



Draft Design and Monitoring Framework

Project Number: 39658
June 2006

MLD: Public Resource Management Reform Program

A design and monitoring framework is an active document, progressively updated and revised as necessary, particularly following any changes in project design and implementation. In accordance with ADB's public communications policy (2005), it is disclosed before appraisal of the project or program. This draft framework may change during processing of the project or program, and the revised version will be disclosed as an appendix to the report and recommendation of the President.

Asian Development Bank

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>Impact Set public finances on a sustainable path through development of systems and procedures for diversification of the revenue base and strengthening of expenditure management</p>	<p>An increasing share of regular budget expenditures is financed out of own government revenues</p> <p>Increased accountability of line ministries in the use of public resources</p> <p>Improved performance accountability of civil service</p> <p>Improved ability to link resource allocation with the medium term fiscal policy objectives</p> <p>Decline of Ways and Means Advances (WMA)</p> <p>Reduction in the Fiscal Deficit to gross domestic product ratio</p>	<p>Reports by the Fiscal Policy Unit (FPU) on macroeconomic indicators, fiscal trends, fiscal sustainability of public expenditure policies, and debt sustainability.</p> <p>Budget Speech and how it links with the Medium Term Fiscal Framework (MTFF)</p> <p>Reporting requirement under Fiscal Management Responsibility Act (FMRA)</p> <p>Findings from IMF Article IV Consultations</p> <p>Asian Development Bank (ADB) review missions</p>	<p>Assumptions</p> <ul style="list-style-type: none"> Continued ownership of governance reforms to support Program implementation. Civil Servants are held accountable for their performance. The Government is aware of the Country's vulnerability to external shocks. <p>Risks</p> <ul style="list-style-type: none"> Natural disasters may cause disruptions in the tourism inflows. Increasing oil prices may increase Balance of Payment deficit with pressure on Gross International Reserves.
<p>Outcome Improved fiscal policy management is achieved</p>	<p>Increase in tax and non tax revenues as outlined in the MTFF</p> <p>Compression and rationalization of expenditures is carried out as projected in the MTFF and allocated in the Medium Term Expenditure Framework (MTEF)</p> <p>Improved transparency and accountability of the budget process based on</p>	<p>Budget document</p> <p>Mid-term review of budget implementation</p> <p>Final budget position Report</p> <p>MTFF</p> <p>Fiscal monthly report</p> <p>MTEF reports</p> <p>Project Appraisal selection criteria</p>	<p>Assumptions</p> <ul style="list-style-type: none"> Tourism arrivals continue at a steady pace. An above 70% occupancy rate is maintained. Line Ministries collaborate in the elaboration of MTEF. Fiscal Discipline at the level of individual line ministries is effectively enforced. <p>Risks</p> <ul style="list-style-type: none"> Delays in the implementation of FMRA legislation.

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
	<p>the provisions of the FMRA and consistent with the fiscal policy targets set in the MTFF</p> <p>Rationalization in public service delivery and reduction of the role of the State in the economy through reform of Public Sector Enterprises</p> <p>Developing market-based instruments to improve Treasury Management</p> <p>Strengthening the capacity of the Ministry of Finance and Treasury (MOFT) and Ministry of Planning and National Development (MPND) staff to improve fiscal policy implementation and monitoring skills</p>	<p>Periodic program progress reports</p> <p>ADB review missions</p> <p>Auditor General's annual report</p> <p>Maldives Monetary Authority (MMA) Annual Report and IMF Technical Assistance (TA)</p>	<ul style="list-style-type: none"> • Lack of capacity within individual line ministries to effectively implement and monitor MTEF. • Weak enforcement of FMRA may be conducive to profligate fiscal behavior of line ministries. • Limited political will to support enabling legislation under the Program.
<p>Outputs A sound legal and institutional framework for effective implementation of Fiscal Policy Strategy is in place</p>	<p>A fiscal policy strategy and related MTFF is prepared and approved by the Government (October 2006)</p> <p>The budget is elaborated in accordance with the MTFF and submitted to the Parliament (December 2006 and beyond)</p> <p>MOFT creates a FPU which is responsible for monitoring the fiscal trends and sustainability of fiscal policy and provides inputs for budget elaboration and mid-term review of its execution (December 2006 and beyond)</p> <p>MOFT establishes a Fiscal Coordination</p>	<p>Budget Speech</p> <p>Budget Document</p> <p>Cabinet Policy Paper</p> <p>Fiscal Monthly Review</p> <p>Mid-Term Budget Implementation Report</p> <p>Cabinet Policy Paper</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • MOFT recognizes the importance of having a medium term approach to fiscal policy planning. • Budget Department's staff has the necessary skills to anchor the budget to the MTFF. • MOFT has full ownership of reforms. • FPU and Fiscal Coordination Committee (FCC) are established in a timely manner and they act in coordination. • FPU has the relevant skills to conduct fiscal

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
	<p>Committee to support budget elaboration and implementation (December 2006 and beyond)</p> <p>FMRA approved (June 2008)</p> <p>MOFT adopts MTEF and budget guidelines on contingent liabilities and closure of both current and capital accounts in March of the following year (June 2008)</p>	<p>Official Gazette</p> <p>MOFT budget circular</p>	<p>policy analysis and advice.</p> <ul style="list-style-type: none"> • FPU is held accountable for fulfilling its mandate. • Coordination between MOFT and the Attorney General is in place to support expedite submission of FMRA to the Parliament. • Parliament approval of FMRA and Business Profit Tax (BPT) legislation is swift
Diversification of the revenue base	<p>The Parliament approves Legislation on BPT and Tax Administration Bill (October 2006)</p> <p>Tourism Act amended to introduce an <i>Ad Valorem</i> Tourism Tax as a temporary measure until BPT is fully operational (October 2006)</p> <p>MOFT approves tax regulations on accounting requirements, capital allowances, and Tax Appeal Tribunal (October 2006)</p>	<p>Official Gazette</p> <p>Amendment of the Tourism Act</p> <p>Official Gazette</p> <p>Tax regulations issued</p> <p>MOFT Circular</p>	<p>Risks</p> <ul style="list-style-type: none"> • Low level of commitment from the part of MOFT may delay establishment of FPU and FCC. • Poor capacity within FPU and FCC may constrain their effectiveness as program monitoring units. • Vested interests of Ministry officials may lobby to delay approval of FMRA and BPT and may also hinder introduction of <i>ad valorem</i> tourism tax. • The judiciary has not experience with respect to tax administration disputes.

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
Enhanced Resource Mobilization	<p>The Government collects advance payment of 15% rental lease for 20 new resorts (October 2006)</p> <p>Fish processing license fee is introduced on existing licenses and new fishing licenses are auctioned based on highest price bids (October 2006)</p> <p>The Government increases electricity tariffs in Male (October 2006)</p> <p>MOFT eliminates discretionary duty waiver on non-tsunami relief and rehabilitation related efforts (October 2006)</p>	<p>MOFT Circular</p> <p>MOFT Circular</p> <p>MOFT Circular</p> <p>MOFT Circular</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Auctioning of the 20 new resorts is concluded within 2006 and payment of the advance lease occurs without delay. • The international fish price stays stable. • MOFT recognizes the importance of increasing State Electricity Co. financial autonomy. <p>Risks</p> <ul style="list-style-type: none"> • Tendering process is challenged in the courts. • Delay in payment of lease rent from the part of resort developers may cause revenue shortfall. • Delay in the removal of discretionary duty waiver.
Capacity of Department of Inland Revenues (DIR) is improved	MOFT approves DIR implementation plan to support BPT implementation and administration (October 2006)	MOFT Circular	<p>Assumptions</p> <ul style="list-style-type: none"> • DIR is able to recruit and retain qualified staff to perform BPT administration tasks. • Public and Private Companies are self compliant with BPT. • Tax auditing is efficient. <p>Risks</p> <ul style="list-style-type: none"> • Poor tax administration may encourage tax evasion.

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>Contained and rationalized public expenditures</p> <p>Capital Expenditures are rationalized</p>	<p>As an exceptional measure the Government freezes new recruitment of civil servant and introduces a cap on all current expenditures from the second half of 2006 to 2008 (July 2006 and beyond)</p> <p>MOFT introduces a cap on domestic funded Public Sector Investment Plan (PSIP) to 2004 expenditure levels for 2007 and 2008 (December 2006 and beyond)</p> <p>The MPND adopts an appraisal system for ranking of investment projects based on approved selection criteria (December 2007)</p> <p>The Government conducts a Public Expenditure Review of selected line ministries to better align expenditures with desired outcomes (December 2007)</p>	<p>Annual budget statement</p> <p>MPND Investment Projects Circular</p> <p>MPND Project Appraisal Circular Annual budget statement</p> <p>MTEF</p>	<p>Assumption</p> <ul style="list-style-type: none"> • The Government recognizes that fiscal consolidation cannot be achieved simply through revenue augmentation initiatives. • MOFT and MPND collaborate to support capital expenditure rationalization and compression. • Recommendations following Public Expenditure Review are enacted in a timely manner <p>Risks</p> <p>Forthcoming political elections in 2008 may interfere with the enactment of expenditure compression initiatives thus resulting in increasing Government outlays.</p>
<p>The functions of Government are strengthened</p>	<p>Public Service Division and Ministry of Atoll Development prepare an action plan to support implementation of the policy of one-stop service delivery at each of the three growth centers in the country (June 2008)</p> <p>The Government reviews feasibility of decentralization initiatives to ensure the Atolls administration's ability to manage own revenues for effective service delivery (June 2008)</p>	<p>Cabinet Policy Paper</p> <p>Action Plan on one-stop service delivery policy</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Coordination between Public Service Division and Ministry of Atoll Development in the elaboration of the Action Plan. • Adequate source of revenues are transferred to the Atolls for execution of their spending responsibilities. <p>Parliament approves Civil Service Commission Bill</p>

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>Accountability of the Civil Service is increased</p>	<p>The Civil Service Commission Bill is submitted to Parliament for establishment of an independent commission for reform of the civil service (December 2007)</p>	<p>Cabinet Policy Paper Decentralization Act Local Government Act Official Gazette</p>	<p>without delay.</p> <ul style="list-style-type: none"> • MOFT is convinced of the importance of linking remuneration with performance. <p>Risks</p> <ul style="list-style-type: none"> • Vested interests within the Government may lobby to delay implementation of the pay and grading system. • Pay and grading system once approved is not adequately enforced.
<p>Reduced Public Sector participation in economic and/or commercial activity</p>	<p>Introduction of a pay and grading system which links remuneration of civil servants to performance evaluation (June 2008).</p> <p>The Government announces a policy and action plan on public enterprises (PE) reform (October 2006).</p> <p>MOFT appoints Public Enterprises Commission (PEC) Board members and management (October 2006)</p>	<p>Government Circular Policy Paper</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • The Government recognizes the importance of reducing public sector participation in economic activity. • Policies for redeployment of staff of privatized PEs are efficient and effectively enforced. <p>Risks</p> <ul style="list-style-type: none"> • Vested interests within the Government and the Civil Society may act to delay privatization of PEs identified for privatization.
<p>Strengthened Treasury Management</p>	<p>The Government authorizes transfer of assets and liabilities of PEs identified by PEC for privatization to new companies registered under the Company Act (October 2006)</p>	<p>Action Plan on PE reform MOFT PEC Circular</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Coordination between the cash management unit and the FPU is in place to ensure reliable projections of budget estimates.

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
	<p>PEC publishes a Code of Good Practices on Corporate Governance (June 2008)</p> <p>Three enterprises identified for privatization are brought to the point of sale (June 2008)</p> <p>A cash management unit is established in MOFT (October 2006).</p> <p>The MMA defines a ceiling on the amount of WMA to the Government (October 2006) with the aim of eliminating it completely by program completion (June 2008)</p> <p>MOFT and MMA introduce auctioned short term treasury bills (T-bills) (October 2006)</p> <p>MOFT develops a secondary trading of T-bills (June 2008)</p>	<p>Presidential Decree</p> <p>Code of Good Governance</p> <p>MMA Circular</p> <p>MOFT circular</p> <p>MMA circular</p> <p>IMF TA</p> <p>MOFT T-bills circular</p>	<ul style="list-style-type: none"> The ceiling on WMA set by MMA is effectively enforced. Recommendations from IMF TA are followed in a timely manner. Necessary legislative provisions to ensure MMA independence from the Government are in place. <p>Risk</p> <ul style="list-style-type: none"> In the absence of an auctioning mechanism for T-bills and development of a fluid secondary market, MMA may be forced to underwrite the bonds issued by the Government
<p>Activities with Milestones</p> <ol style="list-style-type: none"> The Government to introduce a MTEF to complement introduction of MTEF (June 2007) <ol style="list-style-type: none"> Recruitment of Budget experts Timely submission of Budget circulars Timely fielding of consultant team Line ministries to submit their sector strategies to support elaboration of MTEF Discussions with the line ministries to be actively involved in the pilot initiatives based on their sector strategies Pilot Ministries report to the Director General of Treasury and Director of Budget Department, on a quarterly basis actual against authorized budget allocation MOFT to adopt a time-bound action plan for diversification of the revenue base (October 2006) <ol style="list-style-type: none"> Parliament approves BPT legislation and related regulations MOFT implements DIR modernization program Ensure coordination between DIR and Ministry of Tourism for effective collection of Tourism Tax Consultant team is fielded promptly Training is provided to relevant DIR staff 		<p>Inputs</p> <p>ADB Financing of \$15 million equivalent from Asian Development Fund and an Asian Development Fund financed TA loan of \$2 million for Capacity Building in support of Program implementation.</p> <p>Consulting services 62 person/months international 29 person/months domestic</p> <p>FPU and FCC to submit monthly report on trend on Fiscal Indicators and quarterly reports on progress in Public Resource Management Reform Program implementation.</p> <p>Coordination Consultant to endorse quality assurance upon</p>	

<p>Activities with Milestones</p> <p>2.6 Public awareness program is undertaken to foster acceptance of the new tax among taxpayers</p>	<p>Inputs</p> <p>receipt of consultant's report.</p> <p>Mid-term Reports</p> <p>Progress Reports</p> <p>Final Reports</p> <p>ADB review missions</p> <p>Program Performance Report</p> <p>Operations Evaluations</p> <p>Department Reports</p>
--	---