Report No: REV-2024-38(E) **20th March 2024**

Auditor General's Report on the Review of Medium Term Fiscal Strategy 2024-2026

އޮޑިޓަރ ޖެނެރަލްގެ އޮފީސް

AUDITOR GENERAL'S OFFICE

Table of Contents

Executive Summary

This report is prepared pursuant to the requirement set out in Act No. 7/2013 (Fiscal Responsibility Act) Section 30 (d), which mandates the Auditor General to audit the reports prepared and presented by the Minister under this Act.

The Medium Term Fiscal Strategy (MTFS) 2024-2026 was submitted to the People's Majlis by the Ministry of Finance on 31st July 2023 as required under Chapter 4 of the Act No. 7/2013 (Fiscal Responsibility Act). The main aim of the MTFS is to formulate fiscal policies that address the fiscal risks and ensure fiscal and debt sustainability in the medium-term. Four fiscal anchors are set in the MTFS to guide the policy and to measure the extent to which these fiscal objectives are achieved. The fiscal anchors set in MTFS are: -

- I- Reduce direct public debt (excluding guarantees) to less than 95 percent of GDP by the end of 2026.
- II- Maintain public and publicly guaranteed debt as a percent of GDP in a downward trend.
- III- Maintain the primary budget deficit at levels that do not exceed 5 percent of GDP.
- IV- Maintain recurrent expenditure at levels that do not exceed government revenue (excluding grants).

To reach the fiscal objectives the MTFS proposes several policy measures designed to increase government revenues and to reduce recurrent expenditures of the government.

The purpose of this audit is to review and evaluate these fiscal anchors presented in the MTFS and analyse the proposed fiscal consolidation measures.

The analysis of the new revenue measures *(i) sale of carbon credits (ii) increased dividend receipts to the government through profits from integrated tourism project that is planned to be undertaken by Maldives Fund Management Corporation (MFMC)* shows that the implementation of the measures has not yet progressed past the planning stages. While the work on key deliverables that needs to be completed for implementing the measures remains not started, these works are likely to take a substantial amount of time to complete. As such in our view, the likelihood for the government to attain the estimated financial return of these measures during the year 2024 *(estimated return of MVR 1,326.1 million in 2024: - Table 3)* or even during the medium term *(total estimated return of MVR 4,749.3 million within medium term: - Table 3),* remain remote.

Moreover, the budget proposal for the year 2024 has not incorporated the new revenue initiatives outlined in the MTFS. In our view, without revisions to the fiscal consolidation measures, this negatively impacts the planned schedules to achieve the medium-term objectives of the MTFS.

The analysis of the measures proposed for reduction of recurrent expenditure has also shown minimal progress, with most of the works related to the key deliverables remaining at the planning and resource allocation stages. While desired cost reduction measures of the MTFS is contingent on the successful completion of the key deliverables and timely implementation of the reforms, the current level of progress (most of which remains at planning stages) will make it challenging for the government to reduce the recurrent expenditure during 2024 *(estimated savings of MVR 2,726 million in 2024: - Table 4)* and even during the medium term *(total estimated savings of MVR 12,002.8 million within medium term).*

Expenditure Consolidation Measures Proposed in MTFS:

i- Replacing the universal fuel, electricity, staple food, and sanitation subsidies with targeted, direct cash transfers
ii- Targeting Aasandha coverage
iii- Strengthening screening measures for welfare assistance
iv- Staggering the rollout of pay harmonization

From the analysis of the fiscal consolidation measures proposed in MTFS 2024-2026, it is evident the government lacks commitment, comprehensive action plans, effective monitoring mechanisms and adequate accountability mechanism that are crucial for successful implementation of fiscal consolidations that are planned. In addition, frequent alterations to government policies pose additional challenges to the implementation of such consolidation measures**.**

Analysis of the fiscal consolidation measures proposed and the forecasts of budget 2024 suggests the fiscal anchors (anchor I & III) set to measure debt sustainability over the medium term is unlikely to be attainable. Additionally, the fiscal anchors (anchor II & IV) set to measure fiscal sustainability over the medium term will be extremely challenging and their success will be contingent on successful implementation of the measures proposed in MTFS and the proposed budget.

It is recommended that the Ministry shall,

- Ensure the proposed budget(s) and the implementation of the budget(s) during the medium term aligns with the medium-term strategies of the government.
- Formulate and establish proper planning and monitoring mechanisms for implementation of the fiscal consolidation measures and ensure proper accountability is embedded to these mechanisms.
- Coordinate with the relevant stakeholders in coming up with appropriate and realistic fiscal consolidation measures required to reach objectives of the MTFS and ensure these measures are backed by political support in their implementation before incorporating those into MTFS.
- Identify reasons for the implementation failures for the previously planned fiscal consolidations and take appropriate action to ensure implementation failures do not occur.
- Bring further fiscal consolidations which are required to achieve fiscal anchors set in MTFS and ensure fiscal sustainability is assured within the medium to long term.

The People's Majlis being the oversight body of the government, it is recommended that the People's Majlis shall strengthen the oversight on the actions taken by the government in implementation of the fiscal policy. **In doing so we specifically recommend that the People's Majlis: -**

- When modifying the fiscal anchors in the MTFS, require the Minister of Finance, to explain the reasons for deviating from previous fiscal objectives, and the approaches that the Government intends to take.
- Require the Minister of Finance to report annually to the People's Majlis on the actions taken by the Government to implement the recommendations of parliamentary committees and the Auditor General to the fiscal strategy report.

Introduction

This report is prepared under Section 30 (d) of the Act No. 7/2013 (Fiscal Responsibility Act), which states that the Auditor General (AG) should audit and prepare a report on the statements and reports prepared and submitted by the Minister pursuant to it.

The Fiscal Strategy statement is submitted by the Minister of Finance as per the requirements stated in Chapter 4 of Act No. 7/2013 (Fiscal Responsibility Act). The main purpose of the Fiscal Strategy statement as per the Act is to create general awareness towards the Fiscal Policy, and to develop a system to measure the activities undertaken by the government to achieve the objectives of the Fiscal Policy.

This review on the Fiscal Strategy statement is focused on the analysis of the objectives set in the fiscal strategy and analysis of the proposed policy initiatives.

Auditor General's Responsibility

Sections 3 and 4 of the Act No. 4/2007 (Audit Act) requires the Auditor General (AG) to;

(1) Audit all the government institutions, accounts and government trading bodies; and
(2) Promote public accountability and good governance and sound financial management in the administration of government institutions, state owned enterprises and joint venture companies in which state holds shares.

AG is also entrusted with improving the financial affairs and accountability of the aforesaid institutions and conduct performance audit of the same.

Section 30 (d) of Act No. 7/2013 (Fiscal Responsibility Act) states that the AG should audit and prepare a report on the statements and reports prepared and submitted by the Minister pursuant to it.

Responsibility of the Minister

It is the responsibility of the Minister to prepare the MTFS as per the requirements outlined in Chapter 4, Section 12 of the Act No. 7/2013 (Fiscal Responsibility Act)

As per Section 10 (a) of Act No. 7/2013 (Fiscal Responsibility Act) it is the responsibility of the Minister to submit annually a statement of Medium-Term Fiscal Strategy to the People's Majlis and publish it in the government gazette. Section 10 (b) of the Act states that it has to be addressed to the Public Accounts Committee (PAC) of the People's Majlis and that it has to be submitted before the end of July every year.

Review of Medium-Term Fiscal Strategy 2024-2026 (MTFS 2024-2026)

1- Comparison of Fiscal Anchors set in the MTFS

Table 1- Comparison of fiscal anchors set in the MTFS.

MTFS 2022-2024	MTFS 2023-2025	MTFS 2024-2026
To reduce Public Debt (excluding guarantee) to GDP ratio to 105% by 2023	To reduce Public Debt (excluding guarantee) to GDP ratio to 100% by 2025	To reduce Public Debt (excluding guarantee) to GDP ratio to 95% by 2026
To reduce primary budget deficit to GDP ratio to 5% by 2023	To reduce primary budget deficit to GDP ratio to 5% by 2023, and to maintain this in the medium term	To maintain primary budget deficit to GDP ratio within 5%
To maintain a reducing path over the medium term for budget deficit and debt	Maintain public debt as a percentage of GDP on a downward trend	Maintain public debt as a percentage of GDP on a downward trend
	To reduce recurrent expenditure to levels that do not exceed government revenue (excluding grants) by 2023, and to maintain this threshold going forward	To maintain recurrent expenditure within the level of government revenue (excluding grants).

Source: MTFS 2022-2024, 2023-2025 and 2024-2026

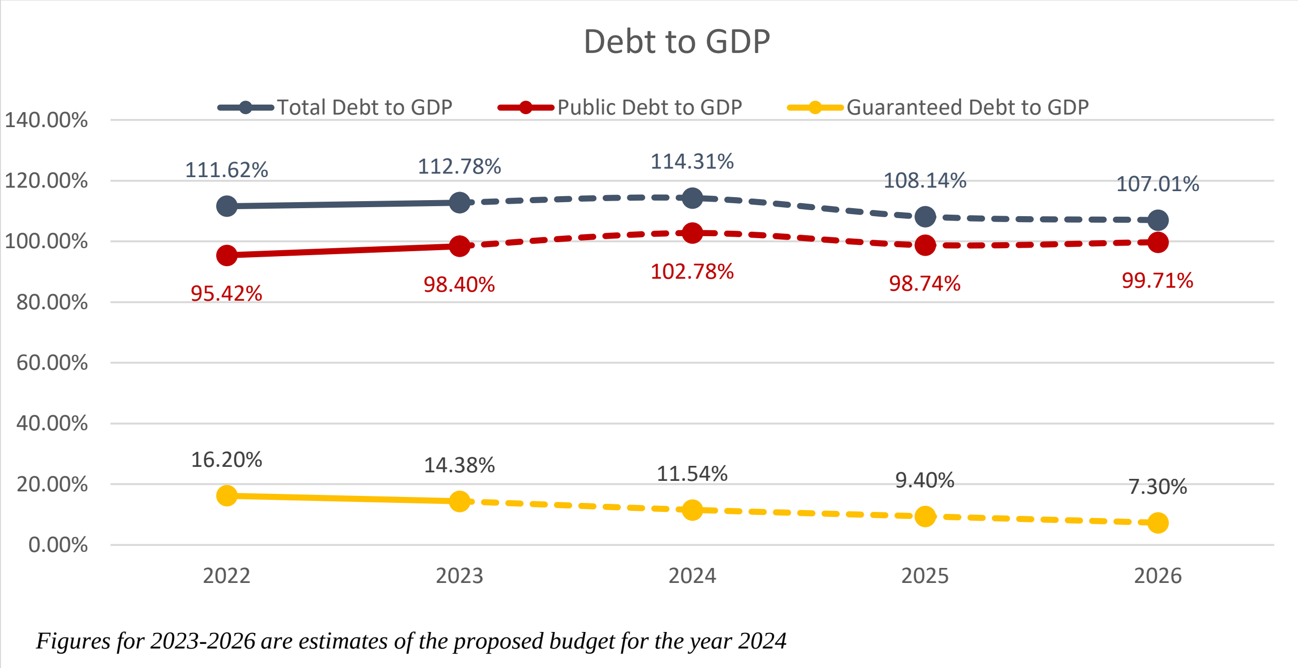
2- Analysis on the Fiscal Anchors

i. ***To reduce Public Debt (excluding guarantee) to GDP ratio to 95% by 2026.***

ii. ***Maintain public debt as a percentage of GDP on a downward trend.***

The most recent figures included in the proposed budget for the year 2024 shows debt to GDP ratio was recorded at 95.4% at the end of the year 2022. The updated forecasts included in the Proposed Budget for the year 2024 shows the Public Debt (excluding guarantees) to GDP ratio will further deteriorate over the medium term suggesting the fiscal anchors set to ensure debt sustainability during the medium term will not be achieved *(Figure 1).*

Figure 1: Forecasts in the Proposed Budget 2024 (Debt to GDP)



Source: Proposed budget for the year 2024.

iii. ***To maintain primary budget deficit to GDP ratio within 5%.***

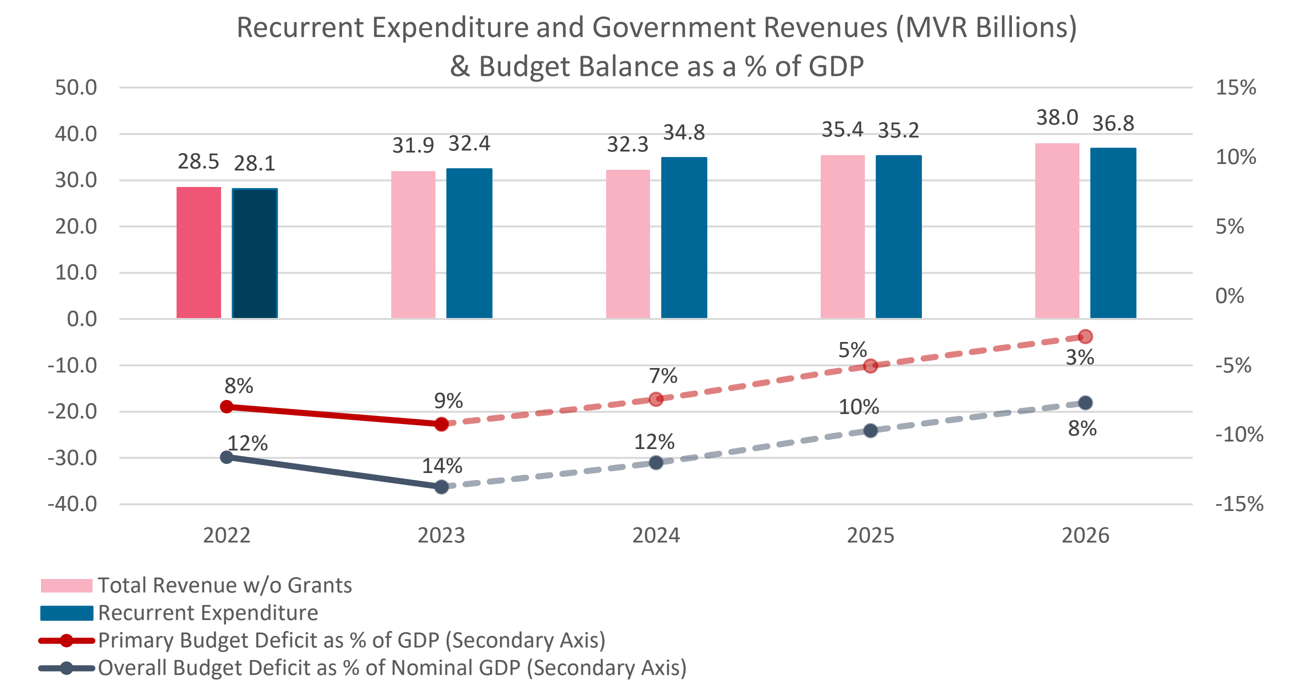
The most recent figures included in the proposed budget for the year 2024 show that the primary deficit to GDP ratio was recorded at 8% in 2022.

Forecasts included in the proposed budget 2024 also show that this ratio further deteriorates and reaches 9% of the GDP by the end of 2023 and will start to improve thereafter and the MTFS targets will be achieved during the year 2025 and 2026. *(Figure 2).*

iv. ***Maintain recurrent expenditure at levels that do not exceed government revenue (excluding grants).***

Based on the actual figures for the year 2022 the recurrent expenditure is maintained at levels that do not exceed government revenue (excluding grants). However, according to the forecasts included in the proposed budget for the year 2024 the recurrent expenditure will be more than the government revenue (excluding grants) during the year 2023 and 2024 but the MTFS target will be reached during the year 2025 and 2026. *(Figure 2).*

Figure 2: Forecasts in the Proposed Budget 2024 (Debt to GDP)



Figures for 2023-2026 are estimates of the proposed budget for the year 2024

Source: Proposed budget for the year 2024.

Even though the forecasts show that the anchors iii and iv set in the MTFS will be achieved within the medium term, it is important to understand that this outcome is highly contingent on successful implementation of the proposed Fiscal consolidation measures in MTFS and Budget. It is also important to highlight that in past years' similar measures were proposed for reduction of recurrent expenditure, however, has not been successfully implemented, primarily due to lack of governments commitment, lack of monitoring and accountability mechanisms, and changes in government policies.

3- Targets of the medium-term budget

Table 2- Comparison of medium-term budget targets from the MTFS

MTFS 2023-2025	MTFS 2024-2026
Improve efficiency of government expenditure and maintain a sustainable increase in expenditure	Increasing the efficiency of public expenditure to control the growth of expenses at sustainable levels
Improving the standard of living of citizens and make changes to the system so that those most in need are given higher priority when giving out government handouts and subsidies	Restructuring the social protection framework to prioritize the most vulnerable segments of society, and reforming existing subsidy mechanisms
Enhancing the fiscal preparedness for disasters and reducing fiscal risks	Mitigating the fiscal and economic risks arising due to external shocks
Improving the quality of essential and social service provided by the government	Enhancing the quality of basic services provided by the government

MTFS 2023-2025	MTFS 2024-2026
Increase government revenue and increase reliance on domestic consumption	Increasing government revenue and strengthening the reliance on domestic consumption for taxation.
Diversifying the economy and building a resilient economy.	Diversifying and increasing the resilience of the Maldivian economy.
Decentralizing government services and facilitating regional development	Promoting service delivery through decentralization, with a focus on regional development
Allocating a sufficient budget to implement government policies and maintaining budget credibility	Formulating an adequate budget to achieve the goals and objectives of fiscal policy, and bringing in the necessary legislative and other changes required to increase budget credibility.
Improve the weakened debt situation due to COVID-19 and other external shocks over the last year and bringing public debt to more sustainable levels.	

Source: MTFS 2024-2026

4- Analysis of new Policy Measures

4.1 Revenue Measures

MTFS aims to generate additional revenues in the medium term (2024-2026) by:

i- **Sale of Carbon Credits** - Sale of carbon credits based on the generated credits through the sequestration of carbon from mangroves and sea grass meadows in the Maldives.

ii- **Dividends from MFMC** - MFMC is expected to start generating revenue from the Integrated Tourism Project in K.Gaafaru during 2023, therefor dividend receivables are forecasted for the medium term.

Table 3- Estimated revenues from New Revenue Measures included in MTFS

Revenue Measure	2024	2025	2026
Sale of Carbon Credits	863.5	863.5	863.5
Dividends from MFMC	462.6	1,233.6	462.6
Total	**1,326.1**	**2,097.1**	**1,326.1**

Source: MTFS 2024-2026

4.1.1 Sale of Carbon Credits

The Ministry aims to monetize carbon credits with the collaboration of the International Islamic Trade Finance Corporation (ITFC). This involves determining blue carbon deposit sites (net negative carbon emission zones) and monetizing the "carbon credits" to carbon emitters.

To monetize the carbon credits, the following key deliverables need to be achieved.

a) Valuation of blue carbon zones.
b) Auditing the valuation.
c) Auctioning carbon credits.

According to the information gathered from the Ministry (during October 2023), the works related to key deliverables will begin after MOU is signed between Government and ITFC. As per the Ministry the MOU is drafted and is awaiting policy decisions on when and where the signing of the MOU will take place.

The work on the key deliverables will only start after the MOU with ITFC is signed and these works involves engagement of external parties. Furthermore, according to the Ministry, estimates of the revenues included in MTFS are based on the estimates of the ITFC from their preliminary analyses and past carbon trading patterns.

Caution may be advised in anticipating the forecasted revenues for the year 2024. The procurement of external parties to perform works related to key deliverables is contingent upon signing of the MOU between the Government and ITFC, while the deliverables themselves are likely to take a substantial amount of time to complete.

Additionally, it is also worth noting that the Ministry has not incorporated the *Sale of Carbon Credits* as a new revenue measure in the budget proposal for the year 2024.

4.1.2 MFMC Dividends

According to the Ministry the *Integrated Tourism Project* in K.Gaafaru includes:-

a) Developing 14 private islands in K.Gaafaru lagoon for long term lease.
b) Developing 2 super luxury resorts in K.Gaafaru lagoon.
c) 35 hectares' expansion of Gaafaru of which 5 hectares' expansion of Gaafaru for MFMC.

MTFS projects, that MFMC will start to generate revenues by auctioning the private islands during the year 2023 which will lead to revenues for the government in the form of dividends starting from 2024 onwards.

According to the information provided by the Ministry (as of October 2023), the plan is to develop and auction 3 private islands in 2023, 8 islands in 2024 and the remaining 3 islands in 2025. The Ministry further informs MFMC has estimated that each private island could be auctioned at the price of USD 25 million each and Ministry has forecasted 40% of this value will be realized to government as dividend income.

According to the information provided by MFMC (as of November 2023), the project finances are not yet secured, and it is the plan of the company to approach investors for the required finances. The company has also informed us that they are working on finalizing the Information Memorandum for the purpose of approaching investors.

While the Ministry has informed (as of October 2023), that the physical works are now planned to begin in December 2023, since the required finances are not secured, this raises concerns of when the project can actually begin and when any revenues can be realized.

Furthermore, the recently available data on acquisition income (acquisition income the government has realized between 2021-November 2023), shows that the acquisition income from islands leased for tourism, ranges between USD 610,000 and USD 3,601,155. This data suggests the estimated upfront receipt of USD 25 million per island are over-priced estimates.

4.2 Expenditure Reduction Measures

MTFS emphasizes the necessity to take efficient measures to reduce expenditure and establish a sustainable fiscal trajectory and therefore proposed reforms to consolidate and reduce government expenditure. The proposed reforms in the MTFS are: -

i- Replacing the universal fuel, electricity, staple food, and sanitation subsidies with targeted, direct cash transfers
ii- Targeting Aasandha coverage
iii- Strengthening screening measures for welfare assistance
iv- Staggering the rollout of pay harmonization.

Table 4- Estimated savings from Expenditure Reduction Measures included in MTFS

Details	2024	2025	2026
Subsidy Reform (Electricity, Fuel, Staple Food and Sewerage)			
Business as Usual	3,409.3	3,580.3	3,668.7
Savings	(1,105.0)	(2,381.0)	(2,469.4)
Cost After Savings	2,304.3	1,199.3	1,199.3
Targeting Aasandha Coverage			
Business as Usual	2,491.4	2,680.6	2,807.1
Savings	(267.9)	(270.6)	(273.3)
Cost After Savings	2,223.5	2,410.0	2,533.8
Staggering the rollout of pay harmonization			
Business as Usual	1,421.0	2,953.3	2,953.3
Savings	(1,171.0)	(1,953.3)	(1,532.3)
Cost After Savings	250.00	1,000.00	1,421.0
Strengthening screening measures for welfare assistance			
Business as Usual	318.7	339.2	355.4
Savings	(182.1)	(193.8)	(203.1)
Cost After Savings	136.6	145.3	152.3

Source: MTFS 2024-2026

4.2.1 Reform of Subsidy

MTFS proposes to replace the existing *Fuel Subsidy*, *Electricity Subsidy*, *Subsidy on Staple Food* and *Sanitation Subsidy* with targeted cash transfers, starting from July 2024 whereby the individuals who opt-in and meets predetermined criteria will receive the benefits.

The Ministry recognizes that in order to implement this reform the following key deliverables needs to be achieved.

a) Develop a means testing framework and establishing the systems at the National Social Protection Agency (NSPA).

This involves identification of ideal approach for means testing and determining of the baseline/eligibility thresholds.

b) SOE reform.

As per the Ministry in order for fiscal savings to be realized while providing electricity at a reasonable price to the public, reform of energy providers (STELCO and FENAKA) is needed. This is to make energy providers cost efficient and less dependent on financial assistance from the government. Ministry acknowledges an in-depth study of structural, financial and governance related aspects of both STELCO and FENAKA is required to be conducted in formulating an effective reform plan and during this period financial assistance from government is needed for these companies.

c) Developing a cost reflective electricity tariff structure to ensure that utility service provision is sustainable.
d) Ensuring a competitive price on fuel for utility service providers. MTFS has proposed to hedge the diesel prices using derivatives in order to manage the effect of global oil price volatility.

According to the Ministry (as of October 2023), consultants engaged through ADB funding *(for the project on Debt Sustainability Engagement)* are at present working on development of a cost reflective electricity tariff structure and a final output is expected to be in November 2023. The Ministry also informs us a technical assistance engagement with the World Bank is ongoing for the proposed hedging of the diesel prices. As per the Ministry (as of October 2023), the works related to the rest of the key deliverables are at the very initial stages of procurement process in obtaining consultancy services.

The success of the reform and its anticipated cost reductions are closely tied to the timely completion of key deliverables. Considering that only two of the four key deliverables are ongoing while the remaining deliverables are still in the initial stages of planning and resource allocation (procurement phase) and these works will likely require a substantial time to complete, the government will face significant challenges to successfully implement the reform within the year 2024. Where implementation of this measure is delayed, it will be unlikely to realize estimated cost savings of MVR 1,105 million during 2024 and even within medium term (estimated total cost savings of MVR 5,955.4 million within medium term) Table 4.

It is also worth noting that implementation of previously planned cost reduction measures *(cost reduction measures proposed in MTFS 2023-2025 – which also includes subsidy reforms)* has been delayed or unsuccessful, primarily due to lack of governments commitment, lack of monitoring and accountability mechanisms, and changes in government policies.

4.2.2 Targeting Aasandha Coverage

MTFS has proposed to control the expenditure on Aasandha by:

i- Bulk procurement of medicines to capitalize on pricing advantages generally available to larger countries.

This is expected to lower the cost of drugs and the Aasaadha expenditure on drugs and pharmaceuticals. MTFS states cost of drugs and pharmaceuticals make up the majority of Aasandha expenses. According to the MTFS, the government is in the process of initiating the bulk procurement of medicines with a project through UNDP.

It is important to highlight that baseline prices are set for pharmaceuticals provided under Aasandha Scheme, and therefore even though the cost of pharmaceuticals decrease due to bulk procurement initiative, in order to lower the cost of Aasandha, baseline prices of medicines covered under Aasandha must be revised to reflect the reduction in cost.

The budget 2024 has further elaborated on this initiative. According to the budget 2024 an agreement between the Ministry of Finance, Ministry of Health, STO and UNDP is signed to undertake bulk procurement of medicines and under the agreement STO will carry out operational activities of the project and will also be the main agent that imports and distributes medicines. Also, according to the budget 2024 importing medicines at a cheaper rate under this system will encourage STO to sell medicines at cheaper rates at wholesale and retail and will reduce the price of medicines in the entire market, and with this change, Aasandha baseline prices will be applied with the retail prices of the STO thereby, reducing the expenditure from the budget on Aasandha.

ii- Link the coverage of the Aasandha system to the targeted benefits scheme.

MTFS proposes to provide Aasandha scheme without any modifications to their coverage for beneficiaries of the targeted direct cash transfer (eligible for subsidy) while others would be required to pay a set percentage out of pocket for all medical expenses up to a maximum out of pocket threshold per year.

The Ministry recognizes that in order to implement this reform, the following key deliverables needs to be achieved.

Table 5- Key deliverables and current status of the deliverables (status as of October 2023)

Deliverables	**Status as of October 2023**
Identifying the income groups and spending patterns by age, gender	Not Started. Awaiting guidance from President Office, and data from Aasandha
Identification of the income percentile by where co-payment kicks in	Not Started. Awaiting data
Identifying the co-payment portion	Not Started. Awaiting data
Formulating the mechanisms by which the implementation would take place	Not Started. Awaiting analysis
Studying the impact on individuals of this change	Not Started. Awaiting analysis
Re-visiting the brackets, co-payment amounts based on the findings of the prior study	Not Started. Awaiting prior analysis

Source: Ministry of Finance.

In addition to the above listed deliverables, development of the means testing framework and identification of beneficiaries of the targeted direct cash transfer (for subsidies) is necessary.

Given the current progress of the key deliverables it will highly be unlikely for the government to complete the necessary works and implement the reform. Where implementation of this measure is delayed, it will be unlikely to realize estimated cost savings of MVR 267.9 million during 2024 and even within medium term (estimated total cost savings of MVR 811.8 million within medium term) Table 4.

4.2.3 Strengthening screening measures for welfare assistance

Government provides welfare assistance to citizens in need, through National Social Protection Agency (NSPA) of which medical treatment support (apart from Aasandha Insurance Scheme) is the most significant expenditure. MTFS acknowledges the vast increase in expenditure on welfare assistance in recent years and that support for medical expenses incurred abroad makes up a sizeable portion of this increase. MTFS further acknowledges that the current system does not adequately consider the individual's financial circumstances, and there is no robust mechanism to verify the information provided by applicants. To address the increasing expenditure on welfare assistance, MTFS has proposed to strengthen the screening measures for welfare assistance.

According to MTFS, currently there are ongoing enhancements to the criteria of welfare eligibility and its procedures for disbursement, with the aim of preventing abuse and targeting assistance to genuinely deserving individuals.

Ministry further informed us (as of October 2023) that technical assistance has been requested from the World Bank for the development of the mechanism and is expected to be developed by early 2024.

According to the information provided by the Ministry (as of October 2023), in order to do this, it is proposed to develop a mechanism for minimizing welfare payments through NSPA and to make it in line with the targeted basic income mechanism where income and income sources of individuals will be identified through a system. The Ministry also informs us that the targeting is proposed to be linked to the targeting framework for subsidies and any delays in development of the frameworks required for targeting of subsidy could delay implementation of this measure as well.

Considering the above factors, it is highly unlikely for the government to achieve the estimated cost savings of MVR 182.1 million during the year 2024 (*Table 4*).

4.2.4 Staggering the rollout of pay harmonization.

As per the MTFS, pay harmonization initiative was launched in 2022 to set competitive remunerations to that of the private sector within the government and, eliminate the discrepancies in government salaries for employees performing similar roles to boost productivity. The anticipated total impact of the pay harmonization initiative (as per the MTFS) is estimated at MVR 2,953.3 million.

To lower the impact on the government's budget in a single year MTFS has proposed a staggered, four-year timeline for the completion of the pay harmonization initiative, contingent upon fiscal constraints. MTFS further states the Ministry is working with relevant institutions to develop detailed analyses of the proposed cost-saving measures and to formulate implementation plans.

According to the Ministry (as of October 2023) the Ministry is awaiting policy decisions on sectors where pay increase is to be implemented and that the proposed implementation is planned for the second half of the year 2024.

Since a detailed plan is not yet prepared (or shared) by the Ministry we are unable to comment on the likelihood of the success of the proposed staggering of the rollout of pay harmonization and its impact on the budget during the medium term.

It is important to highlight that, while the MTFS has limited additional costs from pay harmonization at MVR 250 million for the year 2024, the approved budget (Approved budget 2024) has deviated from MTFS and included MVR 500 million for pay harmonization within the year 2024. This deviation will result in higher expenditure during 2024.

Conclusion

The MTFS aims to manage fiscal risks and ensure that fiscal and debt sustainability is maintained over the medium-term. To achieve this, the MTFS proposes various consolidation measures designed to increase government revenue and reduce recurrent expenditures.

Upon analyzing these proposed policy measures, it is evident that the government lacks, comprehensive action plans and effective monitoring mechanisms that is required for a successful implementation.

Furthermore, the current status of many of these initiatives still remains in their initial stages of planning and resource allocation, while work on key deliverables has often not yet progressed past the planning stage. Additionally, the work on key deliverables that remains not started are likely to take a significant amount of time for their completion.

We noticed that the proposed budget for the year 2024 does not align with the MTFS. The budget proposal for 2024 has not incorporated the new revenue measures outlined in the MTFS. The omission of new revenue measures raises concerns about the government's commitment to the implementation of the strategy.

Additionally, historical attempts at implementing the expenditure reduction measures similar to the proposed measures of the current MTFS have proven unsuccessful in prior years, primarily due to lack of governments commitment, lack of monitoring and accountability mechanisms, and changes in government policies.

Considering our analysis on the status of the key deliverables which are essential for implementation of fiscal consolidation measures proposed in MTFS, the likelihood for the government to attain the estimated financial return from proposed revenue measures during the year 2024 or even during the medium term remain remote. The MTFS has estimated return of MVR 1,326.1 million for 2024 and total estimated return of MVR 4,749.3 million within medium term (*Table 3*). Also, in over view the implementation of expenditure reduction measures is likely to be delayed from the planned timeframe of MTFS and this will make it challenging for the government to realize fiscal savings as planned in MTFS. The MTFS has estimated cost savings of MVR 2,726 million within 2024 and a total cost savings of MVR 12,002.8 million within medium term (*Table 4*)

Considering this analysis and taking into account the estimates for the proposed budget for the year 2024, we anticipate that the fiscal targets set to ensure the sustainability of government debt are unlikely to be met during the medium term.

While estimates of the proposed budget 2024 indicate that the anchors to achieve fiscal sustainability will be attained during the years 2025 and 2026, this is contingent on the effective implementation of the fiscal consolidation measures proposed in the budget 2024 and MTFS.

20th March 2024

H. Niyazy

Hussain Niyazy
Auditor General

Auditor Geneal's Office
M.Chanbeylee Villa, 1st floor
Majeedhee Magu, Male', 20337

Tel: +960 332 3939
Email: info@audit.gov.mv
www.audit.gov.mv