

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SAGF

Division: SAGI

TA No. and Name TA 3925-MLD: Revenue Diversification		Amount Approved: 350,000	
		Revised Amount: 310,000	
Executing Agency: Ministry of Finance and Treasury	Source of Funding JSF and Government of Maldives	TA Amount Undisbursed 7,987	TA Amount Utilized 302,013
Date Approval 13 September 2002 Signing 14 July 2003 Fielding of Consultants 20 January 2004		Completion Date Original 31 May 2003 Actual 13 October 2006 Closing Date Original 31 May 2003 Actual 13 October 2006	
Description In 2001, during the Country Strategy Program (CSP) Formulation Mission, the Government of Maldives (GoM) requested the Asian Development Bank (ADB) to provide a Technical Assistance (TA) for Revenue Diversification. The TA was approved in 2002 as part of the 2002–04 CSP; its goal was to broaden the revenue base of GoM to enable faster growth through more prudent fiscal and macroeconomic management. The TA followed on to prior missions from the International Monetary Fund (IMF) and the Commonwealth Fund for Technical Cooperation (CTFC). The 1994 TA from IMF recommended the introduction of a tax on business profits and a tax on property rental value; the relevant legislation was drafted in 1995 and in 1996 another IMF Mission proposed the establishment of a Department of Inland Revenue (DIR) that was created in December 1996. In 1997/98, the CTFC provided a TA to DIR for (i) administration of the Business Profit Tax (BPT) and Property Rental Value Tax (PRVT); (ii) developing the appropriate organizational structure; and (iii) preparation of the Tax Law and Tax Administration Manual. CTFC provided additional assistance in 2000 for database management systems. Against this backdrop, the purpose of the ADB TA was to assist GoM in (i) devising an implementation plan for BPT and PRVT, and (ii) supporting the enactment of relevant regulations and legislations.			
Expected Impact, Outcome and Outputs The objectives of the TA were to (i) develop an implementation plan for submitting the proposed legislation and regulations to the Parliament for consideration and enactment; (ii) conduct a study on how to enhance the operational and administrative capacity of DIR for effective management of BPT; (iii) assist DIR in preparing revisions to the proposed legislation to include the merger of the BPT and PRVT provisions in one tax bill; (iv) provide skill transfer and capacity building through development of workshops, seminars, training and public information materials that will support DIR in successful implementation of the legislation; (v) assess the computerized tax management database and explore synergies with the ADB Project 1882 on Strengthening Information Technology to ensure the required information technology systems are available to support the revenue management system. The TA was adequately formulated to respond to the need for broadening the Government revenue base, and its design was consistent with previous work done by IMF and CTFC.			
Delivery of Inputs and Conduct of Activities The inputs included 13 person-months of consulting services (11 international and 2 domestic) and supervisory support from the Steering Committee and ADB professional staff. During TA implementation two international and one domestic consultants were recruited and provided consulting services for 11 and 2 persons months, respectively. Consultants' terms of reference were accurate and designed to meet the stated objectives. The TA included design of in-house training, seminars and workshops on tax administration, and public awareness programs to build up capacity of the DIR staff. TA completion was delayed by 31 months because of late recruitment and fielding of the consultants due to delay in the signing of the TA letter by GoM. Moreover, in May 2005, GoM requested to extend the TA until 31 December 2005 because of the need to engage the services of a lawyer to review and finalize the translated legislative drafts of the revenue bill. ADB agreed to utilize the allocation of \$7,000 for the translation services. Nonetheless, the TA was substantively completed in terms of consulting services and consultants' reports by July 2004. The consulting team performed well. The quality of work was satisfactory; the final report was accurate and comprehensive of the main issues involved in the implementation of BPT. Ministry of Finance and Treasury (MOFT) performance as the Executing Agency (EA) was not satisfactory. In spite of regular follow up from the Project Officer, signing of TA letter was delayed and no plausible explanation for this has been provided. In place of the originally envisaged Steering Committee, MOFT created a Technical Committee consisting of members from a number of Ministries and Departments in order to ensure stakeholder participation in the project and allow MOFT, DIR and consulting team to share information about the proposed legislation, its key aspects and implications. ADB's performance in terms of supervision of TA implementation and coordination with the project stakeholders and consulting team was satisfactory.			
Evaluation of Outputs and Achievement of Outcome The key output of the TA consisted of: (i) a time bound implementation schedule and overall plan for introducing BPT and PRVT including building up operation and administration capacity and human resources development for managing the new taxes; (ii) a draft legislation for BPT bill, PRVT bill, and tax administration bill and related regulations; (iii) a plan for computerized database tax management and linkage with ADB assisted Information Technology Development Project. The consultants' final report was satisfactory and provided the preparatory work for the introduction of BPT. The EA was satisfied with the quality of the TA outputs.			

In initial discussions with MOFT, DIR, the consulting team, and ADB agreed that BPT and PRVT would be merged into a single tax, the BPT that will include taxation of the property rental income. The merge of the two taxes is expected to increase efficiency in tax administration by DIR and reduce the burden on taxpayers. The Draft of the BPT legislation reflected this decision. The consulting team prepared an overall implementation plan and strategy to support preparation of the revised legislation and related documents that will lead to their introduction to the People's Majlis. Training seminars and presentations on the proposed legislation and regulations were delivered by the consulting team between May and June to MoFT Ministerial level officials, department heads and technical staff, and DIR managers and technical staff. Presentations were also made to private sector trade and business groups, accounting firms' representatives and attorneys. In order to increase taxpayer compliance, the Consulting Team recommended GoM to undertake a taxpayer education action prior to actual implementation of the new tax regime. The consulting team prepared a human resources development plan for DIR which incorporates the changes in structure and functions introduced by the TA.

The Tax Legislation Specialist reviewed the draft legislation prepared by CFTC and produced a BPT Bill and a Tax Administration Bill along with the related regulations. The consulting team prepared a number of policy papers and background papers and provided them to DIR and/or MoFT. The Database Management Specialist reviewed the existing system and organization used by DIR to collect taxes and fees. Meetings were held with the Ministry of Science and Technology to explore synergies with the ADB assisted Information Technology Development Project for which the Ministry is the EA, and ensure that the required information technology systems are in place to support revenue management systems.

The Consulting Team conducted a study on how to improve the operational and administrative capacity for effective management of the new tax and issued a report on the Reform Strategy for Revenue Diversification in the Maldives which will serve as the basic business plan for implementation of BPT and Tax Administration Bill. The proposed reform strategy is articulated along the following components: (i) management and institutional development; (ii) development of functional revenues operations; (iii) development of revenue services; and (iv) developing information communication technology systems. The Consulting Team recommended a phased implementation of BPT over 3 years and accordingly designed an implementation plan.

Overall Assessment and Rating

The Consultants delivered the substantial output of the TA within the original schedule. Notwithstanding the initial delays, MoFT provided adequate support through the Technical Committee during TA implementation while ADB supervised the TA implementation effectively. The TA provided the necessary support for introduction of the BPT while the Reform Strategy for Revenue Diversification in the Maldives represents the roadmap for effective implementation of the BPT and reflects the agreement reached among MOFT, DIR, ADB, and the consulting team on future actions. Overall, also in consideration of the delay in implementation, the TA can be rated partly successful.

Major Lessons

The partial success in the implementation of the TA confirms the importance of Government ownership for carrying out reform measures. The TA's major recommendations and the results achieved will provide valuable inputs in the design of the Public Resource Management Reform Program Loan (Project No. 39658-MLD) which is currently under processing. The Program aims to cover the main following areas: (i) fiscal management and planning; (ii) tax reforms; (iii) management of public expenditures; and (iv) profitability and efficiency of state-owned enterprises.

Recommendations and Follow-Up Actions

Effective broadening of the revenue base requires GoM to follow on to the main recommendations of the TA and to implement the Reform Program for Revenue Diversification, especially in terms of (i) implementation of the functional organizational structure for DIR; (ii) approval for funding, recruiting, and staffing of DIR positions; (iii) periodical update of the Reform Program Action Plans; (iv) support expedite submission of the BPT bill and related regulations to the Parliament; (v) begin the pre-implementation activities contained in the Reform Strategy Program Report. The Public Resource Management Reform Program Loan (Project No. 39658-MLD) will enable most of these actions.

In coordination with TA3925, ADB is providing further TAs to GoM in the area of Public Debt Management (TA4196-MLD) and Strengthening of Public Account Systems (TA3824-MLD). TA4196-MLD focuses on (i) designing and implementing a complete and consolidated database on all public debt, and (ii) training staff in debt management units to ensure proficient use of debt management and sustainability software. The objective is to develop a comprehensive and forward looking debt strategy with a focus on long-term macroeconomic sustainability. TA3824-MLD aims at preparing a Public Account System through the implementation of a computerized, double entry, cash based public accounting system with a central ledger, and a cheque production unit under the control of MOFT. The purpose of the TA is to improve the governance and the financial control over the public funds.

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Designation

Young Professional, SAGF