

VI. RISKS AND MITIGATION

110. While potential country risks have been highlighted throughout this document, three predominate: political instability, fiscal uncertainties, and potential issues associated with project implementation.

Political Instability

111. *The past four years have seen increasing political unrest and growing tensions between government and opposition.* However, the track record of the Maldives in containing major unrest is encouraging. Its people are pragmatic, most seem to understand the importance of stability if economic growth is to be maintained, and a steady improvement in the quality of life for the majority provides an incentive for evolutionary rather than revolutionary change.

112. *There is little that the Bank can do to alleviate this risk directly.* Other actors including the EU, the Commonwealth, and the UN are better positioned to act as “honest brokers” between the government and the opposition. These efforts have the potential for facilitating a national consensus on political reforms. The Bank will continue to ensure that the projects and activities it supports are likely to have broad based support from within the community. The participation of a range of stakeholders will be sought when preparing projects. In addition, the South Asia Region has recently held internal ‘Brainstorming sessions’ amongst Bank Group staff to stay abreast of developing political situations and to discuss adjustments in the program if necessary.

Fiscal Uncertainty

113. *In the absence of a fiscal crisis, it seems unlikely that the government will change course before the elections scheduled for next year.* To alleviate the risk that unsustainable fiscal deficits derail implementation of the proposed program, in close cooperation with other development partners, the Bank Group will continue to try and persuade the Government to adopt more realistic fiscal policies. As noted above, the Bank Group, including IFC, would adjust its program accordingly, particularly to support government actions to reduce its deficit. For new investment projects, fiscal risks will be assessed and project design adapted to ensure sustainability even if short term fiscal problems emerge.

Project Implementation

114. *Based on past experience, capacity limitations constrain effective project implementation.* To alleviate this risk, all projects will include an institutional development focus, be kept simple and will be tightly focused outputs and outcomes. The Bank will seek to coordinate mutual activities with other donors, avoid creating new implementing entities, strengthen the capacity of core implementation groups in existing ministries, and continue to help the government develop country systems acceptable to the Bank and other donors.

115. *There are no significant concerns about managing fiduciary risks in the Maldives portfolio.* At project level, Financial Management (FM) arrangements have been simplified by placing greater reliance on country systems,²⁸ enhanced report based disbursements,²⁹ ensuring harmonization with

²⁸ Investment projects in Maldives are now adopting key elements of country financial management systems such as budget preparation and implementation procedures, accounting and internal control, except for auditing arrangements.

²⁹ All projects in Maldives currently disburse on the basis of reports enhancing accountability.

other donors and partners³⁰ and focusing on preparing capacity building components for improving FM performance for improving the quality of the portfolio and enhancing developmental impact. Investment projects in the Maldives portfolio are adopting key elements of country FM systems, except for External Audits which are conducted by acceptable and independent private firms, due to capacity issues in the Audit office.

116. *In terms of procurement, while there is currently limited capacity in the country, the portfolio is safeguarded through ensuring that staff are trained upfront in procurement.* However, staff turnover – through transfers or on overseas training - can result in a higher fiduciary risk during project implementation. While the Tender Evaluation Board (TEB) is mandated to process all large value public procurement, donor-financed projects are generally permitted to process all procurement, with TEB approval, and following donor guidelines. It is envisaged to continue with the same arrangements for the operations planned under the CAS period, while supporting the broader reform agenda which will focus on improving country systems and developing capacity. In relation to improving governance and accountability, focus has increased on strengthening operational controls,³¹ rather than just financial controls.

³⁰Post Tsunami Relief and Reconstruction project, where all donors aligned around Government's desire to set up a single unified arrangement by delineating all Tsunami related flows into a Fund ("Tsunami Relief and Reconstruction Fund") as a part of the budget (overall government systems to ensure efficiency and efficacy).

³¹ Like controls for identification and selection of beneficiaries for a community driven scheme; controls of flow of funds for R&R activities which may be small amounts but have large reputation risks.