

ASIAN DEVELOPMENT BANK

TAR: MLD 35384

TECHNICAL ASSISTANCE

TO THE

REPUBLIC OF THE MALDIVES

FOR

STRENGTHENING OF DEBT MANAGEMENT

October 2003

CURRENCY EQUIVALENTS

(as of 24 September 2003)

Currency Unit	–	rufiyaa (Rf)
Rf1.00	=	\$0.078125
\$1.00	=	Rf12.80

ABBREVIATIONS

ADB	–	Asian Development Bank
CS-DRMS	–	Commonwealth Secretariat-Debt Recording and Management System
CDP	–	United Nations Committee for Development Policy
FIEDMS	–	Financial Institutions and External Debt Management Section
LDC	–	less developed country
MMA	–	Maldives Monetary Authority
MOFT	–	Ministry of Finance and Treasury
PDM	–	public debt management
TA	–	technical assistance

NOTES

- (i) The fiscal year of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

This report was prepared by Yesim Elhan.

I. INTRODUCTION

1. The Government of the Maldives (the Government) requested the Asian Development Bank (ADB) to provide a technical assistance (TA) grant for debt management.¹ The request was in congruence with the Government's efforts to integrate the analysis of debt sustainability into medium- and long-term macroeconomic planning and to promote good governance. The TA concept paper was included in ADB's country strategy and program 2003–2005 for the Maldives.

2. The Fact-Finding Mission (the Mission)² visited the (Maldives) during 9-13 March 2003. The Mission met with representatives from the Ministry of Finance and Treasury (MOFT), Maldives Monetary Authority (MMA), Ministry of Planning and National Development, and Department of External Resources, the primary administrators of domestic and foreign debt in the Maldives. The Government and the Mission reached an understanding on the objectives, scope, financing plan, and implementation details of the TA. The TA framework is provided in Appendix 1.

II. ISSUES

3. During the last decade, exogenous shocks³ have threatened Maldives' traditional revenue sources (fisheries and tourism). Supported by external and domestic borrowing, the Maldives' economy maintained a relatively steady pace of growth. However, the country's public debt portfolio expanded visibly.

4. The amount and composition of the country's external debt portfolio is expected to change, including more loan products priced at market rates rather than at concessional terms. The Maldives has enjoyed preferential lending terms on external assistance and loans it received, given its status as a small island developing state and a less developed country (LDC). This effectively kept the debt service and thus the associated budgetary pressures to a minimum. However, after the April 2003 triennial review of the United Nations Committee for Development Policy (CDP), the Maldives was recommended for graduation from LDC status. The United Nations Economic and Social Council (ECOSOC) reviewed this recommendation in its July 2003 session; a final decision was not taken on the issue. The Maldives' possible graduation will be considered further during CDP's resumed session in October 2003.

5. During the July session of CDP, it was noted that Maldives met two out of three criteria for graduation in the last three reviews of its LDC status; hence, it qualified technically for graduation. Thus, the Maldives could be graduated from LDC status by the end of 2003. Graduation would have a direct impact on the debt burden of the country, as the grant-dominated assistance blend offered to the Maldives thus far would shift toward a higher-cost loan portfolio. In view of the economic fragility of this small island country, CDP members may opt for a graduation process extending over the next 3–6 years, rather than immediate secession. Regardless of the timetable, impending graduation underscores the need for immediate adoption of comprehensive debt monitoring and management, anchored by sound financial and macroeconomic analyses for long-term economic sustainability of the country.

¹ The TA first appeared in *ADB Business Opportunities* on 13 March 2003.

² The Mission comprised Yesim Elhan, economist, South Asia Governance, Finance and Trade Division.

³ Global warming changed the ecological balance of the atolls and surrounding seas, affecting fisheries and the tourism sector, while health and political safety concerns because of Severe Acute Respiratory Syndrome (SARS) and the 11 September 2001 events had an impact on the number of tourists traveling to the country.

6. The Government has already taken steps to develop institutional and staff capacity for managing its debt portfolio. As early as 1986, assistance for administering the country's expanding external debt was solicited from the Technical Assistance Group of the Commonwealth Secretariat. In March 1987, CD-DRMS (Version 4), a software package for debt monitoring developed by the Commonwealth Secretariat, was installed in MMA and several staff members were trained on data collection and the use of this software. A computerized debt database was developed by the end of 1987, and this model was used until 1991. But as the debt portfolio grew, an upgrade of the spreadsheet-based system to a more sophisticated database was needed. MMA requested assistance from various aid agencies for procuring additional hardware and software and for human resource development. MMA received hardware and upgraded software (CD-DRMS, Version 5.4) from the Commonwealth Fund for Technical Cooperation in 1995, and staff members in MMA and MOFT⁴ were trained to use the new software at that time. This debt monitoring system is still in use.

7. Currently, the Financial Institutions and External Debt Management Section (FIEDMS) of MOFT manages the external debt portfolio, while the public finance and treasury sections monitor the domestic debt portfolio. The Commonwealth Secretariat has provided debt management software and training on how to use the software intermittently, since 1986. Periodically, additional staff members from MOFT and Department of External Resources were trained to support the debt management unit. However, due to staff turnover, only one of the original trainees is still involved in debt management. And due to capacity constraints, the bulk of debt management is limited to descriptive analysis of raw data compiled as Excel spreadsheets.

8. Current staff cannot carry out the major aspects of debt management, i.e., formulation of a debt and borrowing strategy, implementation of the strategy, management of the existing debt portfolio, and provision of guidance on new borrowing based on repayment capabilities. Hence, FIEDMS needs to develop its current debt recording function of debt monitoring and management facility, to be able to monitor all categories of domestic and foreign debt, and analyze existing debt stock with respect to the currency composition, maturity profile, and interest rate structure. Only after FIEDMS's capabilities are enhanced can cost and risk be minimized, guidelines on the appropriate level and terms of new borrowings be defined, and timely debt-service repayment ensured.

9. The Government acknowledges the importance of staffing the debt management unit within MOFT with technically capable employees that can be trained and retained in that post in the long run. A human resources gap study was conducted in the MOFT in July 2002.⁵ Guided by the recommendations of this study and internal staffing policy, MOFT designated three staff members who will be trained on the new debt management software and methodology under the current TA and will continue to work for the debt management unit in the long term. A fourth staff member will be joining FIEDMS by mid-2004, upon completing her post graduate work. Efforts to fortify the debt management function of MOFT will be more potent if anchored by a debt management policy. Hence, as part of ADB's loan for strengthening the Maldives' public accounting system,⁶ a broader policy framework is being developed that clearly defines the core functions of the Government and the roles and capabilities of key MOFT staff, including those in FIEDMS. The loan will concretize the core functions of the Government with respect to public

⁴ In the interim, some of the debt management functions had been delegated from MMA to MOFT.

⁵ The study was supported by TA 3824 (ADB. 2001. *Technical Assistance to Maldives for Strengthening of the Public Accounting System*. Manila).

⁶ ADB.2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of the Maldives for the Strengthening of the Public Accounting System Project*. Manila. (Loan 1915-MLD).

accounting, auditing, budgeting, and debt management, and assess the extent and efficiency with which these functions are carried out by MOFT staff, which will assist the Maldives to develop a fast-track capacity building initiative. The initiative will include on-the-job and external training for staff, support from long-term consultants, and outsourcing of certain positions as and when needed within the context of MOFT human resource policy. As part of the loan, the role of MOFT in accounting, auditing, and fund flow management is expanding and its accountability as a service provider to line ministries is being more clearly defined. Within this context, an effective management of data on internal and external public debt is crucial. This will necessitate compilation and processing of all debt-related data to form a reliable and complete resource for internal and external reporting on debt and related issues. The current TA will address that need and develop a debt management system in accord with the macroeconomic objectives and framework of the country.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

10. Given the growing debt portfolio and its changing composition as reflected in the shift to less concessional funds, public debt management needs to be strengthened in the Maldives. The TA's debt management capacity building will focus on (i) designing and implementing a complete and consolidated database on all public debt, and (ii) training staff in debt management units to ensure their proficient use of debt management and sustainability software. The aim is to facilitate sound management of the existing debt portfolio, and provide input on new borrowings vis-à-vis the country's repayment capacity and development framework. The ultimate goal will be to develop debt analysis into a comprehensive, forward-looking debt strategy, with a focus on long-term macroeconomic sustainability.

B. Methodology and Key Activities

11. Under this TA (i) the legal framework, institutional structure, and current practices for debt management will be reviewed; (ii) a time-bound action plan will be developed and implemented for strengthening the current system; (iii) necessary equipment and software for efficient debt management will be provided to MOFT; and (iv) provision of equipment and software will be supported by training given to MOFT, MMA, and other government offices working on debt management related activities. The training will include means of interfacing between the existing and new systems, fully using all features of the new software while preparing various descriptive and background reports for internal and external use,⁷ and basic trouble-shooting to maintain the newly-created debt management database during daily operations.

C. Cost and Financing

12. The total cost of the TA is estimated at \$412,000 equivalent, comprising \$350,000 in foreign exchange costs and \$62,000 equivalent in local currency costs. ADB will finance the entire foreign exchange component on a grant basis by ADB's TA funding program, while the

⁷ FIEDMS prepares background reports periodically for the MOFT Economic Affairs and Policy Planning Section, to support their medium- and long-term macroeconomic planning, as well as descriptive reports for international financial institutions.

Government will finance the local currency cost equivalent of \$62,000. Detailed cost estimates and financing plan are provided in Appendix 2.

D. Implementation Arrangements

13. MOFT will be the Executing Agency for this TA. FIEDMS of MOFT will be responsible for overall implementation of the TA. Two counterpart staff to be nominated from FIEDMS will work closely with the two TA consultants, to facilitate rapid and complete information transfer in the course of TA implementation. FIEDMS will also coordinate information sharing and (as needed) joint training activities under this TA among MOFT's relevant sections (i.e., FIEDMS' Public Finance Section and Treasury Section), MMA, Ministry of Planning and National Development, and Department of External Resources.

14. Two international consultants will be selected and engaged in accordance with ADB's Guidelines on the Use of Consultants, to provide the required consulting services for a total of 10 person-months. The consultant team will comprise a public debt management specialist (6 person-months) and a debt management software specialist (4 person-months). Outline terms of reference for consultants are provided in Appendix 3. Equipment, including computer hardware and software, will be procured in accordance with ADB's Guidelines for Procurement. After the completion of the TA, all equipment purchased under the TA will be handed over to the Government.

15. The TA will be implemented during 10 months, starting in November 2003 and ending in September 2004. The consultants will prepare (i) an inception report within 15 days of their fielding; (ii) a needs-based assessment report on the current institutional structure and practice of debt management, within a month of consultant fielding; (iii) a midterm review after the third month of consultancy; and (iv) a draft final report for the TA, submitted 3 weeks before the end of the consulting term. The needs-based assessment report will include a comparative appraisal of available debt management software, identifying computer hardware and software that will best address the needs of the Maldives. The recommendations of this report and the inception report will be discussed at a tripartite meeting attended by the TA consultants, representatives from MOFT and FIEDMS, and ADB staff overseeing TA implementation. All reports will be submitted (in hard and soft copies) to MOFT and ADB for review and comments. Comments received from MOFT and ADB will be duly incorporated before the consultants finalize the reports. The recommendations of the final report will be discussed during a tripartite meeting.

IV. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$350,000 on a grant basis to the Government of the Maldives for Strengthening of Debt Management, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>To increase the capacity of debt management units, with a view to developing a feedback mechanism between debt analysis and macroeconomic planning for the economy at large.</p>			
<p>Purpose</p> <p>Debt management capacity of Ministry of Finance (MOFT) will be strengthened.</p>	<ul style="list-style-type: none"> • A complete and consolidated database on all domestic and international public debt. • Proficient use of debt management and sustainability software by the debt management units in MOFT. • Prudential management of debt portfolio and provision of analytical reports and guidance on new borrowing vis-à-vis the country's repayment capacity and development priorities. 	<ul style="list-style-type: none"> • Descriptive and analytical reports prepared by Financial Institutions and External Debt Management Section (FIEDMS) for MOFT's Economic Affairs and Policy Planning Section, with a view to guiding budget discussions and macroeconomic planning. • Consultants' inception, progress, and final reports. • Consultations with other relevant departments of the Government, viz. Department of External Resources, Ministry of Planning and National Development, Maldives Monetary Authority (MMA), during ADB review missions. • Tripartite meetings. 	<ul style="list-style-type: none"> • Full cooperation and participation of Government of Maldives' during debt management training, which will be conducted by technical assistance (TA) consultants.
<p>Outputs</p> <ul style="list-style-type: none"> • A complete public debt database. • Staff trained in managing public debt database. • Timely provision of debt information and debt portfolio analyses to user departments of the Government. 	<ul style="list-style-type: none"> • Capacity building workshops for debt management in MOFT. • Reports and analyses provided to Government and to meet requirements of bilateral and multilateral development agencies. • Sustainable debt portfolio. 	<ul style="list-style-type: none"> • Feedback from workshop participants, in the form of assessment surveys. • Consultant's draft final report. • Final tripartite meeting. 	<ul style="list-style-type: none"> • FIEDMS will have staff members who will be trained on the use of debt recording, monitoring, and management under this TA and will continue to work in that capacity in the medium- to long-term. • Training will enable skills transfer to user department staff, as per their technical and operational needs.

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Activities</p> <ul style="list-style-type: none"> • Review legal framework, institutional structure, and current practices of debt management in the Maldives. • Develop and implement a time-bound action plan for strengthening current practices of debt recording and management. • Provide necessary equipment and software for efficient debt management to MOFT. • Conduct workshops on debt recording, monitoring, management, portfolio analyses, and projections. • Provide on-the-job training to staff from MOFT, MMA and other government offices, on (i) how to use the new software to produce analyses and reports on debt and related topics required by user departments of the Government and international financial institutions, and (ii) basic trouble-shooting as may be necessary in daily operation of the new software. 	<ul style="list-style-type: none"> • Assessment reports. • Implementation of the action plan. • Skills and information transfer through workshops and on-the-job training. 	<ul style="list-style-type: none"> • Regular consultations among ADB staff, TA consultants, and FIEDMS. • Consultant progress reports. • ADB review missions. 	<ul style="list-style-type: none"> • Commitments by MOFT to implement the TA, by assigning dedicated staff to work with TA consultants and go through necessary on-the-job training. • Timely procurement of equipment and software to ensure maximum on-the-job training during TA implementation. • Staff trained under this TA working on debt management in FIEDMS after TA completion. • Interdepartmental cooperation among Government departments that administer and manage public debt, to ensure a unified debt database is created and regularly updated.
<p>Inputs</p> <ul style="list-style-type: none"> • Full participation and institutional support from FIEDMS, MOFT, and MMA during TA implementation. • Consulting services for 10 person-months. 			

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing (ADB)^a			
1. Consultants			
a. Remuneration and Per Diem	250	0	250
b. International Travel	15	0	15
c. Reports and Communication	1	0	1
2. Seminars, Workshops	5	0	5
3. Equipment, Software	22	0	22
4. Government Representation at Contract Negotiations	5	0	5
5. Contingency	52	0	52
Subtotal (A)	350	0	350
B. Government Financing			
1. Office, Secretarial, and Related Services	0	11	11
2. Counterpart Staff	0	25	25
3. Reports, Workshops, and Communications	0	10	10
4. Local Travel	0	5	5
5. Contingency	0	11	11
Subtotal (B)	0	62	62
Total	350	62	412

^a Financed by ADB's TA funding program.
Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The technical assistance (TA) will provide for 10 person-months of consulting services by two international consultants. The consultants will undertake all tasks outlined in the terms of reference, as well as any other related tasks that may be required to achieve the objectives of the TA.

A. Public Debt Management Specialist and Team Leader (6 person-months)

2. The public debt management (PDM) specialist will be an economist with high-level academic qualifications and significant experience in managing public debt in small, developing economies, preferably those comparable to the Maldives. The specialist will have had experience in assessing the fiscal implications of external borrowing, national development planning, implementation of projects funded by external sources, public finance, and basic accounting. The specialist's tasks under this TA will include the following:

- (i) Examine the objectives of the Maldives' domestic and external debt management policy, and assess the current PDM framework and its linkages to the medium-term macroeconomic framework.
- (ii) Review the legal, institutional, and structural framework for debt management in the Maldives, within the context of current practices, with particular focus on interdepartmental coordination within the Ministry of Finance and Treasury (MOFT) and intra agency coordination among MOFT, Maldives Monetary Authority, Ministry of Planning and National Development, and Department of External Resources.
- (iii) Assess the initiative to issue treasury bills and other financial instruments, and the implications of such an initiative for managing domestic debt and macroeconomic management.
- (iv) Devise a plan for strengthening the debt management system, with a view to developing a debt strategy for the Maldives.
- (v) In collaboration with the debt management software specialist, assess the management information system in place and recommend how to upgrade the current system, vis-à-vis the intra-departmental connectivity that is being strengthened under an ongoing Asian Development Bank loan.
- (vi) Supervise the installation of the debt management software and data migration. Assist the debt management software specialist during the training of the users of this software.
- (vii) Provide on-the-job training to MOFT staff (from Financial Institutions and External Debt Management Section [FIEDMS], Public Finance and Treasury Sections) to ensure the sustainability of effective debt management beyond the implementation period of the TA. Training should include financial and debt sustainability analyses based on the data generated by the PDM software.
- (viii) In collaboration with the debt management software specialist and FIEDMS, organize and conduct training seminars/workshops on public debt management, for staff working on debt management in Ministry of Finance and Treasury, Maldives Monetary Authority, Ministry of Planning and National Development, and Department of External Resources. The training will ensure that PDM staff

are proficient in maintaining the database, debt analyses, financial simulation and forecasting under alternative borrowing options, and debt portfolio management.

- (ix) Prepare a manual that can be used in training additional PDM staff in the future.
- (x) Prepare the inception, assessment, midterm and final TA reports, based on the findings from (i)-(ix), and inputs from the debt management software specialist.

B. Debt Management Software Specialist (4 person-months)

3. The consultant will be a PDM specialist, who has had at least 5 years of experience with major debt management software packages (e.g., CS-DRMS of the Commonwealth Secretariat, Debt Management and Financial Analysis System [DMFAS] of United Nations Conference on Trade and Development [UNCTAD], Debt Sustainability Model [DSM+] of World Bank, and/or private packages such as Debt-Pro). The consultant will work closely with the information technology staff from MOFT, especially during the installation and initial use of the PDM software package. The responsibilities will include the following:

- (i) In collaboration with the PDM specialist and FIEDMS, identify a debt management software package. Oversee its procurement and installation.
- (ii) Set up the system, procedures, and documentation for server and database backup and recovery.
- (iii) Oversee the migration of the loan database to the new debt management system, and ensure data validation.
- (iv) In collaboration with the PDM specialist, design and conduct training seminars/workshops for PDM staff in database and system management, features of the debt management software, and how to generate debt and portfolio analyses from the PDM database using this software.
- (v) Assist the PDM specialist in preparing the training manuals.
- (vi) In collaboration with the PDM specialist, develop a macroeconomic model for forecasting resource gaps for the Maldives, and customize the software to produce other reports and enquiries to fit the operational needs of PDM staff in MOFT.
- (vii) Use this model to undertake debt sustainability analysis for the Maldives, and incorporate the exercise into on-the-job training for MOFT staff working on PDM.