Bank, first as a component under the Post-Tsunami Recovery and Reconstruction Project and currently as a component of the Bank-financed Pension and Social Protection Administration Project. The Maldives public accounting system has been successful in providing the technical foundation needed to implement a treasury single account (TSA) payments system, part of the solution to manage cash and address the severe cash constraints that the country faces. A treasury single account has been successful in minimizing idle funds with the closure of more than 1,500 bank

accounts. With the support of PAS strengthening components, an accounts-payable module has been rolled out across all agencies to facilitate centralized payments.

18. **Despite these successes, the full benefit of the public accounting system has not yet been realized due to disruption in project management and high turnover of expert staff.** As a result, the key modules are not yet fully rolled out to all agencies and have not yet, for example, been capable of producing commitment reports or generating consolidated financial statements to be audited by the Auditor General. A recent World Bank study reveals that the level of payment arrears is high, and there is no systematic monitoring or reporting on payment arrears. In addition, the public accounting system represents a core treasury information system only. It is not integrated with revenue, budget systems, personnel databases, or debt management systems. At present, the Maldives Inland Revenue Authority (MIRA) uses the Systems, Applications and Products in Data Processing (SAP) accounting system to maintain their revenue databases with no links to the public accounting system. Budget is prepared on Excel spreadsheets. In-house IT systems are used to maintain personnel and pension data; and the Common Wealth Secretariat Debt Recording and Management System (CS-DRMS) is used to maintain a record of debt. A seamless integration of these systems would considerably enhance the integrity of the data in the public accounting system.

19. **The existing control environment is insufficient to ensure effective control of the fiscal aggregates.** Internal controls and internal audit are weak. The existing Financial Regulations are outdated and incomplete, containing, for example, only a draft chapter on procurement. In the absence of comprehensive and up-to-date Financial Regulations, standard operating procedures have been drafted but not finalized and formally approved or implemented. The critical need for service charters and an accounting manual has been identified as the guidance required by staff who are currently unable to fully adhere to procurement and financial management (FM) regulations, policies, and directives. Further, the PEFA report indicates that the internal audit function has hardly developed in the Maldives. Since the time of the PEFA, internal audit positions have been created in the Ministry of Finance and Treasury (9 filled, 3 vacant positions), the Local Government Authority (1 filled), Ministry of Education (3 filled, 5 vacant), and the Ministry of Defense and National Security; and the internal audit function has received support from ADB and from the Kuwait Fund. In particular, an internal audit charter and internal audit manual were designed, and training on the internal audit manual provided.

20. **Management and oversight of state-owned enterprises is also lax.** The Ministry of Finance serves as the secretariat for the Privatization and Corporatization Board, a statutory entity appointed by the President and empowered to oversee over 60 entities ranging from 100 percent state-owned enterprises to public-private partnerships where the State has a minority share. There are no regular rules for these entities' staffing and other management; no setting of performance targets; and weak, incomplete monitoring of financial statements and audits. There is no full accounting of funds transferred to state-owned entities, with payments reportedly made under numerous budget line items.

21. **An assessment of country procurement arrangements was carried out during 2008-09 under an IDF grant.** The aim of that assessment was to develop and implement an action plan for the modernization and improvement of a sustainable country procurement system. An action plan, draft country-specific standard bidding documents, and a draft public procurement chapter were completed for inclusion in the Financial Regulations. Some specific recommendations include:

- (a) Development of detailed procurement guidelines and instructions;

- (b) Development of specialized standard bidding documents for standard goods, works, and consulting services in addition to the need for developing document for harbor works, etc.;
- (c) Development and staffing the procurement-specific website managed by dedicated staff;
- (d) Maldivian Government to explore the possibility of centralized procurement for common use items;
- (e) Maldivian Government to introduce measures to professionalize public procurement, including introducing a professional career path for procurement staff and helping build a training facility within the country; and
- (f) Maldivian Government to create procurement policy section within MOFT to ensure that the procurement standards are continuously being monitored and improved to ensure effective procurement systems.

22. **The assessment carried out during the project preparation period validated the 2009 findings.** The Government has shown great interest in implementing the procurement action plan in order to make public procurement a more effective tool of public expenditure through increased human development and ensuring good governance. The positive expected outcomes are efficient, effective, fair, and transparent procurement, including value for money and budgetary savings.

23. **The key lesson from the Bank’s development policy credit was that the operation’s design was overly complex and ambitious given the political environment and technical capacity of the new Government.** Weak coordination among MOFT divisions, high staff turnover, and the replacement of almost all key political heads in the Ministry affected the performance of the borrower.

24. **On the ADB-funded Emergency Recovery Program, both the Maldivian Government and ADB consider the technical support extended to MIRA has been quite successful for revenue management under the technical assistance grant while other support has been less satisfactory.** Support to (a) budgeting, (b) debt management, (c) project management, and (d) internal audit has been partially satisfactory in building sustainable capacity within MOFT in order to continue the already-commenced initiatives to meet the triggers successfully. The successes of the technical assistance grant were primarily attributed to how the consultancy support was structured — where more longer-term onsite support by individual consultants proved more willing than consultancy firms to transfer knowledge — and ownership and interest of the staff to work in close collaboration with the consultants and gain on-the-job knowledge. The technical assistance grant completion date was December 31, 2013; and given the success in the revenue side, ADB’s follow-up operations will only support this area of public financial management. The Maldivian Government indicated the need for continuous consultancy support and capacity building to take forward and further strengthen the initiatives that started under the Economic Recovery Program such as (a) medium-term budgeting, (b) complying with provisions of the Fiscal Responsibility Act, (c) medium-term debt management strategy, and (d) implementing the internal audit manual.

25. **The external audit function is being supported under a parallel IDF grant for capacity development support for the Auditor General’s Office.** The objectives of the grant, which became effective in March 2013 and will close in March 2016, are to enhance the scope and impact of audit services provided by the Auditor General’s Office. The grant specifically supports upgrading the financial statement audits conducted by the Auditor General’s Office and thereby complements and reinforces the project development objectives.

C. Proposed PFM System Strengthening Project

26. The World Bank carried out a rapid assessment of the PFM systems in May 2013 in planning the scope of the proposed Maldives PFM Systems Strengthening Project. This scoping exercise also included consideration of a progress review of the 2010 PFM Action Plan put forth by the Government of Maldives in 2010 based on the PEFA report prioritizing PFM actions into immediate and urgent reforms and longer-term reforms. The review revealed that most of the basic and urgent PFM actions identified in the PFM Action Plan are still not fully implemented.

27. **The Maldivian Government has an unfinished PFM strengthening agenda.** It is evident that a comprehensive PFM strengthening program is needed to address the country's immediate, medium and long-term needs. An incremental approach to PFM strengthening is suited for Maldives given the many challenges it faces. The Government places priority on the following:

- ***Developing a credible annual budget.*** It will be necessary to carry out fiscal planning beyond one business cycle that determines (i) the overall resource envelop available to the budget that is compatible with overall macroeconomic balance in the economy and any resulting debt levels that is sustainable over the longer term and (ii) how this overall envelop is to be divided among the different sectors/ministries to meet policy priorities. In terms of PFM processes, this entails the development of improved macroeconomic and fiscal forecasting, accurate reports on fiscal aggregates, medium-term fiscal frameworks, and debt sustainability analysis.
- ***Achieving the fiscal aggregates as planned.*** Systems in place must ensure resource allocation decisions are complied with, monitored, and reported. This will rest on an adequate legislative and institutional framework; transparency based on good accounting; supporting IT; centralized cash management (a treasury single account); a regular budget calendar; regular reports; strong internal controls, including commitment controls; and an active external audit function reporting to the legislature.

28. **The proposed project aims to leverage ongoing PFM work.** This PFM work is unfinished; the proposed project will enable a renewed focus on these immediate — indeed urgent — requirements that have the traction of the Maldivian Government. These basics once achieved will underpin and provide the stage for the Government to move to the second phase of PFM development that focuses more on outputs and results. In some of these areas there has already been some initial work. However, given the many immediate priorities, it is not advisable to put too many resources into these areas at this stage. The proposed project therefore will focus only on the first phase of PFM development and thereby set the foundation for the second phase of PFM development.

29. **During the second phase, the Government would be advised to focus on a medium-term budget framework with credible indicative allocations supported by detailed, costed sector strategies.** The MOFT has taken an important first step toward a more medium-term budget system. However, given the current fiscal situation and the many weaknesses in the PFM system, these indicative allocations have limited credibility. Once the public accounting system is strengthened and reliable financial information is available, there is significant scope for gradually strengthening the quality of the medium-term budget estimates over time.

30. **Keeping in step with performance orientation, the Government can move toward program-based budgeting in its second phase of the PFM strengthening program.** While some initial attempts have been made to move toward program budgeting, extensive support will be needed to develop a proper program structure and transition to program budgeting.

31. **Progression to accrual-based statements should also occur during this second phase of PFM development.** This would happen once adequate computerized accounting systems are rolled out; commitment accounting and controls are established; and the Government complies with cash-basis International Public Sector Accounting Standards (IPSAS) with notes providing other information on assets, liabilities, and contingent liabilities as required by the Public Finance Act. Another activity for consideration during the second phase is establishment of an effective and modern risk-based internal audit focused on performance commensurate with the rest of the developments in public financial management. The second phase of PFM strengthening will be underpinned by the ongoing PEFA update and the updated PFM action plan.

D. Higher-Level Objectives to which the Project Contributes

32. The government's key policy priorities and the objectives are set out in the Government's Manifesto. Translating these into a medium-term development strategy and program calls for a high level of fiscal discipline. The proposed PFM Systems Strengthening Project aims to contribute to this long-term and overarching goal by addressing the most urgent PFM weaknesses.

33. **The 2008-12 Country Assistance Strategy (CAS)⁷ as well as the draft Interim Strategy Note for FY2014-16 under preparation recognize the emerging issues where institutional arrangements and capacity are significant constraints.** Those issues encompass public expenditure management, public financial management, reform of the government's public procurement system, and public financial accountability. The proposed PFM System Strengthening Project attempts to address these critical issues and contribute to the broad objectives of achieving fiscal consolidation and sustainability by managing public finances.

34. **The 2008-12 Maldives CAS emphasized enhancing accountability and strengthening fiscal systems and institutions in Maldives.** This emphasis aimed to improve the effectiveness of public spending under Pillar I of the CAS, *Economic and fiscal governance*, which aims to better support government's efforts to manage its economy and finances and the cross-cutting theme of institutional capacity.

35. **The interim strategy proposes to continue this emphasis from the previous CAS.** Building on the World Bank Group's ongoing program of support and drawing on lessons learned from the FY08-12 CAS, the interim strategy will focus on five areas deemed central to the Maldives: fiscal and public financial management; debt management; sustainable growth; social inclusion and service delivery; and environment and natural resource management. It identifies the main risks; these include macroeconomic and debt sustainability, social unrest, insufficient institutional capacity and/or ownership, and environment and natural resource risks. The proposed interim strategy aims to contribute to the fundamental building blocks of medium- and long-term growth and development, which would underpin a future program of engagement.

⁷ The CAS for FY08-12 (Report No. 41400-MV) was discussed by the Board on January 8, 2008

II. PROJECT DEVELOPMENT OBJECTIVE

A. PDO

36. The proposed project development objective (PDO) is to enhance budget credibility, transparency, and financial reporting of central government finances.

B. Project Beneficiaries

37. While improved management of public finances with greater efficiency and transparency in resource allocation and usage will benefit the citizens of the Maldives as a whole, the primary target beneficiaries will be PFM specialists involved in managing the central government finances. The entry points for intervention will be (a) key divisions of the MOFT, notably the Economic Policy Planning Section, National Budget Formulation and Analysis Section, Debt Management Division, Tender Evaluation Section, Secretariat of the Privatization and Corporatization Board, and Treasury and Public Accounts Division; (b) internal audit sections; and (c) line ministries

C. PDO-Level Results Indicators

<i>No.</i>	<i>Source of information</i>	<i>Indicator description</i>	<i>Baseline</i>	<i>Target score – 2019</i>	<i>Link to PDO</i>
1	Evidence based on PEFA methodology	Deviation between aggregate expenditure out-turn and the original approved budget at an acceptable level.	In 2013 actual expenditure deviated from budgeted expenditure by amount more than 10% (to be confirmed)	Maintain deviation of actual from budgeted expenditures at equal or below 5% for 2019.	Credibility of the budget.
2	Evidence based on PEFA methodology	Public disclosure of the following key fiscal information: (a) Annual budget documentation, (b) In-year budget execution reports, (c) Year-end financial statements, (d) Contract awards, and (e) Resources available to primary service units.	The following documents are not made available to the public: (a) Year-end state financial statements of the Republic of Maldives; (b) In-year budget execution reports; (c) Contracts awarded. Budget documentation and information on aggregate resources available to primary service units are available in the public domain.	The following documents are made public by 2019: (a) A complete set of the annual budget documents are made available to the public when they are submitted to the legislature. (b) In-year budget execution reports are routinely made available to the public within one month of completion. (c) Year-end financial statements of the Republic of Maldives are made available to the public within 6 months of completed audit. (d) Contracts awarded above US\$100,000 published at least quarterly.	Transparency and financial reporting.

<i>No.</i>	<i>Source of information</i>	<i>Indicator description</i>	<i>Baseline</i>	<i>Target score – 2019</i>	<i>Link to PDO</i>
				(e) Information concerning resources available to primary service units is publicized at least annually or is available on request for primary service units with national coverage in at least two sectors.	
3	PEFA	Quality of debt data recording and reporting.	An annual statement of debt covering domestic and external debt is prepared, but there are gaps and reconciliation problems.	Domestic and foreign debt records are complete, updated, and reconciled quarterly. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least annually.	Quality of financial reporting.
4	PEFA	Coverage and quality of the internal audit function.	There is no internal audit focused on systems monitoring.	The internal audit function is operational for all central government entities with revenues and/or expenditures over Rf 500 million (equivalent to approx. US\$32 million), and internal audit undertakes some systems reviews (at least 20% of staff time).	Quality of financial reporting, budget credibility.

III. PROJECT DESCRIPTION

38. Detailed project descriptions can be found in Annex 2.

A. Project Components

39. The proposed project will be implemented under 3 components (including project management), with 2 core components, strengthening the PFM environment and strengthening budget execution.

1. Strengthening the PFM Environment (US\$1,450,000)

40. The objective of this component is to set the foundation and create an enabling environment for a sound PFM system. This component will have 3 subcomponents: (1.1) strengthening the legislative and institutional PFM framework, (1.2) enhancing the macro fiscal framework, and (1.3) strengthening medium-term debt management.

1.1 Strengthening the legislative and institutional framework for PFM (US\$440,000).

41. The objective of this subcomponent is to enhance the legislative and institutional framework for sustainable PFM development. A number of stand-alone pieces of legislation and sets of rules and regulations governing various aspects of PFM have been introduced over recent years; these laws and their interpretations at times undermine budget discipline and financial controls. This subcomponent will include a comprehensive review of such laws and regulations to identify and recommend measures to remove inconsistencies and fill gaps in the existing PFM regulatory framework. This subcomponent will also finance part of the implementation of a communications strategy that focuses on interpersonal communications, inter-department/stakeholder communications, and change management needed to support the legal and institutional changes that the subcomponent finances. This subcomponent will also strengthen the institutional framework for identified divisions of the MOFT to support the work under the other subcomponents. This will build on the previous institutional assessment that have been carried out and complement MOFT's plan to revisit its organizational structure. The work of this subcomponent is closely linked with Component 2, *Strengthening Budget Execution*, taking into consideration that (a) legislation will underpin financial regulations that will spell out financial control principles and, either within the regulations or as separate guidelines/manual, the procedures to implement financial control principles; and (b) institutional assessment is closely linked to the business process review and its recommendations.

1.2 Enhancing the medium-term macro fiscal framework (US\$600,000).

42. The objective of this subcomponent is to improve macro fiscal planning and forecasting for credible budgeting and strategic planning. The subcomponent will support strengthening of the economic and fiscal policy capacity in the Fiscal Affairs and Economic Policy Division, develop a credible medium-term fiscal framework (MTFF), prepare and train staff on budget preparation guidelines, and set up processes and techniques to prioritize capital projects. The project will also support fiscal planning with necessary IT hardware and software, including interfacing budget preparation with the public accounting system for a more efficient budget preparation process.

1.3 Strengthening debt and cash management (US\$410,000).

43. The objectives of this subcomponent are to (a) minimize the costs of the debt portfolio with an acceptable level of risk through strengthened debt and risk management capacity and institutions and better integration between debt and cash management; and (b) improve the predictability of funds made available to ministries, departments, and agencies for commitment of expenditures via better cash forecasting and thereby lower the amount of payment arrears. Given the large borrowing requirements, there is great need for an analytical strategy that is based on rigorous cost-risk considerations to support authorities in meeting their financing gap at lower costs. This subcomponent will support medium-term debt management by strengthening staff's capacity to carry out debt portfolio reviews and maintain a robust debt management strategy that aims to manage the cost and risk trade-offs of debt and meet debt-related provisions in the Fiscal Responsibility Act. The subcomponent will also support debt recording and reporting, updating the debt procedures manuals, and the interface with the CS-DRMS with the public accounting system under component 2.1.

44. Subcomponent 1.3 also aims to improve cash management processes through consultant support to operationalize the new cash management committee that includes all key stakeholders, including line departments, implementing a system to produce regular and reliable forecasts of cash inflows and of major outflows that are linked to the budget implementation and commitment plans for individual ministries, departments, and agencies, and by incorporating the planned in-year

borrowing to ensure adequate liquidity at any time. The cash management initiatives will be closely linked to debt management, PAS implementation, and the business process review.

2. Strengthening Budget Execution (US\$4,400,000)

45. The objective of this component is to improve the efficiency of resource utilization and the credibility, comprehensiveness, and timeliness of financial reporting. There will be 2 subcomponents: (2.1) strengthening the public accounting system and (2.2) improving the control environment.

2.1 Strengthening the public accounting system (US\$3,550,000).

46. The objective of this subcomponent is to improve financial reporting practices to include timely production of state financial statements, budget execution reports, financial reports for donor-financed projects, and other management reports providing relevant information such as arrears and commitments. This subcomponent will support (a) preparation of a master plan for PFM-related systems; (b) implementation of technical and functional PAS improvements aligned with the master plan for PFM-related systems and underpinned by the findings of the business process review undertaken under subcomponent 2.2 (areas already identified for support include the use of SAP platform for maintaining establishment information to strengthen payroll controls, cash forecasting, implementation of project system to capture donor-funded activities in the public accounting system, accounts receivable, fixed assets, integration with debt recording system, use of the dashboard to generate reports and use of solutions manager for trouble shooting); (c) SAP training for staff; (d) part of the urgent technical and functional upgrades and maintenance that will be performed under SAP consultancy planned to be awarded under the Pensions Project; (e) procurement of IT hardware and software, including additional software licenses; and (f) establishing hardware and SAP license maintenance arrangements and incentives for SAP experts for which financing from the project will be capped for: (i) hardware maintenance at US\$200,000 (sufficient for approximately 4 years); (ii) SAP license maintenance at US\$680,000 (sufficient for approximately 3 years), and (iii) incentive payments to SAP experts at US\$370,000 (sufficient for approximately 2 years) with the Government taking over from there onwards.

2.2 Improving the control environment (US\$850,000).

47. The objective of this subcomponent is to strengthen internal financial controls, internal audit, and procurement management practices. Internal financial controls will be strengthened through the finalization and dissemination of the Financial Regulations, standard operating procedures, and other guidance materials identified as appropriate during a comprehensive business process review of FM and procurement processes. The subcomponent will also provide hands-on consultant support to the internal audit function within the government. This will include support in verifying the accuracy of budget execution reports generated by the public accounting system utilizing IT-assisted audit techniques, along with technical support for a number of internal audits that will be carried out during the project, including a review of the information technology (IT) control environment in SAP, a review of the internal controls over debt management, a payroll audit in the Ministry of Education, a revenue audit in the Maldives Customs Service, and a procurement audit in the Ministry of Health. In addition to the on-the-job support provided in conjunction with these actual internal audits, training and workshops will be delivered annually to all internal auditors, and detailed internal audit guides, checklists, and questionnaires will be developed to serve as practical guidance to internal auditors in applying the concepts contained in the internal audit manual.

48. **Procurement management will be strengthened by standardization and establishing procurement benchmarks based on international good practice** and thereby reducing the vulnerability of the procurement process through the following activities: (a) setting up of the procurement policy section, (b) strengthening the tender evaluation section within the MOFT-based National Tender Board, (c) developing procurement manuals and standard operating procedures for harmonizing the procurement practices across the country, and (d) reviewing and updating the standard bidding documents. The project will also assist procurement management by establishing an institutionalized and sustainable procurement training mechanism via the Civil Service Commission by developing training modules to address the training needs of public officials for both decision-makers and practitioners, training of trainers, and designing a process for regularly analyzing training needs of procurement staff and upgrading the skills.

49. **Support will also be provided to the MOFT-based Privatization and Corporatization Board secretariat, which is responsible for gathering information to monitor state-owned enterprises**, including minority government ownership in joint ventures and public-private partnerships. The consultancy support will include enhancing the analytical capacity for fiscal oversight of state-owned enterprises, and conducting an analysis of the accounting and reporting of transfers to state-owned enterprises, and to a review of the audit oversight arrangements relating to state-owned enterprises, with a view to providing recommendations for improving financial reporting.

50. **This subcomponent will also finance part of the implementation of a communications strategy** that focuses on interpersonal communications, inter-department/stakeholder communications, and change management needed to support recommendations of the business process review.

3. Project Management (US\$550,000)

51. The objective of this component is to provide support to MOFT for coordination, monitoring, administration, communications, change management, financial management, and procurement of the proposed project required for successful implementation of the project activities. The project management component will finance the costs of (a) an international management implementation support consultant and local consultants for project coordination and monitoring and evaluation (M&E) activities, (b) a FM consultant, and (c) any relevant training required to strengthen the skills of the project coordinating staff and other incremental operating costs relating to project coordination.

B. Project Financing

52. The project will be financed by an International Development Association (IDA) grant, and investment project financing (specific investment loan) was chosen as the lending instrument for Bank support (Table 1). An amount of US\$6.5 million has been allocated for the project. This includes SDR 981,155.13 (US\$1.5 million equivalent) that was cancelled from the Mobile Phone Banking Project and that the Maldivian Government has formally requested the Bank to recommit to the proposed PFM Systems Strengthening Project. An amount equivalent to US\$100,000 has been provided for contingencies. The project will have a retroactive financing provision up to a ceiling of

20 percent (i.e., SDR 850,000 of the total project amount) to finance project-related expenses incurred on or after August 1, 2013. This includes among other expenditures, part financing of contract reference MV/PSPAP/ C16 (SAP Consultancy) under the ongoing PAS Strengthening Project (Cr. 4611-MV: P125700). Such financing will be approximately US\$150,000.

Table 1. Proposed Project Financing

<i>Project components</i>	<i>Project cost (US\$)</i>	<i>IBRD or IDA financing (US\$)</i>	<i>% financing</i>
1. Strengthening the PFM Environment	1,450,000	1,450,000	100%
1.1 Strengthening the legislative and institutional framework for PFM	440,000	440,000	
1.2 Enhancing the medium-term macro fiscal framework	600,000	600,000	
1.3 Strengthening debt and cash management	410,000	410,000	
2. Strengthening Budget Execution	4,400,000	4,400,000	100%
2.1 Strengthening the public accounting system	3,550,000	3,550,000	
2.2 Enhancing the control environment	850,000	850,000	
3. Project Management	550,000	550,000	100%
	100,000	100,000	100%
Total costs	6,400,000	6,500,000	100%
<i>Contingency</i>	100,000		
Total Project Costs	6,500,000	6,500,000	100%
Front-End Fees			
Total Financing Required			

C. Lessons Learned and Reflected in the Project Design

53. This project design has benefitted from lessons learned from implementation of the (a) development policy credit that supported the economic stabilization and recovery program, (b) PAS strengthening initiatives first as a component under the Post-Tsunami Recovery and Reconstruction Project and currently as a component of the Bank-financed Pension and Social Protection Administration Project, and (c) other donor-funded PFM activities.

54. **The development policy credit that supported structural reforms of the strategic plan of the government did not achieve its objectives.** A key lesson from that operation is recognizing the potential for the political environment to derail a program of reforms.

55. **Creating sustainable capacity has been a challenge in past operations.** This has been attributed to (a) high staff turnover as a result of salaries at less-than-market rates, (b) weak absorptive capacity, and (c) poor contract management practices. A strategic approach of the proposed project for procurement capacity building would be to focus on creating the capacity of

national training institutes to deliver procurement training contrary to the traditional short-term, ad hoc training courses or workshops.

56. **The proposed project addresses these risks and shortcomings and builds on the past successes and the ongoing initiatives.** Activities to be supported under the project will be at the technical level and not policy sensitive; hence, the direct impact of the political risk will be minimal. To address any sensitivities, the proposed project will implement a robust communications and change management strategy. The project's approach would be to get the basics right and follow an incremental approach that is suitable for a low-capacity country. On-the-job training will be a key component of all consultancy contracts, and a senior project manager with sound international PFM and project management experience will be appointed to the project management unit (PMU) to monitor all contracts. As an interim solution, the practice of paying special allowances to specialized SAP experts will continue as a means to retain trained staff; in the long term, the project will also support strengthening of the institutional framework. Additionally MOFT is considering creating specialized cadres such as the accountancy cadre that will complement the institutional-building initiatives and assist the Government of Maldives to find a long-term solution to the issue of high staff turnover. The activities selected for support already have the ownership of senior MOFT staff and have been further reinforced when MOFT set up a high-level PFM Steering Committee.

IV. IMPLEMENTATION

57. The strategy and approach for the implementation support plan is further discussed in Annex 5.

A. Institutional and Implementation Arrangements

58. The proposed project will be implemented by the relevant MOFT divisions. The heads of each relevant division have been identified as focal persons responsible for the implementation of subcomponents and together form the project's PFM Working Committee. The PFM Working Committee will be headed by a Project Director. In addition, a high-level PFM project Steering Committee, chaired by the advisor to the Minister of Finance and represented by a broad range of stakeholders, has been constituted to provide strategic direction and monitor progress. Project coordination will be carried out by a PMU consisting of (a) the MOFT Permanent Secretary as Project Director with primary overall responsibility for project implementation; (b) an international management implementation support consultant and a local project coordinating and M&E consultant; (c) Treasury and Public Accounts Division (TPAD) supported by a consultant for FM activities; and (d) the Tender Evaluation Section for procurement activities through a dedicated staff member. The communications and change management, which will cut across all components of the project, will also be coordinated by the Project Director with support from the management implementation support consultant and local project coordinator.

B. Results Monitoring and Evaluation

59. Results monitoring and evaluation will be anchored with the Project Director. The project coordinator-cum-M&E specialist will collect and analyze data on implementation progress for all components, subcomponents, and activities. The M&E exercise will be conducted on a continuous basis, and the focal points at each of the component-implementing entities will be the primary source of data and information. The reports will be modeled on the basis of the project results framework

established and agreed upon. Annex 1 provides a matrix of indicators that will be assessed and the milestones to be achieved during each stage of the implementation period, including the final outcome and intermediate outcome values planned by the project end for the entire project and for each component. This matrix also includes baseline and target values

60. **Detailed quantitative and qualitative reviews of progress will be undertaken within the year to identify and discuss issues and bottlenecks that may arise and impede achievement of targeted outcomes.** This work should be initiated by the PMU in consultation with the key stakeholders who will all be part of the PFM Working Committee. Project management and Bank review missions will discuss any issues raised. Resulting recommendations will become action points for implementation follow-up and subsequent reviews. The PFM Steering Committee will also receive and review strategic information on implementation progress from the PMU and provide strategic guidance to enable the project to achieve its development objectives.

C. Sustainability

61. The proposed project design includes a built-in sustainability arrangement. The project-supported activities are essentially led by the Government and mainstreamed within the operational machinery of the Government. Project implementation is anchored entirely with currently active MOFT divisions; the Government currently funds these divisions, with limited support from the donors.

62. **Inherent to the adopted approach of incremental improvements and urgent fixes (vis-à-vis a significant overhaul of the entire PFM structure), the interventions designed will not result in any significant recurrent costs to the Government in excess of current outlays** but will improve the efficiency and effectiveness of PFM systems and procedures and thus enhance public satisfaction with Government's management of public finances. In addition, sustainable capacity development is a key feature of the project design and includes support to strengthen the institutional framework of key MOFT functions, and to develop in-country training facilities and knowledge transfer and on-the-job training by technical experts.

63. **With regards to the existing public accounting system, key challenges are retention of trained staff and multiplicity of fragmented systems.** As a solution to high-staff turnover, the Government of Maldives has paid allowances to specialized staff with World Bank support. This arrangement will continue under the proposed project as an interim solution; the project will also aim for a long-term solution by strengthening the institutional framework. Additionally, MOFT is considering creating specialized cadres such as the accountancy cadre that will complement the institution- building initiatives and assist the Government of Maldives to find a long-term solution to the issue of high-staff turnover.

64. **Quite apart from inherent operational difficulties arising from their non-standardization, the costs of maintaining stand-alone systems such as the HR system maintained by the Civil Service Commission would be difficult for the Government to sustain in the long term.** A review of the specific characteristics of these systems and the adoption of a rationalization plan will however assist the Government to create better value added from the use of information technology as a PFM tool.

65. **An intensive program of change management is required,** in tandem with the required changes, to enable favorable results from project-supported interventions.

V. KEY RISKS AND MITIGATION MEASURES

66. Table 2 summarizes political, stakeholder, and implementation risks along with mitigating measures. The more detailed description of risks can be found in the Operational Risk Assessment Framework in Annex 4.

Table 2. Key Risks and Mitigating Measures

<i>Key risks</i>	<i>Mitigating measures</i>
<p><i>Political risk.</i> Lack of political support and ownership to enhance public financial management.</p>	<ul style="list-style-type: none"> • Project design aims to focus on urgent technical fixes that are required to be addressed by any Government that comes into power, for fiscal sustainability. • World Bank will have regular consultations with high-level government counterparts throughout preparation and implementation to ensure that there is continued government traction for the project design. • High-level PFM Steering Committee established. • Communication and change management will be high-priority areas during implementation.
<p><i>Stakeholder risk.</i> Lack of coordination between the MOFT divisions and lack of ownership for project activities from the wider stakeholder group outside the MOFT, restricting benefits that can be gained from a holistic approach to PFM strengthening.</p>	<ul style="list-style-type: none"> • The project will be designed in consultation with all stakeholders. • PFM Steering Committee, comprising a diverse group of stakeholders, senior staff from Central Bank, Auditor General’s Office, Attorney General’s Office, Civil Service Commission, and line ministries, has already been set up (a condition for appraisal) and will meet regularly to monitor project progress. • A PFM Working Committee representing heads of each of the component-implementing entities has been formed and will meet regularly. • A management implementation support consultant with international experience in PFM and project management will be recruited to lead the change management process, monitor the consultancies, and oversee coordination between divisions to implement project activities.
<p><i>Implementation risk.</i> Risk that PFM strengthening efforts may not be sustained after project completion.</p>	<ul style="list-style-type: none"> • Project design is kept simple, focusing on basic and urgent fixes and aims to leverage ongoing PFM work. • Proposed project will support on-the-job training of multiple counterpart staff on specific tasks. • Payment terms in consultancy contracts will be clearly linked to knowledge transfer-related deliverables, and these deliverables will be clearly defined to facilitate close monitoring. • The management implementation support consultant will have contract management expertise. • Consultancy support will be on site and long term as this design has proven to be successful in previous technical assistance projects.

A. Risk Ratings Summary

67. Table 3 summarizes the risk ratings.

Table 3. Risk Ratings Summary

<i>Risk category</i>	<i>Rating</i>
Stakeholder risk	High
Implementing agency risk	
- Capacity	Moderate

- Governance	Moderate
Project risk	
- Design	Moderate
- Social and environmental	Low
- Program and donor	Low
- Delivery monitoring and sustainability	Substantial
- Other (Optional)	
- Other (Optional)	
Overall implementation risk	Substantial

B. Overall Risk Rating Explanation

68. The overall risk is “substantial” given the overall country and political economy context. The proposed project incorporates the following mitigating measures to address the key risks: (a) high-level PFM Steering Committee to provide strategic guidance and overall monitoring of the project (in place); (b) PFM Working Committee comprising heads of all relevant units of the MOFT to implement the project in a coordinated manner (in place); (c) senior management implementation support consultant with international experience; (d) local staff with donor-funded project and country systems experience.

VI. APPRAISAL SUMMARY

A. Economic Analysis

69. The economic analysis for a project of this nature takes a qualitative form. While the outcomes can be identified, quantifying the direct and indirect financial, economic, and social benefits due to Bank’s interventions are not feasible and at the same time highly subjective. The benefits of this proposed project are expected to accrue from potential significant improvements in the following key PFM areas:

- (a) Improved and transparent legal and institutional PFM framework,
- (b) Enhanced reliability of the medium-term macro fiscal framework,
- (c) Strengthened debt and cash management,
- (d) Improved budget execution,
- (e) Strengthened public accounting system, and
- (f) Enhanced control environment.

70. **The proposed project will provide many benefits to the Government of Maldives mainly on its fiscal front, but the benefits are very much broad-based.** With full implementation of the public accounting system, it is feasible to understand how gaining control of expenditure arrears, budget deficits, financing requirements, cost of subsidies, and other activities can lead to better policy decisions. Also, the project provides a sound platform to comply with the country’s legislation, including the recently enacted Fiscal Responsibility Act.

71. **The proposed project intends to address a number of weaknesses in the country’s PFM systems that require attention.** The project benefits, in terms of savings to the Government of Maldives, will far outweigh the total cost of the project. For example, the country’s budget deficit has

been unsustainable at a two-digit level in the recent years, and a sound PFM system plays a vital role in bringing it down to a manageable level.

B. Technical

72. The Government's commitment to and ownership of the proposed project, which has been clearly demonstrated from the concept stage coupled with the project design, will create a platform for a viable technical outcome starting at the project's implementation. This project seeks to assist the Government in implementing the identified priority PFM actions. The project will essentially respond to the recommendations coming from the Bank's and other donor's diagnostic work such as the PEFA assessment and DeMPA report and the Government's action plans that contain some of salient recommendations from prior studies and reviews.

73. **The project design focuses first on basics, then takes an incremental approach to PFM strengthening, building on ongoing work and its successes in support of a viable, sound, and sustainable PFM system in the medium and longer term.** Consequently, the project aims to create an enabling environment for sound PFM by strengthening the legal and institutional framework, macro fiscal planning, and debt and cash management. The project also gives equal focus on strengthening budget execution via enhanced reporting and a sound control framework. To achieve these objectives, the project design reflects the critical nature of improved business processes and enhanced capacity of the officials. With a view to having a coordinated and coherent approach to PFM reforms in the country, the Government of Maldives has established two committees — a PFM Working Committee headed by the MOFT Permanent Secretary and comprising other heads of MOFT divisions and a high-level PFM Steering Committee chaired by the senior advisor to the Minister of Finance and comprising a wide range of key stakeholders.

C. Financial Management

74. Overall FM responsibility for the project rests with the Project Director who is the permanent Secretary of MOFT. The Project Director through the TPAD will execute the project's FM activities. The task team conducted an assessment of the TPAD to ensure that the unit has capacity to carry out the proposed project's FM activities and provide the Bank with accurate and timely information regarding the Bank-financed activities, thereby providing reasonable assurance that the funds are being used for the purposes intended. TPAD, headed by a financial controller, a qualified chartered accountant, manages the treasury single account of the Government of Maldives. TPAD will carry out the FM functions under the project; and to support project work, a consultant will be hired. TPAD has staff who possess adequate experience in country FM systems, particularly with SAP that the project will use for accounting and reporting. The proposed overall FM procedures and practices for the project satisfactorily meet IDA's fiduciary requirements as per OP/BP 10.00, *Investment Project Financing*. The project has a "moderate" FM risk rating. There are no ineligible expenditures or outstanding audit reports for Bank projects pertaining to MOFT. The details of the FM assessment are given in Annex 3 on implementation arrangements.

D. Procurement

75. The Director General (National Procurement Division of MOFT) will be responsible for procurement under the project, duly assisted by the staff under the Tender Evaluation Section. Accordingly, the Tender Evaluation Section is identified as the procuring entity. The procurement procedures are clearly identified in a Procurement Chapter of the Project Operations Manual, which

has been apprised and reviewed by the Bank. The Manual will be reviewed regularly and updated to meet the project needs in consultation with the Bank. The project has a “moderate” procurement risk rating. The procurement performance will be reviewed during the project implementation period and the procurement risk rating will be adjusted accordingly.

E. Social (including Safeguards)

76. The proposed project does not include any activity that would incur social risks or deal directly with the population at large. In fact, the project is intended to have positive social outcomes by boosting the people’s confidence in public financial management. As a result, the Bank policies in this area will not be triggered.

F. Environment (including Safeguards)

77. The proposed project has been categorized as category C, and no specific environmental safeguard policies are triggered since no major environmental impacts are attributed to planned project interventions. A survey was conducted during the appraisal mission to deduce whether any waste will be generated during office upgrades during institutional strengthening. Based on the findings, no e-waste will be generated via the upgrading of computer servers under subcomponent 2.1 since the old servers will function as backup servers within the institution as well.

Annex 1: Results Framework and Monitoring

MALDIVES: PUBLIC FINANCIAL MANAGEMENT SYSTEM STRENGTHENING PROJECT

The *proposed project development objective* is to enhance budget credibility, transparency, and financial reporting of central government finances for Government of Maldives.

PDO-level results indicators*	Core	Unit of measure	Baseline	Target Values**					Frequency	Data source/ methodology	Responsible for data collection	Description (indicator definition etc.)
				FY1	FY2	FY3	FY4	FY5				
Indicator One: Aggregate expenditure out-turn compared to original approved budget	<input type="checkbox"/>	% variance	To be assessed	Actual expenditure within +/- 10% of original approved budget.	Actual expenditure within +/- 9% of original approved budget.	Actual expenditure within +/- 8% of original approved budget.	Actual expenditure within +/- 7% of original approved budget.	Actual expenditure within +/- 5% of original approved budget.	Annual	Self-assessment based on PEFA methodology.	The project coordinator-cum-M&E specialist of the PMU	Aggregate expenditure out-turn compared to original approved budget at an acceptable level
Indicator Two: Public Access to Key Fiscal Information	<input type="checkbox"/>	Elements of information to which public access is essential	Documents not made available to the public: (1) Year-end state financial statements of the Republic of Maldives; (2) In-year budget execution reports; (3) Contracts awarded. Budget documents and resources available to primary service units are available in public domain.	Public disclosure of (1) Annual budget documents made available in parallel to these being submitted to legislature. (2) Resources available to primary service units annually.	Public disclosure of (1) Annual budget documents available in parallel to these being submitted to legislature. (2) Resources available to primary service units annually.	Public disclosure of (1) Annual budget documents available to public in parallel to these being submitted to legislature. (2) Resources available to primary service units annually. (3) Quarterly in-year budget execution reports published within one month of completion, (4) Year-end	Public disclosure of (1) Annual budget documents available in parallel to these being submitted to legislature. (2) Resources available to primary service units annually. (3) Monthly in-year budget execution reports published within one month of completion. (4) Year-end	Public disclosure of (1) Complete set of annual budget documents when they are submitted to legislature. (2) Monthly in-year budget execution reports within one month of completion. (3) Info concerning resources available to primary service units at least annually or available on request for primary	Annual	PEFA self-Assessment	The project coordinator-cum-M&E specialist of the PMU	Public disclosure of key fiscal information: (1) Annual budget documentation, (2) In-year budget execution reports, (3) Year-end financial statements, (4) Contract awards, and (5) Resources available to primary service units.

PDO-level results indicators*	Core	Unit of measure	Baseline	Target Values**					Frequency	Data source/ methodology	Responsible for data collection	Description (indicator definition etc.)
				FY1	FY2	FY3	FY4	FY5				
						financial statements of the Republic of Maldives published within 6 months of completed audit. (5) Contracts awarded above US\$100,000 published quarterly.	financial statements of the Republic of Maldives published within 6 months of completed audit. (5) Contracts awarded above US\$100,000 published quarterly.	service units with national coverage in at least 2 sectors. (4) Year-end financial statements of the Republic of Maldives published within 6 months of completed audit. (5) Contracts awarded above US\$100,000 published at least quarterly.				
Indicator Three: Quality of debt data recording and reporting.	<input type="checkbox"/>	High-quality annual statement of debt.	Annual statement of debt covering domestic and external debt is prepared, but there are gaps and reconciliation problems.	Domestic and foreign debt records are complete, except for payables to suppliers, updated and reconciled every 6 months.	Domestic and foreign debt records are complete, excluding payables to suppliers, updated and reconciled every 6 months.	Domestic and foreign debt records are complete, including payables to suppliers, updated and reconciled every 6 months.	Domestic and foreign debt records are complete, including payables to suppliers, updated and reconciled quarterly. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least	Domestic and foreign debt records are complete, includes payable amount updated and reconciled quarterly. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least	Annual	PEFA self-assessment	The project coordinator-cum-M&E specialist of the PMU	Comprehensive, timely, and accurate debt recording and reporting.

PDO-level results indicators*	Core	Unit of measure	Baseline	Target Values**					Frequency	Data source/ methodology	Responsible for data collection	Description (indicator definition etc.)
				FY1	FY2	FY3	FY4	FY5				
Indicator Four: Coverage and quality of the internal audit function	<input type="checkbox"/>	Central government entities (CGEs) where internal audit is operational, and internal audit staff time spent on systemic issues.	There is no internal audit focused on systems monitoring.	The internal audit function is operational in 10% of CGEs with revenues and/or expenditures over Rf 500 million, and internal audit undertakes some systems reviews (at least 1% of staff time).	The internal audit function is operational in 25% of CGEs with revenues and/or expenditures over Rf 500 million, and internal audit undertakes some systems reviews (at least 5% of staff time).	The internal audit function is operational in 50% of CGEs with revenues and/or expenditures over Rf 500 million, and internal audit undertakes some systems reviews (at least 10% of staff time).	The internal audit function is operational in 75% of CGEs with revenues and/or expenditures over Rf 500 million, and internal audit undertakes some systems reviews (at least 15% of staff time).	The internal audit function is operational in 100% of CGEs with revenues and/or expenditures over Rf 500 million, and internal audit undertakes some systems reviews (at least 20% of staff time).	Annually.	PEFA self-assessment	The project coordinator-cum-M&E specialist of the PMU	% of central government entities where internal audit is functional and % of staff time spent on systems audits.

INTERMEDIATE RESULTS												
	Core	Unit of measure	Baseline	FY1	FY2	FY3	FY4	FY5	Frequency	Data source/ methodology	Responsible for data collection	Description (indicator definition, etc.)
Intermediate Results (Component 1): Strengthening the PFM Environment												
<i>Indicator One:</i> Coherent set of PFM laws and regulations	<input type="checkbox"/>	Stage completion (date)	NIL	Consultant hired; analysis undertaken and initial draft report with sequencing and timelines prepared.	Final draft report cleared by PFM Working Committee. Required amendments if any to 4 key PFM laws --Public Finance Act, Audit Act, SOE	Draft proposal for revised PFM laws prepared and presented to Parliament. Draft laws exist that support the timely preparation and public dissemination of key reports,	-Do-	-Do-	Every 6 months	MOFT assessment	The project coordinator-cum-M&E specialist of the PMU	Outcome of the legislative review.

					Monitoring Act, and Decentralization Act, drafted	fill gaps, and remove inconsistencies in regulations.						
<i>Indicator Two:</i> Decreased variation in expenditures out-turn : within year	<input type="checkbox"/>	% variance	Actual expenditure exceeded by 10%.	Actual expenditure within +/- 10% of originally approved budget.	Actual expenditure within +/- 9% of originally approved budget.	Actual expenditures within +/- 8% of originally approved budget.	Actual expenditure within +/- 7% of originally approved budget.	Actual expenditure within +/- 5% of originally approved budget	Every 6 months.	MOFT Assessment based on Budget execution reports (BERs)	The project coordinator -cum-M&E specialist of the PMU	Reduced variance between originally budgeted and actual budget expenditures.
<i>Indicator Three:</i> Reduced variance of the composition of expenditure from the original budget	<input type="checkbox"/>	% variance	Variance in expenditure composition exceeded 20%	For each of the 5 largest spending agencies, maintain the variance in expenditure from the original budget at less than 20%.	For each of the 5 largest spending agencies, maintain the variance in expenditure from the original budget at less than 18%.	For each of the 5 largest spending agencies, maintain the variance in expenditure from the original budget at less than 15%.	For each of the 5 largest spending agencies, maintain the variance in expenditure from the original budget at less than 14%.	For each of the 5 largest spending agencies, maintain the variance in expenditure from the original budget at less than 12%.	Every 6 months.	MOFT Assessment based on BERs	The project coordinator -cum-M&E specialist of the PMU	Reduced variance of the composition of expenditure from the original budget for the latest 5 spending agencies in Central Government
<i>Indicator Four:</i> Increased capacity on macro fiscal planning	<input type="checkbox"/>	% of trained staff on macro fiscal planning	0% of staff trained on macro fiscal planning.	Methodology for preparation of macro fiscal framework exists.	Credible macro fiscal framework exists and used for budget preparation.	Credible macro fiscal framework exists and used for budget preparation.	Credible macro fiscal framework exists and used for budget preparation.	Credible macro fiscal framework exists and used for budget preparation.	Every 6 months.	MOFT assessment	The project coordinator -cum-M&E specialist of the PMU	Credible macro fiscal framework exists. Framework for assessing economic viability and prioritization of public investment projects, exists. Capacity of the Economic Policy Planning Unit staff strengthened to: a) Take lead in preparing and updating macro fiscal framework; and b) Conduct fiscal policy analysis to assess impact of
		MTFF and Framework for assessing capital investments	No credible MTFF and framework for assessing investments exists.	Draft macro fiscal forecasting tool exists. 100% of Economic Policy Planning (EPP) section technical staff trained on methodology	Final macro fiscal forecasting tool exists and used. Draft framework exists for assessing economic viability and prioritization of public investment projects.	Final macro fiscal forecasting tool exists and used. Final framework exists and used for assessing economic viability and prioritization of public investment	Final macro fiscal forecasting tool exists and used. Final framework exists and used for assessing economic viability and prioritization of public investment	Final macro fiscal forecasting tool exists and used. Final framework exists and used for assessing economic viability and prioritization of public investment				

					100% of staff at EPP section technical trained on the job to prepare the macro fiscal framework using the model.	projects 100% of technical staff at EPP section trained to: (1) Conduct fiscal policy analysis to assess impact of tax and expenditure measures on poverty and macro aggregates: (2) Use the framework for capital project selection.	projects 100% of EPP section technical staff trained on all aspects of macro fiscal planning.	projects 100% of EPP section technical staff trained on all aspects of macro fiscal planning.				tax and expenditure measures on poverty and macro aggregates.
<i>Indicator Five:</i> Increased capacity on debt and cash management	<input type="checkbox"/>	% of staff trained Debt management strategy (DMS) Cash flow forecasting (CFF) model	0% of staff trained on cash and debt management Credible DMS does not exist. CFF model does not exist.	100% of technical staff at Debt Management Dept trained on the job to update the DMS. CFF model developed and 100% of relevant staff trained on CFF model.	100% of technical staff trained on debt and cash management Credible DMS exists and implemented. CFF plan exists: prepared for fiscal year and updated quarterly based on CFF model.	100% of technical staff trained on debt and cash management Credible DMS exists and implemented. CFF plan exists: prepared for the fiscal year and updated quarterly based on CFF model.	100% of technical staff trained on debt and cash management Credible DMS exists and implemented. CFF plan exists: prepared for fiscal year and updated monthly based on CFF model.	100% of technical staff trained on debt and cash management Credible DMS exists and implemented. CFF plan exists: prepared for fiscal year and updated monthly based on CFF model.	Every 3 months.	MOFT Assessment	The project coordinator -cum-M&E specialist of the PMU	DMS exists. Strengthened capacity of the Debt Management Dept. to take lead in preparing and updating DMS. Strengthened capacity on cash forecasting. Reliable cash flow forecasts are prepared.
Intermediate Results (Component 2): Strengthen Budget Execution												
<i>Indicator One:</i> Timely and comprehensive in-year budget	<input type="checkbox"/>	Stage completion	NIL	(1) All business areas trained to use material management module of	(1) All business areas using material management module of	System-generated quarterly BERs with information on actual	System-generated monthly BERs with information on actual	System-generated monthly BERs with information on actual	Every 6 months	MOFT assessment	The project coordinator -cum-M&E specialist of the PMU	Comprehensive and accurate BERs are prepared in a timely manner.

execution reports (BERs) produced				PAS for productive use of ex ante commitment control. (2) System-generated quarterly BERs with information on actual expenditures vs approved budget produced by MOFT within 2 months of quarter end.	PAS for ex ante commitment control. (2) System-generated quarterly BERs with information on actual expenditures vs approved budget, plus commitments produced and reconciled for all business areas and consolidated by MOFT within 2 months of quarter end.	expenditures vs budget, plus commitments produced and reconciled for all business areas and consolidated by MOFT within 1 month of quarter end.	expenditures vs budget, plus commitments produced and reconciled for all business areas and consolidated by MOFT within 1 month of month end.	expenditures vs budget, plus commitments produced and reconciled for all business areas and consolidated by MOFT within 2 weeks of end of month.				IT system and practices enhanced to produce meaningful BERs that provide an overview of execution in order to take management decisions on a well-informed basis.
<i>Indicator Two:</i> BERs subjected to audit by internal auditors	<input type="checkbox"/>	Percentage of spending units within central core government where the BERs are reviewed by internal audit prior to publishing.	0%	10%	25%	50%	75%	100%	Every 6 months	Audit reports – MOFT assessment	The project coordinator-cum-M&E specialist of the PMU	Increase internal audit coverage on BERs and thereby enhance integrity of information contained in BER and internal control systems.
<i>Indicator Three:</i> Timely preparation of annual financial statements (AFS)	<input type="checkbox"/>	Stage implementation.	AFS not accepted by audit as complete and ready for audit.	100% of relevant staff trained in accounting standards and preparation of AFS and SAP training on generating reports. Work initiated on software	Comprehensive AFS with information on expenditures, revenue, financial assets and liabilities prepared and submitted to audit within 6 months	Comprehensive AFS prepared and submitted to audit within 6 months from year end.* (* see Note). Functional upgrades and necessary integration	System-generated AFS submitted to audit within 5 months from year end.	System-generated AFS submitted to audit within 4 months from year end.	Annually	Auditor General's assessment	The project coordinator-cum-M&E specialist of the PMU	AFS in line with the laws and financial regulations and produced in a timely manner.

				enhancement/ functional upgrades required.	from year end. Necessary software enhancement s and functional upgrades carried out.	with other systems to generate AFS via the system- completed.						
<i>Indicator Four:</i> Enhance payroll controls	<input type="checkbox"/>	Stage completion.	No integration and reconciliati on between personnel records and payroll data	Procedures defined to integrate establishment registers and payroll.	Functional upgrades to payroll system completed System integration ongoing	Standalone Establishment Registers discontinued. An Establishment register directly linked to the payroll system exists in the PAS system.	Establishmen t registers that drive payroll through integrated system exists	Establishmen t registers that drive payroll through integrated system exists.	Every 6 months	Joint MoF and CSC assessment	The project coordinator -cum-M&E specialist of the PMU	Strengthening internal control procedures for payroll processing
<i>Indicator Five:</i> Procurement performance and monitoring system	<input checked="" type="checkbox"/>	Stage implementati on.	NIL	Procurement policy section established and functional. Monitoring mechanism established under each procuring entity.	50% of contract awards meet required M&E standards.	75% of contract awards meet required M&E standards.	90% of contract awards meet required M&E standards.	100% of contract awards meet required M&E standards.	Annual	MOFT assessment	The project coordinator- cum-M&E specialist of the PMU	Data on 100% contracts awarded using public funds are available with MOFT and contracts over US\$100,000 (equivalent) are published in the annual report.
<i>Intermediate Result (Component 3): Project Management</i>												

<p><i>Indicator One</i> Improved communication of project activities</p>	<p style="text-align: center;">☒</p>	<p>PFM communication strategy</p>	<p>NIL</p>	<p>Communication strategy approved. Five awareness and consultation workshops on business process improvement held. Five awareness and consultation workshops on the legislative review held.</p>	<p>Communication strategy exists. Ten consultation workshops on business process improvement held in total by end of FY2. Ten consultation workshops on the legislative review held in total by end of FY2.</p>	<p>Communication strategy exists All planned consultation workshops held for legal and business process review Five change management workshops for key stakeholders held in total by end of FY3.</p>	<p>Communication strategy exists All planned consultation workshops held for legal and business process review Ten change management workshops for key stakeholders held in total by end of FY4.</p>	<p>Communication strategy exists All planned consultation workshops held for legal and business process review Fifteen change management workshops for key stakeholders held in total by end of FY5.</p>	<p>Every 6 months.</p>	<p>MOFT assessment</p>	<p>The project coordinator-cum-M&E specialist of the PMU</p>	<p>Communication strategy approved and implemented.</p>
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Note. Per PEFA fieldguide, the actual date of submission is the date on which the external auditor considers the financial statements complete and available for audit.

Annex 2: Detailed Project Description

Maldives: Public Financial Management System Strengthening Project

1. The overall project development objective is to strengthen macro-fiscal forecasting, budget credibility, transparency, and financial reporting of central government finances for Government of Maldives. The proposed project will be implemented under 3 components (including project management), with 2 core components respectively supporting the following;

- (a) Strengthening the PFM environment* through (i) strengthening the legislative and institutional framework for public financial management (PFM); (ii) enhancing the macro fiscal framework; and (iii) strengthening medium-term debt management.
- (b) Strengthening budget execution* through (i) strengthening the public accounting system (PAS) and (ii) enhancing the control environment.

Component 1, Strengthening the PFM Environment (US\$1,450,000)

Objective of Component 1

2. Component 1 aims to set the foundation and create an enabling environment for sound PFM. This component will have 3 subcomponents: (1.1) strengthening the legislative and institutional framework for PFM, (1.2) enhancing the macro fiscal framework, and (1.3) strengthening medium-term debt management.

Subcomponent 1.1, Legislative and institutional framework for PFM (US\$440,000)

Objective of the subcomponent 1.1

3. Subcomponent 1.1 aims to enhance the legislative and institution framework for sustainable development in PFM by aligning with international good practice and current requirements of the country.

Current status

4. Several pieces of PFM legislation have been passed in recent times. Passage of some legislation, in an uncoordinated manner without the involvement of key stakeholders, has resulted in gaps, overlaps, and inconsistencies in the PFM legislative framework; and its interpretations have undermined budget discipline and financial controls. In particular, the de facto wide discretion provided to make expenditures without proper appropriation stands as the budget process but no appropriations act has been passed. The Decentralization Act allows councils to open and operate their own bank accounts and gives the discretion to councils to directly seek loans from banks and other financial institutions established in the Maldives to implement projects prescribed in the development plans. These provisions are contradictory with provisions in the Public Finance Law that support a treasury single account (TSA) and vest power in the President to determine the borrowings and the guarantees on the recommendation of the Finance Minister. The Public Finance Law gives the Auditor General the power to issue government financial regulations and detailed guidance on PFM practices within the spending agencies, in contradiction with the powers given to the Ministry of Finance and Treasury (MOFT) in the new Constitution. The Debt Management Performance Assessment (DeMPA) recognizes the need to review the extant laws in conjunction with the Decentralization Act, Fiscal Responsibility Act, and others and formulate a comprehensive debt management law in line with international good practice.

5. Work in the area of legislation should be holistic and comprehensive. A timely review of the entire legal PFM framework, starting with a more indepth review of various pieces of PFM laws and their interpretations, will aid in making the legislation internally consistent and based on sound PFM principles and thereby provide a sound foundation for an efficient PFM architecture. A more consistent, holistic legal framework should underpin Financial Regulations to be developed under Component 2.

6. As part of the process of strengthening PFM in Maldives, it is important to strengthen the organizational structure of MOFT. There are many positive features in the existing organization but also areas where improvements can be made. At around 180 staff, the overall size of the ministry is quite large when compared with finance ministries of other small countries with comparable functions. There are however shortages of skilled professional staff in critical areas. Recent policy initiatives taken by the authorities are likely to add to existing pressure on the analytical capacity of MOFT. Implementation of the Fiscal Responsibility Law will impose additional demands on the MOFT's analytical capacity. The establishment of the Maldives Inland Revenue Authority (MIRA) broadens the tax base of the country and its revenue collection capability, but is not yet matched by capacity in MOFT to undertake the critically important role of analyzing tax policy issues. Shortages of skilled staff are also found in critical areas such as debt management, procurement, finance, and accountancy. A comprehensive medium-term strategy for developing human resources in MOFT is not in place.

Activities:

- (a) Comprehensive review of PFM legal framework: laws and regulations to identify and recommend measures to remove inconsistencies and fill gaps in the existing PFM regulatory framework and align with international practices.
- (b) Draft of amendments to existing PFM legislation and new laws and regulations as needed.
- (c) Producing guidelines that provide necessary interpretations of the law.
- (d) Review of existing institutional arrangements of PFM of selected MOFT divisions that support the project namely: (i) National planning division; (ii) Economic Policy Planning Section; (iii) Budget Formulation and Analysis Section; (iv) Debt Management Department; (v) Treasury and Public Accounts Division; (vi) Internal Audit Section and (vii) Secretariat of the Privatization and Corporatization Board at the MOFT. The review will complement and build on the ongoing assessment on the adequacy of the structures and staffing to support business processes, identify skill gaps, develop a medium-term human resource development strategy and align training activities accordingly.
- (e) Stakeholder workshops and exposure visits to obtain feedback and reach agreement on proposed changes.

Subcomponent 1.2, Medium-term macro fiscal framework (US\$600,000)

Objective of subcomponent 1.2

7. Subcomponent 1.2 aims to improve macro fiscal planning for credible budgeting.

Current status

8. The Maldivian budget is a fundamentally annual and incremental process. There is uncertainty across sectors and agencies about the resources they would actually receive for the implementation of programs. A medium-term fiscal framework (MTFF) exists but is not implemented, and its multi-year estimates do not inform the budget preparation process. Currently, there is no tool in the MOFT available to forecast a credible fiscal envelope and medium-term revenues and expenditures, which consistently takes into account changes in the macro-framework.

The MTFF suffers from the following weaknesses:

- Cost estimates that are prepared by the line ministries consistently exceed the available funding envelope.
- No analysis is done at the central level to determine if expenditures are related to priority investment programs or the fight against poverty.
- Multi-year budget forecasts are poorly developed, revised annually, and do not inform future budget preparation.
- The capital expenditures are earmarked for projects with no clear framework for prioritization and for which little pre-feasibility studies or cost-benefit analyses have been undertaken.

Activities:

9. Subcomponent 1.2 focuses on two areas: (a) strengthening economic and fiscal policy capacity in the Fiscal Affairs and Economic Policy Division, and (b) developing a credible MTFF. Activities supported include:

- (a) ***Strengthening the macro-fiscal unit by training staff on fiscal policy analysis and forecasting techniques for both revenue and expenditures.*** It will aim to build capacity to conduct analytical work and to look at macro fiscal behavior with a longer-term focus, understanding the linkages between fiscal policy and growth, the impact on poverty, decentralization, and the equalization transfers that are associated with different revenue and expenditure measures. Since most tax policy analysis is currently provided by MIRA, the proposed project will aim to build capacity within the EPP unit to conduct tax policy analysis to create a more equitable tax structure in line with the country's economic and social objectives.
- (b) ***Developing a credible MTFF.*** The MTFF will help link macroeconomic performance with fiscal policy at the aggregate level while forecasting the size of the fiscal envelope based on macro-fiscal assumptions and on a multi-year basis.
- (c) ***Develop a macro-fiscal forecasting tool.*** The MTFF model/tool proposed would be useful to calculate a more realistic fiscal envelope along and financing needs.
- (d) ***Prepare a methodological manual for preparing and reviewing the MTFF.*** A user manual and a technical manual will be prepared to help staff use the tool through the budget preparation process. The user manual would allow non-technical users to know how (i) to

populate the base data, (ii) to enter new assumptions and produce simulations or scenarios, and (iii) to prepare tables and graphs. The technical manual will explain the analytical framework behind the tool, the internal logic of the model, data sources, and the equations and relations; and indicate methodologies to expand its coverage and improve the database.

- (e) ***Prepare and train staff*** on budget preparation and review guidelines, which promote a strong link between the macro fiscal framework and annual budget.
- (f) ***Set up a framework for assessment*** of the economic viability and prioritization of public investment projects and a methodology to improve selection and evaluation processes of public investments projects and to help strengthen the preparation of the capital budget.
- (g) ***Support fiscal planning*** with the required organizational structure under subcomponent 1.1: institutional strengthening and necessary computer hardware and software, including interfacing budget preparation with the public accounting system for a more efficient budget preparation process under subcomponent 2.1, *Strengthening the public accounting system*.

Subcomponent 1.3, Strengthened debt and cash management (US\$410,000)

Objective of sub-component 1.3

10. Subcomponent 1.3 aims to improve debt and cash management in the Maldives in order to contribute to sound macroeconomic and fiscal management and reduce vulnerability to financial shocks through strengthened debt and risk management capacity and institutions.

Current status

11. An evaluation of debt management performance in 2009 followed by a reform plan in 2011 identified a few weaknesses, among which are the following:

Legislation. Despite legislation at the time, the legal framework lacked clarity regarding certain areas that have clearly defined debt management objectives and the requirement to develop a debt management strategy. In 2013 a new Fiscal Responsibility Act was enacted setting debt management targets.

Organizational structure. Front office functions are shared between the MOFT (External Resource and Management Division and Public Enterprises Monitoring and Evaluation Board) and the Central Bank (Maldives Monetary Authority), presenting a fragmented debt management operation. While back-office functions are undertaken by the External Resource and Management Division, the middle-office responsibilities were not fulfilled by any entity. Middle office responsibilities have since been defined but not yet operationalized.

Debt management strategy. Partly due to lack of an entity responsible to undertake middle-office functions, no debt management strategy based on a cost and risk-based analysis was designed. This lack of guidance for future borrowing operations becomes more critical given the large borrowing requirements of the Maldives. The 2013 Fiscal Responsibility Act requires a debt management strategy to be prepared and updated on an annual basis.

Cash management. Progress has been made in establishing a treasury single account for all payments, but cash management is poor due to weak and irregular cash forecasting. There is no coordination between cash and debt management functions; as a result, cash management decisions are not integrated with debt management decisions.

Activities:

- (a) Strengthen the capacity of the newly created middle office of the Debt Management Division to maintain accurate debt records and generally to conduct sound debt management operations (i.e., borrowing and related financing activities, develop analytical capacity, including debt portfolio reviews, operational risk management, improved reporting by training staff on CS-DRMS, etc.) by identifying the required institutional structures, defining roles and responsibilities of the staff, preparing/revising a debt recording and reporting procedures manual, and providing on-the-job training.
- (b) Update the medium-term debt management strategy that would set out the objectives for debt management and the development of a domestic debt sector and provide on-the-job training to staff on a cost and risk-based strategy analysis. This activity would set the basis for an annual update of the strategy and involve regular revision of the debt portfolio as a first step.
- (c) Implement a cash forecasting system that will produce regular and reliable forecasts of cash inflows and of major outflows that are linked to the budget implementation and commitment plans for individual ministries, departments, and agencies, and incorporate the planned in-year borrowing to ensure adequate liquidity at any time.
- (d) Support debt and cash management with the proper organizational structures under subcomponent 1.1 and operationalize the cash management committee that includes all key stakeholders, including selected line departments.

Component 2, Strengthening Budget Execution (US\$4,400,000)

The objective of Component 2

12. Component 2 aims to improve the efficiency of resource utilization and the credibility, comprehensiveness, and timeliness of financial reporting. There will be 2 subcomponents: (2.1) strengthening the public accounting system and (2.2) improving the control environment.

Subcomponent 2.1, Strengthening the public accounting system (US\$3,550,000)

Objective of subcomponent 2.1

13. The objective of subcomponent 2.1 is to improve financial reporting practices to include timely production of state financial statements, budget execution reports, financial reports of donor-funded projects, and other management reports providing relevant information, such as arrears and commitments.

Current status

14. PAS implementation is an area that has received continuous support in the Maldives from the World Bank, first as a component under the Post-Tsunami Recovery and Reconstruction Project and currently as a component of the Bank-financed Pension and Social Protection Administration Project. The PAS implementation decelerated around 2010 when the Government of Maldives introduced salary constraints to public officers and a retrenchment package was offered as a solution to the fiscal stress at the time. This led to an exodus of staff trained in SAP accounting system. The staff turnover has been resolved temporarily with the implementation of the incentive scheme with effect from October 1, 2012. A proper retention structure would need to be worked out in the longer term in coordination with the Civil Service Commission.

15. The PAS has already provided the technical foundation that enabled the Government to establish a treasury single account through centralized payment processing in Malé. An accounts payable module has been rolled out across all agencies to facilitate centralized payments, and the payroll and material management module for commitment accounting is being rolled out.

16. Despite the progress noted above, the Government has not been able to leverage the full range of SAP capabilities to support PFM processes in some key areas. These include budgeting; integration of payroll with HR and establishment registers; use of other functionalities available in the HR module, which is currently limited to payroll generation for each wage cycle; automated mapping of spending units with functional and geographical classification to get more useful reports for economic analysis; system-generated periodic financial statements, including the financial statements for capital projects, comprehensive budget, execution reports, and others.

17. This under-utilization of the system can be attributed largely to two main reasons: technical issues and business process design weaknesses.

Technical issues

18. The Government engaged an SAP consulting firm, in 2011 to review the technical issues affecting the PAS. This review noted two main technical areas: lack of SAP system updates over time and initial system design weaknesses.

- ***System updates/upgrade.*** The PAS has not been updated regularly with enhancement and support packages. Many of these enhancement packages would have provided better integration capabilities and enhanced functionalities in areas like reporting and budgeting. This lapse in maintenance was assessed to be largely due to three reasons: in-house capacity constraints, lack of tier-3 support arrangements with some SAP accredited firm, and absence of a Solution Manager, a SAP module that provides the capability to update the system through SAP global support portal. In order to update the system to the latest packages and subsequently leverage additional capabilities and a more stable system, a technical upgrade of the system is required.
- ***Initial design weaknesses.*** Initial design of the PAS lacked certain critical configurations. Key modules like Business Planning and Consolidation and Business Intelligence to support budgeting and reporting have not been fully configured. In addition, internal organizational structure of the Government to represent ministries, departments/agencies, and spending units; geographical locations for spending units (profit center hierarchy); and automated mapping of GFS-compliant detailed functional classification with the spending units have

also not been fully configured to allow detailed reports on budgeting and budget execution. These design weaknesses will require some functional upgrade, a process by which additional functionalities of the system (for example, Business Planning and Consolidation and Business Intelligence configurations) are also introduced after the technical upgrade.

Business process design weakness. Lack of clarity and consensus on these issues has also contributed to limited benefits from PAS implementation.

19. The above-mentioned functional technical and business process issues should be addressed through a comprehensive but phased approach, aligned with government priorities; technical dependencies; and, most importantly, affordability. Under the existing PAS strengthening component, the urgent technical upgrades and parameterizing of the existing modules are being considered, which will set the stage for further enhancements that will be required and supported by the project to address the immediate need of enhancing the credibility of financial reports.

Activities:

- (a) Development of a master plan for PFM related systems that will give a comprehensive overview of the short- and medium-term changes necessary to develop the interfaces between the various systems and indicate the sequencing of the technical improvements.
- (b) Consultancy support for functional upgrades of SAP in line with the master plan and to support strengthened business processes; such areas already identified include (i) the use of SAP platform by Civil Service Commission for maintaining personnel information to strengthen payroll controls; (ii) implement project system to capture donor-funded activities in the PAS; (iii) enabling the audit module to provide auditors with a cost-effective means of utilizing computer-assisted audit technique (CAAT) technology; (iv) use of dashboard for user-friendly report generation; and (v) use of Solution Manager to address system issues.
- (c) Partially finance technical and functional upgrades and maintenance under the planned SAP consultancy to be awarded under the Pensions Project.
- (d) Staff training on SAP.
- (e) Upgrading the computer hardware and software, including purchasing of additional software licenses.
- (f) Establishing hardware and SAP license maintenance arrangements and incentive payments for SAP experts for which financing from the project will be capped for (i) hardware maintenance at US\$200,000 (sufficient for approximately 4 years); (ii) SAP license maintenance at US\$680,000 (sufficient for approximately 3 years); and (iii) incentive payments to SAP experts at US\$370,000 (sufficient for approximately 2 years) with the Government taking over from there onwards.

Subcomponent 2.2, *Strengthening the control environment (US\$850,000)*

20. Internal controls for 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.

21. The 2009 survey carried out under an IDF grant indicated that in Maldives there were nearly 16 ministries and departments that carry out procurement using public funds. At that time, there were 44 procurement officials identified who carry out these procurements and were in need of basic procurement trainings. Currently there are over 70 officials involved with public procurements.

22. In accordance with the current regulations enforced now in Maldives, high-value contracts (US\$100,000 equivalent and above) are centrally procured by the Tender Evaluation Section and smaller procurements are carried out by the line ministries/procuring entities themselves. During the year 2009, the World Bank provided an IDF grant to the Maldivian Government under which the need for strengthening the public procurement regulatory framework was reviewed and several measures were suggested to the Government. Among these, a draft procurement chapter for inclusion in the Financial Regulations was proposed and accepted. This inclusion, identified as Chapter 15 of the Financial Regulations, was meant to replace Chapter 8, but for various reasons both chapters are in current use. Chapter 15 is under revision for reissuance as Chapter 10. The National Tender Board disclosed a new initiative by the Health Department to engage United Nations Office for Project Services (UNOPS) to handle the health sector procurements using UNOPS procurement procedures. This could be seen as another instance of National Tender Board possibly losing some of its weight in procurement management. No procurement audits have been conducted to date by either the Auditor General's Office or internal auditors.

23. The PEFA report notes that monitoring adherence to regulations, policies, and directives has been weak due to the lack of internal audit within government. PEFA also notes that 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.

Payroll controls

24. One major area of process weakness is in payroll controls associated with establishment registers. With salaries being approximately 14 percent of GDP, this becomes a high priority area of focus. Ministries use separate HR databases to update employee information. Typically, each ministry has 3 HR systems: (a) stand-alone leave and time management systems acquired locally by many ministries; (b) Position Management System, called VIUGA, a be-spoke web-based centralized application developed and rolled-out by the Civil Service Commission to the ministries to manage positions/establishment; and (c) SAP-based payroll system rolled out to around 77 spending units/agencies. Ministries maintain employee information in the 3 systems, leading to duplication of efforts, redundant systems, and associated control weaknesses due to disintegrated HR systems. An integration of HR and payroll databases are needed to strengthen controls and to avoid maintenance overheads associated with multiple systems and duplication of efforts by the ministry staff.

Procurement controls

25. In Maldives, public procurements are carried out under the relevant Financial Rules Chapters. The Financial Act does not elaborate the remit of procurement rules on all entities. State-owned enterprises are not covered by the Procurement Rules and significant amount of procurement is undertaken through state-owned enterprises, which are generally not subject to central government

controls. There is no cohesive and consistent guidance or advisory available on procurement matters. There are no written procedures followed by the National Tender Board and Tender Evaluation Section. There is a need for guidelines and a manual for procurement in Maldives.

26. The sanctioned staff strength under the Tender Evaluation Section is 13, out of which 2 positions are still vacant. Out of the filled up positions, 3 staff members are released to other government entities and hence their role within the Tender Evaluation Section is nil. These positions are thus effectively vacant. Accordingly, the Tender Evaluation Section is effectively managed by only 8 staff members against sanctioned strength of 13 staff members. There is a need to fill all the vacant positions under the Tender Evaluation Section in order to effectively use the organization for ensuring better controls environments under public procurements.

27. There is strong need for institutional strengthening for the Tender Evaluation Section under the National Tender Board and to have a single and formal regulatory framework to ensure predictability and consistency of the procurement system and processes that will be followed by all. The Tender Evaluation Section will need support for capacity building and developing systems. For capacity building, the approach needs to shift from training identified staff as a one-off activity to developing at least one institution in the country that can offer ongoing training and other professionalization support. Models of twinning with international resource institutions like Chartered Institute of Purchasing and Supply (CIPS), International Labor Organization (ILO), Institute of Supply Management (ISM), United Nations Office for Project Services (UNOPS), and Administrative Staff College of India (ASCI) for developing proper courseware for training and certification in-country might be an option for further exploration. Developing and mandating use of e-procurement (of course a simple best fit for a small country like Maldives) should also be considered as an option in addition to necessity of developing procurement manuals and sector-specific guidelines and standard bidding documents.

28. In addition, the MOFT also needs to establish a formal procurement performance and monitoring system, competency assessment and enhancement of procurement professionals. The MOFT needs to set up a formal program with focus on the following areas:

- Development and implementation of a M&E system;
- Develop a procurement strategy for training and for supporting the policymaking for professionals involved in the procurement function;
- Collaboration between different wings of MOFT to develop a system of linking procurement plans with the budgets;
- Collaboration between Auditor General Office and MOFT to conduct procurement performance audits;
- Initiating e-procurement; and
- Fill all the vacant positions under the Tender Evaluation Section.

Business processes

29. As explained in subcomponent 2.1, business processes are either not fully defined in a budget/accounting manual or need a review to align them with better practices. Key areas among these include budgeting framework and detailed budgeting and execution procedures, including virements and re-allocations, basis of accounting, cash forecasting, debt reconciliation, contingent liabilities, IPSAS consolidation, transfer of funds to subnational entities and their accounting and banking arrangements to align with treasury single account, and financial reporting (annual financial statements, budget execution reports, project financial statements, integration of payroll with establishment registers, and others).

Financial Monitoring of State-Owned Enterprises

30. Subcomponent 2.2 will enhance the capacity of MOFT in its role as Secretariat to the Privatization and Corporatization Board (PCB), a statutory board appointed by the President and empowered to oversee the management of all enterprises where the State has at least a share of ownership. Current tracking of release of funds from the budget to SOEs is inadequate, requirements for reporting are not consistently enforced, and monitoring capability is weak. The subcomponent will provide for the development of basic monitoring of financial reports and audits in a comprehensive manner as well as analysis of fiscal performance of SOEs where the State is a majority owner.

Activities:

- (a) Strengthen business processes by carrying out a comprehensive review of PFM processes and producing a FM manual underpinned by the review finding;
- (b) Update the Financial Regulations in line with the improved legislative framework for PFM and strengthened PFM processes;
- (c) Develop national bidding documents and procurement management manual, establish a database of awarded contracts that is publicly accessible, set up a grievance redressal process, and provide on-the-job procurement training;
- (d) Establish a twinning arrangement with a recognized procurement accreditation course;
- (e) Provide hands-on support to conduct actual internal audits of budget realization reports (utilizing computer-assisted audit techniques) and thereby enhance the quality of the budget realization reports;
- (f) Provide support to the internal audit function to conduct actual internal audits of the IT-control environment in the PAS, a review of the internal controls over debt management, a payroll audit in the Ministry of Education, a revenue audit in the Maldives Customs Service, and a procurement audit in the Ministry of Health, to thereby contribute toward enhancing the internal control environment within the Government of Maldives;
- (g) Provide training and workshops to internal auditors in order to upgrade the skills of internal auditors;
- (h) Develop detailed practical guidance to supplement the internal audit manual in the form of internal audit guides, checklists, and questionnaires that can be used by internal auditors;

- (i) Increase the capacity of MOFT in its role as Secretariat to the Privatization and Corporatization Board (PCB) by providing training to increase the analytical capacity for fiscal oversight of state-owned enterprises and through preparation of an analysis of the accounting and reporting of transfers to state-owned enterprises, a review of internal and external audit arrangements of state-owned enterprises, and recommendations for strengthening financial reporting arrangements for state-owned enterprises.

Component 3, *Project Management (US\$550,000)*

31. The objective of this component is to provide support to the MOFT for coordination, monitoring, administration, communications, change management, financial management, and procurement of the proposed project, required for successful implementation of the project activities. The project management component will finance the costs of (a) an international management implementation support consultant and local consultants for project coordination and M&E activities, (b) a FM consultant, and (c) any relevant training required to strengthen the skills of the project coordinating staff and other incremental operating costs relating to project coordination.

Annex 3: Implementation Arrangements
Maldives: PFM Systems Strengthening Project (P145317)

Project Institutional and Implementation Arrangements

1. The implementation arrangements are mainstreamed into the existing MOFT structure whereby the responsibility of implementing each subcomponent is vested in respective divisions of the MOFT. The responsible divisions for each subcomponent can be found in Table A3.1. The heads of each responsible division have been identified as focal persons responsible for the implementation of their relevant areas under each subcomponent and together form the PFM Working Committee. Meeting quarterly every calendar year, the PFM Working Committee will be headed by the Project Director. Due attention will be given to ensuring the availability of sufficient human resource capacity for successful implementation outcomes. A shadow team will be appointed to work with each consultancy funded under the project to ensure adequate knowledge transfer takes place.

Table A3.1 Project Responsibility

<i>Subcomponent</i>	<i>Responsible departments at MOFT</i>
1.1 Strengthening the legislative and institutional framework for PFM	<ul style="list-style-type: none"> • Legal Affairs Division • Permanent Secretary’s Office.
1.2 Enhancing the medium-term macro fiscal framework	<ul style="list-style-type: none"> • Fiscal Affairs and Economic Policy Division <ul style="list-style-type: none"> ➤ Economic Policy Planning Section ➤ National Budget Formulation and Analysis Section
1.3 Strengthening debt and cash management	<ul style="list-style-type: none"> • Debt Management Division • TPAD
2.1 Strengthening the public accounting system	<ul style="list-style-type: none"> • TPAD (functional and technical teams)
2.2 Enhancing the control environment	<ul style="list-style-type: none"> • Permanent Secretary’s Office • TPAD • Internal Audit Section, • TES/National Procurement Division • Secretariat of Privatization and Corporatization Board

2. A high-level PFM project Steering Committee has been constituted to provide strategic direction and monitor progress. The Committee is chaired by the senior advisor to the Minister of Finance and is represented by a broad range of stakeholders, namely the Financial Controller, MOFT; Deputy Auditor General, Auditor General’s Office; Deputy Council General, Attorney General’s Office; Deputy Governor, Maldivian Monetary Authority; Secretary General, Civil Service Commission; Chief Executive Officer, National Centre for Information Technology (NCIT); Permanent Secretary, Ministry of Education; and Permanent Secretary, Ministry of Health.

Project administration mechanisms

3. The PMU will act as a central point of contact for coordination, monitoring, administration, communications, financial management, and procurement. Project Director of the PMU will be the Permanent Secretary and be supported by a team consisting of: (a) an international management implementation support consultant and local consultant identified to perform the roles of project coordinator-cum-M&E specialist; (b) TPAD staff supported by a consultant for project FM activities;

and (c) Tender Division for project procurement work through dedicated staff members. The effectiveness of this set up will be evaluated periodically.

4. The management implementation support consultant and the local project coordinator will assist the Project Director to lead the coordination of project activities, including liaising with all relevant divisions within and outside MOFT. The management implementation support consultant will also play a hands-on role in day-to-day contract management to ensure maximum outcome by engaging with beneficiaries to assess the quality of the deliverables and liaising with the implementing division to assess the level of knowledge transfer and on-the-job training.

5. The communication and change management that will cut across all components of the project will also be coordinated by the PMU. The management implementation support consultant will lead the preparation of a communications strategy, endorsed by the PFM Working Committee and PFM Steering Committee and implemented through a combination of qualified experts in change management and technical experts using appropriate change management tools. A key feature of the approach to change management is to identify and work closely with champions for reforms from within the administration.

Financial Management, Disbursements, and Procurement

Financial management and disbursement arrangements

6. Overall FM responsibility for the project rests with the Project Director who is the Permanent Secretary of MOFT. The Project Director through TPAD will execute the project's FM activities. The task team conducted an assessment of the TPAD to ensure that the unit has capacity to carry out the proposed project's FM activities and provide the Bank with accurate and timely information regarding the Bank-financed activities, thereby providing reasonable assurance that the funds are being used for the purposes intended. The TPAD, headed by a Financial Controller, manages the Government's treasury single account and will carry out the FM functions of the project; a consultant will be hired to support project work.

Budgeting

7. The proposed project has been identified as a pipeline project in the MOFT budget. Budget allocations have been done in accordance with the Financial Regulations of the Government of Maldives. The Government procedures for reporting budget allocations for foreign-funded projects covers (a) preparation of draft budget estimates, (b) budget proposal with timelines, and (c) financial covenants of the Financing Agreement between the Government of Maldives and IDA. The government system of coding of expenditure will be followed by direct transfer of funds to classified expenditure heads. Total project expenditure with the estimated expenditure from government budget for the following year will be prepared and sent to the MOFT budget section before end of July every year by the project FM officer.

Fund flows and disbursements

8. To receive funds from IDA, a designated account for MOFT will be set up with the Maldivian Monetary Authority and managed by TPAD. IDA will advance funds to this account

to meet estimated project expenditures for the first six months as estimated in the interim financial reports. From this project account, payments will be made to suppliers, vendors, and consultants. With respect to large international consultancy contracts, the MOFT will have the option of requesting IDA to make direct payments to the consultant or supplier. All IDA funds will be paid for and spent at the MOFT level, which will simplify the fund flow and FM arrangements of the project. The proceeds of the IDA grant (US\$6.5 million) will be disbursed (100 percent inclusive of taxes) in line with eligible expenditures in the category shown in Table A3.2.

Table A3.2 Disbursement Schedule

<i>Category</i>	<i>Amount of the grant allocated (US\$)</i>	<i>Percentage of expenditures to be financed (inclusive of taxes)</i>
(1) Goods, Non-consulting services and consultant’s services, Training and workshops, and Incremental operating expenses*	6,500,000	100%

* “Incremental Operating Costs” mean the reasonable costs incurred by the Recipient for purposes of the management and supervision of the Project including costs of office utilities and supplies, communication, printing services, bank charges, advertising expenses, vehicle rental, operation and maintenance of vehicles, office equipment and facilities, travel, lodging and per diem expenses, but excluding salaries and allowances of the Recipient’s civil servants or other regular government staff.

Staffing

9. TPAD with support from an FM consultant who will be hired for project work, will carry out all project related payments, comply with internal controls, ensure proper accounting, and prepare and submit financial reports in an agreed format to IDA. TPAD is headed by the Financial Controller, a qualified Chartered Accountant and TPAD staff have adequate experience and knowledge of country FM systems that the project also plans to use. The key user for the ‘Project’ module of SAP will play an active support role in project FM activities as the full use of the ‘Project’ module for project accounting and reporting will be piloted under this project.

Accounting policies and procedures

10. All funds for the project will be routed through the MOFT, and TPAD with the support of a FM consultant will be responsible for funding and accounting for all project expenditures and for reporting on the financial progress of the project. The TPAD will set up the financial accounting and reporting system for the project within the existing public accounting system by creating a separate business code. All project expenditures will be recorded under this project-specific business code. Books of accounts will be maintained using cash-basis accounting, and all applicable accounting standards and policies (detailed in the Operations Manual) will be applied. The number of transactions in the project is expected to be moderate, which will enable focused attention on each transaction. The public accounting system will be used to generate various expenditure reports, including interim financial reports, that will be prepared on a cash basis and include a forecast of funds required for the next 6 months. The interim financial reports will be submitted to IDA within 45 days from the quarter end.

Financial reporting

11. Project will prepare quarterly interim financial statements to report financial progress of the project, in a format agreed with the Bank. These reports would form part of the project progress reports and will also be the basis for disbursements. The IDA-related reporting requirements and the formats are also spelled out in the Operations Manual. The project will submit quarterly interim financial reports to IDA within 45 days of the end of the quarter, starting from the end of the first calendar quarter after effectiveness. Project will also prepare annual financial statement as per standards acceptable to IDA and submit same for audit in a timely manner.

Internal controls

12. Internal controls include structures, activities, processes, and systems that help project management effectively mitigate the risks to achievement of the project development objectives. The project follows Government Financial Regulations and Circulars. These regulations were reviewed during project preparation and include internal controls necessary for authorizing, approving, executing, recording, and reporting expenditure. Hence, these regulations and circulars are considered to be adequate to ensure that reliable internal control systems are in place for the project. The PMU has prepared an Operations Manual that includes a detailed chapter on FM arrangements, elaborating additional financial and other internal controls required for ensuring seamless project implementation.

Internal audit

13. As envisaged, the project will have few transactions in the initial years. Hence, an internal audit is not required for the initial stages of the project. The task team assessed the MOFT internal audit section during appraisal and concluded that this division has sufficient capacity to conduct project internal audits. When required, this unit will be called upon to conduct internal audits of the project. Incremental costs required for the internal audits will be provided by MOFT. Prior to conducting the first project-specific internal audit, the MOFT will share with IDA the terms of reference for the project internal audit to ensure that the terms are acceptable to IDA.

External audit.

14. The MOFT-prepared financial statements will be audited by the Auditor General of Maldives to maintain full transparency and provide adequate assurance to all the stakeholders on the use of project funds. The Auditor General of Maldives is acceptable to IDA. Reasonable level of internal control testing will also be done during the external audit. The terms of reference of the annual external audit will be submitted to IDA for clearance prior to engaging the external auditor. The audited financial statements will be submitted to the IDA within 6 months of the end of the fiscal year. The MOFT will disclose an English version of the project's audited financial statements on its website, available to the public in accordance with the IDA's Access to Information Policy. These audited financial statements will be used for obtaining reasonable fiduciary assurance that IDA funds have been used for activities specifically agreed

on. Presently, the MOFT does not implement any IDA projects. Hence, there are no overdue audit reports or ineligible expenditure pertaining to MOFT.

15. According to the Bank’s Access to Information Policy, the audit reports for the project received by the World Bank will be disclosed in the Bank’s external website for public access. The audit report listed in Table 3.3 will be monitored in Banks Portfolio and Risk Management (PRIMA) System/Audit Reports Compliance System (ARCS).

Table A3.3 Audit Reports Monitored

<i>Implementing agency</i>	<i>Audit report</i>	<i>Auditor</i>	<i>Date</i>
MOFT	Project Annual Financial Statement	Auditor General	June 30

Financial covenants

16. The project’s financial covenants are:
- (a) Audited annual financial statements to be submitted to IDA no later than six months of the following fiscal year; and
 - (b) Interim Financial Reports to be submitted to IDA no later than 45 days following the end of the reporting quarter.

Procurement arrangements

17. The Tender Evaluation Section under the National Procurement Division under the Ministry of Finance will carry out the project-related procurements. Accordingly, the Tender Evaluation Section is identified as the procuring entity. The Director General (National Procurement Division) will be responsible for procurement under this project, duly assisted by the staff under the Tender Evaluation Section. The procurement procedures will be clearly identified in a Procurement Chapter of the Project Operation Manual, which will be apprised and reviewed by the Bank. In order to meet project needs, the Manual will be reviewed regularly and updated in consultation with the Bank.

18. The Bank carried out an assessment of the Tender Evaluation Section’s procurement management capacity; the procurement-related risk for the procuring entity is rated as “moderate”. As the project procurement arrangements are aligned with country procurement systems, the following country-level weaknesses impact the project:

- ***Staffing.*** The staff that are managing the Tender Evaluation Section lack in-depth and advance procurement knowledge.
- ***Accountability.*** It is unclear whether or not the Maldives Government has a published and known code of ethics that describes appropriate behavior related to procurement staff. There is no system in place within the Tender Evaluation Section that provides a clear accountability system with clearly defined responsibilities and delegation of authority on who has control of procurement decisions – in accordance with Government of Maldives (GoM) Financial Regulations. Procedures for addressing procurement-related complaints are not clearly defined.

- **Record-keeping.** Record-keeping is not well maintained; records are not secure and protected within the premises of the Tender Evaluation Section.
- **Procurement planning.** The Tender Evaluation Section does not have a procurement plan and procures for various government entities mainly via an on-demand basis.
- **Bidding documents.** The standard bidding documents for goods and works, which were prepared during the 2008-09 IDF grant, are available with the Tender Evaluation Section. These documents need to be rolled out. Standard templates for evaluation of bids and proposals need to be prepared.
- **Contract management and administration.** The Tender Evaluation Section has limited experience in managing contracts.
- **Procurement oversight.** There is no procurement oversight arrangement in place due to lack of procurement performance standards and M&E guidelines.

19. The following activities will mitigate some of the weaknesses described above, aided by country-level procurement strengthening activities under component 2.2 and other project-specific activities:

- The Bank shall conduct a Procurement Workshop in Maldives prior to the project effectiveness enabling the procuring entity's staff, in particular, to get ready for the project-specific procurements.
- The designated project-specific procurement staff shall be provided advance-level procurement training during the first year of project implementation.
- Project-specific procurement chapter will be prepared in the Project Operational Manual.
- An independent complaint redressal mechanism will be set up.
- A Procurement Policy Section within MOFT will be established to independently monitor procurement performance while keeping a firewall to maintain independence within the National Procurement Division.
- The procurement filing system will be improved and a dedicated secure storage space provided for the received tenders prior to their opening and evaluation.
- A functional procurement website will be brought online.

20. Project procurements will include goods, consulting and non-consulting services. No works procurements are anticipated under the project. The procurement of all goods and non-consulting services required for and to be financed out of the proceeds of the project grant shall be in accordance with the requirements set forth or referred to in the "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank" (dated January 2011). Procurement of consulting services shall be in accordance with "Guidelines: Selection and Employment of Consultants under IBRD Loans & IDA Credits & Grants by World Bank Borrowers" (dated January 2011) and the provisions stipulated in the legal agreement. For each contract to be financed under the grant, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior

review requirements and timeframe will be agreed upon between the Government of Maldives and the Bank in the procurement plan.

21. The following methods – International competitive bidding, national competitive bidding, shopping, procurement from UN agencies, and direct contracting – will be applicable for goods and non-consulting services consistent with the relevant sections of the Bank's Procurement Guidelines.

22. The following methods will be applicable for consultant selection, consistent with the relevant sections of the Bank's Consultant Guidelines:

- Quality- and cost-based selection (QCBS)
- Quality-based selection (QBS)
- Least cost selection (LCS)
- Selected under fixed budget (FBS)
- Selection based on consultants' qualifications (CQS): for services estimated to cost less than US\$200,000 or equivalent per contract, in accordance with the provisions of paragraph 3.7 of the consultant guidelines
- Single source selection (SSS)
- Selection of particular types of consultants
- Procedures set forth in Section V of the consultant guidelines for the selection of individual consultants.

23. Consultant shortlists for services estimated to cost less than US\$100,000 or equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Procurement conducted under national competitive bidding

24. In order to ensure economy, efficiency, transparency, and consistency with the Procurement Guidelines, all goods, works, and non-consultant services procured under the national competitive bidding (NCB) method will be subject to the following requirements:

- a. Only the NCB model bidding documents agreed with the Bank shall be used for bidding.
- b. Invitations for bids will be advertised in at least one widely circulated national daily newspaper, and bidding documents will be made available at least 21 days before, and issued up to, the deadline for submission of bids.
- c. Qualification criteria will be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest-evaluated responsive bidder shall be given a reasonable time for registering, without let or hindrance.

- d. Bids will be opened in public in one location immediately after the deadline for the submission of bids, as stipulated in the bidding document; the bidding document will indicate the date, time and place of bid opening.
- e. Except in cases of *force majeure* or exceptional situations beyond the control of the implementing agency, the extension of bid validity will not be allowed.
- f. Bids will not be rejected merely on the basis of a comparison with an official estimate.
- g. Except with the prior concurrence of the Bank, there will be no negotiation of price with bidders, even with the lowest-evaluated bidder.
- h. A bid security will apply only to the specific bid, and a contractor's performance security will apply only to the specific contract for which they are furnished.
- i. Bids will not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the Bank.

25. The Bank's standard request for proposal (SRFP) document will be used for all consultant services. The document may be customized, as appropriate, for small-value assignments (less than US\$300,000).

26. The thresholds for procurement methods and prior review are provided in Table A3.4 (prior review and method thresholds would be reviewed annually and adjusted, if necessary).

Table A3.4. Procurement Methods and Prior Review Thresholds

<i>Expenditure category</i>	<i>Contract value (Threshold)</i>	<i>Procurement method</i>	<i>Contracts/Processes subject to prior review</i>
Goods and non-consulting services	> US\$100,000	ICB	All contracts
	≤ US\$100,000	NCB	First contract
	≤ US\$50,000	Shopping	First contract
Consultant services (firms)	> US\$300,000	All competitive methods; advertise internationally	All contracts
	≤ US\$300,000	All competitive methods; advertise locally	All contracts over US\$ 200,000 equivalent
	< US\$200,000	Consultant qualification	
		Single-Source Selection (SSS)	All contracts
Individual consultants		Section V of Consultant Guidelines: Individual consultant	All TORs
		SSS	All contracts

Irrespective of the thresholds and category of risk, the selection of all consultants (firms or individuals) hired for legal work or for procurement activities are respectively cleared by the Legal Vice Presidency Unit of the Bank with the relevant expertise and the designated Procurement Specialist/procurement accredited staff or Regional Procurement Manager as required.

Procurement plan

27. The recipient has developed the initial procurement plan for project implementation and has agreed with the World Bank on the procurement methods. Formal agreement between the Government of Maldives and the Bank will be reached at negotiations, and the Project Director will provide the plan to the Bank. The procurement plan will be updated at least annually, or as required, to reflect actual needs vis-à-vis project implementation and institutional capacity.

Procurement information and documentation

28. Procurement information will be reported as follows: (a) complete procurement documentation for each contract, including bidding documents, advertisements, bids received, bid evaluations, letters of acceptance, contract agreements, securities, complaints (if any) and their resolution and related correspondence will be maintained by the Tender Evaluation Section in an orderly manner, readily available for audit; (b) contract award information will be promptly recorded and contract rosters as agreed will be maintained; and (c) semi-annual reports will be provided to the Bank with (i) revised cost estimates, where applicable, for each contract; (ii) status of on-going procurements, including a comparison of originally planned and actual dates of the procurement actions, preparation of bidding documents, advertising, bidding, evaluation, contract award and completion time for each contract; and (iii) updated procurement plans, including any revisions in dates, for procurement actions.

Environmental and Social (including safeguards)

29. The project is categorized as Environment Category C. There are no environmental or social policies triggered, thus no specific safeguards management actions or need for capacity building. The assigned safeguard officers are based in the Colombo office and can provide support at any stage of the project where input or technical advice in terms of safeguards will be required.

Monitoring and Evaluation

30. The M&E framework and the reporting thereon will be anchored within the MOFT-based PMU. A project coordinator-cum-M&E specialist under the guidance of the management implementation support consultant will collect and analyze data on implementation progress against all components, subcomponents, and project activities. The monitoring exercise will be conducted on a continuous basis, and the focal points at each of the subcomponent implementing entities will be the primary source of data and information. Reporting will be modeled on the basis of the results framework established and agreed for the project. The matrix in Annex 1 provides the indicators that will be assessed and the milestones to be achieved during each stage of the implementation period,

including the final outcome and intermediate outcome values planned by the end of the project for the entire project, for each component and subcomponent. This matrix also includes baseline values.

31. Detailed quantitative and qualitative reviews of progress will be undertaken within the year to identify and discuss issues and bottlenecks that may arise and impede achievement of targeted outcomes. This work will need to be initiated by the PMU in consultation with the key stakeholders who will all be part of the PFM Working Committee. Project management and Bank review missions will discuss the issues raised, and resulting recommendations will become action points for implementation follow-up and subsequent reviews. The Government's PFM Steering Committee will also receive and review strategic information on implementation progress to provide strategic guidance to enable the project to achieve its development objectives.

Annex 4: Operational Risk Assessment Framework (ORAF)
Maldives: PFM Systems Strengthening Project (P145317)

Project Stakeholder Risks						
Stakeholder Risk	Rating	High				
Description: Political support and ownership to enhance public financial management has not been demonstrated in the past	Risk Management:					
	There is support from the Ministry of Finance for the proposed project design. The project concept is aligned to address Government's urgent needs to bring fiscal discipline via enhanced PFM. The recent enactment of the Fiscal Responsibility Act demonstrates Government commitment in this area.					
	Resp:	Stage:	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status:
	Resp:	Stage:	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status:
Implementing Agency Risks (including fiduciary)						
Capacity	Rating	Moderate				
Description: (a) The capacity of PFM staff to implement new activities and procedures such as the preparation of a macro fiscal framework (b) Unfamiliarity of staff on project management and bank's procurement and FM requirements (c) Capacity constraints due to	Risk Management:					
	(a) Both on the job and class room type training will be an integral part of the project design. Procurement training courses will be designed and training institutions strengthened to deliver these courses as a sustainable model for capacity building. (b) A senior management implementation support consultant with prior project management and PFM experience and preferably with experience handling donor-financed projects will be recruited for project coordination. (c) Local staff the adequate experience in country FM and procurement systems and donor financed operations will be selected for project fiduciary work. Necessary FM and procurement training will be given to staff during project implementation.					
	Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:

high turnover of trained PFM staff			<input type="checkbox"/>			
Governance	Rating	Moderate				
Description: Weak project monitoring	Risk Management: (a) A high level project steering committee with participation from a wider group of stakeholder has been set up to meet once every quarter to assess implementation progress of project activities. (b) Results framework with baseline and target indicators have been prepared for the project, to provide a good basis to monitor and evaluate the implementation progress of the project. (c) Clear and transparent methods will be used in the selection of consultants.					
	Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:
			<input type="checkbox"/>			
Project Risks						
Design	Rating	Moderate				
Description: Slow implementation due to lack of coordination between MOFT, line ministries and other stakeholders and lack of ownership for innovative activities	Risk Management: (a) Special attention has been given to communication and change management processes in the project design. (b) A project steering committee comprising a wide group of stakeholders has been set up that will meet regularly and monitor progress. (c) A PFM working committee has been established to coordinate with all stakeholders. (d) Project coordination will be supported by (i) the MOFT Permanent Secretary as Project Director with primary overall responsibility for project implementation; (ii) an international Management Implementation Support Consultant; and a local project coordinating and M&E consultant; (iii) TPAD supported by a consultant for FM activities; and (iv) Tender Evaluation Section for procurement activities.					
	Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:
			<input type="checkbox"/>			
Social and Environmental	Rating	Low				
Description:	Risk Management:					

There are no activities as per the initial concept that will have any environmental and social impact.						
	Resp:	Stage:	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status:
Program and Donor	Rating	Low				
Description: The risk is negligible	Risk Management:					
	Resp:	Stage:	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status:
Delivery Monitoring and Sustainability	Rating	Substantial				
Description: (a) Sustainability of PFM process improvement and modernization efforts (b) Financial sustainability of the PAS and retention of core staffing	Risk Management:					
	(a) Improvements introduced under the project will be institutionalized by ensuring that adequate institutional structures with adequate staffing backed by a proper regulatory framework is in place and consultancy support is long term and on site with on the job the training and knowledge transfer being core elements of the consultants' TOR.					
(b) Budget provisions for the annual maintenance of SAP, licenses fees, continuous staff training on SAP, and special allowances for SAP experts will be gradually introduced in the GoM budget to be funded by Governments own resources similar to the SAP maintenance arrangements of the tax administration system at MIRA.						
	Resp:	Stage:	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status:
Other (Optional)	Rating					
Description:	Risk Management:					
	Resp:	Stage:	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status:
Other (Optional)	Rating					
Description:	Risk Management:					

	Resp:	Stage:	Recurrent:	Due Date:	Frequency:	Status:
5. Overall Risk						
Implementation Risk Rating:		Substantial				
Comments: Comments: The risk assigned is “substantial” as the stakeholder risk especially the political risk is high, and there is substantial risk that PFM strengthening efforts may not be sustained after project completion.						

Annex 5: Implementation Support Plan
Maldives: PFM Systems Strengthening Project (P145317)

Strategy and Approach for Implementation Support

1. The strategy for implementation support has been developed to enable more focused attention on the critical elements that together will support the achievement of the project outcomes. It gives cognizance to the essential risk profile and entails the continuous provision of technical and advisory support to the project implementing agencies during the life of the project. The strategy aims at making implementation support to the client more flexible, timely, and efficient, and will lend greater focus on supporting the mitigation of the identified risks as per the Operational Risk Assessment Framework (ORAF) and any arising risks during implementation.

2. The strategy is based on several inter-related mechanisms that will enable enhanced implementation support to the Government of Maldives and foster timely and effective monitoring. Supervision of the project will be based on the following arrangements: (a) World Bank's semi-annual review missions in the field; (b) technical meetings by videoconferencing in between formal missions to enable continuous communications between Bank and government counterparts; (c) regular interactions for ad hoc support between in-country task team members and the implementing agencies; (d) feedback on the outcome of meetings of the PFM Steering Committee as well as the PFM Working Committee; and (e) reviews of M&E reports, interim financial and progress reports, and annual audited financial statements.

3. Each mission, guided by the results framework designed and agreed upon for the project, will monitor performances in line with the related milestones under each component and gauge the potential for any revisions in the implementation modalities. Where necessary to help achieve successful outcomes, additional technical assistance support will be secured to provide hands-on support to the Government in addressing areas of weaknesses. On a continuous basis, the supervision scope will also include monitoring the project's compliance with stipulated FM and procurement covenants and guidelines as well as issues that may give rise to environmental and social safeguards concerns. Prior to each formal mission, the project management team will provide a comprehensive progress report on the project's activities as well as an updated annual plan and budget, consistent with the project plan and costs. The first 18 months of project implementation will require intensive supervision and support to client.

4. With the objective to sustain high-quality supervision, the Bank team will, at a minimum, comprise the team leader who is knowledgeable in PFM; other members, including a specialist with experience in supporting FMIS; a PREM economist with ample knowledge and experience of Maldives's economic governance; a communications officer from External Affairs; a procurement specialist as well as an FM specialist; and a team assistant.

Implementation Support Plan

5. The resource requirements, with regard to the time budgeted for the Bank's task team, is expected to be at least 4 weeks per year for 2 supervision missions (2 weeks per mission); and the required skills mix will vary slightly as implementation progresses (Tables A5.1 and A5.2). Between

missions, task team members might set aside approximately 7-14 days for ad hoc support requirements, including videoconferencing. The Bank team will also interface with the secretariat of the PFM Steering Committee as well as with the PFM Working Committee comprising all component managers. The PMU will be the key counterpart to the Bank's team.

Table A5.1 Time and Skills Focus during Implementation

	<i>Time</i>	<i>Focus</i>	<i>Skills needed</i>	<i>Resource estimate</i>
<i>What would be the main focus (skills and time estimate) in terms of support to implementation during...</i>	<i>first 12 months</i>	Legal, business process, and institutional review, Macro fiscal framework, Budgeting, Debt, and Public accounting system	Leadership, Integrated Financial Management Information Systems (IFMIS), FM, Macroeconomics, Governance, and Procurement	30 weeks
	<i>12-48 months</i>	Macro Fiscal Framework, Budgeting, Debt, Public accounting system, Internal audit, Procurement training, and Communications	Leadership, IFMIS, FM, Macroeconomics, Communications, and Procurement	80 weeks
	<i>other</i>	Final year		30 weeks

Table A5.2 Skills Mix Required

<i>Skills needed</i>	<i>Number of staff weeks</i>	<i>Number of trips</i>	<i>Comments</i>
Leadership	25	4	
IFMIS specialist	20	2-3	
Debt management	15	2	
Macro economics	15	2	
Communications	5	1	
Procurement	15	2	
Financial management, governance, controls, and audit	25	2	

