



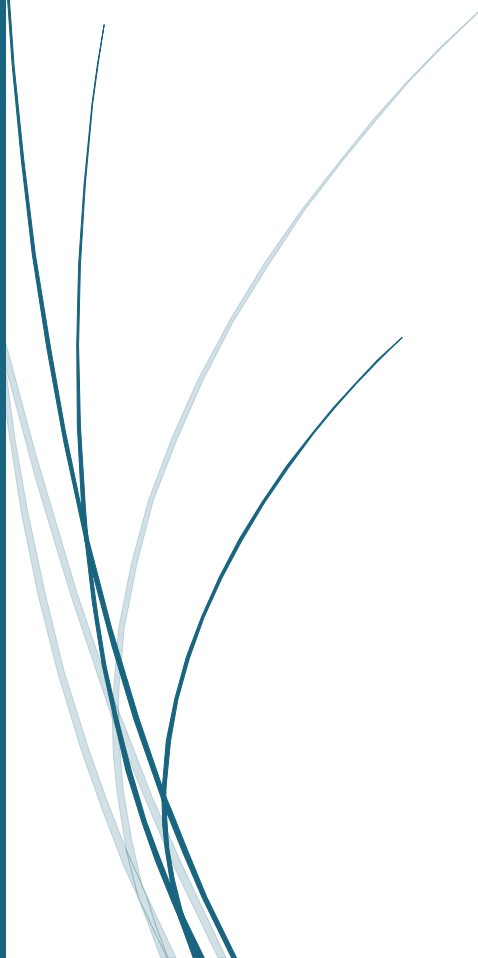
Ministry of Finance

Government of Maldives

Public Financial Management (PFM) Reform Strategy & Action Plan

2022-2026

31 January 2022



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First and foremost, we would like to thank God Almighty for granting us the health, strength and ability to successfully complete the Public Finance Reform Strategy and Action Plan at a challenging time.

This Public Finance Reform Strategy and Action Plan, formulated for the medium term 2022-2026, comes at a critical time in the history of Maldives. This plan could not have been possible without participation of the key stakeholders of PFM, assistance and guidance from our development partners and the efforts of the Public Finance Expert, Elena Morachiello who brought all inputs together to formulate this plan.

We would like to show our gratitude to the World Bank for providing the financial assistance in hiring an experienced PFM expert for the preparation of the plans. The efforts and guidance received from World Bank's Lead Governance Specialist – Financial Management, Winston Percy Onipede Cole is noted with much appreciation. We would also like to show our gratitude to our development partners who sacrificed their time to meet us despite the vast time difference, reviewed and contributed their ideas to the plan. As such, in no particular order, we would like to highlight IMF, ADB, JICA and the USAID (check) for their invaluable input.

Additionally, we would like to thank the policy level, planning and finance related staff of Ministry of National Planning, Housing and Infrastructure, Ministry of Health, Ministry of Education, Ministry of Tourism, Ministry of Gender, Family and Social Services, the Auditor General's Office, Maldives Inland Revenue Authority and the staff working at Fiscal Affairs Department, Debt Management Department, Treasury and Public Accounts Department, Pay Commission's secretariat and Privatisation and Corporatisation Board's secretariat of the Ministry of Finance for their invaluable input and support.

Last but not the least, the technical support provided by the Fiscal Affairs Department of the Ministry of Finance is noted for creating an enabling venue for the discussions and review of different opinions.

Foreword

The Maldivian economy suffered the worst economic crisis on record in 2020. The objective of the government at that juncture was to save lives and livelihoods. Resources for the health and social sectors were ensured to the full extent required to increase health sector capacity and to ensure social security and support to the most vulnerable segments of the population. Support to the economy through transfers to affected individuals, working capital loans to businesses, discounts on utility bills and moratoriums on the repayment of loans of affected borrowers from domestic financial institutions were arranged. Although strict expenditure reduction measures were taken across numerous areas, at a time when government revenue had declined by almost half compared to initial estimates, the inevitable cost of supporting our people and the economy was an increase in our debt. However, fiscal prudence and sustainability remained of first order importance, and all our actions were designed to contribute to maintaining these. We believe that the actions we took were successful. The rapid economic recovery and the quick return to a normal lifestyle converging to that of pre-pandemic times are testament to this.

Despite the challenging times, we pressed on with our PFM reform agenda. Our MTFF has been significantly improved, allowing for better cash flow management and budgeting. Significant progress has been made in disseminating macro-fiscal data and public finance related information to the public in a timely fashion, and this has been widely acknowledged. Other reforms over the past three years include improvements in macro-fiscal forecasting, enhanced commitment controls in the public accounting system, the development and adoption of a code of conduct for state owned enterprises and the introduction of a rule-based system for allocating transfers from the central government to local councils.

In order to identify our standing and areas for further reform, we undertook a PEFA self-assessment in 2020. The PEFA assessment along with our ongoing reforms laid the groundwork for this PFM Reform Strategy and Action Plan 2022 – 2026. It is formulated with a view to address the main challenges in the existing system and gear fiscal policy to maximize the potential for inclusive growth and macroeconomic stability. Increasing the efficiency and efficacy of public spending, fiscal transparency, and accountability in the use of public funds are also key objectives. Key reform

actions and targets have been identified for each of the five goals of the Reform Strategy, along with the lead agencies that will champion the reforms.

We are grateful to everyone who have contributed to the development of the PFM Reform Strategy and Action Plan 2022 - 2026. With the way forward and the magnitude of the challenges that lie ahead identified, our commitment to the Maldivian people is that we will continue with our PFM reforms to achieve the milestones set here.

Ibrahim Ameer
Minister of Finance

31 January 2022

Abbreviations and Acronyms

ADB	Asian Development Bank
AGA	Accountable Government Agencies
AGO	Auditor General's Office
AFS	Annual Financial Statements
BPC	Business Planning and Consolidation
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DeMPA	Debt Management Performance Assessment
DMD	Debt Management Department
EDA	Emerging and Developing Asia
EQA	External Quality Assessment
FAD	Fiscal Affairs Department
GDP	Gross Domestic Product
GoM	Government of Maldives
HRCM	Human Resource and Capital Management
HIES	Household Income and Expenditure Survey
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
IPPF	Internal Professional Practices Framework
IPSAS	International Public Sector Accounting Standards
ISSAI	International standards for supreme audit institutions
KPI	Key Performance Indicator
LGA	Local Government Authority
MDA	Ministries, departments, and agencies
MCS	Maldives Customs Service
MIRA	Maldives Inland Revenue Authority
MoF	Ministry of Finance
MMA	Maldives Monetary Authority
MTDS	Medium Term Debt Strategy
MTFF	Medium-Term Fiscal Framework
MVR	Maldivian Rufiyaa

NPC	National Pay Commission
NPI	New Policy Initiatives
NTB	National Tender Board
PAC	Public Accounts Committee
PBA	Public Bank Account
PAS	Public Accounting System
PCB	Privatization and Corporatization Board
PEFA	Public Expenditure and Financial Accountability
PEMEB	Public Enterprise Monitoring and Evaluation Board
PFA	Public Finance Act
PFM	Public Financial Management
PFR	Public Finance Regulation
PFMRP	Public Financial Management Reform Planning
PIM	Project Implementation Manual
PIMA	Public Investment Management Assessment
PMU	Project Management Unit
PPB	Procurement Policy Board
PPP	Public Private Partnership
PSIP	Public Sector Investment Programs
PSSP	Public Finance Management System Strengthening Project
PSTI	Public Sector Training Institute
RMDMD	Resource Mobilization & Debt Management Department
SAP	Strategic Action Plan
SIAC	State Internal Audit Committee
SOE	State Owned Enterprises
TPAD	Treasury and Public Accounts Division
TSA	Treasury Single Account
USAID	United States Agency for International Development

Public Financial Management (PFM) Reform Strategy 2022-2026

Chapter 1

Introduction

1.1 Structure of the Report

Following the PEFA assessment that was conducted in February 2014, the Government of Maldives, with the assistance from the IMF's Fiscal Affairs Department (FAD) prepared and implemented a Public Financial Management Reform Planning (PFMRP) for 2014 to 2018. The current strategy will build up on the achievements of the previous strategy and aims to alleviate current shortfalls.

The current strategy and the related action plan were developed by Elena Morachiello, the same PEFA and PFM expert who was hired to assist the GoM to do the PEFA 2020 Self-Assessment. The strategy and related action plan were primarily informed by the PEFA 2020 assessment results and other recent assessments, on-going reform initiatives and institutional factors are also taken into consideration. It was developed in consultation with MoF, FAD, TPAD, MIRA, Auditor General, PCB and donors such as IMF, World Bank and ADB.

The PEFA framework provides a 360-degree overview of PFM, with evidence-based assessments and scoring methodology as well as a peer-review process that counters the risks of potential optimism bias in the assessment process. The framework facilitates comparison over time and between countries and regions and is internationally agreed on and supported through strong collaboration between key development partners. Since public finance is the key factor to fiscal stability and sustainability, continuous improvements in Public Finance Management (PFM) is a top priority for the Ministry of Finance. PFM reforms in Maldives are designed to respond to the challenges found in the systems and to improve efficiency and effectiveness of public spending. The PFM reform strategy is presented in 6 chapters as follows:

- Chapter 1 presents introduction and background to the PFM Strategy;

- **Chapter 2** summarizes the current performance and lessons learned from the previous PFM Reform Strategy implementation;
- **Chapter 3** provides the detailed actions under each of the goals and objectives including the priority actions;
- **Chapter 4** describes the change management challenge, risks, opportunities and coordination challenges;
- **Annex A** provides the PFM reform matrix;
- **Annex B** provides a list of documents which provide additional background information

1.2 Country Context and Background to the Strategy

A collection of 26 natural atolls situated in the Indian Ocean, the Maldives covers a land area of 298 square km spread across 90,000 square km of water, with the islands forming a narrow chain 820 km in length (north to south) by 130 km in width (east to west).

The Maldivian economy is heavily dependent on tourism, which is the major source of foreign exchange earnings and government revenue and has been the principal driver of growth in the past four decades. Tourism is the primary economic activity in the Maldives, accounting directly for close to a quarter of total production, and indirectly contributing to the growth in sectors such as transport, telecommunication and trading, among others. The major market for Maldives tourism has traditionally been the European market. In the past few years, however, the country has witnessed a surge in tourist arrivals from China. The rise of the Chinese middle class and the increase of visitors from China is one of the long-term trends affecting and changing the dynamics of the tourism industry and economy in the country generally.

In recent years, growth in the tourism sector has decelerated and construction has contributed significantly to GDP growth due to large-scale infrastructure projects being undertaken to diversify the economy and increase its resilience. The country's medium-term fiscal plan is anchored by large multi-year investment projects fueled by an increase in public and private investments.

The public sector of the Maldives consists of the central government, public enterprises, and local councils. The central government consists of 20 ministries, 27 statutory bodies including independent institutions, 32 public enterprises, and local councils. Public Enterprises may be

established (where 100% of the initial share capital is held by the Government) through presidential decree or a statute and registration through the Companies Registrar. Companies that are not wholly owned by the Government may be registered via the standard company registration process. For purposes of management of the budget, ministries, independent agencies, and local councils are designated as Accountable Government Agencies (AGA). Public enterprises have their own budget approved by their board of directors. However, planned subsidies are budgeted and treated as transfers during budget execution. The Privatization and Corporatization Board established under the Privatization Act (2013)¹ is tasked with monitoring and evaluating public enterprise performance.² Appointments to the Board of Directors of Public Enterprises are made by the Privatization and Corporatization Board based on the recommendations of the President.

1.3 Objective of the Reform Strategy

Effective institutions and systems of public financial management (PFM) play a critical role in the implementation of national policies concerning development and poverty reduction. Sound PFM is the linchpin that ties together available resources, delivery of services, and achievement of government policy objectives. PFM ensures that revenue is collected efficiently and used appropriately and sustainably. The goals of the PFM reform strategy in Maldives include strengthening fiscal discipline, ensuring debt sustainability and the efficient, transparent and modern management of public finances.

¹Privatization, Corporatization Monitoring and Evaluation Act (no: 03/2013)
<http://www.finance.gov.mv/public/attachments/blkC6wJ06lchIXIC5URrZneH0GYI3wTMKmESZG9R.pdf>

²S.12 Privatisation Act.

Chapter 2

Current Performance and Lessons from PFM Reform Strategy 2014-2018

2.1 Approach to Current PFM Reforms

The Public Finance Management reform actions in Maldives are designed to respond to the challenges found in our system, to improve efficiency and effectiveness of public spending and improve our tax regime. The goals of the PFM reform carried out include strengthening fiscal discipline, ensuring debt sustainability and the efficient, transparent and modern management of public finances. The Maldives has undergone a number of significant PFM reforms since 2009, when the first PEFA was carried out.

The Maldives did formulate a Reform Action Plan for 2014 to 2018 following the 2014 PEFA, and most of the weaknesses identified in the 2014 assessment have been the key priority areas for PFM reform in recent years. The Maldives also formulated a five year Strategic Action Plan (SAP) in 2019, which includes the overall government policy objectives to be achieved from 2020 to 2025. This was revised following Covid -19 and renamed as the National Resilient and Recovery (NRR) plan. This plan includes measures that would improve PFM in the coming years.

These PFM reforms are pursued by the MoF, primarily through PFM reform programs supported by development partners such as the World Bank, the IMF, USAID, ADB and UNDP. These programs mainly focus on the following key areas:

1. Fiscal and macroeconomic reforms
2. Strengthening debt and cash management
3. Strengthening State-Owned Enterprise (SOE) governance and oversight
4. Procurement reforms
5. External Audit of the Public Sector
6. Strengthening of the Public Accounting system (PAS) and asset management
7. Program Performance Based Budgeting
8. Public Investment Management and Public Private Partnerships (PPPs)

All PFM reform programs are led by the MoF. A dedicated unit has been formed within the MoF under the World Bank Public Finance Management Project, responsible for overseeing the overall PFM reform actions carried out under this Project and is accountable to the Minister of Finance.

2.2 On-going Reforms

As an overarching reform action, work towards the revision and amendment of fiscal laws and regulations is currently ongoing. In this regard, the MoF has established an internal review committee to identify shortcomings in the Public Finance Act and the Public Finance Regulation and to introduce amendments where necessary. Proposals have also been put forth to include virement and appropriation rules in the Public Finance Regulation to improve budget credibility and execution. Furthermore, the review of the Maldives Fiscal Responsibility Law (mainly on establishing practically feasible fiscal rules and requirements in the law) is also currently underway.

2.2.1. Fiscal and macroeconomic reforms

In the last two years, the MoF has implemented important measures to strengthen the fiscal position. These include: (i) strengthening SOE monitoring to reduce the fiscal burden on the budget, (ii) strengthening PSIP monitoring and implementation, (iii) introduction of new revenue measures, and (iv) reviewing and refining subsidy schemes.

The MoF has also taken several steps to improve MTFF, budget credibility and transparency. To have more controls on budget execution and for better cash flow planning, the MoF has implemented commitment control and integrated Business Planning and Consolidation (BPC) to the Public Accounting System. The MoF also publishes quarterly and annual fiscal and debt statistics on the MoF website.

In addition, the World Bank PFM project issued the Household Income and Expenditure Survey (HIES) in 2020. Preliminary statistics from the HIES as well as the labor force survey (LFS) are now available, the information from which will compliment to formulate a better budget. Furthermore, the migration to a program performance-based budget is currently underway with the assistance of the USAID.

As part of the overall fiscal policy, the formulation, design and monitoring of tax policy of the country is one of the MoF primary mandates. In this regard, a Tax Policy Unit was established within the MoF in 2019. Further, fundamental changes were brought to tax policy in 2019, including the amendments

brought to the Tax Administration Act and the introduction of the Income Tax, which became effective from 1 January 2020, while the tax on employment income only commenced from April 1, 2020 onwards. Review of other major taxes such as GST and green tax is currently underway.

2.2.2. Strengthening debt and cash management

Public debt (including guarantees) has reached 149 percent of GDP in 2020, compared to 78 percent of GDP in 2019. Fiscal risks are present in guarantees and the vulnerability of the overall debt portfolio remains elevated due to the short maturity of domestic debt. One of the main risks in the current debt portfolio of the Government is the currency risk due to the high exposure to foreign currency denominated debt. To strengthen the debt and cash management the MoF has been preparing Medium Term Debt Strategy (MTDS), which is updated annually.

The MoF also established an internal and external cash flow committee to assist in cash management. The internal committee meetings are held every other week while external meetings are held quarterly and includes external stakeholders; Maldives Inland Revenue Authority (MIRA) and the Maldives Monetary Authority (MMA). Cash flows are updated on a daily basis with information provided by respective departments with a target of maintaining of cash flow for a longer period. A tentative Borrowing Plan covering both external and domestic debt has also been prepared in 2020 and work towards further enhancing the plan is currently ongoing before the plan is published. The intent of the borrowing plan is to provide information on the government's borrowing requirement throughout the year in advance to potential investors.

Significant progress has been made to strengthen debt management with the establishment of an integrated debt management department within the MoF that includes a front, middle and back office. The MoF is also reviewing debt management requirements in relevant legislations and a draft on a debt law has been prepared, in accordance with the guidance from the Debt Management Performance Assessment (DeMPA) carried out in 2019 and international best practice and advice from experts. Plans have been made to review the fiscal and credit risk arising from contingent liabilities to address underlying issues of sovereign guarantees and on-lending and other debt related instruments issued to SOEs and private companies.

2.2.3. Strengthening Management of the Capital Budget

The objective of this component is to enhance the preparation of the capital budget and implementing selection criteria for New Policy Initiatives (NPI)³. Capital project selection is more dependent on the national development plan, strategic action plan, objectives, or pledge of the government rather than its affordability or readiness. The government developed a 5 year Strategic Action Plan (SAP) in 2019, and activities and projects planned to be carried out in the first year has already been incorporated in the 2020 budget. The current focus of PFM reform is to improve monitoring of capital budget execution, namely the PSIP implementation. In this regard, the MoF has developed a portal for line ministries to report progress and monitor project implementation. The portal is expected to play a vital role in decentralizing the project implementation to local government agencies. The MoF is also working with the Ministry of National Planning to formulate a vetting process for screening PSIPs.

2.2.4. Strengthening Payroll Management and Control

The National Pay Commission (NPC) is developing a harmonized and consolidated pay framework for the entire public service of Maldives. The new framework, with robust and well-designed compensation structures, is designed to address critical structural issues in the current salary structure as well as issues that pose challenges to systematically address the fiscal burden from salaries and benefits to employees. The new framework is being formulated with categorization of the public service into nine job families, which includes over 200 professions – with a distinct salary structure for each profession. The salary for each profession will be well defined, ‘weighing’ the compensable factors for each job. The final salary structure is expected to be completed by the end of 2021.

Migration to the new salary structure will result in greater transparency, harmonization of salaries across job titles and easier forecasting of fiscal impacts due to changes in payroll structure or any related changes. The new salary structure is expected to be integrated into a web portal and a mobile application that will ensure transparency and accessibility to all the salaries for all job titles (as well as potential job titles) and all related components of the new salary structure. Government is expected to decide on a timeframe to migrate to the new salary structure.

³A set of new policies or programs by agencies or ministries.

The National Pay Commission (NPC) has formulated 9 job families and 96 professions for which job descriptions and criteria on qualifications and experience are being developed to establish a pay grade. The NPC has also published a handbook on allowances. At present, there are nearly sixty different types of allowances, out of which fifteen are in use. The NPC has harmonized pay structure and allowances. As part of PFM reforms, the MoF has developed a digital payroll register of all employees who is being paid from the government budget. The MoF has also worked to further enhance the register to automatically collect, compare and notify miss-matching records to cross platform applications including the “Viuga” (Civil Service Registry) at Civil Service Commission, which has now become live.

2.2.5. Strengthening State-Owned Enterprise (SOE) governance and oversight

The MoF has developed a Corporate Governance Code for SOEs and is adopted by all SOEs. The PCB has also developed performance agreements and pegged bonuses for the Managing Director and the Board of Directors with their performance. The MoF has is developing developed a SOE Gateway; a portal that monitors the financial situation of SOEs and is fully rolled out is estimated to be completed by February 28, 2022. The SOE Gateway will be further enhanced, to integrate financial analytical capabilities within the system and publish information through the Gateway to the public. Currently, such analysis are carried out manually, and monthly, quarterly and annual financial statistics relating to SOEs are available in the MoF website.

2.2.6. Procurement reforms

The MoF is undertaking several reforms to procurement. This include changes to the Procurement Regulation to give preference to local contractors, monitoring and evaluation of procurement, establish a separate regulatory division in the MoF and streamline the procurement process of SOEs. These changes to the procurement regulation have been drafted and a Procurement Policy Unit has been formed within the MoF. Further, harmonization and preparation of a guideline for SOE procurements has been performed by a firm has been hired under the World Bank PFM project⁴.

The MoF is also working towards the establishment of an electronic government procurement (e-GP) system. A readiness assessment was done in 2017, and several related components which is essential for the e-GP system is in progress, including a procurement portal and an internal system

⁴<https://www.finance.gov.mv/public/attachments/CDfAl83T86brSG0Yz6RkqjppDI8Ks07OhKmxahYw.pdf>

to manage procurements. As part of procurement reform, the MoF is committed to move towards green procurement. There are several initiatives at the individual ministries level, but lack of a central policy to give preference to green procurement is an obstacle. The National Tender is working with the Ministry of Environment to conduct a pilot green procurement.

2.2.7. External Audit of the Public Sector

The Government follows IPSAS cash basis. However, the Annual Financial Statements (AFS) which cover the local governments are not yet IPSAS compliant. The MoF and Auditor General's Office (AGO) have established a technical committee to work towards migration to IPSAS accrual accounting, while also addressing the IPSAS cash basis non-compliance issues. The audited whole-of-government AFS for 2020 has been published. The MoF is continuously enhancing the public accounting system (SAP) and working towards a fully system generated AFS. The AGO has also worked on progressive implementation of international standards for supreme audit institutions (ISSAI) and started in mid-2020, along with a pilot citizen participatory audit.

2.2.8. Strengthening of the Public Accounting system (PAS) and asset management.

Since the adoption of the SAP Solution in 2009 as PAS, the MoF has been continuously working towards enhancing and rolling out its adjacent modules to fill the gaps in Integrated Financial Management System (IFMS). To strengthen PAS, a highly trained and dedicated team will be established within the MoF. In this regard, SAP functional and technical associates have been recruited to carry out the development works of the PAS.

In addition, work to value and compilation of legacy assets in the SAP is currently underway with the assistance from World Bank. This project also supported the MoF in preparing policy for asset valuation which is now published⁵.

2.2.9. Introduction of rule-based system for transfers from central to the local governments.

As per the 8th Amendment to the Decentralization Law (24/2019), the Ministry of Finance is mandated to allocate grants to island councils, atoll councils and city councils through a formula determined by the Ministry, to finance the administrative expenses, expenses for service provision

⁵<https://www.finance.gov.mv/public/attachments/0Xi3baPCem8Cvh36W7M3q6RXnMuL7scTykm96tYk.pdf>

and development projects implemented by the councils. This was applied for the first time in the formulation of the approved budget for 2020.

The Law states that the total amount of block grant allocated from the budget for council grants is the total of:

- 5 percent of total revenue estimated in the budget approved by the People's Majlis for that year
- 40 percent of rental income received from land, reefs and lagoons that are not under the purview of the councils.

In 2020 the block grants were apportioned to the local councils in the following proportions:

- 76 percent to island councils
- 8 percent to atoll councils
- 16 percent to city councils

Block grant is apportioned to the individual councils in two ways: through equalization grant and an amount determined by the fiscal formula. 'Equalization grant' is an amount distributed equally among the councils to ensure that no council receives an insufficient amount for managing operations.

The proportion of budget allocated as 'equalization grant' for island councils, atoll councils and city Councils were as follows:

- Island councils 10 percent
- Atoll councils 50 percent
- City councils 10 percent

The remaining budget is allocated to the individual councils based on the 'fiscal formula'. Table below shows the variables included in the 'fiscal formula' and the weight assigned to each of the variable.

Variable	Island councils	Atoll councils	City councils
Population	75%	60%	65%
Land area	10%	5%	15%
Distance from capital island of the respective administrative atoll	5%	25%	0%
Distance from Male'	5%	5%	15%
Council performance	5%	5%	5%

2.3 Institutional Considerations

The lead implementation agency of public finance reform programs in the Maldives is the MoF, while the relevant departments within the MoF are the main drivers of such reforms.

Significant reforms in public finance in recent years have been within the MoF, however the need to opt for a more holistic approach to reform has been identified. In this regard, the MoF has undertaken sustained outreach initiatives towards line ministries and the Attorney General to expand the scope of PFM reform and ensure better efficiency and sustainability.

Broad PFM reforms have been carried out under the World Bank PFM project in recent years. Under this project, a PFM reform action plan has been formulated and the project PMU is in charge of overseeing implementation. The PMU has been formed within the MoF and reports to the Minister of Finance. The governance structure of this reform program enables the inclusion of the MoF leadership team and other stakeholders (such as line ministries and the Auditor General's Office) by establishing a PFM Working Committee and a PFM Steering Committee.

In general, the fiscal policy measures are deliberated within the Parliament of Maldives through a specific committee (Public Accounts Committee). The Economic Committee of the Parliament deliberates on any bills proposed to the Parliament relating to revenue. Further, a Budget Review Committee is formed with members from the Public Accounts and Economic Committees when the budget is submitted to the Parliament.

Overall fiscal decisions of the Government as a whole is reviewed and deliberated within the Policy Section of the President's Office.

The Maldives receives a number of technical assistance from its development partners for PFM reform. In this regard, one of the main leading development partner for PFM over the years has been the World Bank. The World Bank PFM project, which began in 2014, has driven many of the reform programs carried out in the Maldives in recent years. The project provides the necessary technical input through consultations as well as trainings required for capacity development.

In addition, the MoF receives additional training opportunities from its other development partners such as the IMF, the ADB and other UN agencies. Recent assistance from the USAID in relation to the implementation of program budgeting also involve the capacity building of staff from MoF and other line ministries.

Furthermore, long term technical assistance is provided by many development partners, for which the ADB assistance for revenue administration in establishing the MIRA is notable.

2.4 PFM Strategy 2014 - 2018 Ambitions and Outturns

The Ministry of Finance has not completed any assessments on the achievement of the milestones set in the PFM Reform Plan 2014-2018. The best guide for assessing the improvements would be the PEFA 2020. As evident from the PEFA 2020, substantial progress has been made in achieving many of the milestones outlined in the PFM Reform Plan 2014-2018. Progress includes timely reporting of in year budget execution, greater transparency and access to fiscal information to the public, improvements in debt recording and reporting, the institution of a rules based allocations to the local councils, high frequency cash flow forecasting, greater commitment controls through the Public Accounting System, improvements in macro-fiscal forecasting and the institutionalization of the Medium Term Fiscal Strategy and the Medium Term Debt Strategy, among others.

However there remains a number of milestones of the PFM Reform Plan that were not achieved and emergent areas requiring further attention. Some of the milestones that require further consideration include greater monitoring of public corporations, subnational governments and public investment management. Further progress in expenditure budgeting over a medium-term perspective, institution of budget appropriations, strengthening of internal audits, strengthening of public procurement systems and updating of the Fiscal Responsibility Act to instill fiscal discipline with credible targets, are also areas requiring further attention.

2.5 Current performance – an overview of the PEFA 2020 assessment results

2.5.1. PEFA 2020 assessment results

A PEFA assessment was conducted covering the fiscal years 2017 to 2019. The purpose of the GoM PEFA was to obtain a snapshot of PFM performance by diagnosing the PFM processes, systems and institutions of Maldives to gauge the progress made since the last assessment in 2014 and guide future PFM reforms. The assessment applied the PEFA 2016 methodology, with seven key pillars of

performance, which are a prerequisite for an open, well-functioning, and orderly public financial management system to achieve government objectives. The assessment covered budget reliability, transparency of public finances, management of assets and liabilities, policy based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, as well as external scrutiny and audit. The key strengths and weaknesses identified were:

- The aggregate expenditure for the three years under review was above the budgeted expenditure while both functional and economic resource allocations are weak. On the positive side, contingency expenditure is very low. Revenue outturn was not far from the budgeted level, whereas, the results are less positive for the variation in revenue composition. The risks to fiscal discipline are also mitigated by the following factors: (i) off-budget operations are very low (PI-6), (ii) the recording and reporting of debt and guarantees is adequate and a medium-term debt management strategy.
- Macro-economic and fiscal forecasting and the budget preparation process perform well. Although a fiscal strategy is developed annually, no report is prepared by the government on the progress made against its fiscal strategy.
- The medium-term perspective in expenditure budgeting performs poorly. Medium-term strategic plans are prepared for some ministries, but none are costed.
- Public Investment Management does not sufficiently reflect generally accepted good practice in project management.
- The indicators related to revenue collection are also performing relatively well with the exception that there is no assessment of arrears in the revenue collections and the risk-based approach on revenue risk management is still underdeveloped.
- The system of allocating transfers to local governments was not rule-based.
- The specific service delivery performance indicator, which can demonstrate the efficiency with which services are delivered, is poor.
- The public procurement domain does not perform adequately overall.
- Oversight arrangements for external audit and legislative scrutiny of audit reports are undermined by the fact that AGO has not reported on the annual financial statements for the years 2016 and 2017, although the 2018 audit report on the accounts of the whole of government accounts was submitted to the legislature on January 2020.

2.5.2. Performance changes between the assessments in 2014 and 2020

The assessment concluded that between 2014 and 2020 assessments, the results of performance changes over time are very good. A comparison of the results between the two assessments was conducted applying the 2011 PFEA framework. As most indicators have improved in performance between 2014 and 2020, and the number of PIs that have improved is over 9 times the number that has deteriorated the overall performance of the PFM system has fundamentally changed for the better. Key improvements/changes are summarized below:

Aggregate fiscal discipline

Aggregate fiscal discipline has improved overall. Budget credibility has improved as a result of : (i) decrease in the stock of arrears; (ii) improved budget preparation process including budget ceilings that have been approved by Cabinet; (iv) improved quality of the in-year budget reports allowing direct comparison to the original budget; (v) improved payroll controls and controls on non-salary expenditure; (vi) a more performing internal audit function.

Strategic resource allocation

The observable changes that promote strategic allocation of resources identified are: (i) an improved budget preparation process; (ii) improved predictability of in year resource allocation; (iii) a slightly more performing medium-term perspective in expenditure budgeting, which nonetheless remains weak; (iv) a slightly more performing procurement function, which also remains weak; (v) improved performance for the 3 indicators relating to tax.

Efficient use of resources for service delivery

Performance under the indicator measuring the tracking of resources received by service delivery units has remained unchanged since the previous assessment. That said, an improved budget preparation process, and improved predictability of in year resource allocation promote a more efficient use of resources for service delivery, as do a slightly more performing a slightly more performing medium-term perspective in expenditure budgeting and procurement function. The fact that payroll controls and controls on non-salary expenditure have improved in performance, and that the internal audit function has strengthened since 2014, also promotes a more efficient use of resources for service delivery.

2.5.3 Key reform areas

This reform strategy gives priority to areas identified as weak as per the results of the PEFA 2020. The strategy and action plan will focus on strengthening the indicators and dimensions who have scored a C or below at the dimension level, and C+ or below at indicator level (these are in yellow highlight in Table 1). The indicators and dimensions identified for the reform are:

I. Budget reliability

Expenditure composition outturn
Revenue outturn

II. Transparency of public finances

Central government operations outside financial reports
Transfers to subnational governments
Performance information for service delivery

III. Management of assets and liabilities

Macroeconomic and fiscal forecasting
Fiscal strategy
Medium-term perspective in expenditure budgeting
Legislative scrutiny of budgets

V. Predictability and control in budget execution

Revenue administration
Accounting for revenue
Predictability of in-year resource allocation
Payroll controls
Procurement management
Internal controls on non-salary expenditure
Internal audit

VI. Accounting and reporting

Financial data integrity
Annual financial reports

VII. External scrutiny and audit

External audit
Legislative scrutiny of audit reports

Table 1: Overview of the scores of the PEFA 2020 indicators

PFM performance indicator		Scoring method	Dimension score				Overall score
			i.	ii.	iii.	iv.	
I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	B				B
PI-2	Expenditure composition outturn	M1	C	B	A		C+
PI-3	Revenue outturn	M2	A	C			B
II. Transparency of public finances							
PI-4	Budget classification	M1	B				B
PI-5	Budget documentation	M1	B				B
PI-6	Central government operations outside financial reports	M2	D*	D*	D*		D
PI-7	Transfers to subnational governments	M2	D	A			C+
PI-8	Performance information for service delivery	M2	A	D	D	D	D+
PI-9	Public access to fiscal information	M1	A				A
III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	D	D	C		D+
PI-11	Public investment management	M2	C	B	D	C	C
PI-12	Public asset management	M2	B	C	C		C+
PI-13	Debt management	M2	B	C	B		B
IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	A	A	C		B+
PI-15	Fiscal strategy	M2	D	C	D		D+
PI-16	Medium-term perspective in expenditure budgeting	M2	C	D	D	D	D
PI-17	Budget preparation process	M2	A	A	A		A
PI-18	Legislative scrutiny of budgets	M1	A	B	A	C	C+
V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	A	B	C	D	C+
PI-20	Accounting for revenue	M1	A	A	C		C+
PI-21	Predictability of in-year resource allocation	M2	D	A	C	C	C+
PI-22	Expenditure arrears	M1	B	A			B+
PI-23	Payroll controls	M1	C	A	B	C	C+
PI-24	Procurement management	M2	D	D	D	B	D+
PI-25	Internal controls on non-salary expenditure	M2	A	C	D		C+
PI-26	Internal audit	M1	C	C	C	C	C
VI. Accounting and reporting							
PI-27	Financial data integrity	M2	C	D	C	B	C
PI-28	In-year budget reports	M1	A	A	B		B+
PI-29	Annual financial reports	M1	B	C	A		C+
VII. External scrutiny and audit							
PI-30	External audit	M1	C	D	D	A	D+
PI-31	Legislative scrutiny of audit reports	M1	NA	NA	NA	NA	NA

Chapter 3

Goals, Objectives and Actions for the Strategy 2022-2026

In this chapter, each of the objectives is explained in detail; this includes an assessment of the current performance and challenges, the reforms previously undertaken and underway to achieve the objective, and the full set of actions to be undertaken to achieve the objective under the strategy during the short term 2022-23 and medium term 2024-2026. This section identifies the priority actions within each objective, most of which are to be undertaken in the short term. Consistent with the consultations and the findings of the review and discussion, this chapter further expands on the full PFM Reform Matrix which is the key outcome of the process, which is to be found in the Annex A.

Table 3.1 Priority Action Matrix-- PFM Reform Strategy 2022-26

Objectives	Priority Actions
Goal 1: Maintain aggregate fiscal discipline compatible with macro-economic stability and inclusive growth	
1.1: Enhance Tax Revenues to Create Fiscal Space	
1.2: Improve the Management of Fiscal Risks, Debt and Cash To Maintain Fiscal Discipline	<ul style="list-style-type: none"> • Prepare an SOE law and regulation manual and consider developing a comprehensive legal framework • Review the existing legal framework (Privatization and Corporatization Act 2013) and formulate a government ownership and dividend policy
Goal 2: Allocate Resources Consistent with the Priorities in the National Plan (SAP)	
2.1: Improve the Link between Budgets and Government Policies and priorities	<ul style="list-style-type: none"> • Improve the link between policy and the budget • Improve budget control • Strengthen the approval over in-year budget adjustments and virements • Fully implement the Virement and Appropriation Procedure • Intensify the implementation of gender budgeting • Introduce accrual budgeting
2.2: Strengthen the Management of Public Investments	<ul style="list-style-type: none"> • Strengthening strategic guidance and budget ceilings for public investment • Improve institutions for project appraisal, selection and management • Improve commitment control and cash management
2.3: Strengthen the Budget and Performance Management Capacity	<ul style="list-style-type: none"> • Ensure that all line ministries prepare Medium-term strategic plans • Ensure that the Medium-term strategic plans are costed.

Objectives	Priority Actions
2.4 Strengthen PFM Capacity of Local Government	<ul style="list-style-type: none"> • Conduct a PEFA Assessment to assess the local government PFM systems and identify the areas of reforms • Improve the auditing system of local councils to enable them submit their audited financial statements on time • Based on the Local Government PEFA report, produce a strategy paper on priorities and recommendations to fill the underscored gaps.
Goal 3: Promote the Efficient Use of Public Resources and Delivery of Services through Better Budget Execution	
3.1 Improve Business Processes and Strengthen Internal Controls for service delivery	<ul style="list-style-type: none"> • Finalize the implementation of a fully functioning TSA system where consolidation would be done of all bank balances • Strengthen the Internal Audit function to enable it to conduct audits on the compliance of payment processes or procedures.
3.2 Improve the Performance information for service delivery	<ul style="list-style-type: none"> • Strengthen data recording at service delivery units to include in-kind resources received • Introduce periodic performance evaluation at ministries • Perform a multi-year independent performance review of ministries
3.3: Adopt International Standards of Procurement Practice to Facilitate Service Delivery and Achieve Value for Money	<ul style="list-style-type: none"> • Improve the functioning of the National Tender Board • Strengthen the central procurement monitoring mechanism • Finalize the development of the Electronic Government Procurement e-GP system and rollout • Develop the tender management portal along with the e-GP system.
3.4 Modernize the Internal Audit Function	<ul style="list-style-type: none"> • Expand the internal audit function to cover more public offices • Strengthen the internal audit capacity to perform systems audit and apply the standardized methodologies and toolkits • Finalize the new structure.
Goal 4: Promote Accountability through External Scrutiny and Budget Transparency	
4.1: To raise the profile of external auditing practices to international standards in terms of quality, coverage and timeliness, so to provide adequate assurance that the public funds are used efficiently and effectively	<ul style="list-style-type: none"> • Improve timeliness and public availability of audited financial statements • Enhance training and professional capacity to conduct more ISSAI-compliant audit • Strengthen capacity of AGO to improve coverage of audit and timely reporting • Introduce risk-based auditing.
4.2: To enhance the capacity and commitment of the relevant financial committees of Parliament and their respective secretariats	<ul style="list-style-type: none"> • Strengthen capacity of staff and technical support to committees • Adopt a mechanism to ensure systematic follow-up of audit recommendations and sanctions by the PAC.
Goal 5: Enhance the Enabling Environment for Improved PFM Outcomes	
5.1: Put in place a comprehensive and a clear legal framework	<ul style="list-style-type: none"> • Amend public finance law and introduce clear and binding appropriation rules and a framework for debt management.

Objectives	Priority Actions
	<ul style="list-style-type: none"> • Introduce government procurement guidelines and manuals to clear the ambiguities with the current public finance regulation. • Implement procurement reforms to improve the efficiency and integrity of public procurement
5.2: Put in place the policies, processes and skills to manage and deliver a comprehensive training and capacity development program	<ul style="list-style-type: none"> • PFM skills strategy, including a needs assessment, and prepare an action plan in consultation with relevant stakeholders • Commit funds for professionalization of PFM skills • Creating a pool of officers trained in PFM and assigning them to PFM related work
5.3: Establish a secure, reliable, efficient, effective, and fully integrated public financial management system	
5.4 Develop Organizational Change Agility to Enhance Implementation of PFM Strategy	<ul style="list-style-type: none"> • Develop a change management plan

Goal 1: Maintain Aggregate Fiscal Discipline Compatible With Macroeconomic Stability and Pro-Poor Growth.

Objective 1.1: Enhance Tax Revenues to Create Fiscal Space

Augment Revenues through Comprehensive Tax Modernization.

Current performance and challenges: The largest share of government revenue is collected by the Maldives Inland Revenue Authority (MIRA) and the Maldives Customs Service (MCS), both accounting for 88% of total revenue in 2019. The share of tax revenue to GDP was 19% in 2019 and 18.9% in 2020. This is a little less than the Asia pacific average, which was 21% in 2019⁶. The share of tax revenue from the total revenue has shown a continuous decline between 2017 and 2019, from 72% to 67%. The highest tax collection is received from Taxes on goods and services, which makes up of 48% of the total tax collection, while tax on income, profits and capital gains and tax on international trade and transactions comprise 21% and 11% of the total tax collection respectively, with the remaining balance made by other taxes. Revenue collection as a percentage of the target

⁶ (OECD, 2021) <https://www.oecd.org/tax/tax-policy/revenue-statistics-asia-pacific-brochure.pdf>

has shown continuous improvement from 92.5% in 2017 to 103.2% in 2019. The recent country's economic performance evidences a significant tax revenue potential. MIRA's Strategic Plan 2020-2024 was formulated after evaluating how much of the performance indicators outlined in the Strategic Plan 2015-2019 was achieved. However, the tax gap was not estimated during the year due to difficulties in extracting key data required for the development of a reliable model⁷.

Table 3.2: PEFA 2020 Assessment of Revenue Raising Functions

Dimension	PEFA Assessment
Rights and obligations for revenue measures	MIRA has a robust website that provides all the relevant information regarding the rights and obligations of taxpayers. Other platforms are also used to provide information to taxpayers. Similarly, the Maldives Customs Service also has up-to-date information available in their website in addition to contacts for customer support.
Revenue risk management	MIRA has implemented a compliance risk management framework to evaluate and mitigate compliance risks of the taxpayers. All reactive measures, such as audits, assessments and investigations are carried out against high-risk taxpayers identified through a partly structured and systematic approach of risk profiling carried out by the risk management function of MIRA.
Revenue audit and investigation	While the performance of large business audits and assessments by MIRA was better, the performance on other audit streams by both MIRA and Customs Services was too low. Capacity constraints and weak planning contributed to this low achievement.
Revenue arrears monitoring	While MSC follows strong collection procedures of arrears, MIRA's collection procedures of arrears are found to be weak. This is especially reflected in non- tax arrears. Moreover, MIRA does not have prosecutorial powers. The decision to proceed or not to proceed with the prosecution of a case submitted by MIRA is determined by the Prosecutor General after his own evaluation of the case.

Reforms undertaken and underway. Currently the GoM is undertaking the following reforms:

- Changes to the Tax Administration Act now allows taxpayers to appeal in the Tax Appeal Tribunal by paying only 30% of the tax amount in dispute without fines and interest, instead of

⁷Annual Report 2019, Maldives Inland Revenue Authority (MIRA).

clearing the full additional tax amount including fines and interest as per the Tax Administration Act before the revisions.

- Structural and functional changes are being undertaken to accommodate the compliance risk management framework that has been implemented recently to evaluate and treat compliance risks of the taxpayers.
- Process of reviewing efficiency of the existing compliance programs is to be undertaken and new actions plans for assessing and prioritizing risks for all major tax types are to be designed.

With the completion of the first strategic plan, and the maturing of the tax system and taxpayers during the course of the period, MIRA's second strategic plan reflects the consequent broadening of MIRA's vision and efforts. This new strategic plan outlines the strategic priorities of MIRA between 2020 and 2024 under 6 programs. This plan also highlights key performance indicators under each strategic priority, the achievement of which is required for the successful achievement of the strategic priority.

MIRA's strategic plan 2020–2024 consists of 13 strategic priorities and 26 key performance indicators. These priorities include the key reform priorities which are identified as a weakness in the PEFA 2018 report. The major actions to be taken under the PFM reform 2020 – 2024. The overall domestic revenue mobilization objective is a priority for the PFM reforms. There will be 4 priority actions to be taken in the short term: (a) Protect the revenue base by using targeted compliance improvement programs; (b) Improve the management of debt collection; (c) Improve audit efficiency and results; and (d) Adopt a risk-based approach throughout the organization. An efficient risk and compliance management process contributes to minimizing evasion and irregularities in revenue administration as well as lowering the cost of collection for revenue collecting agencies and cost of compliance for payers. Sound audit and fraud investigation systems managed and reported on according to a documented compliance improvement plan must be in place to ensure that once risks have been identified, there is follow-up to minimize revenue leakage. Revenue administrations need to have a critical focus on the management of arrears to ensure that debts owed to the government are managed actively and that appropriate processes are adopted focusing on expediting the payment of collectable debt.

Table 3.3: Reform Actions for Priority Objective 1.1 to Augment Revenue

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<ol style="list-style-type: none"> 1. Provide innovative and targeted education and awareness programs to support voluntary compliance. 2. Equip taxpayers with the knowledge they need to fulfil their obligations 3. Strengthen the use and accessibility of services provided by the tax administration 4. Maintain an accurate and up-to-date registration database 5. Increase the use of online filing and payment by taxpayers 6. Ensure that MIRA has a presence in all atolls 7. Administer the new income tax regime 8. Protect the revenue base by using targeted compliance improvement programs 9. Increase accuracy of voluntary disclosures by taxpayers 10. Increase the on-time filing and payment rates 11. Establishment of a Compliance Risk Management Framework 12. Improve the management of debt collection 13. Reduce the arrears-to-collection ratio annually 14. Reduce annually the time to collect arrears from taxpayers 15. Improve audit efficiency and results 16. Implement an automated risk profiling and audit selection system 17. Implement an integrated case management system 18. Cooperate with other public sector bodies 19. Improve the level of collaboration with other public sector bodies
Medium Term	<ol style="list-style-type: none"> 1. Adopt a risk-based approach throughout the organization 2. Identify the high-risk enterprise risks for programs and projects and ensure they are well-understood and auctioned 3. Assess organizational performance and allocate resources according to risk 4. Enhance human resource capacity 5. Empower staff to engage with taxpayers and their representatives at an equal level by promoting professional training and education 6. Train and develop staff to meet the challenges of the future 7. Retain our well-trained and professional staff 8. Implement international standards in organizational processes 9. Enhance accountability and transparency 10. Maintain modern tax administration standards and approaches 11. Provide state-of-the-art business solutions and technology 12. Improve service standards to fulfil ISO certification 13. Develop and implement an IT strategy for the acquisition of hardware and software tools 14. Ensure a safe and secure IT environment 15. Upgrade data and service security 16. Develop and implement a long-term business continuity plan 17. Enhance international relations 18. Build a network of tax treaties with strategic tax authorities

Reform Actions including Priorities in Bold

19. **Build a stronger relationship with the business community through a proactive consultative process**
 20. Establish a new approach to communicate and consult with the business community
-

Objective 1.2: Improve the Management of Fiscal Risks, Debt and Cash to Maintain Fiscal Discipline

Improve Governance and Performance of State-Owned Enterprises

Current performance and challenges: The Maldives State-Owned Enterprises (SOE) sector comprises 31 SOEs. Twenty (20) of them are fully owned (100%) by the government; the Government has majority shareholding (50%-99%) of 5 out of 31 SOEs and the remaining 6 are minority shareholding (11%-49%) companies. The government also has shares in 29 joint venture companies where CG holds 5 to 10 percent of shares. To oversee and monitor the SOEs, “Public Enterprises monitoring Unit” (PEMU) was formed as a part of Ministry of Finance on 1 March 1995 and the name was changed to “Public Enterprise Monitoring and Evaluation Board” (PEMEB) on 11 November 1998. Generally, SOEs create fiscal risk to the extent that Government may guarantee their borrowings that they may be unable to repay, and unprofitable SOEs may require direct support from the budget to maintain assets of even for operating expenses.

With the adoption of the Privatization and Corporatization Act in 2013, a Privatization and Corporatization Board was formed, and the secretary work of the board was performed by PEMEB. This Board consists of a total of seven members appointed by the President of Maldives, including the Chairman and Vice Chairman of the Board. In 2019, the name of the unit was changed to “Secretariat of Privatization and Corporatization Board” (PCB). The PCB aims to provide strategic guidance and oversight to these SOEs. It is also responsible to manage fiscal risks posed by SOEs. SOEs submit quarterly reports and annual audited financial statements to the PCB but the PEFA assessment found that there is delay in submitting audited financial statements. There is also no consolidation and presentation of fiscal risks posed by SOEs to the GoM. The Maldives Fiscal

Evaluation indicated that Maldives has made considerable progress in improving fiscal transparency in recent years. However, fiscal risk analysis and management emerged as a weak area⁸.

The actions to be taken under PFM Reforms: The main reform actions for the period will be strengthening the financial reporting of the SOEs and to monitor consolidated fiscal risks arising across the sector. The capacity of PCB could be strengthened to enable better monitoring of the SOEs to improve reporting and enhance the capacity of the PCB to better manage the fiscal risks by consolidating of the reports of the SOEs, determine and better manage those risks.

Table 3.4: Reform Actions to Strengthen Governance and Reporting Of SOEs

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<ol style="list-style-type: none"> 1. Prepare SOE law and regulation manual and consider developing comprehensive legal framework 2. Review the existing legal framework (Privatization and Corporatization Act 2013) and formulate a government ownership and dividend policy 3. Revamp the role of PCB to make it more comprehensive and to focus on overall performance management rather than approval of SOE budgets 4. Build capacity in Finance Division to monitor fiscal risks and publish a comprehensive statement of fiscal risks as part of the annual budget papers, consistent with the objective of fiscal transparency 5. Strengthen monitoring of SOEs so that timely audited financial reports are submitted to PCB to enable better management of fiscal risks 6. Build the capacity of SOEs or create an environment for them so they become financially-viable/independent and not create or add fiscal risks 7. Ensure that SOE budget-setting is in alignment with financial performance and fiscal risks and the government budget function is better informed on SOEs 8. Review oversight arrangements with a view to streamlining and ensuring appropriate incentives and empowering stakeholders (e.g. SOE boards). 9. Improve fiscal transparency of SOEs 10. Complete the development of the Fiscal Responsibility Act (FRA)
Medium Term	<ol style="list-style-type: none"> 11. Improve financial reporting of SOEs and public disclosure. 12. Consider case for comprehensive law/umbrella legislation for public enterprises governance. 13. Review the regulatory framework for each of the entities as some of the entities no longer exist, and for some the regulatory framework renders unnecessary confusion for the entity.

⁸ IMF Technical Assistance Report, Maldives Fiscal Transparency Evaluation, April 2021

Improve Debt and Cash Management

Current performance and challenges: The primary responsibility of debt recording and reporting lies with the Debt Management Division (DMD) of Ministry of Finance. DMD is responsible for managing public and publicly guaranteed debt with a view to assessing the macroeconomic impact of existing and new borrowing. The Public Finance Act (PFA) of 2006 gives the Minister of Finance the power to raise debt on behalf of the Government and to issue government guarantees. In DMD, securities, the external and domestic loans are recorded using the debt management software Commonwealth Secretariat Debt Recording and Management System' (CS-DRMS). Comprehensive management and statistical reports covering debt services and stock are produced semi-annually while stock is done monthly. The data also covering guarantees are maintained and reconciled quarterly.

The Minister of Finance is required to prepare a Medium Term Debt Management Strategy (MTDS) and submit to People's Majlis (parliament) annually. However, the annual plan for borrowing is not consistent with this strategy. The Fiscal Responsibility Act (FRA) (Act No. 7/2013) establishes fundamental principles of government fiscal policy, including maintaining Public Debt to Gross Domestic Product at a sustainable rate. One of the performance targets is a ceiling for raising new loans to maximum of 60% debt to previous year's GDP. The Maldives' PPG debt stood at 58.2% of GDP at end-2018. Domestic debt accounted for 33.5% of GDP, whereas external debt accounted for 24.7%. The share of external debt in total public debt has been increasing since 2015.⁹

With regards to the treasury and cash management, the key issue is that the current Treasury Single Account (TSA) does not cover all government cash holding. Specifically, bank accounts for donor funded project, which are maintained by the respective line agency, are not monitoring by MoF and the balances are also not consolidated into the TSA. The other issue is that a full reconciliation of bank accounts is done quarterly even though daily bank statements are received and reconciled with the cashbook weekly.

Reforms previously undertaken and underway: the on-going activities include strengthening of debt management functions, in particular to the recommendations under DeMPA on legal framework and fiscal and credit risk assessment. Therefore, a comprehensive debt law is underway. Also, to strengthen the fiscal risk management and credit risk assessment process, MoF is currently reviewing existing sovereign guarantee guidelines. Further, as a recent activity, RMDMD was restructured to

⁹ Debt Management Performance Assessment (DeMPA) Report, March 2019.

better align its functions as per the best practices following the 2019 DeMPA recommendations. In addition, debt office functions segregated within the Ministry such as SG issuance from PEM and T-bill issuance from TPAD, and functions outside the Ministry, which are in MMA of the domestic securities internalization process, were brought back to the Department.

The actions to be taken under PFM Reforms: The priority reform actions are to make the annual borrowing to be consistent with the Medium Term Debt Management Strategy (MTDS) and incorporating bank accounts for donor funded projects in the TSA.

Table 3.5: Reform Actions to Improve Debt and Cash Management

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<ul style="list-style-type: none"> • Prepare a comprehensive debt law • Enhance debt data quality, timeliness and reliability • Review and update the current legal framework for debt management • Develop the securities market for treasury securities • Enhance and sustain the technical capacity of front, middle and back offices of the Debt Management Units • Improve the preparation of annual plan for borrowing is to make it consistent with this MTDS.
Medium Term	<ul style="list-style-type: none"> • Structural reorganization of DMD • Put in place an expanded TSA which includes donor accounts. • Improve preparedness for issuance of sovereign debt • Upgrade the debt recording and management system and develop a unified debt database for more transparency and proactive debt management.

Goal 2: Allocate Resources Consistent with the Priorities in the National Plan (SAP)

Objective 2.1: Improve the Link between Budgets and Government Policies and priorities

Improve Credibility Of The Annual Budget

Current performance and challenges: In-year adjustments and virements within the budget of government agencies and across agencies are at the discretion of the Ministry of Finance, initiated at the request of government agencies. Maldives does not have an Appropriation Act, however a “Virement and Appropriations Procedure” specifying a mechanism to adjust the budget was

instituted in May 2019. The planned implementation starting from 2020 was hindered due to the Covid-19 pandemic and the resulting fiscal challenges. The 2020 PEFA Assessment records significant composition variance of more than 10% especially at functional level (for the assessment period of FYs 2017-2019), though this has shown an improving trend. Therefore, the credibility of the budget preparation process is undermined as sectors reallocate their expenditures. The continuous budget reallocations also raise questions about budget credibility as well as the delivery of government services based on its original policy intent.

Table 3.6: Reform Actions to Improve the Link between Budgets and Government Policies and priorities

	Reform Actions including Priorities in Bold
Intermediate - Short Term	<ul style="list-style-type: none"> • Strengthen the approval over in-year budget adjustments and virements • Fully implement the Virement and Appropriation Procedure • Intensify the implementation of gender budgeting
Medium Term	<ul style="list-style-type: none"> • Formulate Appropriation Act • Introduce accrual budgeting

Objective 2.2: Strengthen the Management of Public Investments

Implement PIM roadmap

Current performance and challenges: Over the last decade, public investment has been above the average for Emerging Market Economies (EMEs) and Emerging and Developing Asia (EDA), and this has translated into an improved capital stock¹⁰. The Ministry of National Planning and Infrastructure is mandated to monitor all government infrastructure projects, including the donor funded ones. Under the new budget process formulated by the MoF in 2017, all new projects and programs submitted by budgetary units are reviewed and prioritized by using an internal standard criterion set by FAD. Feasibility studies, financial assessments, economic assessments and environment impact assessments are prepared upon project appraisal. The annual budget includes PSIP for the respective year, with the same projects that are expected to carry on in the medium term included in the next two years and information on the total project construction cost. No new projects are included in the two years following the budget year. Similarly, the projected recurrent costs of most major infrastructure projects that would be completed in the medium term and carry-overs from

¹⁰ Maldives Public Investment Management, IMF Country Report No. 19/102, April 2019

previous years are not included in the budget figures. Lifecycle costing for any of the PSIPs have not been carried out yet. Solid budget and cash-flow management, as well as cost-benefit analysis, depend on comprehensive financial analysis of investment projects.

Most major investment projects carried out in the Maldives are carried out through foreign financing – either through bilateral or multilateral grants or loans. Foreign financed projects are better appraised than those financed domestically. Some development partners conduct economic analyses with their own methodology, but these are not published. The monitoring performed by the Ministry of Planning and Infrastructure includes all government infrastructure projects, including the donor funded ones. However, this does not align with the financial plan and the schedule. Budgetary units are requested to prepare annual cash flow plans for PSIP projects for ease of cash flow management.

Reforms undertaken and underway: The current focus of PFM reform is to improve monitoring of capital budget execution, namely the PSIP implementation. In this regard, the MoF has developed a portal for line ministries to report progress and monitor project implementation. The portal is expected to play a vital role in decentralizing the project implementation to local councils.

The actions to be taken under PFM Reforms: The Maldives Strategic Action Plan (SAP) 2019 – 2023 identified the Strengthening public investment management to improve their allocative and operational efficiency and mitigating risk as one of the strategies under *Policy 3: Strengthen fiscal governance and improve the management of public finances*. The strategy is partly informed by the Maldives Public Investment Management Assessment (PIMA) carried out by IMF and released in April 2019, which identifies major weaknesses and progress made. The weaknesses include: capacity constraints at public investment institutions; poor budget credibility and budget execution in the wider PFM system with regard to PIM; gaps in planning institutions in designing but more significant gaps in implementation. The PIMA also points out that, although budget documents include comprehensive information on public investment, the government’s ability to allocate these resources to the right sectors and projects is undermined by the lack of robust processes throughout the project selection and budgeting cycle. It also exposes significant weaknesses in implementing projects on time and on budget, leading to higher costs and the inefficient use of scarce investment resources. The report provides eleven recommendations to strengthen the institutional framework, under five main headings. Key reform actions include: institutional strengthening for project appraisal, selection and management; adoption of more stringent project screening and vetting

mechanisms for all public sector investment projects and enhancing the oversight of public investment undertaken by non-budgetary institutions, including SOEs, PPPs, and contractor-based financing.

Table 3.7: Reform Actions to Improve Public Investment Management

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<p>Strengthening strategic guidance and budget ceilings for public investment</p> <ul style="list-style-type: none"> • Revise the budget calendar to prepare and to circulate the Fiscal Strategy Statement earlier (e.g., in April) to enable it to drive the budget process, set priorities for the public investment and let these be the basis for approved total ceilings. Approve realistic aggregate expenditure ceilings (for recurrent and public investment) at the start of the budget process. • Establish a ceiling for the PSIP budget at the start of the budget process based on a binding resource envelope and include PSIP ceilings in the budget circular. • Better integrate capital and recurrent budget preparation, including capital project selection. <p>Improve institutions for project appraisal, selection and management</p> <ul style="list-style-type: none"> • Strengthen the project appraisal process by developing a standard methodology for project appraisal, publishing this methodology and verifying that it is consistently applied by the line ministries. • Improve the project selection process for the budget by developing better targeted selection and prioritization criteria and processes. This includes developing a project pipeline to improve the medium-term focus of project identification, appraisal, selection and approval • Improve the competitiveness and transparency of the procurement process. Prescribe that all SOEs use standard National Tender Board (NTB) guidelines and procedures. • Strengthen the project management and monitoring framework and ensure implementation in all MDAs and SOEs. • Develop a framework for ex-post evaluations and ensure that lessons learned from past projects are incorporated in revised guidelines and practices. <p>Improve commitment control and cash management</p> <ul style="list-style-type: none"> • Release allocations to enable MDAs' purchasing to take place following authorization by MOF (for ongoing projects and new projects) in the material management (MM-PAS) module.
Medium Term	<p>Improve central oversight of SOEs and PPPs</p> <ul style="list-style-type: none"> • Enhance the oversight of public investment undertaken by non-budgetary institutions, including SOEs, PPPs, and contractor-based financing. Maintain in a database the number and value of public investments undertaken by SOEs. Publish a list of guarantees and contractor financed projects in the budget. <p>Strengthen capacities of all actors involved in public investment management</p> <ul style="list-style-type: none"> • Develop and implement a PIM capacity building plan for project managers, supervising officers, operational officers, and MoF. The implementation of all PIM institutions

requires not only institutional and legal change but is heavily dependent on building additional capacity within the public sector, which takes time.

Objective 2.3: Strengthen the Budget and Performance Management Capacity

Develop A Government Wide Planning, Monitoring and Evaluation System

Current performance and challenges: The 2020 PEFA Assessment identified that Medium-term strategic plans are prepared for some ministries, including Education, Health and Environment. The strategic plans are however not costed. The expenditure policy proposals in the annual budget estimates are instructed to align with the Strategic Action Plan of the government and the sectoral strategic plans. The changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level are not explained in the budget report.

The Strategic Action Plan (SAP) formulated and published in 2019 identifies priority policies and programs of the government for the period 2020 to 2023. Strategies' intended objectives and corresponding actions are laid out and mapped by programs and functions of the government. The lead implementing agency is identified for each strategy, together with other supporting agencies that will work to achieve the targets. Detailed activities are developed within ministries in addition to the published SAP document. The FAD plans to prepare the 2022 budget on a program structure based on the SAP. This would enable the government to include in the budget information on outputs that are planned for the budget year, as well as a comparison of actual performance against the previous year targets along with budgetary allocations and outturns.

A formal system of performance-based budgeting is yet to be introduced in the Maldives. Although the budget process draws on a wide range of performance related information in allocating budgetary resources and setting spending priorities, the budget continues to be largely input-based, classified along administrative, economic and functional dimensions. The Chart of Accounts as well as the budget classification structure incorporates a program segment, and the MoF is currently working on developing a set of programs and subprograms along with performance indicators for major ministries and agencies with USAID technical assistance¹¹.

¹¹ Maldives, Fiscal Transparency Evaluation, Fiscal Affairs Department, April 2021.

Reforms previously undertaken and underway: A multiyear, multi-sectoral Strategic Action Plan for the government has been compiled for the current presidential term. The new programs and projects proposed by ministries would be aligned to this document. Hence, the costing of the SAP is ongoing.

The actions to be taken under PFM Reforms: The main priority strategic actions in the short term are related to improving the Medium-Term strategic plans, in terms of costing and coverage of line ministries. Preparation of the 2022 budget on a program structure based on the SAP is also a priority. Introduction of a formal system of performance-based budgeting is a priority action in the medium term. Table 2.1 below lists the priority reform action during the reform period.

Table 3.8: Reform Actions to Strengthen Financial and Performance Management in Line Ministries

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<ul style="list-style-type: none"> • Ensure that all line ministries prepare Medium-term strategic plans • Ensure that the Medium-term strategic plans are costed. • Complete the costing of the SAP • Improve reporting of the budget report to include an explanation on changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level • Prepare the 2022 budget on a program structure based on the SAP
Medium Term	<ul style="list-style-type: none"> • Introduce a formal system of performance-based budgeting • Integrate and strengthen the planning and budgeting wings in all line ministries

Enhance PFM Skills Capacity In Line Ministries

Current performance and challenges: In order to ensure Finance Executives at Accountable Government Agencies (AGAs) are familiar with the financial regulations and procedures set by the Ministry of Finance (MoF), a training program was introduced; an exam was given to the Finance Executives, from which they need to pass to remain in the position of responsibility. Prior to the exam, information sessions were conducted to brief the participants and provide help in preparing for the exam.

Similar program is planned for other staff working in finance related jobs in AGA. The program would be carried out in Q4, 2021¹².

Reforms previously undertaken and underway: As a recent reform task, a local consultant from MoF was sent to Health ministry to train finance related staff and observe how finance related tasks were carried out; especially procurement related issues. The consultant was based in the Health ministry for a period of 8 months. Based on the observation made, a report was presented to the minister including gap analysis and recommendations.

GoM is working with CIPFA, UK and Maldives National University (MNU) creating a platform to develop professional accountants and bookers in the public sector.

Due to the pay structure of the civil service, it was difficult to attract skilled personnel to top level finance related jobs. To overcome this, a new post named "Chief Accounts Executive" with a higher pay and higher requirements. This was initially carried out for 3 ministries; highest spending agencies.

Table 3.9: Reform Actions to Strengthen Financial and Performance Management of Line Ministries

Reform Actions including Priorities in Bold	
Intermediate - Short term	<ul style="list-style-type: none"> • Work out a plan for institutional strengthening of line ministries to take over the full financial management functions • Enhance the skills of PFM Staff in line ministries to tackle the new and emerging tasks

Objective 2.4 Strengthen PFM Capacity of Local Government

Enhance Public Financial Management of Local Government

Current performance and challenges: The subnational government of the Maldives constitute the local councils, which include 179 island councils, 18 atoll councils and 3 city councils, for a total of 200. Chapter 8 of the Constitution provides for the decentralization administration of the Maldives, while the Decentralization Act governs the powers and responsibilities of the local authorities. An

¹² Public Finance Circular No: 13-E1/CIR/2021/21 dated 17th June 2021

initiative by the MoF and the Local Government Authority (LGA) aims to bring local council finances online through a new application (VITA Portal), beginning in 2020. This application, developed in-house, will be initially manually integrated with the PAS. The application is yet to be rolled-out to all councils. Due to their geographical spread, the authorities consider the cost of extending the PAS to all local councils faring excess of the benefits of capturing their financial data¹³. The 2020 PEFA identified that the government of Maldives was not applying a rule-based system for allocating transfers. The new rule-based allocating system has been adopted and used in allocating transfers starting from the fiscal year 2020.

The process by which local councils receive information on their annual transfer allocation is managed through the regular budget calendar. A budget circular with indicative allocations, together with instructions for budget planning is issued mid-year. All councils' budgets were received on time.¹⁴ As per the Decentralization Act, councils have to submit their audited financial statements of the previous year to the Local Government Authority (LGA) by the 10th March. In 2019, only six councils met this deadline, although 130 councils (representing 62 percent as a share of budget allocated to councils in 2019) submitted their financial statements to the LGA within the first six months of the year. However, as the law does not require the publication of the audited financial statements, this is currently not being done except on an ad hoc, voluntary basis by a few councils¹⁵.

Reforms undertaken and underway: The 8th Amendment of the Decentralization Act implemented in 2019 mandates the allocation of 5 percent of total revenue estimated for the fiscal year, excluding revenue earmarked for a specific purpose, new revenue measures, rent from land, islands, lagoons, and reefs, plus 40 percent of revenue from rent received from land, islands, lagoons, and reefs to local councils as unconditional grants. These allocations to individual councils are determined under a disclosed, rule-based system. The variables which influence the allocations are the resident population, land area, distance to the Male', distance to the capital of the administrative atoll and the past performance of the local council. This rule-based system has been adopted and was used in allocating transfers to local councils for the fiscal year 2020.

¹³Maldives, Fiscal Transparency Evaluation, Fiscal Affairs Department, April 2021.

¹⁴2020 PEFA.

¹⁵2020 PEFA.

The actions to be taken under PFM Reforms: The basic action in the short term is to carry out a PEFA for local governments to gather insights about the centralized-decentralized expenditure systems. In addition, improvement of the auditing system of local councils to enable them to submit audited financial statements on time is a priority action. In the medium term and based on the PEFA conclusions a set of recommendations and a sequencing of activities can be planned and implemented. Table 2.1 below lists the priority reform action during the reform period.

Table 3.10: Reform Actions to Enhance Public Financial Management of Local Governments

Reform Actions including Priorities in Bold	
Intermediate-Short term	<ul style="list-style-type: none"> • Conduct a PEFA to assess the local government PFM system and identify the areas of reforms • Roll out the new application to all councils to bring local council finances online • Improve the auditing system of local councils to enable them submit their audited financial statements on time.
Medium Term	<ul style="list-style-type: none"> • Based on the Local Government PEFA report, produce a strategy paper on priorities and recommendations to fill the underscored gaps. • Revise the Decentralization Act to require local councils to publish audited financial statements. • Revise the Decentralization Act to empower local governments to collect fees for municipal services and to borrow and manage debt provided it aligns with national fiscal policy

Goal 3: Promote the Efficient Use of Public Resources and Delivery of Services through Better Budget Execution

Objective 3.1 Improve Business Processes and Strengthen Internal Controls for service delivery

Improve business processes and treasury management practices

Current performance and challenges: The GoM is using the TSA system with a single bank account: the Public Bank Account (PBA) introduced in early 2010s. Separate bank accounts are maintained outside the PBA on the Atolls for central government purposes and by some government institutions such as Maldives National University as well as local councils. However, there is no consolidation of bank and cash balances taking place. That being said, cash flow forecasting and

monitoring has much improved over the last 3 years. Annual cash flow forecast is prepared by TPAD with the input of other MoF departments such as RMDMD, FAD and PEM. As a requirement under the Fiscal Responsibility Act (FRA), the Ministry of Finance submits the annual cash flow plan to Parliament within 30 days from the approval of the budget. The forecast is prepared on budgeted, projected revenues and expenditures (both based on historical trends). As per the current public finance rules and procedures, budget implementation is only controlled by the total approved budget amount. In-year adjustments and virements within a government agencies' budget and across agencies are done at the discretion of the Ministry of Finance, initiated at the request of government agencies.

MoF has implemented the Human Resource and Capital Management (HRCM) module of the SAP financial software for Male' based agencies. The majority of payroll is now processed through this module. Yet, significant ministries such as the Ministry of Education and the Ministry of Health, do still process payroll of staff employed outside of Male' through the Accounts Payable Module of the SAP financial software. The processing for final payment is carried out by the payroll section of the Treasury and Public Accounts Department (TPAD). Personnel records of civil servants are still maintained by Civil Service Commission through the VIUGA database.

As per the Public Finance Regulation of the Maldives (PFR), appropriate segregation of duties is prescribed throughout the expenditure process. The duties for procurement, accounting and reporting processes outlined and properly implemented. Expenditure commitment controls are instituted in the Public Accounting System (SAP) and effectively limit commitments to approved budget allocation for all expenditure, and to projected cash availability for expenditure above a high threshold value.

All payments must follow the payment procedure as it must pass through the SAP Public Accountancy Software, which is customized to cater to different types of payments. The system also integrates roles, duties, and responsibilities, thus automatically allowing access to designated staff to conduct their designated duty. The system enforces the regular payment procedure by limited access and requesting signatory authorization. However, since Internal Audit does not conduct audits on the compliance of payment processes or procedures, the enforcement of the procedure cannot be authenticated further.

With the increased use of mechanized and modernized system, the rules and regulations themselves might not follow the changes in business processes and methods of work that come hand-in-hand with modern information technology systems. Incorporating these business processes in due time changes is a factor that needs to be addressed with greater timeliness.

Internal control objectives are statements of the desired result or purpose to be achieved by implementing control activities (procedures¹⁶). Controls include policies, procedures and practices (tasks and activities) established by management to provide reasonable assurance that specific objectives will be achieved, e.g. safeguarding of assets, authorization and authentication, segregation of duties, availability of information technology services and information on automated systems is current and secure from improper access.

Reforms undertaken and underway: GoM is working with MMA and Bank of Maldives (where all other separate bank accounts are held at) to implement a fuller functioning TSA system where consolidation would be done of all bank balances. Currently the GoM is preparing the forecasts manually in excel. Going forward, the GoM would be moving towards forecasting through the BI module in PAS.

With the rollout of the HRCM module in the SAP financial software, the MoF has been working towards creating a means of linking the module with the VIUGA and other bespoke software used by budgetary units. The MoF has created a payroll register that is operational from June 2020 onwards. The establishment of a payroll register is intended to track all government employee data on a single location. Information in the register is categorized as :(1) personal information ;(2) appointment details; and (3) standing allowances. Once the payroll register is rolled out, the payroll staff of TPAD will verify the employees' accuracy before processing each payroll.

To ensure accuracy, third-party verifications will take place through the integration of CSC VIUGA and other HR systems that are used by budgetary units. If any discrepancies are identified during verification, the system will flag the inconsistencies and inform the respective budgetary unit. The MoF will only process the payroll of those agencies once the inconsistencies are rectified.

The actions to be taken under PFM Reforms: There is a need to finalize the implementation of a fully functioning TSA system where consolidation would be done for all bank accounts. As one of the

¹⁶INTOSAI: *Guidelines for Internal Control Standards for the Public Sector* issued by the Internal Control Standards Committee at www.intosai.org.

key internal audit functions is to evaluate compliance with payment processes and procedures, the Internal Audit should be strengthened to be enabling it to perform this function effectively.

Table 3.11: Reform Actions to Improve Business Processes and Strengthen Internal Controls for service delivery

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<ul style="list-style-type: none"> • Finalize the implementation of a fully functioning TSA system where consolidation would be done of all bank balances. • Include the payroll processing of all MDAs in the Human Resource and Capital Management (HRCM) • Strengthen the commitment control feature of SAP to include all payments.
Medium Term	<ul style="list-style-type: none"> • Strengthen the Internal Audit function to enable it to conduct audits on the compliance of payment processes or procedures.

Objective 3.2 Improve the Performance information for service delivery

Improve reporting on performance information for service delivery

Current performance and challenges: The Strategic Action Plan (SAP) formulated and published in 2019 identifies all the priority policies and programs of the government for the period 2020 to 2023. Strategies and corresponding actions together with their objectives are clearly laid out and are mapped by programs and functions of the government. Where relevant, output indicators are identified with quantified targets. In the case of outcomes, they are clearly defined with most outcomes tied to a measurable target. The lead implementing agency is identified for each strategy, together with other supporting agencies that will work to achieve the targets. Detailed level activities are also developed internally within all ministries in addition to the published guiding document of the SAP.

In the budget preparation process, government agencies are instructed to present New Policy Initiatives (new projects and programs) in accordance to the SAP. The SAP is the main guideline for prioritizing these programs and projects in the budget (from the 2020 budget onwards). The budget document also outlines how the budget is allocated to the 5 themes of the SAP. The SAP document outlines the annual review and publication mechanism, with the first annual review and publication set for the end of 2020. This process is conducted separately from the budget.

Ministries produce periodic reports on the outputs, outcomes or activities and performances. Furthermore, all financial resources received by frontline service delivery units are recorded. These records are disaggregated by the source of funds and are compiled annually. However, records of in-kind resources, albeit being a small component of total resources received by service delivery units, are not maintained consistently which leads to underreporting of the total resources allocated to service delivery units. The reports on performance are not published.

Evaluations of performance and effectiveness of service are not carried out in most ministries. Ministries produce budget execution reports, but these do not include any information on performance or service delivery. The exception is the Ministry of Education, which carries out an annual review of its performance internally.

The actions to be taken under PFM Reforms: A key performance action in the medium term is the introduction of systematic performance evaluations of ministries, both conducted internally and by independent bodies.

Table 3.12: Reform Actions to improve reporting on performance information for service delivery

Reform Actions including Priorities in Bold	
Intermediate - Short term	<ul style="list-style-type: none"> Strengthen data recording at service delivery units to include in-kind resources received Issue a directive by the office of the president or an appropriate body requiring all ministries to submit their annual performance reports to the office of the president and post the same to their website
Medium term	<ul style="list-style-type: none"> Introduce periodic performance evaluation at ministries Perform a multi-year independent performance review of ministries

Objective 3.3: Adopt International Standards of Procurement Practice to Facilitate Service Delivery and Achieve Value for Money

Roll-out Improved Public Procurement Practices

Current performance and challenges: The 2020 PEFA Assessment indicated that Maldives' procurement system scored poorly especially with regard to procurement monitoring, procurement methods applied and public access to procurement information. The SAP put forward actions to the strategy to implement procurement reforms to improve the efficiency and integrity of public procurement. The National Tender Board (NTB) is established under the Ministry of Finance to

authorize public procurements above MVR 5 Million. National Tender acts as the secretariat to the NTB. The Public Finance Regulation (PFR) 2017 provides separate thresholds for procurement for which approval is required from National Tender Board, Bid Committees, Finance Executive or the Procurement Officer.

The procurement monitoring function was established within the National Tender since 2017 but had not been fully operational. Currently, the procurement monitoring function is mandated within the recently formed Procurement Policy Formulation and PSIP project monitoring unit. Certain attempts such as instructions to submit quarterly procurement details were requested from all relevant procuring agencies throughout, in the bid to initiate procurement monitoring. Geographical restrictions and the absence of proper IT infrastructure in all islands added on to the hindrances against proper procurement monitoring. Hence, there is lack of a central procurement monitoring mechanism. The open tendering method is mostly utilized by the National Tender for awarding contracts.

The 2020 PEFA Assessment found public access to procurement information to be poor, with only three out of the six elements/requirements being met. Specifically, government procurement plans, data on resolution of procurement complaints and annual procurement statistics are not made available to the public.

Reforms previously undertaken and underway: During February 2020, the Procurement Policy Board (PPB) was established by a Presidential decree, as a separate procurement policy body to formulate, enforce and amend, whenever necessary, procurement policies, regulation and guidelines across the public sector and ensuring proper implementation of procurement policy directives. The PPB is mandated to ensure procurement harmonization throughout the state, procurement capacity building through sustainable training programs, establishing KPI's for all implementing agencies, monitoring all procurements, necessary strategic procurement planning for the public sector and developing and implementing a state procurement portal.

Development of the Electronic Government Procurement e-GP system is underway, and majority of the system development is to be carried out within this year. A subsequent tender management portal will be developed along with the e-GP system. With the development of such a system, all government procurements shall be undertaken through the central portal, which shall enable us to maintain proper procurement statistics. The public will be able to access all procurement data

under a single platform including procurement policies, procurement plans, all on- going tenders and all contract awards.

A contract management portal is already developed and is currently in the testing phase. Once properly implemented, Government of Maldives will be able to manage all government contracts under one platform and all contract statistics shall be readily accessible.

The actions to be taken under PFM Reforms: As summarized in Table 3.3 below, the main reform actions will be improving the functioning of the National Tender Board and strengthening the central procurement monitoring mechanism. Finalization of the development of the Electronic Government Procurement e-GP system and the tender management portal are also key actions to improve procurement monitoring.

Table 3.14: Reform Actions to improve Roll-out Improved Public Procurement Practices

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<ul style="list-style-type: none"> • Improve the functioning of the National Tender Board • Strengthen the central procurement monitoring mechanism. • Strengthen the policy and regulatory framework for public procurement • Improve public access to procurement information by introducing the practice of making available procurement plans for all entities, data on the resolution of procurement complaints and annual procurement statistics • Finalize the development of the Electronic Government Procurement e-GP system and rollout • Provide capacity building to relevant agencies as well as contractors/suppliers so they'll be e-GP ready • Develop the tender management portal along with the e-GP system. • Detailed study on internal audit options.
Medium term	<ul style="list-style-type: none"> • Improve the IT infrastructure to all islands to improve sending of procurement data to the Procurement Policy Formulation and PSIP project monitoring unit.

Objective 3.4 Modernize the Internal Audit Function

Strengthen the internal audit function

Current performance and challenges: The legislative power of Internal Audit is derived from the Public Finance Act 03/2006 (PFA), clause 41 which states that The Minister, or a person appointed by the Minister to do so, may at any time inspect the financial and accounting records of a

government agency. The Decentralization Administration Act 07/2010, clause 106 also grants the minister of finance the authority to inspect the financial and accounting records of local councils. The authority to audit is further detailed in the Public Finance Regulation (PFR) dated February 2017, chapter 16, "State Internal Audit" which states that the minister may delegate this authority to the internal auditors to check the financial records of the government agencies.

The 2020 PEFA Assessment found the internal audit function at Maldives to be performing weakly. Out of 77 public offices, 15 offices have Internal Audit functions established within the organizations. The budget of these public offices represents up to 56% of the total budgeted expenditure of the government and 98% of the total budgeted revenue of the government for the year 2020 respectively¹⁷. Each office maintains audit engagements documentations and has follow-up facilities in place. However, the methodologies and toolkits regarding audit documentation, reporting and follow-up activities are not harmonized.

The internal audit in Maldives focuses mainly on financial audits, compliance audits and special audits. Systems audit to evaluate the adequacy and effectiveness of the internal controls is not being performed. In addition, internal audit function of Ministry of Education and MNDF had an External Quality Assessment (EQA) carried out by the AGO, according Internal Professional Practices Framework (IPPF) for internal auditing published by the Institute of Internal Auditors (IIA). It is also envisaged by SIAC to carry out EQA for all the public offices that have an internal audit function in the next three years.

According to the information gathered, all the public offices on average complete 54.5% of the audits planned for the year. It is to be noted that even though the Ministry of Finance did not have an internal audit plan, internal audit engagements were honoured during FY2019. In addition to those included in the annual audit plan, the majority of the internal audit functions also carried out unplanned audits based on requests received or due to the risk of noncompliance to public finance laws and regulations. All public offices with internal audit functions highlighted the issue of staff shortages.¹⁸

Reforms undertaken and underway: Since 2019, SIAC has been developing the internal audit function of the government and has been drafting a rollout plan which foresees establishing a decentralized

¹⁷2020 PEFA Assessment.

¹⁸2020 PEFA Assessment.

audit mechanism. Under the rollout plan, based on the budgeted expenditure of the public offices and the potential risk rating of the office, the number of internal audit staff required to establish an internal audit function is being estimated. Furthermore, to incentivize internal auditors and attract more skilled staff to the internal audit functions, a salary structure and cadre separate from the civil servants is also being drafted and sent for comments to the Civil Service Commission and National Pay Commission. In addition, under the World Bank's Public Finance Management System Strengthening Project (PSSP) the development of SIAF is being carried out. An Internal Audit Specialist has been hired, in order to develop the technical capacity of the internal audit function. This would streamline the internal audit work of SIAF and other internal audit functions in public offices.

The actions to be taken under PFM Reforms: The internal audit function need to be improved in terms of coverage and quality. The audit function needs to be expanded to cover more public offices to improve the coverage and the quality in terms of types of audited conducted, methodologies and toolkits, quality assurance mechanisms require strengthening.

Table 3.15: Reform Actions to improve the internal audit function

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<ul style="list-style-type: none"> • Expand the internal audit function to cover more public offices • Develop standardized methodologies and toolkits regarding audit documentation, reporting and follow-up activities • Strengthen the internal audit capacity to perform systems audit and apply the standardized methodologies and toolkits • Finalize the new structure • Solve the staffing gaps at the internal audit units
Medium term	<ul style="list-style-type: none"> • Strengthen the External Quality Assessment (EQA) to include all public offices that have an internal audit function.

Goal 4: Promote Accountability through External Scrutiny and Budget Transparency

Objective 4.1: To raise the profile of external auditing practices to international standards in terms of quality, coverage and timeliness, so to provide adequate assurance that the public funds are used efficiently and effectively

Ensure that there is adequate external audit and an informed opinion on the financial statements

Current performance and challenges: The Auditor General's Office (AGO) is the Supreme Audit Institution (SAI) of the Maldives. The Auditor General (AG) is the head of the SAI whose independence is guaranteed by the Constitution of Maldives enacted in 2008. The AGO follows the Westminster model of external audit. That said, the system of governance of Maldives is a presidential system, whereby the President is the Head of Government and Executive power is exercised by the government.

The independence of the Auditor General (AG) of the Maldives is enshrined in the Constitution and Audit Act. These two fundamental documents provide the basis for the assessment of AG's full functional and organizational independence. The Auditor General's annual work plan and budget are evaluated by the Public Accounts Committee (PAC) and approved by the Majlis (Parliament).

The Constitution sets out the process for the appointment of the AG. The President shall appoint as Auditor General a person approved by majority of the total membership of the People's Majlis from the names submitted to the People's Majlis as provided for in law. The Auditor General shall be appointed for one term of seven years. The appointment may be renewed for an additional term of not more than five years in accordance with the statute relating to the Auditor General, by a resolution passed by a majority of the total membership of the People's Majlis.

AGO performs all of its financial statement audits based on the audit guidelines developed from the International Standards of Supreme Audit Institutions (ISSAIs). The AGO carries out risk-based financial audits and selection of topics for performance and special audits is informed by risks among other factors. The guidelines give reference to the standards and are used as the basis for

AGO's financial audits. The latest version of the guidelines or the manual contacting them is dated 2015. In addition to the financial audit, AGO conducts performance, compliance and special audits. As per Article 212 of the Constitution and Section 9 and 10 of the Audit Act, the AG is mandated to conduct financial statement audits and financial management and prepare and publish reports on:

- all government ministries;
- departments operating under government ministries;
- other government agencies and offices;
- all offices and organizations operating under the legislative authority;
- Independent Commissions and Independent Offices established in accordance with the Constitution and law;
- all offices and organizations operating under the judicial authority;
- any other institution or organization required by law to be audited by the Auditor General;
- Any institution primarily funded by the State and any business entity, in which shares are owned by the State.

There are approximately 20 ministries and 27 statutory bodies in the Maldives for which the Auditor General must give an audit opinion on their financial statements by 31st May and there are approximately 650 sub-entities and 232 departments or sub-agencies operating under ministries and statutory bodies. Most of these sub-entities, departments and sub-agencies are located in the Maldives except for a few agencies which are located abroad. There are a total of 200 local councils. The Auditor General has also a legal mandate to deliver an audit opinion on the financial statements of the local councils. Due to human resource constraints and logistical challenges posed by geographical nature of the country, the AGO has been outsourcing the majority of local council audits since the beginning of the 2016 audit cycle.

For the past 3 years, AGO has audited and reported on the majority (70%) of government's revenue and expenditures and these audits have highlighted any relevant material issues and systemic or control risks. Audits of the FY 2016, 2017 and 2018 were conducted. The reports are published in AGO's website. While it is appreciated that the AGO was able to cover all entities in FY 2016, in the years 2017 and 2018, high-priority, high-spending or risk-prone entities e.g. health, education, police services, social protection, National Planning and Infrastructure) and functions were not covered.

Since the reporting framework does not include a statement of assets and liabilities, AGO has not given a formal opinion on assets and liabilities. However, assets and liabilities are verified as part of audit process.

Though as per the Constitution and Audit Act, AGO has the obligation and right to report, AGO submits individual audit reports when the audit is completed. AGO has not reported on the annual financial statements for the years 2016 and 2017. That said, the 2018 audit report on the accounts of the whole of government was submitted to the legislature on January 2020.

AGO does not have a systematic follow-up system to monitor the extent to which audit recommendations or observations are implemented by the executive or by the audited entities. Audit issues and recommendation are discussed in exit meetings and these discussions are reflected in the Management Letters. Though the executive is required to send formal letters on the status of implementation; in most cases, AGO does not receive a formal response by the auditee on the management letter.

Reforms undertaken and underway:

- A new regulation has been drafted to enable the Board of Directors of SOEs to appoint external auditors of the company and send the copy of the engagement letter, audit report along with Key Audit Matters and in addition, send a separate report to the Auditor General on compliance, fraud risk and governance.
- Performance audits focusing more on the themes of the environmental aspects such as waste management, renewable energy and other protected areas are being introduced. These audits would mainly focus on how efficient the policies are implemented to preserve the ecosystems found in the Maldives. These audits will also look into the extent to which monitoring and supervision of policy implementation is carried out.
- There is increased focus on conducting revenue audits to ensure the completeness of the revenues collected in line with the tax law administration.
- Outsourcing local council audits and carrying out audits of northern and southern councils with the help AGO's regional offices in order to issue more timely audit reports.
- Public Sector audits will be changed to risk-based audits including data analytics and system based audits.

- Increased focus on completing audits of consolidated financial statement, government guarantees and audits of key ministries within statutory deadlines.

The actions to be taken under PFM Reforms: The main priority actions are to improve the quality, timeliness and the public availability of the audited financial statements are summarized below.

Table 3.16: Reform Actions to Ensure Adequate External Audit

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<ul style="list-style-type: none"> • Improve timeliness and public availability of audited financial statements. • Enhance training and professional capacity to conduct more ISSAI-compliant audit • Strengthen capacity of AGO to improve coverage of audit and timely reporting • Strengthen capacity for AGO support to PAC • Roll out ISSAI-compliant entity wide audit (financial, compliance, performance and special audits) to replace the existing unit based audit approach • Introduce risk based auditing • Restructure AGO to support ISSAI compliant audit • Improve timeliness of audit reports and make them publicly available • Upgrade and sustain IT infrastructure of AGO and audit management and monitoring system (AMMS) • Support AGO 's on-going professional accreditation program • Improve responsiveness of the executives on audit and PAC recommendations • Strengthen AGO's audit recommendation follow-up mechanism • Complete migration towards IPSAS accrual accounting • Convert the Annual Financial Statements (AFS) which cover the local governments to IPSAS compliant AFS.
Medium Term	<ul style="list-style-type: none"> • Review and build consensus on an Audit Law, and its implementation

Objective 4.2: To enhance the capacity and commitment of the relevant financial committees of Parliament and their respective secretariats

Strengthening Parliamentary oversight of public expenditure

Current performance and challenges: The following two financial committees in Maldives Parliament are mainly responsible for exercising parliamentary oversight of public expenditure:

- Budget Committee
- Public Accounts Committee

The Budget Committee leads the budget scrutiny process. The budget document submitted to the parliaments includes economic and fiscal forecasts for the medium term, fiscal policy objectives and

details of revenue and expenditure. The Standing Order of the Majlis, approved in advance of budget hearings, clearly sets out the procedures for budget scrutiny by the legislature. In leading the scrutiny process, during the proceedings, the Budget Committee consults the Ministry of Finance, the Maldives Monetary Authority and the AGO. Extensive debate on the budget takes place after the committee review stage on the parliament floor. The parliament vote is taken only for the budget of the following fiscal year.

The Standing Order of the 19th Majlis was followed during the budget proceedings of 2019, and includes the process for submission of the budget, formulation and proceedings of the Budget Committee and the budget debate process. The legislature's procedures to review the budget proposals are thus approved by the legislature in advance of the hearings and are adhered to.

The Budget Committee accepts written feedback from the public on the budget. The committee meetings and budget debates are also generally broadcasted live on television. That said, explicit arrangements for public consultation are not specified in the standing orders. Internal arrangements include specialized review committees (the Budget Committee), technical support and negotiation procedures.

The legislature has approved the annual budget before the start of each of the three previous fiscal years¹⁹.

Section 112 of the Standing order of the Majlis states that the Auditor General's report should be reviewed by the Public Accounts Committee (PAC) of the Parliament. In-depth hearings presently occur in the PAC frequently with responsible officers from audited entities mostly on high profile audit reports (qualified and disclaimer reports).

However, the oversight responsibility of the parliament is severely impaired by the delay of submission of audit reports by the AGO. The AGO submitted the Audit Report on the Annual Financial Statements of the Government for the year 2018 to the Parliament on 7th January 2020 and no audit reports were received by the parliament in 2017 to 2019.

At present, in-depth hearings occur in the PAC frequently with responsible officers from audited entities mostly on high profile audit reports (qualified and disclaimer reports). For such hearings, representatives from AGO are called in to explain the observation and findings as well as from the

¹⁹2020 PEFA Assessment.

audited agency to clarify and provide an action plan to remedy the situation. All other individual audit reports are also reviewed and approved by parliament after scrutiny.

The PAC may recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors. Neither in the minutes of PAC nor by other means, is it evident that the executive has systematically followed up on the recommendations made by the external auditors or issued additional recommendations and followed up on their implementation or recorded on the lack of action taken on recommendations. Except for strictly limited circumstances such as discussions related to sensitive discussions, at present all the hearings on individual audit reports are broadcasted on national television (<https://majlis.gov.mv/en/19-parliament/stream>). The committee reports are taken to the full chamber of the legislature for approval and are published on the official website. (<https://majlis.gov.mv/>).

The actions to be taken under PFM Reforms: As shown in the Table below the main priorities are strengthening the capacity of staff, providing technical support to committees, and adopting a mechanism to ensure systematic follow-up of audit recommendations and sanctions by the PAC.

Table 3.17: Reform Actions to Strengthen Parliamentary Oversight

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<ul style="list-style-type: none"> • Strengthen capacity of staff and technical support to committees • Provide adequate professional resources to the financial oversight committees to operate effectively. • Provide content-based training to the relevant committee secretariat staff to work out the agenda for the committee meetings as they do not have sufficient exposure on the topic they are dealing with. • Modernize business process, proceedings and automated record management and development of MIS for financial oversight committees. • Adopt a mechanism to ensure systematic follow-up of audit recommendations and sanctions by the PAC. • Revisit the standing orders to include explicit arrangements for public consultation and other necessary improvements. • Strengthen the AGO's capacity to issue timely audit reports to the parliament.
Medium Term	<ul style="list-style-type: none"> • Extend strong research support to the committees.

Goal 5: Enhance the Enabling Environment for Improved PFM Outcomes

Objective 5.1: Put in place a comprehensive and a clear legal framework

Ensure that the legal framework and rules clarify roles and responsibilities, incentives and behaviours consistent with sound PFM practices.

Current performance and challenges: The SAP planned to introduce various improvements to the legal and regulatory framework to modernize the public financial management. While the existing PFM legal framework is comprehensive, following the implementation of PFM reforms and improvements, some of the legal instruments might be out of date. Business processes have also transformed with the introduction of new information technology, which demands for alignment with the legal framework.

Reforms undertaken and underway: The SAP included the following general reform actions to be undertaken during the period.

Table 3.18: Reform Actions to Update the Legal Framework

Reform Actions including Priorities in Bold	
Intermediate-Short term	<ul style="list-style-type: none"> • Amend public finance law and introduce clear and binding appropriation rules and a framework for debt management. • Introduce government procurement guidelines and manuals to clear the ambiguities with the current public finance regulation. • Implement procurement reforms to improve the efficiency and integrity of public procurement: <ul style="list-style-type: none"> ◦ Strengthen the policy and regulatory framework for public procurement. • Strengthen the legal and regulatory framework for the operation and functioning of state-owned enterprises: <ul style="list-style-type: none"> ◦ Review the current legal framework related to SOEs to minimise corrupt practices and prevent Economic, Financial and Corporate Offences ◦ Amend the current Privatisation and Corporatisation Act, including increasing the Privatisation and Corporatisation Board (PCB's) prerogative to steer and oversee the performance of SOEs and their Boards ◦ Improve regulation, enforcement and compliance in Corporate Reporting (mandatory reporting of companies)

Objective 5.2: Put in place the policies, processes and skills to manage and deliver a comprehensive training and capacity development program

Change management and capacity development

Current performance and challenges: Strategy 2.3 of the SAP envisages the establishment of a centralized Public Sector Training Institute (PSTI), with the responsibility of identifying needs and conducting all public service sector trainings. Until the establishment of this institute, the President's Office and Civil Service Commission are the leading agencies for implementing this action. Currently, various trainings related to Public Finance Regulations and Public Accounts System – SAP training were carried out by Public Finance Institute (PFI) under MoF; some training programs with collaboration together with the Civil Service Training Institute (CSTI). Presently, MoF (in-house) staffs have been conducting the number of finance related training programs, but the question is how these staff are affected to their daily duties and focus at office works. PFI need specific trainers to carry out such training and capacity development programs. No assessment has been carried out on the effectiveness of these trainings.

Reforms undertaken and underway: In order to ensure Finance Executives at Accountable Government Agencies (AGAs) are familiar with the financial regulations and procedures set by the Ministry of Finance (MoF), a training program was introduced; an exam was given to the Finance Executives, from which they need to pass to remain in the position of responsibility. Prior to the exam, information sessions were conducted to brief the participants and provide help in preparing for the exam. Similar program is planned for other staff working in finance related jobs in AGA. The program would be carried out in Q4, 2021.

Table 3.19: Reform Actions to Change management and capacity development

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<ul style="list-style-type: none">• PFM skills strategy, including a needs assessment, and prepare an action plan in consultation with relevant stakeholders• Commit funds for professionalization of PFM skills• Creating a pool of officers trained in PFM and assigning them to PFM related work• Continuous professional development including peer learning, training on the job, etc.• Strengthening institutions related to PFM capacity development and change management
Medium Term	<ul style="list-style-type: none">• Establish a centralized Public Sector Training Institute (PSTI)

Objective 5.3: Establish a secure, reliable, efficient, effective, and fully integrated public financial management system

Public Accounting System (SAP)

Current performance and challenges: Majority of the financial data of GoM are kept in the Public Accounting System (SAP).

Majority of the financial data of GoM are kept in the Public Accounting System (SAP). The criteria to be followed while giving the authorizations in public accounting system are predetermined based on the Public Finance Law and regulation, to ensure data integrity. SAP keeps audit trails of all the transactions such as, person accessing the data, person initiating transactions, the time and date of entry, the type of entry, information updated, and files uploaded.

SAP information system is used for processing and approval of payments in the government ministries. However, public offices located at the islands use manual accounting system for recording, processing and approval of transactions.

Ministries and Independent Institutions use SAP system and request for payments, which are then centrally approved by the Treasury and Public Accounts Division (TPAD) of the Ministry of Finance. There is segregation over authorizing, processing, recording and reviewing of transactions across the government agencies pursuant to PFA and PFR. And segregation of duties is ensured through SAP system user controls.

MIRA keeps records of each taxpayer in the SAP revenue management system including data for tax assessments, collections, and arrears.

MoF has implemented the Human Resource and Capital Management (HRCM) module of the SAP financial software for Male' based agencies. The majority of payroll is now processed through this module. Yet, significant ministries such as the Ministry of Education and the Ministry of Health, do still process payroll of staff employed outside of Male' through the Accounts Payable Module of the SAP financial software. The processing for final payment is carried out by the payroll section of the Treasury and Public Accounts Department (TPAD). Personnel records of civil servants are still maintained by Civil Service Commission through the VIUGA database.

Reforms undertaken and underway: Since the adoption of the SAP Solution in 2009 as PAS, the MoF has been continuously working towards enhancing and rolling out its adjacent modules to fill

the gaps in Integrated Financial Management System (IFMS). To strengthen PAS, a highly trained and dedicated team will be established within the MoF. In this regard, SAP functional and technical associates have been recruited to carry out the development works of the PAS.

In addition, work to value and record public assets in the SAP is currently underway with the assistance from World Bank. This project will also support the MoF in preparing policy for asset valuation.

Ministry of Finance is working to adopt a program performance-based budget, which includes a monitoring mechanism to track progress of the performance of budgetary programs. This will be a complement to the monitoring mechanism of the SAP, as budgetary programs will be strongly aligned with the policies and activities in the SAP.

With the rollout of the HRCM module in the SAP financial software, the MoF has been working towards creating a means of linking the module with the VIUGA and other bespoke software used by budgetary units. The MoF has created a payroll register. The establishment of a payroll register is intended to track all government employee data on a single location.

Other activities include: training and development for multi-tasking purposes, Atoll based system Rollout, Integration of Data from Council's "VIYA module" to SAP, Vendor Portal to view payment status, Multiple Accounts to be maintained in the SAP / all GOM accounts (including imprest accounts), GOM Employee register integration.; Conduct awareness on Asset Management Policy; Strengthening the recording and report of loans extended by the treasury recording and reporting (recording of all loans in CSDRMS, recording existing loans and generating reports via CSDRMS); and Implementation of recording of GOM receivables (Recording of GOM receivables in Public Accounting System).

Table 3.20: Reform Actions to SAP

Reform Actions including Priorities in Bold	
Intermediate - Short Term	<ul style="list-style-type: none"> Finalize the valuation and recording of public assets in the SAP. MIRA to use the SAP revenue management system to fully reconcile between revenue assessments, collections, arrears, and transfers to Treasury. Address the implementation issues of SAP covering change management, communication and training and other measures necessary for sustainable implementation.
Medium Term	<ul style="list-style-type: none"> Move public offices located at the islands which use manual accounting system for recording, processing and approval of transactions to SAP.

Objective 5.4 Develop Organizational Change Agility to Enhance Implementation of PFM Strategy

Table 3.21: Reform Actions to Change Management

Reform Actions including Priorities in Bold	
Intermediate - Short term	<ul style="list-style-type: none"> • Prepare and conduct Awareness workshops on Change Leadership for Secretary to First Assistant levels • Prepare and conduct Awareness workshops on Change Management for Officials • Conduct Immersion Workshops on Change Leadership for those who will be leading changes under PFM • Conduct Immersion Workshops on Change Management for those who will be implementing changes under PFM • Incorporate Change Leadership and Change Management activities during the planning stages of any change • Integrate Change Leadership and Change Management activities with the specific project plans for implementing the changes
Medium Term	<ul style="list-style-type: none"> • PFM professionalization • Continuous professional development including peer learning, on the job training etc. • Integrate Change Leadership and Change Management activities with the specific project plans for implementing the changes

Chapter 4

Change Management, Risks, Challenges, and Mitigation

4.1. Change Management

Effective management of change techniques should contribute to keep up the momentum for reform while overcoming any opposition to change. The complexity of managing change in the public sector is exacerbated by the occurrence of simultaneous change processes that make the managing and understanding of change a daunting task, and that justify the need to examine how countries are in fact facing the effects of their reform initiatives. The previous reform strategy implementation requires evaluation and weaknesses or reform failures need scrutiny.

Dimensions of leadership and change management support are therefore considered necessary in this Strategy, and will be introduced to strengthen implementation, improve institutional behaviours and enhance stakeholder engagement and communication processes, and outcomes. It will also enable adaptive implementation based on learning from implementation throughout the months and years of the upcoming reform process as it unfolds, and support processes of 'course correction' to continually direct and re-direct efforts towards objectives. A recent World Bank study of change management for PFM systems reforms draws from the change management literature and review of reform experience to identify lessons, summarized in Box 5.1. It includes four key elements that are outlined below.

First, the process of development of this strategy has combined two key features that contribute to **managing change from the outset**, namely: (i) involvement of actors across key central government agencies, significantly beyond the Finance Division, and (ii) within the comprehensive set of objectives and actions, identification of a smaller set of priorities that will be the focus of the first two years of the implementation plan.

Second, moving into implementation and building upon these two foundations, the change management plan will include (i) capacity strengthening for reform leaders at various levels across GoM; and (ii) utilization of techniques such as the rapid results approach to accelerate **implementation** (see Box 5.1). Strengthening capacity of high-level leaders and working with them through processes that help them prioritize, make timely and informed decisions and provide an

authorizing environment that helps technical staff continue implementing will boost progress on achieving reform goals. Techniques to develop individual capacities at the technical staff level, particularly in line ministries, to better fulfil their functions within government agencies will be necessary to make some of the changes needed within institutions that have not happened previously. In addition, and of critical importance given the transversal nature of PFM reforms, processes for supporting collaboration across agencies will be needed to be set up.

Third, effective communication with the stakeholders both internal and external will be a critical component of the change management plan. Training (both hands-on and orientation), seminars, workshops, dissemination programs on output, publicity campaign, distribution of pamphlets and booklets, and regular meetings with the end-users are some of the means which may ensure effective communication. A detailed plan will be prepared bearing in mind the reform objectives and actions and how they will affect the stakeholders, including those within the government (line ministries) and external stakeholders such as citizens and private sector. These actors are particularly important on the 'demand side' in order to ensure they are informed of progress (or lack thereof), and are better able to maintain interest and a measure of accountability through social scrutiny of progress on PFM reforms.

Fourth, an effective change management plan for implementation of the PFM reforms includes consideration of the following dimensions of stakeholder ownership and participation:

- *Developing ownership among relevant stakeholders* for the PFM reform strategy will be important, reinforcing and building on the substantial engagement and ownership across multiple agencies that has been achieved in the development of the PFM reform strategy to date. This will include:
 - *Broadening the base of ownership*, identifying who needs to be involved and when, and designing targeted engagements with the different audiences. Key groups include the line ministries without whom implementation of many of the reforms will not be possible, and who are at the front-line of delivering better outcomes from public spending. It will be important to build consensus on the strategy with the broader group.
- *Deepening ownership of the stakeholders involved to date*, building on the momentum achieved and addressing any challenges or dynamics that hinder their progress together.

- *Assessing readiness, capacity and commitment to act amongst stakeholders* – A process is required to understand the readiness and capacity of different groups of stakeholders to take action. A process for focusing in on what they are willing, capable and ready to do will increase chances they will successfully do what is expected. Once agreement has been reached on the part different stakeholders can contribute to, ensuring there is a credible commitment to action is important for future accountability to a steering committee.

Fifth, managing the changes proposed in the Strategy requires effective governance and coordination arrangements. The arrangements are still to be finalized, and consideration will be given to (i) a national steering committee (or similar) to oversee how successfully the strategy is being implemented, provide strategic guidance, and facilitate coordination and participation among key agencies across GoM, and (ii) the most appropriate arrangements to monitor the program, identify any implementation snags and take appropriate steps for resolution, including whether a full-time unit based in Finance Division with specific terms of reference will be required.

Box 4.1 Change Management Lessons

Managing Change in PFM Systems Reforms – a Guide for Practitioners, Dener C. and S. Kostenbaum, World Bank June 2015, provides valuable lessons from literature and experience of change management for PFM systems reforms.

Definition. “Change management is broadly defined as the process of helping people understand the need for change and to motivate them to take actions, which result in sustained changes in behaviour. Organizational change management does not only refer to a set of basic tools or structures intended to keep any change effort under control. More importantly, it is about adaptive leadership (or change leadership³⁴) for addressing non-technical challenges, by evaluating and managing risks, empowering a group of leaders, and mobilizing a large number of people with a shared vision to introduce sustainable changes in social and organizational culture. ” (p.3)

Key findings. The lessons indicate that effective change management needs to focus on the following:

- **“High level political support** (continuity of strong interest and commitment to reforms)
- **Developing adaptive leadership skills** (sharpening problem-solving skills of reform teams)
- **Stakeholder mapping** to identify key actors (commitments) and support/resistance (constraints)

- **Development of a shared vision** (direction) to clarify what will be achieved and when
- **Communication strategy** (alignment) to coordinate and integrate different components
- **Readiness of reform teams and project leader** (and ultimately, the whole organization)
- **Well-defined deployment plan** (specific milestones, and incremental achievements)
- Capacity building plan and appropriate institutional framework
- **System integration and transition capacity** (capacity building and knowledge transfer)
- **Managing resistance** (active engagement, empowerment, building trust)
- **Assessing risks** (integrating risk management into governance framework)
- **Taking into account the political context** (finding a —window of opportunity|| for reforms in between political cycles) “(p. 41).

A change management method indicated in the study is the Rapid Results Initiative, which supports implementation, building reform momentum and leadership, and delivering concrete milestones and results in a short period of time. —Rapid Results Initiatives (RRI) provide a structured process that mobilizes teams to achieve results in 100 days or less, learning along the way.|| (p.11). In Turkey, for example, Rapid Result Initiative helped deliver early results that generated confidence and forward momentum.

4.2. Risks and Challenges

The experience over the past two decades amply illustrates that implementing PFM reform strategy is not a smooth sailing venture and is replete with many risks and challenges. However, these are not unique to Maldives. Many countries faced these risks while implementing similar strategy. The risks listed below are not exhaustive and basically meant for stimulating discussion among the key stakeholders. The risks are categorized external and internal to identify the risks outside the direct influence of the strategy (external) and the risks internal to the strategy itself.

4.2.1. External Risks

A preliminary assessment identifies the following risks which continue to exist and impact on reform endeavours:

- Lack of widely-based political engagement in PFM and wider governance reforms;

- Absence of institutional reforms to embed and sustain the results of process reforms;
- Change in leadership at the president or minister-level may affect the direction or threaten the continuity reforms;
- Delays and disruptions to the flow of funds from the development partners because of the stringent funding framework;
- Excessive delays in enacting new legislation required to support a well-functioning PFM system;
- Insufficient access to information and/or capacity of civil society and private sector to scrutinize progress (or insufficient lack thereof) on reforms;

4.2.2. Internal Risks

These are known risks and continue to have direct impact on reforms:

- Lack of full buy-in and capacity to internalize reforms by the line ministries;
- Counter or competing interests and/or priorities between different ministries or government agencies;
- Challenges of coordination across institutions to ensure effective implementation and lesson learning' across agencies of PFM reforms;
- Capacity constraint in the relevant outfits of line ministries requiring constant mentoring from MoF;
- Rotation of trained staff responsible for implementing reforms in key areas;
- Senior managers' commitment to line management roles reduces the scope of providing effective leadership in taking forward reforms;
- Insufficient attention paid to skills transfer undermining sustainability;
- Insufficient number of experienced staff to take over responsibility from the consultants;
- Failure to agree an exit strategy resulting in continuing dependence on external inputs;
- Insufficient trained staff in permanent set-up of the Government to absorb the technical solutions such as the Public Accounting System (SAP).

4.3. Risk Mitigation Plan

A risk management plan has been worked out to mitigate the risks listed above. The table below presents the proposed plan:

Table 4.3.1: Risk Management Plan

Risks	Risk Mitigation Actions	Indicators
Absence of institutional reforms to embed and sustain the results of process reforms	Draw political support for concomitant institutional reforms	New institutions to embed the results of process reforms are in place
Delays and disruptions to the flow of funds from the development partners because of the stringent fund disbursement framework	Initiate dialog with the development partners to liberalize their fund disbursement regime	Funds are disbursed on time
Excessive delays in enacting new legislations required to support a well-functioning PFM system	Identify the barriers, draw up a timeframe and persuade the relevant channels to act upon	Relevant legislations are enacted within a reasonable time frame
Internal		
Lack of full buy-in reforms by the line ministries	Involve the top management of line ministries and seek their agreement on the proposed reform agenda.	Reforms internalized and sustained
Capacity constraint in the relevant outfits of line ministries requiring constant mentoring from MoF	Create a critical mass of skilled staff to perform the assigned task	The assigned tasks are performed with professional competence
Rotation of trained staff responsible for implementing reforms in key areas	Take on board Ministry of Public Service for retention of trained and skilled staff	Trained and skilled staff are retained
Senior managers' commitment to line management roles reduces the scope of providing effective leadership in taking forward reforms	Free up senior managers to provide effective leadership in taking forward reforms	Effective leadership is provided by senior managers
Insufficient attention paid to skills transfer undermining sustainability; Insufficient number of experienced staff to take over responsibility from the consultants	Work out an effective plan to transfer skills Make available sufficient number of experienced staff to take over responsibility from the consultants	Reform outputs sustained
Failure to agree an exit strategy resulting in continuing dependence on external inputs	Work out an agreed exit strategy well in advance	A well-laid out strategy is in place
Insufficient trained staff in permanent set-up of the Government to absorb the technical solutions such as the Public Accounting System (SAP)	Work out proposals for required number staff in the permanent set-up well in advance	Systems operate as planned and technical glitches are fixed immediately.

4.4. Opportunities

While the risks that might threaten the implementation of the strategy are quite high, there are opportunities as well on the horizon emerging from the changes in the governance landscape. The present Government has been implementing wide ranging reforms to ensure good governance in keeping with the demands for improved service delivery. This commitment is part of the process of achieving the goals set out in the SAP 2019 - 2023. Apart from the ongoing reforms in public expenditure management, revenue administration and procurement management, a set of complementary reforms is underway to scale up the efficiency in the public sector. These complementary reforms taken together are instilling confidence in the change agents. This confidence should be seized as an opportunity to successfully implement the reform strategy both in the medium and long term.

Conclusion

In Maldives a number of PFM reforms have been conducted in the past years, some of which are funded by donors. Maldives has also concluded the Public Financial Management Reform Planning (PFMRP) for 2014 to 2018. Various PFM diagnostics activities are also conducted, of which one is the PEFA 2020 assessment. This PFM Reform Strategy tried to bring the results and recommendations of all this together. The Ministry of Finance has not completed any assessments on the achievement of the milestones set in the PFM Reform Plan 2014-2018, which would provide an overview of the degree to which the planned targets/indicators were met and the lessons learnt. The document has identified issues and problems that the reform champions have been encountering for many years. Strong political support and motivation of the change agents will be critical to take forward the proposed reforms to achieve the ultimate objective of this strategy.

A separate Action Plan will follow this strategy which elaborates on the governance structure for the reforms, sequencing of the actions and defines the results indicators with baselines and end-of-plan targets.

Annex A: Priority Action Matrix - PFM Reform Strategy 2022-26

Objectives	Priority Actions
Goal 1: Maintain aggregate fiscal discipline compatible with macro-economic stability and pro-poor growth	
1.1: Enhance Tax Revenues to Create Fiscal Space	
1.2: Improve the Management of Fiscal Risks, Debt and Cash To Maintain Fiscal Discipline	Prepare an SOE law and regulation manual and consider developing a comprehensive legal framework Review the existing legal framework (Privatization and Corporatization Act 2013) and formulate a government ownership and dividend policy
Goal 2: Allocate Resources Consistent With the Priorities in the National Plan (SAP)	
2.1: Improve the Link between Budgets and Government Policies and priorities	Improve the link between policy and the budget Improve budget control Strengthen the approval over in-year budget adjustments and virements Fully implement the Virement and Appropriation Procedure Intensify the implementation of gender budgeting Introduce accrual budgeting
2.2: Strengthen the Management of Public Investments	Strengthening strategic guidance and budget ceilings for public investment Improve institutions for project appraisal, selection and management Improve commitment control and cash management
2.3: Strengthen the Budget and Performance Management Capacity	Ensure that all line ministries prepare Medium-term strategic plans Ensure that the Medium-term strategic plans are costed.
2.4 Strengthen PFM Capacity of Local Government	Conduct a PEFA Assessment to assess the local government PFM systems and identify the areas of reforms Improve the auditing system of local councils to enable them submit their audited financial statements on time Based on the Local Government PEFA report, produce a strategy paper on priorities and recommendations to fill the underscored gaps.
Goal 3: Promote the Efficient Use of Public Resources and Delivery of Services through Better Budget Execution	
3.1 Improve Business Processes and Strengthen Internal Controls for service delivery	Finalize the implementation of a fully functioning TSA system where consolidation would be done of all bank balances Strengthen the Internal Audit function to enable it to conduct audits on the compliance of payment processes or procedures.

Objectives	Priority Actions
3.2 Improve the Performance information for service delivery	<p>Strengthen data recording at service delivery units to include in-kind resources received</p> <p>Introduce periodic performance evaluation at ministries</p> <p>Perform a multi-year independent performance review of ministries</p>
3.3: Adopt International Standards of Procurement Practice to Facilitate Service Delivery and Achieve Value for Money	<p>Improve the functioning of the National Tender Board</p> <p>Strengthen the central procurement monitoring mechanism</p> <p>Finalize the development of the Electronic Government Procurement e-GP system and rollout</p> <p>Develop the tender management portal along with the e-GP system.</p>
3.4 Modernize the Internal Audit Function	<p>Expand the internal audit function to cover more public offices</p> <p>Strengthen the internal audit capacity to perform systems audit and apply the standardized methodologies and toolkits</p> <p>Finalize the new structure.</p>
Goal 4: Promote Accountability through External Scrutiny and Budget Transparency	
4.1: To raise the profile of external auditing practices to international standards in terms of quality, coverage and timeliness, so to provide adequate assurance that the public funds are used efficiently and effectively	<p>Improve timeliness and public availability of audited financial statements</p> <p>Enhance training and professional capacity to conduct more ISSAI-compliant audit</p> <p>Strengthen capacity of AGO to improve coverage of audit and timely reporting</p> <p>Introduce risk based auditing.</p>
4.2: To enhance the capacity and commitment of the relevant financial committees of Parliament and their respective secretariats	<p>Strengthen capacity of staff and technical support to committees</p> <p>Adopt a mechanism to ensure systematic follow-up of audit recommendations and sanctions by the PAC.</p>
Goal 5: Enhance the Enabling Environment for Improved PFM Outcomes	
5.1: Put in place a comprehensive and a clear legal framework	<p>Amend public finance law and introduce clear and binding appropriation rules and a framework for debt management.</p> <p>Introduce government procurement guidelines and manuals to clear the ambiguities with the current public finance regulation.</p> <p>Implement procurement reforms to improve the efficiency and integrity of public procurement</p>
5.2: Put in place the policies, processes and skills to manage and deliver a comprehensive training and capacity development program	<p>PFM skills strategy, including a needs assessment, and prepare an action plan in consultation with relevant stakeholders</p> <p>Commit funds for professionalization of PFM skills</p>

Objectives	Priority Actions
	Creating a pool of officers trained in PFM and assigning them to PFM related work
5.3: Establish a secure, reliable, efficient, effective, and fully integrated public financial management system	
5.4 Develop Organizational Change Agility to Enhance Implementation of PFM Strategy	Develop a change management plan

Annex B: List of documents

Asian Development Bank, Reform on State Owned Enterprises in Maldives, 2020

International Monetary Fund, Fiscal Transparency Evaluation, 2021

International Monetary Fund, Public Investment Management Assessment, 2017

International Monetary Fund, Revising the Fiscal Responsibility Act, 2021

International Monetary Fund, Maldives Fiscal Risk Statement, 2021

Maldives, Strategic Action Plan (SAP) 2019 – 2023

PEFA 2020, PEFA Secretariat

World Bank, Debt Management Performance Assessment (DeMPA), 2019

Public Financial Management (PFM) Action Plan 2022-2026

Chapter 1

Introduction

Maldives has prepared a PFM Reform Strategy 2022-2026. The Strategy clearly sets out the key goals and objectives of the PFM reforms and identifies the priority reform actions. This PFM Action Plan provides the implementation roadmap for those priority actions with clear institutional responsibilities, and results indicators to monitor their successful implementation. The PFM Action Plan also elaborates on the governance structure for reforms and the change management approach introduced earlier in the Strategy. The PFM Action Plan fulfils the need for an operational document; as such it should be read with the Strategy to get a complete understanding of the PFM reforms in Maldives.

The Public Finance Management reform actions in Maldives are designed to respond to the challenges found in our system, to improve efficiency and effectiveness of public spending and improve the tax regime. The goals of the PFM reform carried out include strengthening fiscal discipline, ensuring debt sustainability and the efficient, transparent and modern management of public finances. The Maldives has undergone a number of significant PFM reforms since 2009, when the first PEFA was carried out.

The Maldives did formulate a Reform Action Plan for 2014 to 2018 following the 2014 PEFA, and most of the weaknesses identified in the 2014 assessment have been the key priority areas for PFM reform in recent years. The Maldives also formulated a five-year Strategic Action Plan in 2019, which includes the overall government policy objectives to be achieved from 2019 to 2024. This plan includes measures that would improve PFM in the coming years.

These PFM reforms are pursued by the MoF, primarily through PFM reform programs supported by development partners such as the World Bank, the IMF, USAID, and ADB. These programs mainly focus on the following key areas:

1. Fiscal and macroeconomic reforms
2. Strengthening debt and cash management

3. Strengthening State-Owned Enterprise (SOE) governance and oversight
4. Procurement reforms
5. External Audit of the Public Sector
6. Strengthening of the Public Accounting system (PAS) and asset management
7. Program Performance Based Budgeting
8. Public Investment Management and Public Private Partnerships (PPPs)

All PFM reform programs are led by the MoF. A dedicated unit has been formed within the MoF under the World Bank Public Finance Management Project, responsible for overseeing the overall PFM reform actions carried out under this Project and is accountable to the Minister of Finance.

The new strategy and this action plan were developed by Elena Morachiello, the same PEFA and PFM expert who was hired to assist the GoM to carry out the PEFA 2020 Self-Assessment. The strategy was primarily informed by the PEFA 2020 assessment results and other recent assessments, on-going reform initiatives and institutional factors are also taken into consideration. It was developed in consultation with MoF, FAD, TPAD, MIRA, Auditor General, PCB and donors such as IMF, World Bank and ADB. It has identified the following five goals for PFM reforms:

Goal 1: Maintain aggregate fiscal discipline compatible with macro-economic stability and inclusive growth;

Goal 2: Allocate resources consistent with Government priorities as reflected in National Plan (SAP);

Goal 3: Promote the efficient use of public resources and delivery of services through better budget execution;

Goal 4: Promote accountability through external scrutiny and transparency of the budget; and

Goal 5: Enhance the enabling environment for improved PFM outcomes.

Besides this short introduction, the PFM Action Plan contains two key parts: (a) the PFM activity matrix and (b) governance structure and change management approach. A few PFM technical briefs are separately available, which were heavily relied upon during the development of the PFM Action Plan. Each of these parts is briefly described in the next few sections.

1.1 The PFM Action Matrix

The PFM Action Matrix is the core of the PFM Action Plan that describes the reform activity in an intuitive manner. The Matrix describes the reform activity and why it is needed, defines the results indicators with baselines and end-of-plan targets, and finally fixes institutional responsibility at the Wing level within the specific Sections/Departments/Ministries. This way, the Matrix provides a clear implementation roadmap that has been developed in a consultative manner with the respective authorities responsible for each area. The list of actions is likely to change during the implementation period as stakeholders' understanding of the underlying challenges evolves overtime.

1.2 Governance Structure and Change Management Approach

The PFM Reform process has a two-tier governance structure comprising of a Steering Committee (SC), which will be the present dedicated team under MoF, and a Program Execution and Coordination Team (PECT). The Steering Committee (SC) headed by the Minister of Finance will comprise senior representatives from major spending ministries, Auditor General, MIRA, FAD, TPAD, LGA and PCB. SC will oversee implementation progress and create the right enabling environment for change to happen. The PECT would lead the coordination of the reforms with active support from the line ministries as well as the development partners. PECT will consist of at least six members from departments within the MoF and at least two outside members from other lead PFM institutions. PECT can invite observers to their meetings and PECT is expected to invite selected development partners for inputs and advice. The PECT will also be responsible for establishing a forum for institutional collaboration for areas requiring collective action and mutual learning and accountability and for more systematic capturing, sharing and replication of reform lessons.

Change management interventions are both mainstreamed as well as separately pursued through a set of systematic learning, leadership, and motivational activities. These change management interventions will enable the implementation teams to effectively deal with both technical and non-technical challenges that come up during implementation. With that in mind, 4 closely connected pillars underpin the change management approach for PFM in Maldives:

a. Systematic Learning and Sharing of Good Reform Practice: Increasingly institutions recognize that a culture of knowledge sharing, and learning may exist but is neglected as staff focus on more immediate issues. Also, capacity gaps have dramatic impacts on the effective achievement of organizational mandates, sustainability of day activity: i) Knowledge Events and institutionalizing mechanisms for Knowledge Sharing of Good Reform Practice; ii) Supporting a Learning Hub function on PFM reform in IPF; iii) Capacity Building and Training for selected change agents.

b. Communications and Stakeholder Alignment: Stakeholders will be involved and informed throughout the implementation of the Action Plan through the PECT meetings. In addition, several activities will be designed to foster institutional collaboration, alignment, and learning, such as bi-annual retreats for the program implementation teams and multi-institutional field visits to observe PFM practices on the ground in country and those practiced in other countries as best practice. Throughout implementation there will be space for all stakeholders to provide ideas and suggestions.

c. Rewarding Performance: It is critical to keep the program implementation teams and other stakeholders motivated for them to adopt the change in behaviours and practices due to these PFM reforms. Performance-based incentives such as bonuses play a central role in changing behaviours of the program implementation teams and PFM practices at ground level. The Government already has considerable experience of using these incentives to keep the motivation high.

d. Adaptive leadership skills through Implementation Coaching: Adaptive leadership coaching emphasizes coordination, collaboration, empowerment, and learning. It brings to government leaders the tools and practices required to facilitate implementation of the reform activities and surface and address challenges during implementation, including culture change. Activities and areas of coaching will include four main areas: i) the introduction of Rapid Results Initiatives or other short cycle coaching models; ii) understanding stakeholders' interest and force fields; iii) implementation workshops to discuss technical and adaptive challenges and solutions; iv) coaching on culture change.

1.3 Financing for the PFM Action Plan

The benefits of the reform, e.g., improved public service delivery, increased collection of revenue and better control over public money would certainly exceed the expenses of the implementation by far. A global comparison between countries' PEFA ratings and per capita income show a clear positive correlation between the two, which assures significant returns against the cost of PFM reforms.

The financing for the incremental costs of PFM reforms will come from the government budget as well as from the development partners. Some of these projects are already ongoing. The PECT will maintain a mapping of all PFM reform activities with the respective funding source and periodically share them with the stakeholders.

Chapter 2

Action Plan Matrix

Key intervention	Activity	Lead office	Actions			Measurement	Target
			Short term	Medium	Indicator	Base	
Goal 1: Maintain Aggregate Fiscal Discipline Compatible with Macroeconomic Stability and Pro-Poor Growth.							
Objective 1.1: Enhance Tax Revenues to Create Fiscal Space	Augment Revenues through Comprehensive Tax Modernization.	MIRA	<ul style="list-style-type: none">Provide innovative and targeted education and awareness programs to support voluntary compliance.	<ul style="list-style-type: none">Adopt a risk-based approach throughout the organizationEnhance human resource capacity	Equip taxpayers with the knowledge they need to fulfil their obligations	Tax payers' knowledge is low.	MIRA will ensure that at least 75% of the taxpayers who take part in the annual tax payer survey get 75% of the answers correct.
			<ul style="list-style-type: none">Strengthen the use and accessibility of services provided by the tax administration	<ul style="list-style-type: none">Implement international standards in organizational processes	Maintain an accurate and up-to-date registration database	MIRA has been working towards the establishment of a modern tax system in the Maldives and this requires continues improvement	MIRA will ensure that 95% of returns are filed online and that 95% of collections are received online.
			<ul style="list-style-type: none">Protect the revenue base by using targeted compliance improvement programs	<ul style="list-style-type: none">Provide state-of-the-art business solutions and technologyEnsure a safe and secure IT environment	Increase the use of online filing and payment by taxpayers		
			<ul style="list-style-type: none">Improve the management of debt collection	<ul style="list-style-type: none">Enhance international relations	Ensure that MIRA has a presence in all atolls	Voluntary tax registration requires improvement.	MIRA will seek to establish physical presence in all atolls of Maldives.
			<ul style="list-style-type: none">Improve audit efficiency and results	<ul style="list-style-type: none">Build a stronger relationship with the	Administer the new income tax regime		

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	Target
			Short term	Medium		Base	
			<ul style="list-style-type: none"> Cooperate with other public sector bodies 	business community through a proactive consultative process	<p>Increase accuracy of voluntary disclosures by taxpayers</p> <p>Increase the on-time filing and payment rates</p> <p>Establishment of a Compliance Risk Management Framework</p> <p>Improve service standards to fulfil ISO certification</p> <p>Develop and implement an IT strategy for the acquisition of hardware and software tools</p>	<p>MIRA utilizes SAP as the main revenue management system. MIRA</p>	<p>MIRA will undertake the implementation of the new income tax regime and ensure that all aspects of administration are executed according to the project plan.</p> <p>MIRA will achieve 95% on-time filing and on-time payment rates for all revenue collected by MIRA.</p> <p>Reduce the arrears-to-collection ratio of taxes to 2%</p>

Key intervention	Activity	Lead office	Actions			Measurement	
			Short term		Medium	Indicator	Base Target
							Automated risk profiling system is established
							MIRA will achieve ISO9001
							SAP system is upgraded, updated and enhanced as required by the work undertaken.
	<i>Enhance Revenue policy formulation and reform</i>	MoF / TPU	Capacity building of TPU staff – revenue forecasting, treaty negotiations	Review revenue policies	Review of one major revenue each year	GST review underway	Review and propose legislative amendments to one major tax or non-tax law once a year
			Support collecting agencies in improving revenue administration	Establish public engagement in revenue policy formulation	Conduct public consultation session	Baseline taxpayer perception survey to be conducted in 2021-2022	Implement public feedback mechanism
			Review and revise non-tax revenue reliefs and tax and non-tax write off procedures	Broaden composition of tax expenditure, including main taxes and non-tax revenues	Annual publication of tax expenditures	Tax Expenditures calculated and published; BPT,	Conduct taxpayer perception survey once every two years
				Formulation of a medium-term revenue strategy			
				Review tax treaty policy and improve supporting			

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	
			Short term	Medium		Base	Target
				documentation for treaty negotiation	Outcome of treaty negotiations	GST and import duty	Annual publication of tax expenditure
				Improve existing tax models and develop models for other major non-tax revenues	Number of forecasting models developed	No medium term revenue strategy in place	– inclusion of new main tax or non-tax expenditure component each year
				Conduct research and analysis based on tax related information	Publication of research findings	Maldives model treaty updated according to IF standards, tax treaty policy formulated.	Prepare 5-year medium term revenue strategy
						Models developed in FPP for major taxes, forecasting non-tax revenue needs to be refined	Update Maldives model treaty and treaty policy according to updates in international taxation
						Preliminary findings of GGST incidence	Develop models for main non-tax revenues (Tourism Land Rent, Expat Quota Fee,

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	
			Short term	Medium		Base	Target
							Resident Permit and Dividends)
							Form policy regarding relief provided for non- taxes and write off procedure
							Broaden the incidence to include other taxes and determine revenue gap
<i>Objective 1.2: Improve the Management of Fiscal Risks, Debt and Cash To Maintain Fiscal Discipline</i>	<i>Improve Governance and Performance of State-Owned Enterprises</i>	PCB	<ul style="list-style-type: none"> • Prepare SOE law and regulation manual and consider developing comprehensive legal framework • Review the existing legal framework (Privatization and Corporatization Act 2013) and formulate a government ownership and dividend policy 	<ul style="list-style-type: none"> • Improve financial reporting of SOEs and public disclosure. • Consider case for comprehensive law/umbrella legislation for public enterprises governance. • Review the regulatory framework for each of the entities as some of the entities no longer exist, and for some 	Development of SoE law	No SoE law	SOE law and regulation manual and consider developing comprehensive legal framework developed

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	
			Short term	Medium		Base	Target
			financially-viable/independent and not create or add fiscal risks				
			<ul style="list-style-type: none"> • Ensure that SOE budget-setting is in alignment with financial performance and fiscal risks and the government budget function is better informed on SOEs • Review oversight arrangements with a view to streamlining and ensuring appropriate incentives and empowering stakeholders (e.g., SOE boards). • Improve fiscal transparency of SOEs 				
	<i>Improve Debt and Cash Management</i>	DMD	<ul style="list-style-type: none"> • Prepare a comprehensive debt law • Enhance debt data quality, timeliness and reliability • Review and update the current legal 	<ul style="list-style-type: none"> • Structural reorganization of DMD • Put in place an expanded TSA which includes donor accounts. • Improve preparedness for issuance, 	<p>Development of comprehensive debt law</p> <p>Make annual plan for borrowing</p>	<p>There is no debt law</p> <p>Annual plan is not consistent with MTDS</p>	<p>Comprehensive debt law developed and current legal framework updated</p>

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	Target
			Short term	Medium		Base	
			framework for debt management • Develop the securities market for treasury securities • Enhance and sustain the technical capacity of front, middle and back offices of the Debt Management Department • Improve the preparation of annual plan for borrowing is to make it consistent with this MTDS.	management and recording of sovereign debt • Upgrade the debt recording and management system and develop a unified debt database for more transparency and proactive debt management.	consistent with MTDS Put in place an expanded TSA which includes donor accounts.	TSA does not include donor accounts TSA includes donor accounts	Annual plan is consistent with MTDS TSA includes donor accounts
Goal 2: Allocate Resources Consistent with the Priorities in the National Plan (SAP)							
<i>Objective 2.1: Improve the Link between Budgets and Government Policies and priorities</i>	<i>Improve the Credibility of the Annual Budget.</i>	MoF	• Strengthen the approval over in-year budget adjustments and virements • Fully implement the Virement and Appropriation Procedure • Implement the program performance-based budgeting framework aligning funding of public sector	• Formulate Appropriation Act • Introduce accrual budgeting	Full implementation of Virements and appropriation Act	Virements and appropriation Act is not fully implemented	Virements and appropriation Act is fully implemented
					Formulation of Appropriation Act	No Appropriation Act	Appropriation Act formulated
					Implementation of a program performance-based budgeting	The 2022 budget has been prepared on a program	Development of KPIs for the Performance-based Budget and monitoring of KPIs

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	
			Short term	Medium		Base	Target
			organizations with achievement of government policies and priorities • Intensify the implementation of gender budgeting		framework aligning the funding of public sector organizations with government objectives and the results expected Full implementation of gender budgeting Implementation of accrual budgeting	structure based on the SAP No accrual budgeting Gender budgeting is not fully implemented	Gender budgeting fully implemented Accrual budgeting implemented
Objective 2.2: <i>Strengthen the Management of Public Investments</i>	<i>Implement PIM roadmap</i>	Ministry of National Planning and Infrastructure	Strengthening strategic guidance and budget ceilings for public investment • Revise the budget calendar to prepare and to circulate the Fiscal Strategy Statement earlier (e.g., in April) to enable it to drive the budget process, set priorities for the public investment and let	Improve central oversight of SOEs and PPPs • Enhance the oversight of public investment undertaken by non-budgetary institutions, including SOEs, PPPs, and contractor-based financing. Maintain in a database the number and value of public investments undertaken by SOEs.	Revision of budget calendar Developing a standard methodology for project appraisal and prioritization Maintenance of data base on the number and value	Budget calendar doesn't allow for the fiscal strategy statement to drive the budget process There is no standard methodology for project	Revised budget calendar Standard methodology for project appraisal and prioritization developed Database is created on the number and

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	
			Short term	Medium		Base	Target
			these be the basis for approved total ceilings. Approve realistic aggregate expenditure ceilings (for recurrent and public investment) at the start of the budget process.	Publish a list of guarantees and contractor financed projects in the budget.	of public investment undertaken by SoE.	appraisal and prioritization	value of public investment undertaken by SoE.
			<ul style="list-style-type: none"> • Better integrate capital and recurrent budget preparation, including capital project selection. 	<p>Strengthen capacities of all actors involved in public investment management</p> <ul style="list-style-type: none"> • Develop and implement a PIM capacity building plan for project managers, supervising officers, operational officers, and MoF. The implementation of all PIM institutions requires not only institutional and legal change but is heavily dependent on building additional capacity within the public sector, which takes time. 	Development and implementation of PIM capacity building plan	No database is maintained on the number and value of public investment undertaken by SoE	PIM Capacity building plan developed and implemented
			<p>Improve institutions for project appraisal, selection and management</p> <ul style="list-style-type: none"> • Strengthen the project appraisal process by developing a standard methodology for project appraisal, publishing this methodology and verifying that it is consistently applied by the line ministries. • Improve the project selection process for the budget by developing better 			There is no capacity building plan on PIM.	

Key intervention	Activity	Lead office	Actions			Measurement	
			Short term	Medium	Indicator	Base	Target
			<p>targeted selection and prioritization criteria and processes. This includes developing a project pipeline to improve the medium-term focus of project identification, appraisal, selection and approval</p> <ul style="list-style-type: none">• Improve the competitiveness and transparency of the procurement process. Prescribe that all SOEs use standard National Tender Board (NTB) guidelines and procedures.• Strengthen the project management and monitoring framework and ensure implementation in all MDAs and SOEs.• Develop a framework for ex-post evaluations and ensure that lessons learned from past projects are incorporated in revised				

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	
			Short term	Medium		Base	Target
			<p>guidelines and practices.</p> <p>Improve commitment control and cash management</p> <ul style="list-style-type: none"> Release allocations to enable MDAs' purchasing to take place following authorization by MOF (for ongoing projects and new projects) in the material management (MM-PAS) module. 				
Objective 2.3: Strengthen the Budget and Performance Management Capacity	<i>Develop A Government Wide Planning, Monitoring and Evaluation System</i>	FAD	<ul style="list-style-type: none"> Ensure that all line ministries prepare Medium-term strategic plans Ensure that the Medium-term strategic plans are costed. Complete the costing of the SAP Improve reporting of the budget report to include an explanation on changes to expenditure estimates between the second year of the last 	<ul style="list-style-type: none"> Introduce a formal system of performance-based budgeting Integrate and strengthen the planning and budgeting wings in all line ministries and AGAs. 	<p>Development of costed Medium-term strategic plan by all ministries and AGAs.</p> <p>Introduction of a formal system of performance-based budgeting</p>	<p>Costed medium-term strategic plans are not prepared</p> <p>There is no formal system of performance-based budgeting</p>	<p>Costed medium-term strategic plans are prepared by all ministries and AGAs.</p> <p>Formal system of performance-based budgeting introduced</p> <p>Development of KPIs for the</p>

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	Target
			Short term	Medium		Base	
			medium-term budget and the first year of the current medium-term budget at the aggregate level				Performance-based Budget and monitoring of KPIs
	<i>Enhance PFM Skills Capacity in Line Ministries.</i>	MoF	<ul style="list-style-type: none"> • Prepare the 2022 budget on a program structure based on the SAP • Work out a plan for institutional strengthening of line ministries to take over the full financial management functions • Enhance the skills of PFM Staff in line ministries to tackle the new and emerging tasks 		Working out a plan for institutional strengthening of line ministries to take over the full financial management functions	There is no institutional strengthening plan for line ministries	Institutional strengthening of line ministries to take over the full financial management functions prepared
Objective 2.4 Strengthen PFM Capacity of Local Government	<i>Enhance Public Financial Management of Local Government</i>	MoF	<ul style="list-style-type: none"> • Conduct a PEFA to assess the local government PFM system and identify the areas of reforms • Roll out the new application to all councils to bring local council finances online • Improve the auditing system of local councils 	<ul style="list-style-type: none"> • Based on the Local Government PEFA report, produce a strategy paper on priorities and recommendations to fill the underscored gaps. • Revise the Decentralization Act to require local 	PEFA assessment is conducted on local governments Bringing of local government finances online There is a comprehensive	Local governments were not part of the PEFA assessment Local government finances are not online	Conduct PEFA assessment on selected local governments and produce strategy paper for reform Roll out the new application (VITA)

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	Target
			Short term	Medium		Base	
			to enable them submit their audited financial statements on time.	councils to publish audited financial statements. • Revise the Decentralization Act to empower local governments to collect fees for municipal services and to borrow and manage debt provided it aligns with national fiscal policy	Decentralization Act that accommodate the requirements of local governments	The Decentralization Act doesn't require local councils to publish audited financial statements and allow local governments to collect fees and borrow debt.	Portal) to local governments Revise the Decentralization Act to accommodate additional requirements of local government Monitoring and reporting of Local council finance
Goal 3: Promote the Efficient Use of Public Resources and Delivery of Services through Better Budget Execution							
Objective 3.1 <i>Improve Business Processes and Strengthen Internal Controls for service delivery</i>	<i>Improve business processes and treasury management practices</i>	TPAD	<ul style="list-style-type: none"> Finalize the implementation of a fully functioning TSA system where consolidation would be done of all bank balances. Include the payroll processing of all MDAs in the Human Resource and Capital Management (HRCM) 	<ul style="list-style-type: none"> Strengthen the Internal Audit function to enable it to conduct audits on the compliance of payment processes or procedures. 	<p>There is fully functioning TSA</p> <p>Payroll processing of all MDAs is included in the HRCM</p> <p>Internal Audit function conducts compliance of</p>	<p>The TSA system is not fully functioning</p> <p>Payroll processing of MDAs is not included in the HRCM</p>	<p>Finalize the full implementation the TSA</p> <p>Improve the HRCM to include the payroll processing of MDAs</p> <p>Strengthen Internal Audit to</p>

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	
			Short term	Medium		Base	Target
			<ul style="list-style-type: none"> Strengthen the commitment control feature of SAP to include all payments. Improve the budget classification and chart of accounts 		payment process and procedures	Internal Audit doesn't conduct compliance with payment process and procedures	conduct compliance with payment process and procedures (to be done as part of objective 3.4) Revised chart of accounts configured and in use
Objective 3.2 <i>Improve the Performance information for service delivery</i>	<i>Improve reporting on performance information for service delivery</i>	MoF	<ul style="list-style-type: none"> Strengthen data recording at service delivery units to include in-kind resources received Issue a directive by the office of the president or an appropriate body requiring all ministries to submit their annual performance reports to the office of the president and post the same to their website Develop performance metrics flowing from the Program 	<ul style="list-style-type: none"> Introduce a system of regular periodic program performance evaluation at ministries Perform a multi-year independent performance review of ministries 	<p>Annual performance report of ministries should be published</p> <p>Performance evaluation of ministries should be conducted</p>	<p>Annual performance report of ministries is not published</p> <p>Periodic performance evaluation and independent evaluation of ministries is not conducted</p>	<p>Prepare a directive that require annual performance reports are published</p> <p>Prepare a directive that requires performance evaluation of ministries</p> <p>Introduce a system of regular periodic</p>

Key intervention	Activity	Lead office	Actions		Indicator	Measurement Base	Target
			Short term	Medium			
			Performance Based Budgeting initiative				program performance evaluation at ministries
Objective 3.3: <i>Adopt International Standards of Procurement Practice to Facilitate Service Delivery and Achieve Value for Money</i>	<i>Roll-out Improved Public Procurement Practices</i>	NTB	<ul style="list-style-type: none"> • Improve the functioning of the National Tender Board • Strengthen the central procurement monitoring mechanism. • Strengthen the policy and regulatory framework for public procurement • Improve public access to procurement information by introducing the practice of making available procurement plans for all entities, data on the resolution of procurement complaints and annual procurement statistics • Finalize the development of the Electronic Government Procurement e-GP system and rollout 	<ul style="list-style-type: none"> • Improve the IT infrastructure to all islands to improve sending of procurement data to the Procurement Policy Formulation and PSIP project monitoring unit. 	<p>Fully apply the e-GP system to enable a more efficient and transparent exchange of information</p> <p>Procurement information is publicly available</p>	<p>e-GP system is not fully used</p> <p>The public access to procurement information is limited</p>	<p>Finalize the development and roll out of the e-GP system.</p> <p>Prepare a directive that requires all entities to publish procurement information</p>

Key intervention	Activity	Lead office	Actions			Measurement	
			Short term	Medium	Indicator	Base	Target
			<ul style="list-style-type: none"> • Provide capacity building to relevant agencies as well as contractors/suppliers so they'll be e-GP ready • Develop the tender management portal along with the e-GP system. • Detailed study on internal audit options. 				
Objective 3.4 Modernize the Internal Audit Function	<i>Strengthen the internal audit function</i>	State Internal Audit Committee	<ul style="list-style-type: none"> • Expand the internal audit function to cover more public offices • Develop standardized methodologies and toolkits regarding audit documentation, reporting and follow-up activities • Strengthen the internal audit capacity to perform systems audit and apply the standardized methodologies and toolkits • Finalize the new structure 	<ul style="list-style-type: none"> • Strengthen the External Quality Assessment (EQA) to include all public offices that have an internal audit function. 	Upgrade the internal audit to be able to perform up to the standard functions.	The internal audit function lacks basic systems and procedures.	Develop standardized methodologies and toolkits for audit documentation, reporting, follow up, systems audit and streamline the EQA in all public offices.

Key intervention	Activity	Lead office	Actions		Indicator	Measurement Base	Target
			Short term	Medium			
			<ul style="list-style-type: none"> Solve the staffing gaps at the internal audit units 				
Goal 4: Promote Accountability through External Scrutiny and Budget Transparency							
Objective 4.1: To raise the profile of external auditing practices to international standards in terms of quality, coverage and timeliness, so to provide adequate assurance that the public funds are used efficiently and effectively	<i>Ensure that there is adequate external audit and an informed opinion on the financial statements</i>	AGO	<ul style="list-style-type: none"> • Improve timeliness and public availability of audited financial statements. • Enhance training and professional capacity to conduct more ISSAI-compliant audit • Strengthen capacity of AGO to improve coverage of audit and timely reporting • Strengthen capacity for AGO support to PAC • Roll out ISSAI-compliant entity wide audit (financial, compliance, performance and special audits) to replace the existing unit-based audit approach • Introduce risk-based auditing 	<ul style="list-style-type: none"> • Review and build consensus on an Audit Law, and its implementation 	AGO is strengthened in producing timely reports, conducting of ISSAI-compliant audit, audit coverage, follow up of audit recommendations, supporting PAC, application of IT.	AGO has weaknesses on timely production of reports, applying ISSA, audit coverage, follow up, supporting PAC and applying IT.	<p>Develop directives, standardized methodologies and toolkit with respect to audit coverage, timelines, publication, and application of ISSA, follow up.</p> <p>Upgrade and sustain IT infrastructure of AGO and audit management and monitoring system (AMMS)</p> <p>Finalize the complete migration to IPSAS accrual</p>

Key intervention	Activity	Lead office	Actions			Indicator	Measurement	
			Short term		Medium		Base	Target
			<ul style="list-style-type: none"> •Restructure AGO to support ISSAI compliant audit •Improve timeliness of audit reports and make them publicly available •Upgrade and sustain IT infrastructure of AGO and audit management and monitoring system (AMMS) •Support AGO 's on-going professional accreditation program •Improve responsiveness of the executives on audit and PAC recommendations •Strengthen AGO's audit recommendation follow-up mechanism •Complete migration towards IPSAS accrual accounting •Convert the Annual Financial Statements (AFS) which cover the local governments to IPSAS compliant AFS. 					basis of accounting.

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	
			Short term	Medium		Base	Target
Objective 4.2: <i>To enhance the capacity and commitment of the relevant financial committees of Parliament and their respective secretariats</i>	<i>Strengthening Parliamentary oversight of public expenditure</i>	Budget Committee and Public Accounts Committee	<ul style="list-style-type: none"> • Strengthen capacity of staff and technical support to committees • Provide adequate professional resources to the financial oversight committees to operate effectively. • Provide content-based training to the relevant committee secretariat staff to work out the agenda for the committee meetings as they do not have sufficient exposure on the topic they are dealing with. • Modernize business process, proceedings and automated record management and development of MIS for financial oversight committees. • Adopt a mechanism to ensure systematic follow-up of audit recommendations and sanctions by the PAC. 	<ul style="list-style-type: none"> • Extend strong research support to the committees. 	The Budget Committee and Public Accounts Committee to be equipped with relevant technical knowledge.	The Budget Committee and Public Accounts Committee require capacity building.	Prepare training manuals and provide training to the Budget Committee and Public Accounts Committee
					Business processes are modernized and automated.	Automation is not applied for records management and business processes	Introduce an automated system for record management, business process and follow-up of recommendation
					Arrangements for Public consultation to be explicitly stipulated in the standing orders.	The standing orders do not include arrangements for public consultation	Revise the standing order to explicitly include arrangements for public consultation.

Key intervention	Activity	Lead office	Actions		Indicator	Measurement Base	Target
			Short term	Medium			
			<ul style="list-style-type: none"> • Revisit the standing orders to include explicit arrangements for public consultation and other necessary improvements. • Strengthen the AGO's capacity to issue timely audit reports to the parliament. 				
Goal 5: Enhance the Enabling Environment for Improved PFM Outcomes							
Objective 5.1: <i>Put in place a comprehensive and a clear legal framework</i>	<i>Ensure that the legal framework and rules clarify roles and responsibilities, incentives and behaviours consistent with sound PFM practices</i>	MoF	<ul style="list-style-type: none"> • Amend public finance law and introduce clear and binding appropriation rules and a framework for debt management. • Introduce government procurement guidelines and manuals to clear the ambiguities with the current public finance regulation. • Implement procurement reforms to improve the efficiency and integrity of public procurement: <ul style="list-style-type: none"> ◦ Strengthen the policy and regulatory 	<ul style="list-style-type: none"> • Strengthen the legal and regulatory framework for the operation and functioning of state-owned enterprises: <ul style="list-style-type: none"> ◦ Review the current legal framework related to SOEs to minimise corrupt practices and prevent Economic, Financial and Corporate Offences ◦ Amend the current Privatisation and Corporatisation Act, including increasing the Privatisation and Corporatisation 	The legal framework includes clear rules on appropriation, debt management, operation and functioning of state-owned enterprises.	The legal framework lacks clarity with respect to appropriation rules, debt management, procurement and SoEs.	The public finance law and legal framework on procurement and SoE is amended.

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	Target
			Short term	Medium		Base	
			framework for public procurement.	Board (PCB's) prerogative to steer and oversee the performance of SOEs and their Boards o Improve regulation, enforcement and compliance in Corporate Reporting (mandatory reporting of companies)			
<i>Objective 5.2: Put in place the policies, processes and skills to manage and deliver a comprehensive training and capacity development program</i>	<i>Change management and capacity development</i>	MoF	<ul style="list-style-type: none"> • PFM skills strategy, including a needs assessment, and prepare an action plan in consultation with relevant stakeholders • Commit funds for professionalization of PFM skills • Creating a pool of officers trained in PFM and assigning them to PFM related work • Continuous professional development including peer learning, training on the job, etc. 	<ul style="list-style-type: none"> • Establish a centralized Public Sector Training Institute (PSTI), 	Change management and capacity building activities are institutionalized.	There is no centralized PSTI and capacity building activities are not structured through the governmental levels.	<p>Action plan on PFM skills is prepared.</p> <p>Public Sector Training Institute (PSTI) is established.</p> <p>Rules for continuous profession development are developed and implemented.</p>

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	Target
			Short term	Medium		Base	
			<ul style="list-style-type: none"> Strengthening institutions related to PFM capacity development and change management 				
<i>Objective 5.3: Establish a secure, reliable, efficient, effective, and fully integrated public financial management system</i>	<i>Public Accounting System (SAP)</i>	TPAD	<ul style="list-style-type: none"> Finalize the valuation and recording of public assets in the SAP. MIRA to use the SAP revenue management system to fully reconcile between revenue assessments, collections, arrears, and transfers to Treasury. Address the implementation issues of SAP covering change management, communication and training and other measures necessary for sustainable implementation. 	<ul style="list-style-type: none"> Move public offices located at the islands which use manual accounting system for recording, processing and approval of transactions to SAP. 	SAP is applied by all relevant sectors and all features are used.	All the applicable functionalities of SAP are not applied.	<p>The recording of public assets and valuation is finalized in the SAP.</p> <p>MIRA uses SAP.</p> <p>Public offices located at the islands start using SAP.</p>
<i>Objective 5.4 Develop Organizational Change Agility to Enhance</i>		MoF	<ul style="list-style-type: none"> Prepare and conduct Awareness workshops on Change Leadership for Secretary to First Assistant levels 	<ul style="list-style-type: none"> Continuous professional development including peer 	Change management and leadership is streamlined in all reform and	Change management and leadership are currently part of reforms	Awareness workshops on Change management are conducted at

Key intervention	Activity	Lead office	Actions		Indicator	Measurement	Target
			Short term	Medium		Base	
<i>Implementation of PFM Strategy</i>			<ul style="list-style-type: none"> • Prepare and conduct Awareness workshops on Change Management for Officials • Conduct Immersion Workshops on Change Leadership for those who will be leading changes under PFM • Conduct Immersion Workshops on Change Management for those who will be implementing changes under PFM • Incorporate Change Leadership and Change Management activities during the planning stages of any change 	learning, on the job training etc. <ul style="list-style-type: none"> • Integrate Change Leadership and Change Management activities with the specific project plans for implementing the changes 	improvement projects.	and improvements at different levels of governance.	different levels of government.
							Standard operating procedures are developed to include change management activities with project plans involving implementation of changes

Chapter 3

Governance Structure and Change Management Approach

3.1 Governance Structure for PFM Reforms

A key principle of PFM Reform is that authorities are firmly in charge of the reform process, with external advice in a supporting role. There will be a two-tier governance structure comprising of a Steering Committee (SC) and a Program Execution and Coordination Team (PECT). Full details on the mandate and composition will be outlined in a Terms of Reference that will be shared with all relevant government agencies as well as the public.

The SC is chaired by the Finance Minister. Members are senior representatives from major spending ministries, Auditor General, MIRA, FAD, TPAD, LGA and PCB. Through its mandate, SC will:

- Oversee implementation progress, approaches, and stakeholder communication;
- Create a conducive enabling environment for change to happen;
- Review the Action Plan implementation status and the progress towards results;
- Decide on possible course-corrections based on implementation lessons and suggestions from the PECT.

SC will meet twice a year, with additional ad hoc meetings as and when required. The location of each meeting shall be at the discretion of the Chair, who shall give notice of the date and venue for each meeting to the Members no less than seven (7) working days prior to the date of such meeting. The SC will make decisions by consensus, to the extent possible. Where a member of the SC has a dissenting opinion, the opinion will be recorded in the meeting minutes. Where consensus is not possible, the Chair may decide based on the views of most of the members of the SC present during the meeting. The SC may make decisions in person or through virtual (email) approval on a no-objection basis within five (5) working days. The SC will commit to sharing implementation progress and lessons with stakeholders outside the government openly and in ways that makes it possible to receive suggestions and additional ideas to improve implementation.

The MoF, through a PECT, will lead the coordination of the reforms with an active support from the line ministries as well as the development partners. PECT will consist of 4 members from MoF and 1

member from each Program Implementation Team. PECT can invite observers to their meetings and PECT is expected to invite selected development partners for inputs and advice. The PECT will also be responsible for establishing a forum for institutional collaboration for areas requiring collective action and mutual learning and accountability and for more systematic capturing, sharing and replication of reform lessons. PECT will be undertaking several activities, including:

- Develop progress and performance indicators for each (objective/action) cluster, in consultation with each Program Implementation Team as well as an annual monitoring and progress reporting schedule;
- Support the capacity development of each Program Implementation Team to develop effective;
- PFM-focused monitoring - building on existing systems where possible - and development of quality and timeliness standards for the semi-annual reports;
- Prepare semi-annual Progress Reports for the SC based on inputs from implementing agencies and periodically monitor data quality, accuracy, and reliability;
- Develop a detailed communication plan;
- Create a PFM Reform Learning Hub, that brings together government experts and, among others supports a series of semi-annual Learning Activities (LA) to identify, capture and share (local) implementation lessons between ministries and agencies and prepare suggestions and reports for the SC to overcome (local) implementation challenges in areas that are relevant across all Ministries.

PECT will meet approximately four times a year (quarterly), with additional ad hoc meetings as and when required and will ensure there is continuous support for and attention to the implementation of the Action Plan. The location of each PECT meeting shall be at the discretion of the Chair, who shall give notice of the date and venue for each meeting to the Members no less than seven (7) working days prior to the date of such meeting. Reports prepared for the SC will be compiled by the PECT and can include specific suggestions (where applicable) for course-corrections or scaling of good practices, based on implementation lessons.

3.2 Change Management Pillars for Maldives

Change management interventions in the PFM Action Matrix are mainstreamed as well as separately pursued through a separate set of systematic learning, leadership, and motivational activities. The

change management interventions will enable the implementation teams to effectively deal with both technical and non-technical challenges that come up during implementation.

For the mainstreamed change interventions under each reform activity, a prioritization and change management framework was used. This framework helped clearly identify the strengths and risks involved in implementing each action. The following criteria were used to rank and evaluate each action. The first criterion, ‘impact’ was helpful in prioritizing among the activities, while other criteria helped in identifying the potential risks that need to be managed during implementation.

Prioritization criteria

(For change interventions at activity level)

Impact

- *Importance*
- *Cost/Benefit*

Ownership

- *Problem Recognition*
- *Commitment*
- *Legal Mandate*

Implementation readiness

- *Skill Set Available*
- *Understanding the Activity*
- *Activity Plan*

Resistance to Change

- *Governance*
- *Institutional Interest to Change*

Complexity/Multiple Implementers

- *Technical Sophistication*
- *Number of Units/Actors Involved*

Successful PFM reforms require both ‘causality’ and ‘discovery’. The PFM Action Matrix provides a high-level causal logic needed for reforms to maintain the focus and direction to achieve the desired results indicators. Nevertheless, the exact pathway to drive the reform agenda in Maldives should build in sufficient flexibility for course-correction. Therefore, the actions described in the PFM Action Plan present the current thinking of the program implementation teams on how they can achieve the desired results. These listed actions will be considered as a guide and will be subject to change as such understanding evolves overtime.

Reforms must show that they are cost-effective relative to the improvements and progress expected, or they will be changed or dropped. Costs are significant, but the cost of missed opportunities associated with the current institutional setup is greater. There should be alignment and communication with key stakeholders and clear support and coaching to deal with challenges that

arise during the implementation. While the pathway may be complex, the approach should remain simple: simple to envision, simple to communicate, simple to own.

3.3 Systematic Learning and Sharing of Good Reform Practice

Organizations around the world recognize they are not making efficient use of their internal knowledge and staff capabilities. Lack of institutional capacity is listed as a critical factor for under-delivering on day-to-day operations and policy reforms. On the lookout for international expertise, leaders in many countries fail to recognize that solutions can also come from their own local experiences and learning can take place continuously and systematically. However, organizations can be poorly equipped to systematically identify, capture and share indigenous and personal knowledge. This also holds true for PFM reform in Maldives.

Capacity gaps in Maldives can have dramatic impacts on the effective achievement of organizational mandates, sustainability of day-to-day operations, and replicability of success. Teams may not adequately communicate, share what they know, or collaborate. When critical know-how goes unshared, work programs are put at risk when the experienced staff retire or leave the organization. Younger staffs are often not adequately prepared for assuming new responsibilities. New programs are forced to “reinvent the wheel” if old lessons are never incorporated and the latest thinking is never shared among partners.

To institutionalize continuous and systematic learning and sharing of good practices, two lines of activity will be introduced. Firstly, a Learning Hub will be supported and developed at PFI, positioning the institute at the heart of the reform effort and facilitating the identification, capture and sharing of critical reform elements and implementation lessons across government departments. Training needs will be further informed by Readiness Assessments. The Hub will be supported to strengthen capacities on:

- a) Assessment of institutional capacities on systematic knowledge sharing;
- b) Visioning and action planning for systematic knowledge sharing and change;
- c) Capacity building and training for selected change agents;

- d) Providing support packages to help institutions identify and capture good practices and local solutions (with templates, video formats etc.); and
- e) Organizing knowledge and learning events.

Learning events, capacity building and training in are part of an ongoing process, where lessons are distracted and shared more widely across government departments and skills are strengthened to improve and refine the ongoing implementation of activities.

3.4 Communication and Stakeholder Alignment

People are at the core of any successful change. Stakeholders will be involved and informed throughout the implementation of the Action Plan through the PECT and SC meetings. In addition, several activities will be designed to foster institutional collaboration, alignment, and learning, such as bi-annual retreats for the program implementation teams and multi-institutional field visits to observe PFM practices on the ground. Throughout implementation there will be space for all stakeholders to provide ideas and suggestions.

Communication is one of the most important elements of a successful change process and sets a tone of transparency and openness. As foreseen in the PFM Strategy, a detailed communication plan will be prepared by PECT bearing in mind the reform objectives and actions and how they will affect the stakeholders, including those within the government (line ministries) and external stakeholders such as citizens and the private sector. These actors are particularly important on the ‘demand side’ to ensure they are informed of progress (or lack thereof) and are better able to maintain interest and a measure of accountability through social scrutiny of progress on PFM reforms.

Key activity areas foreseen in the communication/outreach plan and initial activities are listed in the table below.

Table 3.4.1: Communication Outreach Plan

Area for communication/ outreach	Activities (tentative)	Remarks
1. Governance structure	<ul style="list-style-type: none"> ToRs for SC and PECT are openly available for the public and shared actively with key relevant stakeholders SC progress note and key decisions are shared at least annually with the relevant government agencies, the public and for interested stakeholders, with the invitation to provide ideas and suggestions A mechanism is established to channel ideas and suggestions from external stakeholders on a continuous basis 	SC and PECT will collectively commit to provide maximum transparency on how the reform is implemented; implementation updates and moments to receive ideas, suggestions, and feedback – both to internal (government) and external stakeholders (non-government).
2. External communication and alignment	<ul style="list-style-type: none"> A detailed stakeholder communication plan is prepared and detailed by PECT and approved by SC Government website informs the public on PFM reform activities Research agenda planned studies and evaluations will be announced and summary results will be made available to the public. 	<p>Press conferences are foreseen at the launch of the Action Plan and further on an annual basis. Both successes and challenges are shared openly.</p> <p>Social media will be considered as additional outreach channel</p>
3. Internal collaboration, alignment, and learning	<ul style="list-style-type: none"> PECT will launch a PFM Reform Learning Hub Field visits and retreats are organized in Maldives Field visits and results-oriented knowledge exchanges are organized outside Maldives in countries where specific lessons can be drawn 	SC and PECT commit collectively to engage relevant line ministries and other government agencies to ensure good practices, lessons and areas for collaboration are being shared and leveraged.

3.5 Rewarding performance

The effectiveness of public servants matters. However, it is often difficult to closely monitor the performance of individual employees. When employees feel as if they are meaningfully engaged in their work, they are more likely to be creatively productive. Management can play a critical role in fostering this motivation. Motivating public servants is a challenging but important part of improving

public sector productivity and outcomes. Changing management strategy is a low-cost way for institutions to maximize their agent capacity. It is easily replicable and scalable across public-sector institutions and organizations that display similarly motivated bureaucrats. Other incentives that have worked in various settings include increased contact with constituents, increased community accountability mechanisms, more autonomy/ local control, nonmonetary incentives/awards for good performance, transfers, and pay for performance.

It is critical to keep the program implementation teams and other stakeholders motivated for them to adopt the change in behaviours and practices essential to these PFM reforms. The PECT and SC will be crucial in creating the enabling environment for that. Performance-based incentives will be considered in changing behaviours of the program implementation teams and PFM practices at ground level. The Government already has considerable experience of applying incentives (though mostly non-financial) to keep the motivation high. A testimony of this is that most reform champions had accelerated progression in their respective careers compared to other civil servants.

3.6 Adaptive leadership skills through Implementation Coaching

During implementation, technical challenges can be distinguished from adaptive challenges. Technical issues can usually be resolved by benefiting from solutions that have worked in the past. On the other hand, adaptive challenges require learning new ways to develop necessary solutions, and this necessitates changes in behaviour, roles, relationships, and approaches – and is therefore more complex but also more rewarding and sustainable when managed effectively.

Adaptive Leadership Coaching is the process through which the program implementation teams will be supported to seek to influence the behaviours of stakeholders in a positive way and to solve concrete problems or bottlenecks in the implementation of the Action Plan. Adaptive leadership skills will be important inside the government and members of SC and PECT are expected to set the right example. This requires an acceptance of new ways of doing things, and part of the success depends on managing change processes skilfully, and on the existing capability to overcome the “unpredictable” challenges that all change processes face at some point during implementation. Adaptive leadership coaching emphasizes coordination, collaboration, empowerment, and learning.

It brings to the government leaders the tools and practices required to facilitate implementation of the reform activities and to address challenges during implementation, including culture change.

Activities and areas of coaching will be aimed both at the overarching governance bodies (SC and PECT) as well as at the respective program implementing teams and include four main areas: i) the introduction of Rapid Results Initiatives or other short cycle coaching models; ii) understanding stakeholders' interest and force fields; iii) implementation workshops to discuss technical and adaptive challenges and solutions; iv) coaching on culture change. For this approach we envisage at least 4 part-time coaches that each support 1-2 implementation teams. The Rapid Results Initiatives is a structured process that mobilizes teams to achieve tangible results over a rapid time frame and accelerate organizational learning. A draft Terms of Reference and requirements are listed in Box 3 below.

Box 3.6.1: Terms of Reference and Qualifications of Implementation Coaches

Terms of Reference and Qualifications of Implementation Coaches

Objective of the Coach:

The objective of the coach will essentially be to assist managers in public institutions to design, launch and implement Rapid Results Initiatives (RRIs) or other short-cycle coaching mechanisms. Each cycle will have four objectives:

- Deliver a result that will be specified by each team and is part of the Action Plan
- Accelerate learning on the subject and with the cluster of activities (among team members and others supporting the effort)
- Strengthen management capabilities and teamwork of the team members and their team leader
- Strengthen leadership and management capacity of the strategic and political leaders/sponsors

Scope of Work:

- Helping "Implementation Teams" in participating ministries and institutions identify bottlenecks and constraints to progress within a strategic focus area/cluster

- Helping “Implementation Teams” shape these areas into specific challenges for (RRI) teams and prepare (Rapid Results) challenge notes to the team
- Preparing for launch events by orientating stakeholders and team leaders and identifying prelaunch action items
- Facilitation (RRI) Launch workshops - Helping teams develop 100-day, clear, challenging, work plans that make the larger implementation clusters progress effectively
- Helping the team leader plan effective team meetings
- Coaching the “Implementation Teams” to play their role in maintaining focus and applying good management disciplines
- Facilitating the mid-point and sustainability reviews, and helping the teams clarify follow-up actions that will ensure and sustain success
- Working with other coaches to support the successful introduction and execution of the Results Initiatives

Qualifications:

- Strong facilitation and communication skills – empathy, knowledge of group dynamics, managing conversations, conflict
- Knowledge of tools used to help people adopt new approaches in their way of working, and experience with capacity development
- Natural results orientation and drive to get things done
- Attention to detail
- At least 5-8 years of relevant work experience
- Experience with project management results chains, results-based management. Experience with Rapid Results Initiatives is desirable.
- Prior experience working with the Maldives government is an advantage.
- University degree in relevant discipline

Annex: List of documents

Asian Development Bank, Reform on State Owned Enterprises in Maldives, 2020

International Monetary Fund, Fiscal Transparency Evaluation, 2021

International Monetary Fund, Public Investment Management Assessment, 2017

International Monetary Fund, Revising the Fiscal Responsibility Act, 2021

International Monetary Fund, Maldives Fiscal Risk Statement, 2021

Maldives, Strategic Action Plan (SAP) 2019 – 2023

PEFA 2020, PEFA Secretariat

World Bank, Debt Management Performance Assessment (DeMPA), 2019