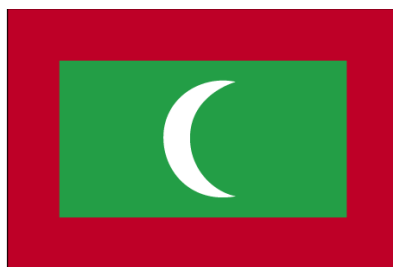


# Debt Management Performance Assessment (DeMPA)

## Maldives



October 2009

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## **Executive Summary**

From October 19 to 27, 2009, a World Bank team in collaboration with the Commonwealth Secretariat undertook a debt management performance assessment of the Government of the Republic of Maldives (GRM). The objective was to undertake a comprehensive assessment of debt management functions using the Debt Management Performance Assessment tool (DeMPA, version of November 2008). As part of the assessment, the team met relevant officials dealing with public debt management in Maldives from the Ministry of Finance and Treasury (MOFT), the Maldives Monetary Authority (MMA), the Attorney General, the Auditor General's office, the National Disaster Management Centre, Capital Markets Development Authority, the State Bank of India and the Bank of Maldives (see Annex 1 for a list of meetings).

The assessment for Maldives was timely. The current situation shows moderately high government debt levels (around 55 per cent of GDP) with sustainability indicators reflecting vulnerabilities (at current trajectory of primary deficit, the IMF Article IV report estimated debt levels would reach 75 per cent of GDP by 2013). The recently concluded Public Expenditure and Financial Accountability (PEFA) findings highlighted areas for improvement relating to budget execution and credibility, audit and legislative oversight, cash management and the treasury single account (TSA), and monitoring and managing fiscal risks. Meanwhile, the government has significant funding needs to meet development and growth priorities (gross financing including rollover is estimated at an average of 12-13 per cent of GDP per year for the next 5 years). This requires prudent debt management to avoid debt-related vulnerabilities from crystallizing. The DeMPA tool was applied to Maldives to assess the strengths and areas for improvement in debt management operations and provide a baseline for undertaking future reforms in debt management.

The main findings of the mission are summarized below:

### **Governance and Strategy Development**

- The primary legislation (the Constitution and the Public Finance Law, 2006) provide authorization to borrow and issue debt and loan guarantees; in addition the requirements for reporting and audits are also specified. Pre-authorization for specified borrowing purposes is a requirement. An important gap, however, is that the objectives for debt management are not specified in the law.
- A debt management strategy is not prepared and no entity is given the responsibility to coordinate its formulation in the government. There is a lack of focus on total central government debt which is a priority area for reform, especially when contemplating the development of the strategy. There is no description of measures to develop the domestic debt market.

### **Coordination with Macroeconomic Policies**

- Coordination among the debt management entities, the fiscal advisors and monetary authorities has been weak with infrequent exchange of information. The Macro Economic

Coordination Committee (membership from the MOFT and the MMA<sup>1</sup>), does provide the structure but needs to meet more regularly.

- External debt service projections are provided by the External Resource Management Division of the MOFT to the Budget Division, but a debt sustainability analysis is not undertaken by them.

### **Domestic & External Borrowing**

- On the external borrowing side, yearly borrowing plans with a detailed assessment of the most beneficial terms (lowest cost) from creditors are prepared. Due diligence through a formal organizational structure and procedural requirements is exercised while issuing loan guarantees and on-lending funds. However, due to staff shortages credit risk assessments prior to issuing loan guarantees are not always done in a consistent and regular manner for all loan guarantees.
- There is no borrowing calendar available for accessing the domestic markets. The reliance on Ways and Means Advances (WMA) from the central bank constrains the development of the domestic market. The market participants, however, informed the mission that transparency and disclosure practices on the part of the government were strong which was also demonstrated by the disclosure of information on the MMA website.

### **Cash Balance Management and Cash Forecasting**

- Steps were being taken by the MOFT to improve cash management for the entire government, through the development of a model to forecast cash flows. The government had a large number of bank accounts (over 1800) that were not reconciled on a daily/weekly basis.

### **Operational Risk Management**

- There are readily accessible procedures manuals for contracting, recording, and servicing debt. However, business continuity and disaster recovery plans were not in place. Data security practices (offsite storage, etc) were weak. There was no established procedure in case of emergency situation. Key person risk was high and recruitment and retention of skilled staff is a severe constraint.

### **Debt Records and Reporting**

- Recording of debt data is completed within reasonable time. There is, however, no centralized reporting of total central government debt; domestic guaranteed loans are not reported and a debt statistical bulletin giving risk indicators was not published. On the quality of debt data, debt data records were accurate and complete for all external loans, albeit with a lag of some months for external guarantees and on-lent funds but data for domestic debt (specially the recent securitized advances with the MMA) were being uploaded onto the Book Entry System.

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<sup>1</sup> The Fiscal affairs and Economic Policy Division, Department of Inland Revenue, External Resources Management Division from MOFT sits on the technical level committee whereas the membership of the “Policy Committee” comprises of the Minister of Finance and the State Minister, Minister of State for Fisheries and Agriculture, MMA Advisor to the Governor, Deputy Minister of Economic Development, Permanent Secretary Ministry of Tourism and the Department of National Planning.

## Background

### Country Background

Maldives embarked on democratic reforms in August 2004, and in June 2008, a constituent assembly - termed the "Special Majlis" - finalized a new constitution. The first-ever presidential elections under a multi-candidate, multi-party system were held in October 2008.

### Macro Situation

The Maldives economy is small, with a narrow economic base and heavy dependence on imports. It is unusually open with annual average imports reaching nearly 90 percent of national income during the last five years. Tourism and fishing contributed more than one-third of national income over the same period. The economy remains highly vulnerable to external shocks; its geographic isolation, lack of arable land and small and dispersed population have been major constraints on diversification. The government plays a dominant role in the economy through state-owned enterprises (SOEs) in virtually every sector except tourism.

During the period 1998 to 2008, Maldives registered a robust growth averaging 5.7 per cent a year. This impressive economic growth was achieved despite the impact of the 2004 tsunami; in 2005 real GDP contracted by 4.6 percentage points before rebounding in 2006 to increase by 18 per cent. The slowdown of the world economy, however, moderated economic growth to 5.7 per cent in 2008 with growth in tourist arrivals decelerating and the fish catch declining.

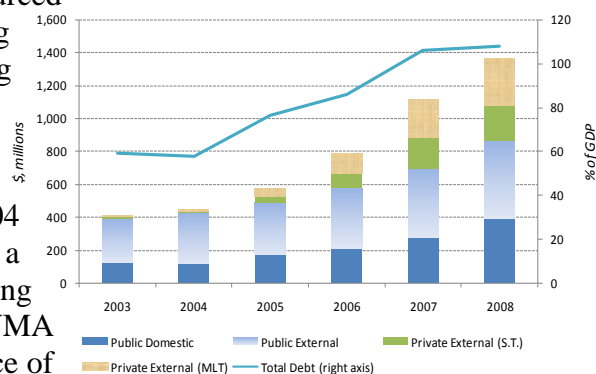
The annual average inflation rate remained moderate at 5.1 per cent during 2004-07. Inflation rose sharply to 12.3 per cent in 2008, with increases in food prices alone accounting for 70 per cent of the rise, mirroring the high global fuel and food prices in 2008 and the weakening of the US dollar. Monetary policy in Maldives has been aimed at achieving and maintaining price stability, using the exchange rate peg with the US dollar as the intermediate target.

The fiscal position of the Maldives deteriorated sharply following the 2004 tsunami (deficit jumped to an average of 8.7 per cent of GDP over 2005-08, compared to 3.8 per cent during 1999-2004). The deficit in 2008 increased sharply to 12.7 per cent of GDP, reflecting in part the global economic crisis.

### Debt Situation

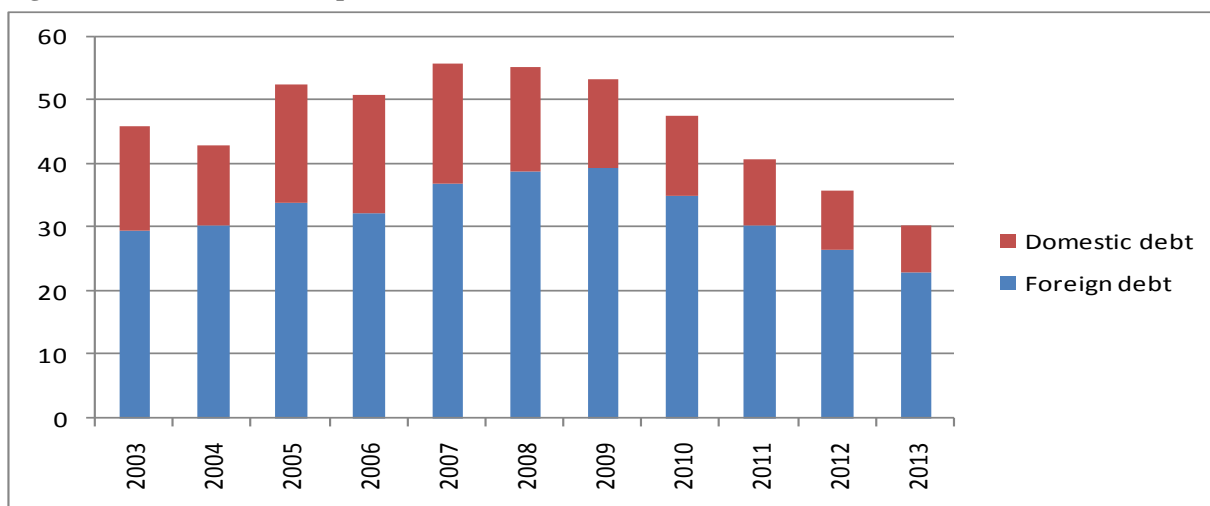
The financing of the overall deficit was mainly sourced externally. The reliance on external financing increased slightly to 3.8 per cent of GDP during 2005-08, compared with 3.1 per cent of GDP during 1999-2004. However, domestic financing was drawn on heavily during 2005 following the sharp rise in the fiscal deficit consequent on the 2004 tsunami, and again in 2008 when the deficit reached a peak of 12.6 per cent of GDP. Domestic financing mainly comprised short-term borrowing, through WMA from the MMA (since 2005) and through the issuance of Treasury bills (since 2006).

Figure 1. Maldives: Composition of Total Debt



As a result of the recurrent and widening fiscal deficit in recent years, the stock of public debt has more than trebled – to MRF 8.7 billion at the end of 2008. As a consequence of increased borrowing during the last decade, the public debt stock rose sharply to 54 per cent of GDP by 2008 from 43 per cent in 2004 (Figure 2). Subject to the successful implementation of the Medium Term Fiscal Framework (MTFF), which hinges crucially on controlling current expenditure as well as creating new sources of revenue, the public debt stock is expected to decline to 41 per cent of GDP by 2011, close to the pre-tsunami level.

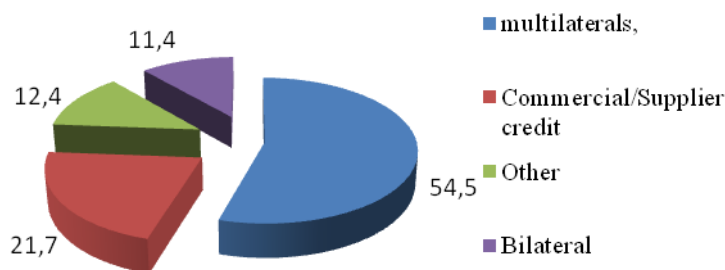
**Figure 2: Public Debt Stock (per cent of GDP)**



Source: IMF Article IV report (March, 2009) Table 5 page 23, data from authorities

**Figure 3: Composition of External Debt (per cent of GDP)**

In terms of the debt portfolio, domestic debt constitutes 42 percent of total debt. Domestic debt is overwhelmingly (more than 85 per cent) short-term. At the end of 2008, the outstanding balance of WMA accounted for 60 per cent of total domestic debt with another 20 per cent contributed by Treasury bills. With regard to external debt, 54.5 percent is with multilaterals, 21.7 percent commercial/supplier credit, 11.4 percent bilateral and 12.4 percent other (see Figure 4). Special Drawing Rights (SDR) account for 37.1 percent of the currency composition of external debt, while the US dollar and Euro account for 31.5 and 22.2 percent, respectively.



There are major risks to the fiscal situation which include:

- The failure to realize disinvestment proceeds. The government had planned to disinvest part holdings in SOEs. However, as of October 2009, there had been little progress with implementing the same.
- The financing plan under the MTFF assumes significant borrowing from bilateral sources as well as commercial sources. However, given that borrowing from bilateral sources in the previous years has not been forthcoming, there is a significant risk that any shortfall,

will have to be financed from either foreign commercial sources or from the domestic market. Both these would accentuate the debt burden and risks.

### **DeMPA Assessment**

The DeMPA comprises a set of 15 debt performance indicators (DPIs), which aim to encompass the complete spectrum of government debt management (DeM) operations as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity and institution building, the performance indicators do stipulate a minimum level that should be met under all conditions. Consequently, if the assessment shows that the minimum requirements are not met, this will clearly indicate an area requiring attention or priority reform.

The scope of the DeMPA is central government debt management activities and closely related functions such as issuance of loan guarantees, on-lending, and cash flow forecasting and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt, including implicit contingent liabilities (such as liabilities of the pension system) or the debt of state-owned enterprises (SOEs), if these are not guaranteed by the central government.

The DPIs have one or more dimensions linked to the subject of the DPI and each dimension is assessed separately. An aggregate score of each indicator is then based on the assessments for the individual dimensions of the indicator. For DPIs that have two or more dimensions, an aggregate score is determined by averaging the scores for individual dimensions of an indicator.

The scoring methodology assesses each dimension and assigns a score of either A, B or C based on the criteria listed. The evaluation starts by checking whether the minimum requirement for that dimension has been met, corresponding to a score of C. A minimum requirement is the necessary condition for effective performance under the particular dimension being measured. If the minimum requirements set out in C are not met, then a D score is assigned. In the cases where a dimension cannot be assessed, a N/R (not rated or assessed) score is assigned. The A score reflects sound practice for that particular dimension of the indicator. The B score is an in-between score lying between the minimum requirements and sound practice.

### **Links with PEFA**

Although improvements are underway in many areas, the recent PEFA assessment indicates significant weaknesses in public financial management. Budget credibility is low, although the budget is comprehensive. Budget execution, control, procurement, accounting, and reporting are very weak. External audit and legislative oversight has been lacking.

The DeMPA is a drill-down of the PEFA tool and provides more granularity to the assessment of debt management performance. The findings of the PEFA assessment and the DeMPA exercise in GRM are broadly aligned. The PEFA assessment concluded that there are critical weaknesses in the management of government cash, debt and guarantees. The areas are fragmented, public reporting is very limited and there is no systematic disclosure of the sizable risks involved. Internal control procedures are not fully defined, and there is no systematic internal audit function. The DeMPA findings are in similar vein.

There are only two exceptions: in relation to two indicators assessing the forecasting of cash balances and the performance of the audit function. Annex 2 presents the comparative scores of the DeMPA versus PEFA. The GRM is also fully aware of the weaknesses and is already taking steps to address many of them. It is relevant to note once the new Public Accounting System (PAS) is successfully completed it will facilitate substantial improvements in budget execution, internal control, cash management, accounting and fiscal reporting.

### Summary of Performance Indicator Assessment

Performance Indicators		Score
Governance and Strategy Development		
DPI-1	Legal Framework	D
DPI-2	Managerial Structure	D+
DPI-3	Debt Management Strategy	D
DPI-4	Evaluation of Debt Management Operations	C
DPI-5	Audit	D
Coordination with Macroeconomic Policies		
DPI-6	Coordination with Fiscal Policy	D
DPI-7	Coordination with Monetary Policy	D
Borrowing and Related Financing Activities		
DPI-8	Domestic Borrowing	C+
DPI-9	External Borrowing	C+
DPI-10	Loan guarantees, On-lending and Debt-related Transactions	C
Cash Flow Forecasting and Cash Balance Management		
DPI-11	Cash Flow Forecasting and Cash Balance Management	D
Operational Risk Management		
DPI-12	Debt Administration and Data Security	D
DPI-13	Segregation of Duties, Staff Capacity and Business Continuity	D
Debt Records and Reporting		
DPI-14	Debt Records	D
DPI-15	Debt Reporting	D

## Governance and Strategy Development

### DPI-1 Legal Framework

Dimension	Score
1. The existence, coverage and content of the legal framework.	D

The Constitution (Article 97<sup>2</sup>) of the Government of the Republic of Maldives (GRM) states that “the State may borrow in accordance with law such sums of money and for such periods as the President may determine. And the government may guarantee repayment of sums so borrowed within such periods as may be determined by the President”; and that “The Executive shall not...obtain or receive any money or property by loan [or] otherwise provide any sovereign guarantees...except pursuant to a law enacted by the People’s Majlis.”

Further, Section 5 (a) of the Public Finance Law (3/2006) indicates that: “Any application to borrow money by or on behalf of the State or to give a guarantee by the State shall be made and submitted to the Minister in accordance with the Public Finance Regulations.” It is also clear that the final decision lies with the President (Article 5c): “money may be borrowed by the State and guarantees may be given by the Government only as may be determined by the President in accordance with the Constitution, upon submission by the Minister having considered the effects and the consequences to the economy of the country and to public finances of such borrowing or giving of such guarantee.”

In addition the Law clearly states that each time money is borrowed the information relating to the borrowing (purpose of the borrowing, benefit to society, principal amount borrowed, interest accruing and other expenses for the borrowing) must be sent to the People’s Majlis (Parliament) within 30 days from the date of borrowing. There is also a requirement to prepare and submit to the Auditor General a written report within 3 months of the end of the financial year detailing actual and estimated revenues, expenditures and a review of the operations of the agency; and also a statement of assets, liabilities and contingent liabilities. This requirement applies to the entire MOFT and also separately to the Financial Controller, thus it will cover all debt management activities being undertaken by the MOFT. In turn the Auditor General must audit the reports within two months of receipt of the materials.

The Law on Loans, 21/76, May 18<sup>th</sup> 1976 states that the person who signs on behalf of the GRM has to have written authority of the President for the same. Accordingly, the President authorizes the Minister of Finance and Treasury as the representative of the government through the “Instrument of Full Power (*Qaanoonee Hudha*)” and gives authority to sign and execute the loan on behalf of the GRM (Annex 3, example attached). Likewise no money can be lent unless it is approved by the President (and must state the purposes, principal amount, interest and procedure for repayment). The President then authorises the Minister to execute the transactions.

Under the Maldives Monetary Authority Act 1981, Section 22 the Maldives Monetary Authority (MMA) acts as the banker, depository and agent to the GRM. The Act confers the MMA powers to buy, sell, invest, or deal in treasury bills and other securities issued or guaranteed by the government; to organize and manage a Clearing House; and to act as fiscal

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<sup>2</sup> MOFT informed in May 2010 that it is Article 97 in the new Constitution.

agency of GRM. Under the Agency Agreement between the GRM and the MMA (August 30, 2006), which outlines the primary responsibilities and underlying principles, it is the responsibility of the government to manage its debt and ensure that cash management is conducted efficiently. The MMA is to receive instructions from the Financial Controller, MOFT to issue Treasury bills for government funding but as the Government has a huge deficit accumulated and needs maximum amount of funds to be absorbed from the public, in practice MMA has been absorbing maximum volume available and reporting to Financial Controller on a weekly basis.

Maldives meets the minimum requirement for a score C on all counts, except for the situation with regard to the decision on Treasury bills. The primary legislation confers the President with the right to borrow and issue guarantees on behalf of the Government. The President in turn authorises the Minister of Finance and Treasury to sign and execute the borrowings. Approval from the President is required for *each and every* borrowing and loan guarantee. The purposes and terms for borrowing have to be specified and approval of Parliament has to be given within 30 days of signing the loan contract. On the Treasury bills, although the decision to borrow must be made by the MOFT, in practice it is the MMA (on post facto approval by the MOFT) that is deciding when and how much borrowing is to be done<sup>3</sup>. Thus, Maldives does not meet the minimum requirement for a score C. The requirements for a higher score require meeting these and in addition the objectives for debt management are included in the legislation; requirements for audit are outlined in the Public Finance Law.

#### DPI-2 Managerial Structure

Dimension	Score
1. The managerial structure for central government borrowings and debt-related transactions.	D
2. The managerial structure for preparation and issuance of central government loan guarantees.	C
Overall score	D+

The two main entities responsible for the management of external and domestic debt are the External Resources Management Division (ERMD) at the MOFT and the Public Debt Department at the MMA. The responsibilities are distributed as follows:

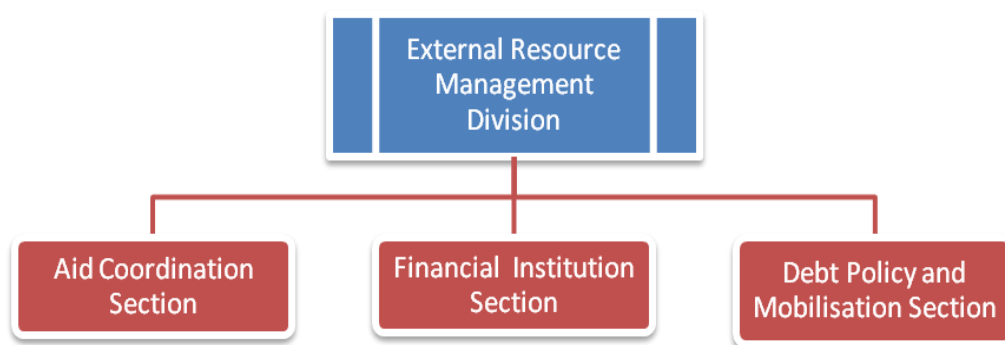
- ERMD has 3 Sections (presented in Figure 5) responsible for *inter alia*, negotiating, contracting, recording and repayment for all external debt (functional responsibilities given in Table 1 below).
- MMA as the fiscal agent issues domestic debt and offers advice to the GRM on all aspects of issuance of domestic debt. MMA advises the MOFT on issuance strategy regarding the frequency, timing and method of issuance, type and duration of instruments and reports to the Financial Controller. In practice the MMA makes the decisions (see details in DPI-7, DPI-8 and DPI-11). The Public Debt Department at the MMA is responsible for the issuance of Treasury bills and recording and repayments, and sends the required reports and information to the Financial Controller at the MOFT.

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<sup>3</sup> The mission understands that this process is evolving and has just been initiated and once the cash management arrangements become more effective – the decision making will be with the MOFT.

The minimum requirements for dimension 1 of this indicator are not met. The managerial structure for debt management in GRM at present lacks an integrated approach towards the management of total central government debt as there is no single entity responsible for the same. At the time of the mission, the two main entities ERMD and MMA did **not** exchange debt information regularly although the MMA provided weekly Treasury bills reports to MOFT (Treasury and Public Account) for recording and consolidation purpose. There was little or no coordination among them regarding their activities. There are a few important Committees<sup>4</sup> in place but none with the functional responsibility or terms of reference for coordinating activities in relation to debt management or exchanging information on total central government debt. This in turn adversely affects the MOFT's ability to meet requirements for debt strategy development (DPI-3) and reporting of total debt data (DPI-15, dimension 3).

Figure 5: Structure of External Resources Management Division



Regarding dimension 2 on the preparation and issuance of loan guarantees, ERMD and the Public Enterprises Monitoring and Evaluation Board (PEMEB), both within the MOFT, are responsible for the preparation, issuance and monitoring of all loan guarantees. All loan guarantees are issued with approval of the Minister of Finance; the analysis note for approval is prepared by ERMD/PEMEB. ERMD records and monitors all external loan guarantees while PEMEB do so for all domestic loan guarantees (see DPI-10 for details). The minimum requirements for dimension two of this indicator are met (Score C); however, the requirements for the higher score B are not met as there are two entities (the ERMD and the PEMEB) responsible for preparing and issuing guarantees.

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<sup>4</sup> The important Committees are: (i) External Resources Coordination Committee that meets every Tuesday with the Vice President as the Chairman. The focus of this Committee is more on implementation of externally-funded projects (color codes assigned depending on implementation status); (ii) *Macro Economic Coordination Committee* (MECC) which comprises two sub-committees – the policy and technical sub-committees. The members comprise MMA, MOFT, FC, and for the policy sub-committee, representatives from the ADB and the WB. The MECC deals with, among other matters, fiscal numbers, balance of payments, national planning, fisheries, and tourism. It does not meet regularly, although there is a commitment now to meet on quarterly basis. In addition there was an *Aid Management Coordination Committee* which had the important mandate of deciding on the funding of projects with direction from the National Planning Council and coordination with ERMD. This is not in operation now.

**Table 1: External Resources Management Division: Functions**

<b>Financial Institutions Section</b>	<b>Debt Policy and Mobilization Section (DPMS)</b>	<b>Aid Coordination</b>
<p><b>Annual Meetings</b></p> <ul style="list-style-type: none"> <li>- Coordinate arrangements; review and process Board papers, country reports etc.</li> <li>- Manage subscription /capital increase and valuation adjustments</li> </ul> <p><b>Coordinate/participate in missions of IFIs</b></p> <p><b>Project Monitoring and Management</b></p> <ul style="list-style-type: none"> <li>- Assist in project follow up and implementation</li> <li>- Review and participate in PCC &amp; PSC meetings</li> <li>- Quarterly project reviews</li> <li>- Focal point for ADB, IDB WB and other IFIs</li> <li>- Coordinate and seek assistance for IFI sponsored trainings and workshops</li> </ul>	<p><b>Accounting</b></p> <ul style="list-style-type: none"> <li>- Processing of loan agreement</li> <li>- Process loan disbursement requests and monitor payments</li> <li>- Maintain register of contracts under ongoing projects</li> <li>- Process documents for issuance of promissory notes and government guarantees</li> <li>- Debt servicing</li> <li>- Maintain loan accounts</li> <li>- Monitor loan covenants</li> </ul> <p><b>Debt Recording, Reporting and Monitoring</b></p> <ul style="list-style-type: none"> <li>- Manage Debt Recording System (CS-DRMS)</li> <li>- Debt Recording and reporting for National Budget</li> <li>- Debt Recording and reporting to International Organizations</li> <li>- Manage Subsidiary loan Agreements (on-lending)</li> </ul> <p><b>Portfolio Review and Debt Sustainability</b></p> <ul style="list-style-type: none"> <li>- Conduct bi-annual Debt Portfolio Review</li> <li>- Conduct periodic debt sustainability analysis including sensitivity analysis</li> </ul> <p><b>Formulation of a national Debt Policy and develop a sustainable Debt Management Strategy</b></p>	<ul style="list-style-type: none"> <li>- Mobilize financing to meet funding gap</li> <li>- Streamline aid management and coordination framework between MoFT, Ministry of Foreign Affairs, and Ministry of Planning and National Development</li> <li>- Support continuous dialogue between government and donors within the framework of the MPF</li> <li>- Track resources pledged and committed by donors</li> <li>- Mobilize new TAs and grants from IFIs for funding gaps (including for private sector and NGOs)</li> </ul>

**Legal and contractual works performed by both FIS and DPMS**

- Review and Comment on Loan Agreements
- Review and Comment on Contract Agreements
- Assist in Negotiation of Loans and Contracts

### DPI-3 Debt Management Strategy

Dimension	Score
1. The quality of debt management strategy document.	D
2. The decision-making process, updating, and publication of the debt management strategy.	N/R
Overall score	D

There is no formal debt management strategy in place and there is no single unit that oversees the total central government (including domestic and external) debt portfolio. On the external front, the existing practice is to first determine the split between aid and debt, by maximizing aid and financing the residual by debt. Most of the borrowing is financed by concessional loans from multilateral and bilateral lenders. Under agreement with the IMF, there is a cap on the amount that the government can borrow in commercial terms. To the extent that aid and concessional debt is maximized, the implicit strategy has been on cost minimization. Although the IMF guidelines on what constitutes a concessional loan are there, these are currently not followed in Maldives nor is there an established target of the minimum grant element that must be achieved. Commercial loans are sought for priority projects that donors will not finance, for example to construct government buildings. The agreement with the IMF established limits on commercial borrowing of \$70 million for 2009 and cumulatively to \$120 million till 2010.

The residual that is not financed externally is borrowed domestically. In the past, the government relied heavily on the overdraft facility extended by the MMA through the Ways and Means Advances (WMA) Account. When the residual deficit financing needs exceeded the limits set for the WMA, Treasury bills were issued to the MMA. In August 2009, a process of conversion to Government Bond of the overdraft facility provided by the WMA Account was completed, and the objective now is to maintain zero domestic financing at the end of the year. This effectively means that the balance in the WMA Account will be zero at the end of the year, and that this facility will not be available for budget financing. In addition to Treasury bills, there is a plan to issue a 2-year US dollar denominated bond in the domestic market. There is no stated strategy for developing the domestic debt market. The lack of a medium-term debt management strategy, the lack of definition of the minimum target of the grant element in external borrowing, and the lack of description of measures aimed at supporting domestic debt market development suggest the government does not meet the minimum requirement for dimension 1.

It is noted that the government has committed to the Asian Development Bank and other development partners to develop a debt management strategy by June 2011 and a positive aspect was that the management at the MOFT was sensitised to the need to develop the same. However, since there is no formal debt management strategy, dimension 2 assessing the decision-making process, updating and publication of the debt management strategy is not rated<sup>5</sup>.

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<sup>5</sup> There is, however, an ad hoc decision making process to derive the implicit debt management strategy that determines the annual borrowing strategy. The external financing choice is driven by the projects on the one hand, and availability of lenders, on the other hand. Capital expenditures are matched with the projected disbursements from pipeline external loans. For new projects, requests from line ministries are examined, taking

#### DPI-4 Evaluation of Debt Management Operations

Dimension	Score
1. Level of disclosure—in an annual report or its equivalent—of government DeM activities, central government debt, evaluation of outcomes against stated objectives, and compliance with the government’s debt management strategy.	C
Overall score	C

The Law on Public Finances requires that the government submit an Annual Report to the People’s Majlis. Accordingly, the annual report is prepared and submitted. The annual report presents the new mandate given to the ERMD, and describes the functions that are performed by ERMD. It then discusses the activities carried out by ERMD, organized by creditors, by on-going projects, describing the debt service payments being made, by new borrowing, describing the terms and amounts of the loans, by subsidiary agreements (for on-lending), and by guarantees. It also describes the training and TA carried out, and missions that were received.

This Annual Report of MOFT thus presents the evaluation of all activities taken by the individual divisions of the MOFT and is presented annually to the Majlis by January of each year (the fiscal year is January–December). It, however, does not present data on outstanding external debt. The same are presented in the Budget documents released annually, around the same time. The MMA prepares an annual report on the outstanding domestic debt and operations; this is submitted annually to the Majlis. Keeping in view the rationale of this indicator to assess disclosure and accountability, the GRM meets with the minimum requirements for this indicator even though the material is present across 3 different reports. The requirements for the higher score is not met since there are no objectives and no strategy and thus no evaluation of how the activities meet/ or fall short of the same. Also evaluation of the total debt management situation is not facilitated as domestic and external are presented in different reports.

#### DPI-5 Audit

Dimension	Score
1. Frequency of internal and external audit of central government debt management activities, policies, and operations, as well as publication of external audit reports.	D
2. Degree of commitment to address the outcomes from internal and external audits.	N/R
Overall score	D

Under the Audit Act, 2007 an independent<sup>6</sup> Auditor General’s (AG) Office was set up in 2008. Under this Act the Auditor General at any time may conduct a performance audit of

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into account their consistency with the priority projects determined by the National Planning Council. Often, line ministries sign a memorandum of understanding with the lender, effectively committing the government to the loan, although it is the Finance Minister who signs the loans and there have been occasions when the loans were not accepted, following the recommendations of the MOFT.

<sup>6</sup> The Majlis approves budget and salaries of auditors and in turn reporting back to the Majlis is mandatory.

any ministry or department of the GRM. In the past, external audits were primarily compliance audits with some degree of a performance assessment. Now the AG’s Department is undertaking combined audits, both financial and performance. The audit of the MOFT was completed in the past year, and ERMD was included in that, but this was not an audit of the activities, policies and operations of ERMD. The financial audit of MMA was undertaken on April 30, 2009; internal audit of MMA is undertaken and can be a random check.

There has, however, been no internal audit of the ERMD. Also there has been no external audit of the activities, policies and operations of the ERMD and the Public Debt Department of the MMA undertaken within the past 5 years. Thus the minimum requirements for dimension 1 of this indicator are not met.

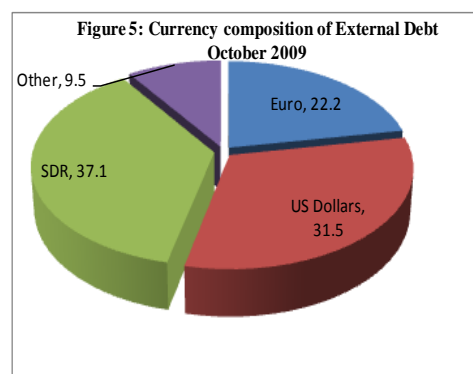
Regarding dimension 2, on the degree of commitment to address the outcome from internal and external audit, this is not rated because there have been no recent internal or external audits of GRM’s debt management policies, operations and activities<sup>7</sup>.

### Coordination with Macroeconomic Policies

#### DPI-6 Coordination with Fiscal Policy

Dimension	Score
1. Coordination with fiscal policy through the provision of accurate and timely forecasts on total debt and debt service under different scenarios.	D
2. Availability of key fiscal variables and/or an analysis of debt sustainability, and the frequency with which debt sustainability analysis is undertaken.	D
Overall score	D

The ERMD within the MOFT provides three year forecasts for the servicing of existing external debt and future disbursements based on a pipeline of projects for budgetary purposes. The currency composition of external debt is presented in Figure 5. Although the bulk of the borrowing is done at fixed rates, variable rate debt comprises 15 percent of the external debt portfolio. As a prudent measure, a five percent buffer for movements in interest and exchange rates is included in the debt service



projections. There is, however, no formal sensitivity analysis done to determine if this buffer is sufficient or not. An investigation into the national budget shows that for 2007, the 5 percent buffer was almost apt, as the actual amount for interest payments on external debt

<sup>7</sup> The last AG’s report has made observations regarding the “reasonable level of debt “in the 2008 audit report. The commitment from ERMD to address these is not apparent because (a) this is a new function of the government and (ii) staff shortage. Moreover, this cannot qualify as the audit of the debt management policies, operations and activities.

was MRF 341.7 million against the budgeted MRF 325.4 million (nominally higher than the 5 percent). The estimates for 2008 show that external debt interest payments will be 16 percent higher at MRF 396.9 million than the budgeted figure of MRF 339.3 million<sup>8</sup>. This can mainly be attributed to higher borrowing rates during the global financial crisis which also resulted in higher refixing rates with regard to the 15 percent of variable rate loans in the debt portfolio.

As regards domestic debt, the MMA provides debt service data on a regular basis to the Financial Controller. The minimum requirement for dimension one is, however, not met because no debt or debt service projections for domestic debt are included in the national budget.

For dimension two, the technical sub-committee of the MECC (see details in footnote 1) discusses movements in macroeconomic and other fiscal variables and makes recommendations for the budget to the policy sub-committee. The policy sub-committee in turn, approves the recommendations that are then included in the Budget. The ERMD provides information on disbursements, debt service and the status of projects. This technical sub-committee, however, does not meet regularly and so is not an efficient vehicle to share fiscal information (although this is expected to change with the commitment to the ADB to meet quarterly). The ERMD does not have access to key fiscal variables for planning purposes. No debt sustainability analysis (DSA) is undertaken (staff had recently been trained and it is expected that a DSA group will be formed soon in the MOFT). For the present, however, GRM does not meet with the minimum requirements for dimension two of this indicator.

#### DPI-7 Coordination with Monetary Policy

Dimension	Score
1. Coordination with monetary policy implementation through information sharing on debt transactions and the government's current and future cash flows.	D
2. Extent of a limit to direct access of resources from the Central Bank.	D
Overall Score	D

Under the authority of the MMA Act (1981) the MMA conducts monetary policy<sup>9</sup> and uses the repo facility and reverse repurchases (on an auction basis) for open market operations<sup>10</sup>. For meeting the government's funding requirement the MMA uses tap sales of Treasury bills. The proceeds from the sale of Treasury bills and the OMO transactions are accounted for separately at the MMA. Repos are available for terms of 1 to 7 days for commercial banks on all banking days, and must be submitted between 1:30 PM and 2:00 PM on any day; the rate

<sup>8</sup> See Government Budget in Statistics, Financial year 2009, Page 63, Table 22.

<sup>9</sup> The 'Principal purposes' as set out in Section 4 of the MMA act, 1981 is 'to issue currency and regulate the availability and international values of the Maldivian Rufiya'. The current monetary policy framework establishes the Maldivian Rufiya exchange rate as the nominal anchor for monetary policy.

<sup>10</sup> At the time of the mission (October 2009), the MMA had conducted OMOs six times during the current fiscal year.

is set at a margin above the one month Treasury bill rate. The reverse repurchases facility is available only to the commercial banks licensed in Maldives and auctioned on Thursdays from 8:30 AM to 11:30 AM and results announced at 2:30 PM. Banks can submit 3 different interest rates and the Market Operation Committee of the MMA will accept the bids based on the cut off rate they decide. Market participants<sup>11</sup> prefer to invest in Treasury bills as the rate is higher than those of reverse repos and this in their opinion makes open market operations less effective. The MMA receives instructions from the Financial Controller, MOFT to issue Treasury bills for government funding and the MMA shares the outcome of the issuance after the sale. Meetings with market participants confirmed the clear division between auctions for monetary policy purposes and those for government funding purposes. The government does not provide information on future cash-flows, although the Agency Agreement clearly mentions that the MOFT will assist the MMA by providing projected weekly cash flows affecting the WMA. This makes liquidity forecasts difficult and undermines monetary policy. Thus, dimension one of this indicator does not meet the minimum requirements prescribed in the DeMPA.

The MMA provides an overdraft facility to the government under the Ways and Means Advance (WMA) Account; interest charged on the WMA is at least 1 percent above the prevailing one-month Treasury bill rate. The WMA ceiling was set at MRF 1.6 billion on October 2, 2006 . At end-August 2009, the claims on government were MRF 4.1 billion, of which MFR1.6 billion was financed by the WMA and the remaining MRF 2.5 billion by short term loans. The fiscal dominance leads to automatic monetisation of the fiscal deficit. The authorities are aware of this, and the MMA has proposed an amendment to the Agency Agreement proposing a ceiling on the Ways and Means advances of MRF100 million<sup>12</sup> and a requirement that this account needs to be zero at the end of each year. Currently dimension 2 of this indicator does not meet with the minimum requirements.

## **Borrowing and Related Financing Activities**

### **DPI-8 Domestic Borrowing**

Dimension	Score
1. The extent to which market-based mechanisms are used to issue debt, the	D

<sup>11</sup> The mission team met with the two main players, the State Bank of India and the Bank of Maldives. The other main players include Hong Kong and Shanghai Banking Corporation (HSBC), Mauritius Bank, Bank of Ceylon and Habib Bank.

<sup>12</sup> The Governor, MMA had asked the mission team to comment on the revised agency agreement that was being proposed. Accordingly, the mission comments were shared with the Finance Minister and the Deputy Governor, MMA at the wrap-up meeting for their consideration. The comments were that (i) it was a laudable effort to have the agency agreement in place as it will provide greater independence to the monetary authorities, help in development of the domestic market and instill discipline in the GRM's cash management. (ii) However, the proposed ceiling limit of MFR 100 million, which reflects the temporary mismatches of the GRM was perhaps too tight (especially given that even the payroll bill at the end-month was MFR400 million). It was mentioned that the limit should be appropriately calculated keeping in consideration the temporary mismatches that have occurred in the GRM's accounts in the past few years (at monthly levels). It was also suggested that the patterns of cyclical liquidity requirements should be studied to see if there were some months in which the gaps were higher and as a transition measure it could be proposed that during those months the ceilings was kept at a higher limit compared to the other months. This would help to facilitate the transition, build in discipline and also provide more certainty to market participants.

publication of a borrowing plan for T-bills and T-bonds, and the preparation of an annual plan for aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets.	
2. The availability and quality of documented procedures for local currency borrowing in the domestic market.	A
Overall score	C+

The MMA as fiscal agent to the government issues Treasury bills on tap for 28 and 91 days at 6.0 and 6.25 percent, respectively. Announcements are made at 1:30 PM on Wednesdays for the sales of Treasury bills on Sundays. Paper bids are received from 8:30 to 11:00 AM on Sundays; purchases are settled by the end of banking hours on Mondays after the results are published. The authority to issue on behalf of government is under the aforementioned agency agreement and Presidential Decree. There is no borrowing plan prepared for these instruments as issuance takes place on a needs basis. Deficit funding is usually done after income and expenditure are reconciled at the end of the month, there is no borrowing plan prepared for the forthcoming month. For these reasons, the minimum requirement for dimension one is not met.

Terms and conditions for each instrument are available on the MMA's website - (market operations manual with the prospectus for Treasury bills issuance, subscription forms and transfer forms etc are available on the website [www.mma.gov.ma](http://www.mma.gov.ma)). Documented procedures for the issuances of Treasury bills are available on the website of the MMA. Meetings with market participants confirmed that the Treasury bills issuance process is clear and functioning well. Dimension two meets the requirements for the highest score A<sup>13</sup>.

#### DPI-9 External Borrowing

Dimension	Score
1. Degree of assessment of the most beneficial/cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity).	A
2. Availability and quality of documented procedures for external borrowings.	D
3. Availability and degree of involvement of legal advisers before signing of the loan contract.	C
Overall score	C+

The ERMD compiles a pipeline of projects that was identified by line ministries, the World Bank Country Assistance Strategy and a three year programme of the Asian Development Bank that was approved by the National Planning Council (NPC) and included in the Budget for a particular year. An assessment of the cost-effective and most beneficial terms and

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<sup>13</sup> The mission debated and agreed that the 40 percent of the financing requirement as at August 2009 (latest date for which data were available) was financed through direct central bank loans to government (ways and means advances account) was already assessed in the indicator evaluating coordination with monetary policy (DPI-7). The focus of this indicator (DPI-8) was to evaluate whether the central government accesses the domestic market using market-based instruments (i.e. the remaining 60 percent of the domestic funding, as WMA is not treated as market borrowing). In which case, of this amount, 100 percent is funded by market based instruments.

conditions that can be obtained from potential creditors and markets is identified and presented to the Minister. These are then evaluated within the framework for the underlying assumptions with regard to the forecast on external debt service; the costs are discussed with the Minister of Finance and the NPC. Ministerial approval is obtained for the assumptions as that forms the basis of the external borrowing plan. Concessional financing is proposed for those projects that fall within the priority areas identified for development by the NPC. Commercial funding is proposed for those projects falling outside this priority area, such as building construction. This dimension meets with the highest score A, as the borrowing assumptions are updated at least twice per year (with IMF Article IV consultations) and also before any new loan is undertaken.

There are internal documented procedures for all external borrowing. A term sheet is prepared for negotiations and after the signing of a loan agreement. Currently, due to staff shortages, no time is specified for capturing the terms sheet on the CS-DRMS. In addition as per the Law on Public Finances, the ERMD has 30 days to report the details of the loan agreement (amount, purpose and authorisations) to the Majlis. The minimum requirements for dimension two are therefore not met. Were the term sheet prepared within three weeks of signing the loan, the minimum requirement for dimension two would be met.

Legal advisors are involved before the negotiation of a loan is concluded and the minimum requirements for dimension three are therefore met. When loan negotiation takes place in the Maldives, legal advisors are involved for a more substantial part of the negotiations, this is however not the case if negotiations are conducted outside the Maldives.

#### DPI-10 Loan Guarantees, On-lending and Debt-related Transactions

Dimension	Score
1. Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees.	C
2. Availability and quality of documented policies and procedures for on-lending of borrowed funds.	C
3. Availability of a debt management system with functionalities for handling derivatives, as well as availability and quality of documented procedures for the use of derivatives.	NR
Overall score	C

When a state owned enterprise (SOE) needs a guarantee to borrow, a request is submitted to the MOFT together with the required documents that provide information on the soundness of the SOE and information with regard to the guarantee. This is an established procedure and the list of documents is available to all borrowing entities. The MOFT (PEMEB or ERMD) then assesses the possible exposure under the guarantee. This task is however not done consistently (because of staff shortages). A notice to issue a guarantee is submitted for the recommendation of the Minister of Finance; the President gives final approval. The government currently guarantees 15 loans (5 external and 10 domestic) with an outstanding value of US\$98 million. Currently no guarantee fee is charged. There are policies regarding the activities to be guaranteed these are in accordance with the national development policies

as part of the developmental agenda of the country<sup>14</sup>. These policies and procedures as well as the required information by the SOE is documented and therefore meets the minimum requirement for dimension one.

Domestic guarantees are managed and monitored by the Public Enterprises Monitoring and Evaluation Board (PEMEB), while external guarantees are managed by the ERMD. The servicing of the domestic guaranteed loan is however not monitored. Dimension one could be scored a B if a credit assessment were done consistently for all guarantees.

The government receives loans in foreign currency and on-lends these loans in local currency. The loans are usually on-lent at the same maturity which therefore eliminates maturity mismatches. There is, however, exchange rate risk since the government needs to obtain the foreign currency at the buy price while it is provided at the selling price to the SOE, this costs the government the difference between the buy and sell price. The MRF however floats against the euro and SDR, and on-lending in these currencies (in domestic currency) poses an exchange rate risk to government. The interest rate charged for on-lending is the prevailing Treasury bill rate (usually 91-day) or at cost in some cases. The minimum requirement for dimension two is met as there are specific policies for which on-lending can occur (to meet with developmental priorities and these are outlined as for e.g., education) and also documented procedures explaining the requirements for documents, financial reports, project reports etc. process for approvals, etc. that need to be submitted and assessed by the ERMD. To progress to the higher score, however, there must be a credit risk assessment done for on-lent funds.

Dimension three is not scored as the government does not use derivatives.

### **Cash Flow Forecasting and Cash Balance Management**

#### DPI-11 Cash Flow Forecasting and Cash Balance Management

Dimension	Score
1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts.	D
2. Effectiveness of managing the aggregate cash balance in government bank account(s), including the integration with the domestic debt borrowing program.	D
3. Where the Principal DeM Entity (or the DeM entities) operate(s) its (their) own bank accounts, the frequency of reconciliation of these bank accounts.	NR
Overall score	D

Currently the line ministries in GRM operate their own bank accounts (approximately 1800 accounts). The Financial Controller's office is overseeing a project to consolidate all these into the single Public Bank Account (PBA) in the next 3 months. The monthly forecast is not

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<sup>14</sup> The authorities mentioned that in certain cases where the SOE had defaulted or failed the ERMD had proposed that the guarantees not be given and the same was followed. Regarding the procedures these are very detailed and explain the requirements of financial reports, project documents, etc. that need to be submitted to PEMEB and /or ERMD and in turn evaluated by them – a note is prepared detailing the costs and benefits from the issuance of the guarantees.

generated as it is difficult to arrive at accurate balances. The Department of Inland Revenue provides monthly forecasts on revenue with a  $\pm$ four percent deviation from the actual reflecting the difficulties in projection of capital income. Expenditure on the other hand is more difficult to project, particularly on capital projects, and as a result of the practice of line departments to spend first and then seek approval to spend. Revenue is swept daily into a single account while expenditure accounts are swept monthly. Aggregation and reconciliation is done at the end of the month by the MMA, however they cannot estimate the balance. Currently, the weekly level of cash balances is not monitored and monthly forecasts are not generated. Thus the minimum requirements of dimension one are not met.

The central government does not invest its cash, since it is usually in deficit. The MMA is not obliged to pay interest on surplus cash. Dimension two does not meet the minimum requirements.

Dimension three is not rated as the bank account is not operated by the debt entities. All public moneys must be kept in the Public Bank Account (PBA) opened and maintained by the Minister (in practice the Financial Controller) and held with the Maldives Monetary Authority (MMA) under Section 11 of the Law on Public Finances.

## Operational Risk Management

### DPI-12 Debt Administration and Data Security

Dimension	Score
1. Availability and quality of documented procedures for the processing of debt service.	C
2. Availability and quality of documented procedures for debt data recording and validation, as well as storing of agreements and debt administration.	D
3. Availability and quality of documented procedures for controlling access to the central government debt recording/management system and payment system.	D
4. Frequency and off-site, secure storage of debt recording/management system backups.	D
Overall score	D

For *domestic debt*, section B of the “Treasury Bills Internal Procedures” outlines the redemption procedure for Treasury bills. This is readily available to and is used by the staff in the Public Debt Section (PDS) of the MMA. It describes the tasks to be performed by the three staff at the PDS, and involves reviewing the redemption report, authorizing redemptions as per the report and preparation and authorization of vouchers, and advising the MOFT through the DMD operations department. All payment orders are subject to two person authorisation process. It does not specify whose authorization should be obtained and because it is an internal procedure for the MMA, it is not clear who within the MOFT is being advised, or what happens after the MOFT is being advised, and who makes the final payment<sup>15</sup>.

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<sup>15</sup> In practice the segregation is such that each payment voucher should be authorized by the section head and the division head. Since the internal procedure is solely for MMA use it does not lay down to whom at MOFT the information of Treasury Bills should be reported to. Payment for Treasury Bills maturities are made from the

For *external debt*, process 23.0 of the “Operations Manual” of the ERMD of the MOFT specifies the procedures for debt servicing. This is also readily available to and is used by the staff involved. The process involves weekly review of interest and repayment schedules drawn from the CS-DRMS Report, and making comparison against requests for payments from creditors (validation). The procedure does not specify what to do in case 1) there is a discrepancy between their own records and the invoice statement from the creditors, and 2) creditors have not sent a request for payment. The procedure for obtaining approval for payment within the MOFT is outlined and the Section Head and the Executive Director sign the approval. There is a new approval procedure that is in place which is not documented and the manual requires updating. This new procedure is complicated and has increased operational risk. ERMD prepares the payment instruction for review by the Budget Department who issues a voucher. This is then sent to the Financial Controller for his approval, and is returned to the ERMD. ERMD then transmits this to the MMA for final payment. Because of the cumbersome process, there is increased risk of delays, misplacement of the documents, and errors. Although there are some deficiencies in the existing documented procedures for the processing of debt service as identified above, the basic elements are in place and all payments are made on due date, that merit a C score for dimension 1.

With regards to debt data recording and validation, and storing of agreements and debt administration, section A of the “Treasury Bills Internal Procedures” highlights the procedure for entering transactions in the domestic market, and describes the tasks to be performed by three staff, which ensures that the correctness of debt data entries are separately checked. However, there is no data reconciliation and validation for domestic debt. Debt administration records are stored in a locked room but in an open filing cabinet. The room is fire proofed with fire-suppression equipment. The room is not protected in the event of flooding but is located at a high floor level.

For external debt, process 22.0 of the “Operational Manual” outlines the procedure for debt recording. It describes the tasks to be performed on a daily, weekly, monthly, and annual basis. New loans signed in the previous week are entered into the CS-DRMS. After payment is made, a debit note and copy of payment is received from the MMA, filed, and entered into CS-DRMS. The CS-DRMS is updated when a credit advice is received from the creditor. On a semi-annual basis, accounts are reconciled against debit and credit advices received from creditors and the MMA. However, in practice, staff shortages mean that the correctness of the data entries are not separately checked before entries are deemed to be completed. Original signed copies of loans are protected from theft by storing in a locked room in a metal cabinet which is also locked. This cabinet is fire resistant, but not fire proof, and is not flood proof. Other debt administration records are stored in bookshelves in open spaces in the MOFT and are unprotected. However, recently signed documents are scanned and stored electronically in the server. Due to the lack of separation of data entry and checking functions for the external debt, and the weak security of storage of data administration records, the minimum requirement for dimension 2 is not met.

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WMA account and proceeds from issuance are also posted to this account. The amount outstanding above the ceiling at the end of any month is settled upon instruction from MOFT.

At the MOFT, there is no password access procedure established for users of CS-DRMS. The Head of ERMD writes to the IT administrator to change passwords/prescribe new rights, but this is more at her/his initiative and not a set procedure per se (the concern is in case of staff turnover). At the MMA, there are also no documented procedures for controlling access to the book entry system<sup>16</sup>, although access is controlled by the IT department.<sup>17</sup> Because of the lack of access procedures in the debt recording and management system, the minimum requirement for dimension 3 is not met.

Backup by tape of the CS-DRMS for external debt and the book entry system for domestic debt is taken daily according to established schedule. The main server in the MOFT is linked to another server within the MOFT. However, for both cases, the backup is stored in the IT rooms inside the MOFT and MMA respectively. A server backup is also taken on a daily basis for both data sets, but the backup server is located in the IT room in the same building. The IT rooms of both institutions are locked and secure from theft and only a limited number of IT staff have access to the respective rooms. Because the room at the MOFT is not fire or flood proofed, and because, for both institutions, backup tapes and servers are located in the same building (not off-site), the minimum requirement for dimension four on securing debt records and management system is not met.

The MMA is planning to house the backup tape in an off-site location, possibly at the National Centre for Information Technology (NCIT), in the next few months. However, this is on the same island of Male', so if disaster strikes not only at the MMA building but to the whole island, then the backups can be lost<sup>18</sup>.

#### DPI-13 Segregation of Duties, Staff Capacity, and Business Continuity

Dimension	Score
1. Segregation of duties for some key functions, as well as the presence of a risk-monitoring and compliance function.	D
2. Staff capacity and human resource management.	D
3. Presence of an operational risk management plan, including business-continuity and disaster- recovery arrangements.	D
Overall score	D

There is severe shortage of staff responsible for debt management at the MOFT. As a result there is a lack of segregation of duties between the staff responsible for negotiations and contracting of the debt, for arranging payments, and for recording/accounting for these transactions. The staff participating in the loan negotiations also enter the loan data into the system, and check data entries at the MOFT; this is done in order to complete the tasks although they are well aware of the importance of segregation of duties. This represents significant operational risk as well as key person risk. There is no risk monitoring and compliance function in the MOFT or the MMA. Dimension 1 therefore does not meet the minimum requirements set under the DeMPA tool.

<sup>16</sup> This is a serious deficiency and is also discussed in DPI-14, dimension 2.

<sup>17</sup> There is such a procedure for the payment system for the new Public Accounts System.

<sup>18</sup> The mission discussed this issue with the Head of the National Disaster Management Centre and he mentioned that steps were being taken to have e-storage facilities of records as also 'tsunami-safe' shelters that could house important records. This was still to be implemented but they were well aware of the dangers from a tsunami.

There are 17 positions in the ERMD, of which 12 positions are filled and 5 positions are vacant. Of the filled positions, an equivalent of eight staff year were absent from work for various reasons including short term training leave, maternity leave, official travel, and extended study leave. Because of the low salaries, as compared with that offered by the private sector and independent commissions, it is difficult to attract experienced personnel to the Ministry. Therefore staff capacity needs to be built by recruiting skilled staff. New intake often come only with A level education (high school graduates) and require further education and training. Three of the five staff on study leave will not return to ERMD but will transfer to other departments. While financial and service bonding agreements are signed between the MOFT and the staff on funded training or study leave, these are not strictly enforced. All job positions have clear terms of references. However, due to staff shortages, existing staff tend to do the jobs that are to be carried out by those that are absent or for positions to be filled. The formal job descriptions are not reviewed and updated periodically<sup>19</sup>. As a result of severe capacity constraints, dimension 2 on staff capacity and human resource management in debt management does not meet the minimum requirement for effective debt management as prescribed under the DeMPA. The management are well aware of these shortcomings but are constrained by the incentive structure and overall public service rules.

There is no business continuity and disaster recovery plan, despite the experience of the tsunami and massive earthquakes in the region. There is no established procedure for what staff should do in case of a flooding, fire, extended blackouts, pandemic, or other events that make it impossible to conduct normal operations. There is no temporary office that is pre-determined where staff can report in case of these events. Because backup tapes are stored in the same building, all official records and database can be lost. Therefore, there is high operational risk and the minimum requirement for dimension 3 is not met.

## Debt Records and Reporting

### DPI-14 Debt Records

Dimension	Score
1. Completeness and timeliness of central government debt records.	D
2. Complete and up-to-date records of all holders of government securities in a secure registry system.	D
Overall score	D

Since August 2009, new domestic debt that is issued is recorded on a real time basis through the book entry system and is complete. External debt is to be recorded within two weeks of the signing of the agreement. However, in reality, records are updated with up to two months lag. External guaranteed debt is also recorded within a two month lag; the domestic guaranteed debt records are however not uploaded to any system but are maintained in Excel sheets which are complete and up-to-date. Records of government bonds that were converted from the overdraft facility in the WMA Account are currently being uploaded to the book entry system by the MMA, but this has not been completed (as the system needs to be configured to accommodate Treasury bonds); currently the government bonds are recorded

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<sup>19</sup> There are 'code of conduct' guidelines for all MOFT and MMA staff. The MMA Act prescribes conflict of interest guidelines for the Board of the MMA.

manually. Therefore, the minimum requirements for this dimension are not met; once the records for domestic debt are complete this dimension score will move up to B.

The book entry system managed by the MMA registers all holders of Treasury bills issued on behalf of the government. All secondary market transactions must be submitted to the MMA for entry into the book entry system, and therefore records of final owners are maintained.<sup>20</sup> Since the inception of the book entry system in 2006, there has been an audit of the records as part of the overall audit of the MMA (the staff of the Public Debt Section has undertaken a system audit at the time of inception). The system, however, cannot be considered as secure because there are no procedures for controlling access to the system; also no reconciliation of the book-entry system has been done and thus it is not clear if the registry has the up-to-date records. Thus, this dimension does not meet with the requirements for score C.

#### DPI-15 Debt Reporting

Dimension	Score
1. Meeting statutory and contractual reporting requirements of central government debt to all domestic and external entities.	D
2. Meeting statutory and contractual reporting requirements for total nonfinancial public sector debt and loan guarantees to all domestic and external entities.	NR
3. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt.	D
Overall score	D

An Annual report is prepared and submitted to the Majlis, under the Law on Public Finances, 2006 (see DPI-4). In addition, the Law on Public Finances (32: 2006) states that for each financial year, the Minister must prepare and submit to the People's Majlis the Annual State Budget at least one month before the beginning of the financial year to which the budget relates, and must include items relevant to central government debt including the estimated recurrent and capital expenditures, which would include interest and amortization payments. It must also state the manner in which the deficit will be financed by the State. The MOFT is in compliance with this requirement.

The Law on Public Finances (35: 2006) also states that within 3 months after the end of the financial year, the Minister must submit to the Auditor General a written report containing among others, a statement of the estimated expenditure in the budget, the actual expenditure and a report on the operations of the Ministry in the financial year.

The Law on Public Finances (38: 2006) further requires that the Financial Controller must within 3 months after the end of a financial year, prepare and submit to the Minister the State's annual statement for the year, including estimated expenditure in the past budget, actual expenditure, and a statement of the assets, liabilities and contingent liabilities of the State as at the end of that financial year. The minister must within 14 days from the date of receiving the State's annual statement submit the same to the Auditor General. The financial

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<sup>20</sup> There is a central depository system (CDS) run by the stock exchange; however, transactions of Treasury bills do not take place in the stock exchange; and holders of Treasury bills are not recorded in the CDS.

statement has not been produced to date, and its submission for 2009 in 2010 will be the first such statement.

Chapter VII of the Maldives Monetary Authority Act (1981) requires an annual report on the operations of the Authority during the past year and financial statements certified by the auditor. These reports shall be submitted to the President. After the approval of the President, both reports shall be published. The MMA is in compliance with this requirement.

Overall, except for the lack of financial statement, the minimum requirement for dimension 1 would be met as debt data are reported within three months of the reporting period. As it stands today the minimum requirements are not met<sup>21</sup>.

There is no statutory requirement to report total nonfinancial public sector debt. Therefore, the dimension 2 is not rated.

The MOFT publishes “The Budget in Statistics Financial Year 2009” that contains budget information for the past year (2008), the budgeted and the revised figure for the current year (2009), and projections for the next 3 years based on the MTEF. Information is provided for debt stock, divided by domestic and foreign, as well as for interest payments and amortizations. The same information on aid and foreign loans by creditor is also stated. However, the narrative discusses only the external debt. The MMA publishes “Monthly Statistics”. Table 20 contains annual information on external debt and debt service since 1999, and the projection for 2009. The published debt information as at August 27, 2009 relate to the projections as of March 2009. Projection as at August 27, 2009 is available with at most a two month lag at the MOFT. According to MOFT, this is sent to the Research Department, but this does not seem to reach the Statistics Department at the MMA and thereby the reported data show a 6 months lag.

A debt statistical bulletin containing debt statistics with more details than the budget documents, including risk measures is not published in GRM. Therefore, dimension 3 does not meet with the minimum requirement.

### **Technical assistance and capacity building plans:**

In February 2009, the Minister, MOFT requested the Commonwealth Secretariat for comprehensive assistance on debt management capacity building. The areas identified specifically were the review of the debt management framework, training on debt analysis including debt sustainability assessment, training on the use of the CS-DRMS software and audit of public debt. In response to this request, the Debt Management Section (DMS) in Special Advisory Services Division, Commonwealth Secretariat fielded a needs assessment mission that visited Male’ during July 1-10, 2009. The report identified a number of areas where the Commonwealth Secretariat could provide training, particularly in the area of debt data and systems, as also in debt sustainability analysis and debt strategy formulation and implementation. The systematic identification of TA priorities, and the preparation of a TA

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<sup>21</sup> Maldives meet with the requirements for reporting data to the WB’s Debtor Reporting System and is not a subscriber to the IMF’s SDDS.

programme, would build on this and be in conjunction with the priority areas identified by the authorities from the application of the DeMPA tool.

## Annex 1: List of Meetings

TIME	MEETING	PARTICIPANTS
<b>Monday 19 October 2009</b>		
1500 hrs	Mission briefing	Hamdhy Ageel, ED(Head of ERM Division) and staff from Debt Policy and Mobilisation Section
<b>Tuesday 20 October 2009</b>		
0900hrs	Kick Off meeting with stake holders	Minister Ali Hashim and/or State Minister Ahmed As-ad, Permanent Secretary Ismail Shafeeq, Financial Controller Mohamed Ahmed and DNP, ERMD, Treasury and Public Accounts Div., PEMEB, Fiscal Affairs and Economic Policy Div. from MOFT plus MMA and Auditor General's Office, Attorney General's Office officials
1015 hrs	Over all briefing on Debt Management functions and the External Resources management Division's role	Hamdhy Ageel, ED(Head of Division) and staff from Debt Policy and Mobilisation Section
1330hrs	Role of MMA in Debt Management	Governor and/or Deputy Governor and MMA Debt Division officials
1500 hrs	Permanent Secretary - Administration and HR management	Ismail Shafeeq, Fathmath Naseer
<b>Wednesday 21 October 2009</b>		
0900hrs	Working session/technical meetings	National Budget Section and Economic Affairs and Policy Planning Section
1100hrs	Working session/technical meetings	Treasury and Public Accounts Division
1330hrs	Working session/technical meetings	ERMD and Public Enterprises Monitoring and Evaluation Board (PEMEB)
1430hrs	Working session/technical meetings	ERMD (Debt Section)
<b>Thursday 22 October 2009</b>		
0900hrs	Working session/technical meetings on Monetary Policy	MMA/ERSD
1000 hrs	Working session/technical meetings on Debt Management and Debt markets	MMA/Public Debt Division
1100 hrs	Working session/technical meetings on Central Government accounts and banking	MMA/ Banking Section
1300 hrs	Working session/technical meetings on cash management	MMA
1500 hrs	Market participants dealing in government debt	Capital Markets Development Authority
<b>Sunday 25 October 2009</b>		
0900hrs	National Disaster Management Centre	State Minister Abdulla Shahid, Director General Mohamed Shahid
1030 hrs	Auditor General's Office	AG Office officials
1330hrs	Attorney General's Office	AGO and mission members
<b>Monday 26 October 2009</b>		
0900hrs	Market participants dealing in government debt	State Bank of India, Male'
1030hrs	Market participants dealing in government debt	Bank of Maldives
1400 hrs	Evaluation and Assessment	ERMD (Debt Section) Public Accounts and PEMEB
<b>Tuesday 27 August 2009</b>		
1030 hrs	Wrap-up Meeting	Minister Ali Hashim and/or State Minister Ahmed As-ad, Permanent Secretary Ismail Shafeeq, Financial Controller Mohamed Ahmed and DNP, ERMD, Treasury and Public Accounts Div., PEMEB, Fiscal Affairs and Economic Policy Div. from MOFT plus MMA and Auditor General's Office, Attorney General's Office officials

## Annex 2: Comparative Score between PEFA and DeMPA

PEFA	Score	DeMPA	Score
<b>PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy, and Budgeting</b>		<b>DPI-6: Coordination with Fiscal Policy</b>	
<b>Dimension (ii):</b> Scope and frequency of debt sustainability analysis	D	<b>Dimension 2:</b> Availability of key fiscal variables and/or analysis of debt sustainability, and the frequency with which these are undertaken	D
<b>PI-16: Predictability in the Availability of Funds for Commitment of Expenditures</b>		<b>DPI-11: Cash Flow Forecasting and Cash Balance Management</b>	
<b>Dimension (i):</b> Extent to which cash flows are forecast and monitored	C	<b>Dimension 1:</b> Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	D
<b>PI-17: Recording and Management of Cash Balances, Debt, and Guarantees</b>		<b>DPI-14: Debt Records</b>	
<b>Dimension (i):</b> Quality of debt data recording and reporting	C	<b>Dimension 1:</b> Completeness and timeliness of central government debt records	
		<b>Dimension 2:</b> Completeness and up-to-date records of all holders of government securities in a secure registry system	
		<b>DPI-15: Debt Reporting</b>	
		<b>Dimension 1:</b> Meeting statutory and contractual reporting requirements of central government debt to all domestic and external entities	C
		<b>Dimension 2:</b> Meeting statutory and contractual reporting requirements for total nonfinancial public sector debt and loan guarantees to all domestic and external entities	N/R
		<b>Dimension 3:</b> Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt	
			D
		<b>DPI-1: Legal Framework</b>	
		<b>Dimension 1:</b> The existence, coverage, and content of the legal framework	C
		<b>DPI-2: Managerial Structure</b>	
		<b>Dimension 1:</b> The managerial structure for central government borrowings and debt-related transactions	D
		<b>Dimension 2:</b> The managerial structure for preparation and issuance of central government loan guarantees	B
		<b>DPI-3: Debt Management Strategy</b>	
		<b>Dimension 1:</b> The quality of the debt management strategy document	D
		<b>Dimension 2:</b> The decision-making process, updating, and publication of the debt management strategy	D
<b>Dimension (iii):</b> Systems for contracting loans and issuance of guarantees	C	<b>In addition, can also refer to:</b>	
		<b>DPI-8 (Domestic Market Borrowing)</b>	
		<b>DPI-9 (External Borrowing)</b>	
		<b>DPI-10 (Loan Guarantees, On-Lending, and Derivatives)</b>	
<b>PI-21: Effectiveness of Internal Audit</b>		<b>DPI-5: Audit</b>	
<b>Dimension (i):</b> Coverage and quality of the internal audit function	D	<b>Dimension 1:</b> Frequency of internal and external audit of central government debt management activities, policies, and operations, as well as publication of external audit reports	D
		<b>Dimension 2:</b> Degree of commitment to address the outcomes from internal and external audits	NR
<b>Dimension (iii):</b> Extent of management response to internal audit functions	C		
<b>PI-22: Timeliness and Regularity of Account Reconciliation</b>		<b>DPI-11: Cash Flow Forecasting and Cash Balance Management</b>	
<b>Dimension (i):</b> Regularity of bank reconciliations	C	<b>Dimension 3:</b> Where the Principal DeM Entity (or the DeM entities) operate(s) its (their) own bank accounts, the frequency of reconciliation of these bank accounts	N/R
<b>PI-25: Quality and Timeliness of Annual Financial Statements</b>		<b>DPI-15: Debt Reporting</b>	
<b>Dimension (i):</b> Completeness of the financial statements	D	<b>Dimension 3:</b> Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt	D
<b>PI-26: Scope, Nature, and Follow-Up of External Audit</b>		<b>DPI-5: Audit</b>	
<b>Dimension (i):</b> Scope/nature of audit performed (including adherence to auditing standards)	C	<b>Dimension 1:</b> Frequency of internal and external audit of central government debt management activities, policies, and operations, as well as publication of external audit reports	D
<b>Dimension (ii):</b> Timeliness of submission of audit reports to legislature	B		
<b>Dimension (iii):</b> Evidence of follow-up on audit recommendations	D	<b>Dimension 2:</b> Degree of commitment to address the outcomes from internal and external audits	N/R