



People's Majlis

Committee Minutes

1st Meeting of Public Accounts Committee

16th February 2014

Chairman speaking:

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ. Today I'm very happy that we are given this opportunity to me the team from IMF, World Bank. We have sat this committee for this very important meeting. Our committee few members, all of them are out different atolls campaigning. And this moment is very important moment for all the parliamentarians as you know. And thus very reason you see today we have few members present. Myself; my name is Jabir. I'm the chair of the committee, and my colleague MP Gafoor, my right side and MP Nasheed. Thank you very much for coming. And thank you so much I would like to get introduce is our MPs first and later all of you. And then we have questions and any information that from us that you need and from our side open the floor for 5 minutes each of you. First I will allow members.

Nolhivaram constitutional area MP Mohamed Nasheed speaking:

Thank you chair. My name is Nasheed. I've been in public financing committee since the 17th Majlis was elected. And this is my 5th year in this committee. And we have been doing lot of meetings with IMF. And hope our current situation of Maldivian economy is going the right track. And I'm sure we can move forward with IMF program as well. Thank you.

Kulhudhufushi Uthuru constitutional area MP Abdul Gafoor Moosa speaking:

My name is Gafoor. I have been in this committee almost last 5 years. And will be working hard to cater for the government needs and also to cater for the IMF and World Bank requirements. And we found that you have presented a very compulsive report regarding Maldivian financial status. And we would like to hear from you what are the steps that so far the government could be taken, and also expecting from. And we have passed few tax bills where we can finance the budget for this year or more. So hopefully we are willing to hear the comments on your side. And then after that we will start the questioning. Thank you.

Chairman

I open the floor.

IMF Mission Chief Koshy Mathai speaking:

Thank you very much. My name is Koshy Mathai. I'm from the Asia Pacific Department of the IMF. And I want thank you all first of all for coming during the recess. We didn't realize that this was the timing and we apologize for that. And thank you for coming. I have the privilege of meeting all of you gentleman before in a sense you get 241 this time, because we are here with two valid different teams. On this side we have the Asia Pacific Department team. On that side we have a Fiscal Affairs Department team. And what we were going to propose to do, since we have may be one area for commonality but otherwise quite different lines of questioning. And since we also have a meeting that is going too started about 1:15

somewhere else in Male' we were suggesting that perhaps we could start with some of the issues that we are focusing on. And I'm afraid we have to excuse ourselves around 1 o'clock. And then our colleagues from fiscal affairs could continue after that. So I apologize for that. But I'm afraid what we will have to do. May be I can introduce our small team here. And then Chita Marzan who's heading the fiscal affairs team could introduce her team members. I'm Koshy Mathai. I have been working on Maldives about 4 years now and coming to meet the public accounts committee quite regularly during that time. I'm coming to end of my assignment on Maldives. This will be my last trip and as if tomorrow or as if day after tomorrow Allison Stuart will be taking over from me also based in Washington as now I am. And we also have Kirthisry rajatha vijey veerawho is senior economist based at Colombo office. So the three of us are here from Asia pacific, Chita I don't know we would like to introduce your side.

Fiscal Affairs Department team leader Chita Marzan speaking:

Thank you Koshy and first Koshy said I would like to thank you for accommodating this request for a meeting with you. So we are a team from the Fiscal Affairs Department. And we came here to do an assessment on the public financial management system and procedures. And with respect to the public accounts committee would be interested on two things. One is the legislative review of the annual budget and also on the review of the audit reports. Thank you.

(After some time)

Fiscal Affairs Department team member Carol Pretorius speaking:

I'm Carol Pretorius. I'm an expert the FAT as well.

Fiscal Affairs Department team member Peter Fairman speaking:

My name is Peter Fairman. I'm a FAT consultant working on this prefer assessment.

IMF Mission Chief Koshy Mathai speaking:

Thank you. Once here we do what we call an article-4 consultation where we visit a country client, member country of the IMF. And we do a sort of comprehensive stock taking of what's happening. Have extensive discussions with the government and also with the private sector. And then give our views. Usually we write up a report that we submit to a, that we discuss with government and submit to the IMF's executive board made up of directors from various governments across the world. We are not doing that exercises. Right now we are very informal visit. It's a short visit. We are here just for a week. We have a few team members. We are really in fact finding mode. So unlike the occasions on which we met before, I don't

think we are here. We have some views. We will share them with you. But we are not here really to give a comprehensive set of policy recommendations. Really we are here more and listening mode. The thing that we were particularly interested in is how the economy is managing to operate for all these years. I mean for a long time we have been saying that reserves of the MMA are very low. And that the fiscal deficit is quite difficult. And we expect the economy to run in to some problems. But somehow the economy has shown resilience, lot of resilience. And we've been surprised happily surprised but surprised never the less.

Chairman speaking:

Well this is first time I have been the chair of the public finance committee meeting is very important people coming from IMF. Now myself being best man I have since, you don't have a specific question and program to present in front of us today. What is the recommendations you have given to the Maldivian government in the past four five years that you have been here. That's one question. And I also like to add more Maldives being smallest nation in the world. One of the smallest nation in the world, do you have any model small nation actually we are also out of the world smallest nation but in the world. IMF models are big large and it caters large countries big volumes and different systems. I understand being the smallest country of course there will be different models for small nations. We are different than Seashells also we are different than Mauritius and we are also different than many other small nations in world. Since small islands and less volume people are living. We have people living in cost centers all over the country. But historically Maldivian people they are happy to live where they are living. Now like you said economy is improving in the Maldives. And I also like to suggest you we need more positive approach from your side to the government, to the people of the Maldives, to other people entire world. We are capable of managing our own things. And our own finance our own economy. And we don't want over regulated. IMF programs are very much over regulated for small nation such as Maldives. For an example MMA regulating MMA also putting ceilings we always find very difficult to do the businesses because our banking sector and our financial sector, landing sector are small. So I understand the models what you have heavy regulated models adopting those we not go anywhere. So with all these difficulty from president I am also deputy leader in Maldivian democratic party and president Nasheed's time few times I have had opportunity to meet president Nasheed and also today's president been also a parliament member for one decay in this also a member of in this committee before Excellency Yameen was in there office of president. Now what is the model you are pricing; have you met the president Yameen and the government minister of finance and all this. These are the information if you can these advise us what you found. Thank you.

IMF Mission Chief Koshy Mathai speaking:

Thank you Mr. Chair Honorable Mr. Jabir for those comments. I think first of all I should emphasize that for me Maldives is not such a small country. I have gone to countries which are one quarter the size of Maldives.

Chairman speaking:

The information we are discussing here with public TV. For the public TV this information will be supplied. We have a very delicate economy, small and delicate. So certain information should be given certain format and we are very delicate country so we also growing company. We are not develop country even though we are under development program and you tell me how many islands are develop normal living standard the Maldives my constituency is no. So we say we are developed. We don't have sanitation, we don't have water, and we don't have basic facilities, basic normal living facilities. So IMF comes here every three months or programs you have very good programs but what is the benefit are we having. My question is Maldivian people would like to know IMF support for them. And the support technical support as well as positive approach from my point of view. Thank you.

IMF Mission Chief Koshy Mathai speaking:

So thank you. I think one point that I want emphasis up front is that we actually don't use the same approach for every country. In my fifteen years of the IMF I worked on the U.S. I worked on Turkey but I also worked on at least five or six different island economies in the Indian Ocean, Pacific Ocean and Caribbean as well including some which are far smaller than Maldives. I mean worked once on a Caribbean country of 70000 people. And there they would be happy to have the problems that you are having. There are many different challengers the different sized countries faced and we recognize that. At the same time that's partly why we come here today and come here this week to try to hear more from those who are operating in the economy. Because as I said the economy is being very resilient imports around the shelf if you go in to a shop you will find a wide range of important goods there. You see people with motor scooters and cars and smart phones. You see people going on travel all these things are available done even while the level of results in MMA is quite low. So obviously there is something that we need to study carefully in order to understand how all this is working. So that's one purpose. And another I said we don't have any firm answers yet. We are still in exploitory mode. Alison will come back in a few months' time and will have the full consultation where hopefully we will be able to share some ideas for discussion. But at this stage we are still exploring still trying to learn. I think one area where we have more clear ideas is in an area where we had this discussion in the past and that's the need for physical

consolidation. Now the IMF there is a joke that IMF stands for its mostly physical not international monetary fund. But it's mostly physical. Because in country after country small big and in between physical problems have been at the root of so many crisis in countries. In Maldives what we see now is a government budget envelop that is very difficult to finance. So MMA results are called down well because the deficit is... so let me try to explain. The deficit is quite large. Financing is difficult to find. Banks are not that willing to subscribe to treasury bills. We see treasury bills rising quite sharply. MMA external financing is difficult to mobilize as you all know. We are left then with government; Sorry MMA printing of money in order to finance expenditures. That's one point. Another option that sometimes happens is running up areas unpaid bills to domestic suppliers. Both of these are very difficult and challenging things for an economy. You coming from the private sector I am sure appreciating better than me that when the government doesn't pay its bills it creates multiple effects throughout the entire economy. You coming from the private sector also will recognize better than me that when a lot of money is printed that puts a lot of pressure on prices. Not only that, it puts pressure on results because in a small country like Maldives when the MMA prints money that is an injection purchasing power into the economy. It means more people can import things. The government take those moneys spends give it to workers. Gives it to suppliers those dollars are than used to buy things those rufiyaa rather are used by things and that creates increase demand for dollars increase imports pressure on results. As I said the system seems to work the parallel market somehow is letting the economy work but perhaps not as you see...

Chairman speaking:

Just give me one second. Because I think one thing should be very clear. We have carefully studied the proposal of the governmental bodies' budget preparation this time. And we have elaborated new ideas and adapted new ideas into the budget. Now you see IMF should say the Maldivian government in give the ideas. Where? Let's have normal business as get to day business should be normal with the Maldives, India, Sri Lanka, Afghanistan, Pakistan, and U.S whatever. Now Maldives we cannot by lands. We don't have loan term lease. We have those models which is not working properly if you are telling me we cannot finance the budget, the government cannot finance I don't believe on that. I think the ideas we have given if governments capable to implement those then we can finance 100%. Then we can put deficit down and those are things that like you said there is something which we don't know working. Something is working. We have to find out those before coming to a conclusion we cannot finance the budget. We cannot do this. These I don't like, I mean being a business man positive approach is better I think then just saying no, no, no not possible, not possible. Sorry to interrupt you.

IMF Mission Chief Koshy Mathai speaking:

I am glad you have done. I think this kind of discussion is exactly what we want get when we came here and we came to Maldives. Look when I say the budget is difficult to finance I am not saying that the budget is always going to be difficult to finance. As you say we are able to mobilize new revenue services if you are able to develop land and sell it. If you are able to you know inventive ways of dealing with resort lease ooh whatever it is. Whatever you have in mind these new forms of financing can be brought to ban and then that would allow envelop to be finance. All I am saying is very simple point that I think is near feed able fact. It's not a matter of positivity or negativity. It's a matter of fact that right now the government is having a difficult time financing its budget. And you don't need ask me you can ask Jihad that he will tell you he has many headaches every day thinking how to finance his budget. Ok, if we start with that point then what we need to do about it. One solution certainly as you say is to find out new ways new sources of financing that we can mobilize that may not have happen immediately. But it may take time and over that time maybe we will have different situation. But immediately we don't have those resources of financing and I think that's then what leads us to talking about what could be done on the government budget itself. If we compare Maldives physical accounts to other countries not to the U.S, not even to Seashells also to arrange of different tourism to dependent economies across the world. And I know no country is going to be a perfect parallel your geographic dispersion one thousand one hundred islands spread over you know eight hundred and fifty kilo meter is very different. Cost is also it's a challenge for the government. None the less we have to compare to something and I will try my best. If you compare to panel of 150 or twenty tourism dependent economies across the world what stands out is not so much low revenues as high expenditures. Expenditures are very high. We know some of the reasons for that. You got people spread across many islands and services needed to be provided to them. You also have civil service which is quite large and has to be. Because it spread out, but whether that can be reformed over time is some is important question to ask. Civil service reform is a very difficult topic. It's difficult in Maldives. It's difficult in any country. But probably over the medium term that is something that would need to be looked at to see if there is any saving efficiencies can be gotten there to improve the delivery of the services while at the same time economizing that's one thing. That's more of the medium term. In the short term what you do expenditures are high. One point that we have always made is that the subsidies are good and reasonable and should be given to those who are in most need of the subsidies. But in Maldives as in other countries but especially in Maldives we find that some of the subsidies are totally untargeted. Electricity subsidy is one that goes to even richest straight up the society. Basic food subsidies are been enjoyed now by the

resorts and never mind the resorts being enjoyed by the foreign visitors, wealthy foreign visitors who stay at the resorts. That to us seems like totally unnecessary policy. Those kind of saving could be achieved even in the shorter run. That could achieve some substantial savings for the budget. That's one point I like to make. Another point...

Chairman speaking:

Mr. Gafoor would like to ask a question if you may allow.

Kulhudhufushi Uthuru constitutional area MP Abdul Gafoor Moosa speaking:

You know we even the tourism sector they are very, paying very highly tax. Maybe thirty to forty percent the government is taxing on them. Can you tell me any formula where we can do I mean the subsidize items can be sold we don't like to go for quota system then again it's expensive. So what we are saying is resources there are paying very heavily to the government. So that is why we are not having separate quota system and equality is there among them. You know our concern is you know even last year we have around four billion budget deficit and we have passed another two three bills where the government will get another 3.5 billion for this year. Whereas the governments debts will not be more than 1.5 billion if the government spends money you know without corruption you know all these avoided unnecessary spending. Then you know this year budget can be only deficit will be not more than 1 billion. Where you know we can get finance for financing that. And we found that even World Bank or IMF has not been recommended to Maldives monetary authority to re adjust their balance sheet. Because from last 15 years they have been printing money and giving to the government for expenditures. And this money has been resolving the economy prize have been gone and you know the dollar value has been gone. So public has been paid this money. So why don't you recommend MMA to re-adjust their balance sheet. Because we have 1 billion foreign debts and again we have 1 billion domestic debts where you know 15 or 16 billion is due from government to MMA and we are paying six hundred million per year as an interest to Maldives Monetary Authority. So I think this is a time that MMA has to re-adjust their balance sheet. Then you know our debts will be very less. You have never been recommended to MMA to do this.

IMF Mission Chief Koshy Mathai speaking:

Thank you. I will start on the quota system. I agree with you quota system is very difficult. It is very messy. It is not at all what we recommend. I think in many countries and in Maldives as well what we would recommend is doing a two pound approach. Doing away with the subsidy as it exists now but at the same time bringing in a targeted cash supplement to the poor. Now how do you identify the poor? There are systems to do

that. The World Bank is worked on systems Anspar has worked on systems that capacity is there. It is already there. And in that way you can ensure that cash is going directly to those who most needed while not having this general subsidy that is enjoyed by the rich. That's the point without getting in to quotas either. That's one point. On the broader point you are making about the MMA balance sheet. See to us our view is this. The MMA doesn't really have much of an independent role in an economy where the exchange rate is fixed and way you got big physical spending. The MMA is all that's happening at the MMA really is a reflection these two things the fixed exchange rate and a certain physical policy that's going on. The prime move is in the economy are those things. That's why we look particularly at the physical policy. Now estimate the budget deficit I think we will get into that in the second part of the conversation. Estimates of the budget deficit are sometimes quite tricky in this country. We see an estimate of a 3% of GDP deficit but in the end it ends up in many times larger than that. May be something are under budgeted. It cause in to questions some of the realism of the budget estimates that are prepared. So we can get into that later. For us the issue is not so much accounting transactions to deal with interest floors between MMA and government. At the end of the day MMA is part of the government. It is all within the public sector. It is not economically as significant as taking real measures to stop the real expenditure of government out into the economy where it is not called for. Of cause there are some ledgitment function's of government that have to be finance. And of cause you'll continue doing that. But in some areas like in subsidies we see there some, there to be some scope for savings. That's one point. Second point you touched on, third point you touched on was revenues. And I think it is a wonderful thing that you pass these revenue bills that you have done recently. As for the burden that the tourism sector faces, now this is where we get into un-popular territory. But it's hard for me to shy away from it. We think about the Maldives economy the National account say there 30% is tourism. But if you count all the un-salary services that are tied transport communications what have you. We are probably looking at 70% or 80% of the economy that is driven by tourism. So when we say tourism shouldn't bare an unfair burden of taxation I think we should flip it around the other way. Tourism is almost the entire economy and thus when we tax tourism we are taxing the economy. The people in the tourist sector are the economy. And it is only natural that they are the ones who will be contributing resources for the economy to operate. If we looked at the rates of taxation on the tourist sector compared to other tourism economies in the region and outside the region the rates are still quite low. Not as lowest as they were. You have done a great job of increasing those rates and increasing the contribution. The rates remain low. Look at what we have rates. The TGST rate is 12%...

Chairman speaking:

You are talking about overall taxes are lower than which other country.

IMF Mission Chief Koshy Mathai speaking:

Definitely, definitely low. Well when I went to Fiji last year or two years ago and I stay checked out my hotel of there I paid north of 20% on my hotel bill. Here we will be paying a 12% as well. Up to now it is been 8%, 6%...

Chairman speaking:

I have an in house experience about this issue on the since the resort owner of the country and developer. We just ask you two questions. 1- When we make investment of 20, 30 million dollars, when Maldivian industry today to develop a resort you need to put about 20, 30 million dollars. Number 1 you don't own the property. So than your risk of investment and then if you calculate overall our taxes are very high. Now if you have to tax more and more every day to the sector entire economy like you say. When we say 30% is a pacific 30%. Like you said very true is 80% of economic now when you over tax economy and economy cannot go on. So if you want to tax like in other countries to Maldives it should be also given the opportunities to the investor's developers also possibilities to have more long term lease free hold all these things. Now the model here is different. Government owns dilate, government owns the everything you invest and you need to work things very short term today in the world short term cannot recover anything. So keeping in mind this we have to tax our country and that also compare what opportunities other countries are providing, what opportunities we have given to the investors in the industries.

IMF Mission Chief Koshy Mathai speaking:

Honorable Mr. Jabir I think that's an excellent point and I totally agree with you. I mean if you have to move to long term leases or free holds than certainly I agree the rational for increase taxation is all the stronger. No disagreement on that. At the same time I also want to point out that I mean you will get I say know better than me. But from our discussion with bankers with the resorts owners with other people in the economy who would know rates of return on Maldivian resorts are among the highest in the world. You have payback period in the past payback period are 5 years even. Now may be payback period of 7 or 8 years. The highest estimate I heard was a payback period of 10 years. What is the number now?

Chairman speaking:

That depends, it depends overall industry payback period now is not less than 12 years when you calculate to I mean investment and all together. Now when, there were times you develop a resort with 1 million dollars or 3 million dollars. That time also the expenditure was the same as at the time. Now time changes but the price bracket also remains the same. When I deal with the tour operator lets say four star resort 300 dollars, 400 dollars and of cause we have the highest bracket resort like 8000 dollars but how many of them? What is the occupancy? How many job opportunities are given? And what is the investment. All in time we need to design model everything. And we were not taxed before, now taxing every day. So yeah! My believe is IMF should understand 2 things. Why this is not working? Judiciary we need to reform number one- because why the banks cannot lend today. If you go to cash your mortgage banks will have to wait it takes long, long time. So you cannot, if you cannot cash your loan and then how can you relend the money. Its stops your lending power. So economy cannot function. So these are the points we need to discuss and find a solution. The stories are nice. You have a very nice story I have a very nice story in that conclusion is IMF is advice Maldives you don't do this you don't do that. You take this tax, this tax and then we are saying no, no we need to understand why really we have these problems. And we have them. We know these. And we have to ask the Judiciary. If there is a mortgage clear mortgage lets happen to sell. If then another customer can borrow the money from the bank and invest in another project. So how much of these things have you studied my question is. I don't like the stories if you many things you are speaking several time we have heard from you. Today if you want a specific question been parliamentarian we liked to discuss on this since the time on our side also not that long and large.

IMF Mission Chief Koshy Mathai speaking:

Thank you. No infect again this is precisely where we are happy to meet you. Because the more people we meet the more estimates we here. To be frank this is the highest estimate of the pay back period I have heard. But it's good. Now we have heard one more number. What I have heard from back, no let me just continue...

Chairman speaking:

I said overall if you calculate today investment to risk factors everything and you will take 10 to 11 years to pay back. Depend I this is...

IMF Mission Chief Koshy Mathai speaking:

I guess. But just one fact...

Chairman speaking:

It is an assumption...

IMF Mission Chief Koshy Mathai speaking:

Ok that's fine. But let me also share one number that I heard from several bankers which is that internationally payback period on a resort be 15 or even 20 years in some cases. So even if we have 12 let's give you the 12th we are still at a more profitable stage than many other destinations in the world. Given that there is an argument that tax can be paid. But that is not my real argument. My real argument is that you actually would not been paying that tax. Why? Why because the client that you are facing I am not talking the 8000 dollar client I know that those of are few and far between. But even the 300, 400 dollars client is a richer person than the client who goes many other countries. If I go to Thailand I can stay at the, I personally have stayed at the Sungrilla and paid I didn't know what it was 180 dollars something like that. You don't get those sorts of bills in the Maldives. The people who come here are people with more aware with all, more financial resources who are more likely to be price insensitive and, if I just finish the third, I just finished the third that means then that if the tax is introduced it is not meant to be a tax on business. It is not meant to slow down the economy rather it is saying people are coming and enjoying all that Maldives has to offer and let them pay something for it.

Chairman speaking:

I think there is a one mathematic very simple. Mathematics we are talking here. Now if a client is coming here for 300 dollars, 150 dollars today we are in February. I have booked my holiday 3 months after I am coming. Now when I come I realize the service is low because the operator needs to pay more. Now we cannot charge taxes the way we are doing now. It should be uniform system number one. Now you are taking, for example; we have set annual program for resorts sale of tax to the client's tour operators. Now once this is set we are fixed and government is changing taxes. And I am being the public finance committee chair I like to advice the government and we have advice several time give sometime without changing so fast. And also keep stability in the programs made already. You are comparing Thailand and the Maldives. It is totally different. Our clients also we have different class of clients. The more volume clients are the clients who are not the highest class. If we have business class not filled economy class not filled only business class cannot travel a flight cannot take off. So we need to fill the economy class for the flight to take off. Otherwise you need to own jet to fly. So my question here is how much you have studied from the clients' pocket how much he is paying. He is not paying more. The operator is paying. And this is something that we have to be clear, if you make your analysis better.

IMF Mission Chief Koshy Mathai speaking:

Honorable Mr. Jabir I agree that if there are immediate changes that are introduced without any notice certainly we understand you do bookings in advance and that would be a hit to the tourist sector. But I should also say that the tourist sector loses a little credibility when they come back with arguments which I have heard in the past people making not you, other people making that no we have done bookings 8 years in advance. Somebody once told me we have done bookings 8 years in advance and therefore we don't accept tax increases for 8 years. So the other point I would like to make is if you make this an allergy to Airlines business class and economy class. You know well as I do that 90% of an Airlines profit comes from the business class not from the economy class. That I know from discussions with the Airline of yours. So Mr. Gafoor; sorry.

Kulhudhufushi Uthuru constitutional area MP Abdul Gafoor Moosa speaking:

I just want to you know remind you that still you know income tax bill is not been passed. And don't you know that you know 75% of the resort owners are in the parliament, in the parliament. And they are going to influence even this coming elections to safe guard they are own you know I mean to safe guard they are own interest so it is you know very difficult for us also to do these things. But we need IMF and World Bank assistance to these things to come out. And you know today we are getting only revenue from the public taxes. All, we have 64 government companies where we have over 50% shares and not even 6 companies are making profit. These are issues we have. These are issues should be addressed. And those things have to sort out. And this bill has been passed and then we can get the revenue to the government.

Chairman speaking:

MP Gafoor I think it is unfair to say we have resort owners. Since the economy is the resort owners. And the country's economic designing also should come from the industry. So I hear our college MP's and many consultants advising the governments and directly saying the resort owners are the people who don't want to economic to flourish. I think the very interest of first interest of the resort owners' investors to go smooth the country is the most important the investors are investing huge money and that they are taking huge responsibility. That is why entire Maldives will be very much control by economy. So, economy will be there in the parliament in the government in everywhere. So, this is one thing I should, I think we should clean.

IMF Mission Chief Koshy Mathai speaking:

I think that is very reasonable point and I agree I mean, ultimately you have you the resort sector has the biggest incentive of all to make sure the economy operates well. And I think a

very important thing that we heard on this trip and we have always heard we strongly believe is it measures cannot be introduced without consultation. There has to be a lot of consultations. Has to be consultation there has to be buying. You don't see it in all countries, but it has to be done. At the same time both sides has to be willing to contribute for the good of the country. What we see as a fact is that the government has a big budget deficit. So, we got three choices, we raise revenues, we cut expenditures or we get more financing. And getting more financing, I remember I think we met at that cabinet meeting and you stood up and said ooh 300 billion dollars we can provide this. But ultimately sir that is not the solution. As I think one of the other members they said. Ultimately we can't go for this sort of short terms solutions. We need to do a structural adjustment to the budget. So, that it is more sustainable. So, whether its revenues or expenditures I'm not sure. And I would be keen to hear your views on that. You would like revenues. But, where would you like those revenues to come from. That's I mean, what for? What kind of revenue?

Chairman speaking:

I have given few suggestions, 14 suggestions to the budget committee this time. It is 14 recommendations. All are been adopted. Number 1, I propose revenue measure number one to have green card for the foreigners who can come and live in the Maldives. Because we are, we don't allow non-Muslims to be a Maldivian. So but we also need to have since we have a big investments from foreign investments in the Maldives and people like to stay long time. That is one. And then we have, I think the, I don't remember exactly those 14. But those are very important and also to sell the lands to give free hold to the resorts and whatever lands and to a have normal economic functions of like other countries. We are not proposing anything new. These are the things already functioning elsewhere in the world. Because we are in the Maldives because we are making the investments today to recover it 10 years or 12 years if you are saying if my money is put in somewhere else if I make more money I will put there. If I can go and live somewhere else but I will go there today, the world is one world today. It's not Maldives, it's not here. Of course, so these 14 recommendations you go through if the government implements those 14 recommendations we will have revenue. I will we are under budgeting now. Anything under budgeting now for example, we need to budget 3 billion dollars now to run the country properly. And for that we can also raise revenue. We are proposing still 1 billion dollar. Even 2007 we had 1 billion dollar. Today we are still operating 2001 billion dollar budget. If I'm the president of the Maldives I will first propose 3 billion dollars budget to the parliament. I will come with formula as well. Now you are saying ok I'm over ambitious. But image our population is grown. Our need is grown. We are under budgeting.

IMF Mission Chief Koshy Mathai speaking:

I'm just saying if you bring the 3 billion you need to bring 3 billion revenue also.

Chairman speaking:

With that of course, our budget normally comes only expenditure program. It comes to the parliament. Like a raw document. Then we work. Everybody put their idea budget committees, we will have deliberations every members they will present their presentations later. We then formulate budget. This time we have, I have personally proposed 14 recommendations, which was all adopted. Can you see all these recommendations? I think with that budget can be financed. If government does this if government keep the budget book separately without working to get these revenue and put those ideas. These are you don't need even to make new laws to make, laws are there. Only you need to implement. Without implementing you are saying you don't have the money. You don't get the revenue. We are still having headache. This you can say like, then everyday people are saying this is hear same music here every day. But we need to change. We need to think like for example, Mauritius. Last time I was in Mauritius. I have seen the cost of operation of the country is very low compared to Maldives. Fine, the president office, the parliament office, there are so many offices are together as a one quarter. So lot of expenditure we can cut. Rather than cutting expenditure we are also getting the revenue and also formulating and finding a formula, where we can get much more money. Then we are only finding to put more building more expenditure, more jobs where not necessary. So, all these things we can do we have proposed now Maldivian tourism industry. When you talk Maldivian man and women can work. Only men are working. And we need to have a great hotel school to train the Maldivian man and women, for them to come and work. So then export of foreign currency will be less. We will have local people working. Now Maldivian people, they need to work. They need to get training. Those are things we have recommended. We don't have a proper hotel school. We don't have so many facilities. That means to get such a big industry. So, these are the things I think IMF, with IMF support and ideas government should get. Rather than regulating, regulating, regulating, we are already over regulated. And I'm scared, one day too much regulations are there people might say no we are not going to Maldives. We are not going to put investments in the Maldives.

IMF Mission Chief Koshy Mathai speaking:

Don't think that we are that keen on regulation. Actually quite the opposite in many islands we have seen exactly the some other islands I have worked on which I won't mention have also to regulations, which have put of a lot of investments. And Maldives has had lots of success, because it has been likely regulated. That's important to maintain. We are simply saying the budget needs to be finance, if you are able to come up with ways, that's great. If you have the 14 ideas in English that you can share with us I would be delighted to see them. And I'm sure we would learn lot from it. I wish we had more time, because I'm learning a lot from this

conversation. But maybe I can end with just one point which will Segway I think in to the second meeting, second half of the meeting, which is that, In Maldives perhaps more than an other countries we are seen problems on public financial management. Budget preparation we see. Budget estimates which are quite adherence with what real estimate could be. The issues with commitment control we don't see it's not player that the government knows what commitments to incur. What commitments to spending have actually been incurred and therefore we don't have a very clear picture for the stock of various. People say that the government owns money to state enterprises in to the private sector. But we ask for a number how much is very difficult to pin that down. Now I'm not the expert in this area at all. We look at the auditing process also it seems that the auditor general's office and also internal audit as well seemed to be under staff not to have resources. Anywhere, I'm not the expert, we have 4 experts here who are from the league, let them speak about that. Or what do we need to audit? Well, I mean you do have, ok fair enough. So, I think generally if there was better public financial management that would definitely very nicely with all macroeconomic policies. That we are talking about. Thank you for that time and I appreciate we will have to excuse us.

Chairman speaking:

I think Koshy Mathai thank you very much for all the support in your service. You have been coming several times I have met you like I remember also one day in the session presidents office. And since this is probably the last time you are also coming to this assignment and we have always heard about good things about you. And of course, the effort and the time and the ideas you bring we have benefit to the Maldives. We need more ideas. We need to be open and discuss and we have to touch real points. Because, like you said I really appreciate what you said. Today the point is there is something that is working in the Maldives. Which we need to understand and we also need to understand. We are under budget. And we have lot of resources which are not tapping them. We are only spending, spending, spending. So now with all that I conclude thanking you and I will also give you a copy of the 14 recommendations I have proposed in the budget which is been approved. Thank you so much and the very sorry today as you know we are in also election time. We don't also have much time. And we have said this because it is so important for us to understand your idea. I'm sure you must have spoken to the government as well. (After some time) I think MP's, if they want anything. Which department you are in IMF?

Fiscal Affairs Department team leader Chita Marzan speaking:

We are from the physical affairs department of IMF. And as I said earlier we came here as part of our technical assistance program. The ministry of finance has requested for our technical assistance in making an assessment of the public financial management system because they want to prepare a reform agenda in improving the public financial management system for the

next 3 years. And we have identified the public accounts committee as one of the priorities stakeholders who must be heard in making an assessment and also to know what your challengers are, what are your requirements. So that you will be able to do a more effective review of the budget as well as the audit reports.

Chairman speaking:

I think we need more times first of all. Because the budget is today I think 2 months before present to the, come to the parliament. We have few committees together we sit down and form a one committee. And work on the particular committee. And we need more consultants who will support and who will support to MP's. And those consultancies are not being provided yet. Those are because there are many areas we are touching when we produced the budget and we approve the budget then lot of deliberation discussions we do. And every MP, every constituencies they have specific requirements. Like some of them they want water and harbors, transport systems, every island is different than the other one and also very simple. We are only working on the expenditure side when we make budget. We don't tap in the resource now for example my constituency is Kaashidhoo and Gaafaru. Kaashidhoo is a big island. We have lot of land. But we don't have the no program, investment program, revenue programs. If you lease the lands in Kaashidhoo allowing the regulating to lease there is a possibility somebody will then come and invest on Kaashidhoo. Now we only look at it Kaashidhoo expenditure. So, 200 islands when we put expenditure and we are not seen how many coconuts are fallen on the street. Now we also need to count how many coconuts is fallen on the street and what is value of these coconuts. So I mean, that is now, wrong way we are modeling the budget, my belief. I have advised in the committee and it's also always the same system we are working. Budget making system also I think we have to review now. Because, when you make budget you need to know how much you need to pay. How much you're getting, budget means how much you're getting, how much you're paying. In the end budget is not only how much you're paying. So, we are only saying I need to put my harbor. My island I need to put a harbor. I need to put water. I need to put pipelines. I need put robes. These are all expenditures. I'm not putting how much I can make from there. It is like Gaafaru if it build, allow to build marina we can build marina. We can build resorts but government should allow doing these. And then if you want to do in the end if you want to implement any project then it's too bureaucratic again. So many ministries, so many departments, so many people to deal it become very difficult. So when we make budget I think those are the areas we need to address.

Kulhudhufushi Uthuru constitutional area MP Abdul Gafoor Moosa speaking:

I just want to get some points. You know we know the government budget is going very high. But you know our requirements are you know making harbors, getting electricity, sewerage

and water systems. These are basic needs for the people to live. You just imagine in an island without a harbor, proper harbor. How can they live there without a sewerage system, without proper water? We cannot do this. And you know so far we don't get any assistance from IMF to overcome these things. And you know we always discuss and you know no result comes. These are basic essential needs to be given to the people. We don't have this. This is our concern. And more over you know even you know in Asia we don't find any country where there is no investment bank. That is Maldives only. What IMF can do this? If IMF can help Maldives government to bring up an investment bank here people will be you know benefited on that. We have commercial banks where their profit is over 500 to 800 million per year. You know just see how much people can get poor with all these. These are our concerns. And you know we found that even IMF is not putting any effort to overcome these things. IMF can put the pressure to the government and you know you can help us to bring up investment banks. And also foreign aids we can get all these. So I mean I don't find any reason like we discuss these things. We are not putting up a lot of buildings there. We are just giving them basic need. That's what we are talking about.

Fiscal Affairs Department team leader Chita Marzan speaking:

So, for the parliament at what point do you review the programs and projects proposed by the government. Is it only during the budget process or you also having other processes during the year.

Chairman speaking:

We have been the Public finance committee like elsewhere in the world. We review all the budget and all the expenditure, all the audit reports and all the investments. And everything, anything the government asks we review and we make the reports. If you wish I can give few example reports we made from the secretariat. So, that you know how we review and how we come to conclusions. For example if the government wants bank guarantee sovereign guarantee, country guarantee to another project then we review that by law we have to review and authorize from the Public finance, this committee. So my committee will say yes this is ok we will deliberate between us we'll discuss, we are also multi party parliament today. We have Maldivian Democratic Party and we have PPM and we have DRP who is the leader just left behind Excellency MR. Naseedh and also we have so many other parties. Now when the government wants project which is approved from the parliament by as a law and budget is a bill. So, the bill is approved. So, there are certain things but you have to gain come to public finance committee. And the committee will approve ok this is re own by a, we need money for the fund for this project and then we review and then we approve. We will give you one report how we come to a decision, how much deliberation we go. So, members should vote and then we make. Those are quite well functioning I believe. So, the example reports will then make

you more information. I will ask the secretariat to issue you two three sample reports. Which is probably in a Maldivian language? I think some of them if the secretariat is having any English that will be easier. But that if otherwise translation if cannot, I don't think we can do it now. But later on we will also be able to think of a providing you with translate English translation. In Maldivian language today it will be available. And that is one area I think we are working. And those areas are I think quit well and also we do many deliberations in front of TV so the public knows how things are going in the public finance committee and the parliament is quite transparent today. And as you know IMF and World Bank should also understand entire world. Maldives just started democracy. We just have, this is the second parliament I am in. 16th parliament and 17th parliament and I am confident I will be also 18th parliament. And these three parliaments I have seen the two parliaments sorry I have seen so much of differences we are improving, we bring lot of improvements. We are learning so fast you know. So, that is the reason I think Maldives will be very successful parliament and hope the next parliament coming in will have also more ideas more bright people coming in. And that will bring, I think parliament is functioning quite well and we make the government accountable and public finance committee chair as you know from opposition. Today I am in opposition and therefore I am the public finance committee chair.

Kulhudhufushi Uthuru constitutional area MP Abdul Gafoor Moosa speaking:

When we go through you reports it is more concern on the government sector like you know there is no proper accounting system and also there is no proper auditing system and all these. So, have you discuss with the Maldivian government regarding these issues. You know when we go to the reports you know lot of recommendation are there in the reports. But still you know the same reports have been continuously we are getting year by year. But you know there is no proper effect on these things.

Fiscal Affairs Department team leader Chita Marzan speaking:

The last assessment that we did was in 2009 and on the basis of that assessment we assisted the minister of finance in formulating three year reform agenda 2009 to 2011. So since we are now in 2014 the current minister of finance would like to do an update of the assessment so that they will be able to formulate a new reform plan for the next three years. Now a side from the assessment our department also provides technical assistance like for example in the past we have provided experts in improving debt managements and also physical reporting. So for the next three years we would like to identify again which areas of the public financial management thus the government of Maldives would need technical assistance from IMF. So this assessment would be an input to this a packaging of a new technical assistance program. For example because this is just our first week we have another week to finish our assessment but initially the ministry of finance has been telling us that they would need technical

assistance on making physical planning, budgeting also on monitoring of state owned enterprises and also on gas management. So this will be an input in our mid June term technical assistance program.

Nolhivaram constitutional area MP Mohamed Nasheed speaking:

Thank you very much what I believe that after this trip you will be presenting us a report and we also can input into that report. The main problem as that Mr. Qafoor has earlier said that we don't have financial development banks here and it's very difficult to invest in Maldives. Although rate of return is very high in Maldives the risk also is very high. And what we believe is that we are having some balance of payment problems. Mainly because even though tourism is getting lot of foreign revenue it's not staying in Maldives. It's not circulating among the Maldivian economy. So its directly flowing for some reason we need to finance our debt and the best thing what I believe is we can have a long term re-financing program that will ease the government so that we will not have higher interest rates and also we can move forward with excess cash which we can save. And after Honorable Jabir taken over the chair public accounts committee under his able leadership we are actually having some vision and he is having lot of I mean positive ideas how to move the Maldivian economy forward. And actually we believe that we don't have text book answers for this problem. And we can work together and we can learn lot from IMF and that's what I believe IMF programs will help us definitely and but the model might be different. Because our geography is different and as Mr. Qafoor has, Honorable Qafoor has recently said the thing is our population is so scattered we need to decentralize these people and we need to I mean they don't have harbors they don't have proper schools and all these recurrent expenditures always increase year by year. So the deficit of the government is increasing. So I think the mission, IMF mission you can visit some local island and see how this co-centers are actually been a burden to the country. So we need to relocate these people in bigger cities and but meanwhile, while we were doing this the problem is that there lively hoods will be lost. And this is the challenge that we have when scrutinizing the budget and everything. We don't have enough time. And it's like race against time. Our consistence they believe that we have to pass the budget. If we do not pass the budget whatever the government asks we will be victimized. So this is the situation. But I am sure with the able leadership of Honorable Jabir we can move forward and he has lot of experience in his corporate side as well. And we can work together and when you finish the report or a draft if we can get a copy of that we can comment on that and that would be something great. Thank you very much.

Kulhudhufushi Uthuru constitutional area MP Abdul Gafoor Moosa speaking:

I just want mansion you know even you know According to MEERA and other sources we found that you know over three billion dollars are circulating in our economy. We need only

1.5 billion dollar for the whole operation of the country. Don't you think we need a monitoring policy changes to be bring here. Because there will be, we have to do monitory policy changes. Because form last 10 years we have a fix exchange rate. Always there is different of 1.5 rufiyaa different in the black market to get dollars. You know in some countries even public they cannot open dollar accounts. Only bank will be issuing the dollars to them to import goods or other sources. Even resorts in other counties they are using only local currencies even if they use their credit cards you know they will be paying in local currencies. Where we have no systems and we can take any amount of money out of the country. So you know we should have a very good monitory policy in order to overcome all these things. But we found this will happening for last 2 decades but nothing happen so far. So you know you have to work hard to overcome all these. Then you know we can have a smooth operation here.

Chairman speaking:

Thank you very much. If you would like to deliberate any of the information that we have just discussed and I think the most important thing is we understand what difficulty Maldives have with that to prepare paper. And the difficulties are simple. So like MP Nasheed just advised you have look how we are regulating like island financial administrations. Those are very important motor. If you go to finance ministry, the data is there. But if you go to the councils like City Councils, we have few City Councils around the Maldives and then local Councils. Now local Councils functions now for example, in an island we have local councils. Council members are four five members. What are there productions? Government is paying them. Is there any production made by from this. This island is producing anything. No. So this is, when we make budget these are the very key area we need to address in my opinion. So second thing is if we continue making the budget under than the requirement we need 3 billion dollars. And we need also revenue. Of course without revenue we cannot do. If we don't have three billion we have one billion continue one billion we can't move on. Everything stuck. When you have 3 billion, at least you will work, you will think open minded and work hard to find out your list half of this is 1.5 billion. So today we are making only 1 billion dollar budget. And then we are also meeting the requirement. And people are not given the service that needs to be given. Of course we can bring a development bank here. If there is volume development, bank will come. There is no volume that's why bank could not come. We don't have volume. If country runs with 1 billion dollar budget, who will want to come and invest big, I mean today small companies in the world they are budgets bigger than billion dollars. As all of you knows. So you must advise the government. We need to change these numbers. And we need to find out what we have. And we need to inventory of what we really own. What we have, what we have in our stock. Without checking our stock, for example, if we have a shirt in the cupboard, and you just look same shirt you are buying again. You forgot about your cupboards because so many shirts are there and now again you buy the same shirt again or some jewelries

or whatever. I think this is the problem we are having. Do anybody in the Maldives know what we have in the country. What is our wealth? Every time we research on this that is something I think IMF should support to the Maldivian government and Maldivian parliament. Why it is done, than we know exactly our capacity and investments; private sector. Where are the issues? The face, and then we have to ever consult a new program. Sit down everybody. In the different areas, industries like construction industry, Fisheries, Tourism, and Transport I don't know. Whatever you name it this industries we should sit down. Between the industry and the government and the law makers we have to sit down one day okay this is what we need to do. And this is where we want to arrive. The basic facilities, basic thing Maldivian people are looking for to have water, to have normal standard of living where you have when you go to the clinic there is a medicine for you, doctors to support you. This is what you need. Now when we put a doctor in an island where 300 people, the doctor will get crazy he doesn't have a patient there for every day. So the doctor cannot stay there. It will be too costly. So we have to have mobile hospital in the Maldives, mobile floating hospital. Rather than putting largest hospital in the world here we have to have a floating hospital. And that hospital will run through entire country. There is a way of doing this. These are new technologies we can bring. We have to have technologies in the country. So many areas we have traveled; technological industry is today the largest industry in the world. We need address those things. I think we can speak like these three days four days five days. When you are making very important consultation programs with government of the Maldives and with us as law makers I think when you make paper when you make your final report we will also give our input like MP Nasheed said and I thank you very much giving us this opportunity today. And like you are all very busy today we are also very busy campaigning and other things. I think if there are no more questions and we will come you again. When we also have more time and we can also meet you, I mean separately discusses little friendly manner and just understand when you put a paper that can be also program after the election time. And this is the very important MP's are missing today. This is a committee we have all the sectorial people this committee. We are very few members today but I thank you my colleague 2 members that they have visited here today us to be able to also continue this meeting. I will give you.

Nolhivaram constitutional area MP Mohamed Nasheed speaking:

Thank you very much. I thought I would add this before concluding. But I believe is the real problem of this economy is, it's mostly base on that tertiary sector. We don't have any primary sector investments here in Maldives. It's very less. No agriculture. It's very minimum level we do. And fishing has being declining for the last two decades. And we don't produce anything here. So what we believe is that in order to economy to survive we need to invest more on the primary sector. But because of the rate of return and tourism everyone wants to invest on

tourist. So this won't be healthy what I believe. I think you can consider some of this on your report if you may. Thank you.

Fiscal Affairs Department team member Allina Morashiello speaking:

Thank you very much sir for your time. We know that you all are very busy. So we just have one last question. We are also looking into your requirement for us reviewing the audit reports. So could you tell us what challenges the usual encounter in reviewing the audit reports?

Chairman speaking:

I think in short, we are reviewing. This is the first time in the history we have an independent Auditor General. Now Auditor General will audit and send the report to the committee here. And then we will review and make our suggestions. Okay, we make suggestions. Implementations are not there. Enforcement is not there. This is the issue. Now we are going to shortly after the, of course when the new parliament coming we will have a formula, how to enforce, how to implement. For example, there the corruption, Auditor General found that there is a corruption or there is somebody cheated something and now okay, we say Mr. A is cheating. So Mr. A is sitting is written in it. Now we need to Mr. A cheater okay fine. What is the punishment we give and where to put Mr. A? We put him jail, we send him a resort holiday or we will give a big job. So these are the things in this scenario Mr. A is cheating. We know. Everybody knows Mr. A is cheating. And we can't do anything. So these are the things we have implement and enforce. This is the challenge today. I think since we are having Auditor General last few years, I mean ten years, eight years you know. Countries have worked with Auditor General Hundreds of years. So nothing will be perfect. So we are just modeling and working. So IMF also should be patient enough to understand. We need to be given time. So now if you over regulate everything now so many Mr. A's we have like other countries. It's not Maldives. It's everywhere. So we are minimizing all these. And over and all I think I am being the chair of this committee I am very happy also governments respond for the transparency. Nobody wants to actually to break the rules also to do corruptions. Systems should be made little bit easier I think now. Also already now we have correction department. When somebody is saying on the road okay, this project has got some corruptions write a letter to the corruption department. Corruption department will write a letter to another place. The project will get stop. Now for example, investor comes here, sign a contract with the government or negotiate with the government and then some bodies on the road. For example Maldives is so small. So everybody knows everything happen here. Now Maldives what is happening, tomorrow also everybody knows. My business also better than everybody knows on the road it is a Maldivian situation, the sir public. Sir public is very concern about everything. They are talking everyday about my business, your business, they don't do anything else. They are doing others business, rather than many people they are walking. They

only just talk about others business at the coffee tables. This is how Maldives the model of Maldivian people today. Now we need to change that model. We need to work every body. Than the corruption department receives a letter saying okay, this project is corrupted. Without investigation, for the investigation they will stop the project. So these are things we need to be careful now. Very careful, because if you are stopping the projects nobody will want do to the projects. And there must be court order to stop the projects. And now so many projects are stopped. The economy is going down because of these things. So these independent now, Auditor General is independent. He is not an independent person. He is not a government. He is a person from administrative arm of the government. Now these government functional bodies like Auditor General you have so many, I don't know. So many names you have now. Now all these different independent councils, independent commissions, they think they are separate countries. Separate governments. So we need educate them. Look here. This is one country, one government. We have a unitary system. Now unitary systems, we are not a federation. So Auditor General will not agree what you say, what Auditor General will say other commission will not agree. So all these things also we have to educate now. All these independent commissions should sit down and discuss and uniform. So when you make this paper, I think these areas that you have to touch. If you touch place all these areas than it would be very fine.

Kulhudhufushi Uthuru constitutional area MP Abdul Gafoor Moosa speaking:

And also regarding to government finance, you know lot of people they have lot of dues. Mostly the resort owners have to pay to government. It is over one billion today. And you know there is no action being taken because than you know even if we get this one billion easily we can manage our budget this year. So you know so many things are happening here. You know the law has to be implemented. And without this we can't do anything. Only you know the action will be taken only for the poor's. Not for the riches. That is the problem happening here. So this has to be taken to the consideration.

Chairman speaking:

Thank you so much for giving us opportunity and since you are from Italy (don't know what the member says on recording) Please do come again. I like to go back Italy again. Rome is nice. Maldives is nice staying holiday as well. Thank you so much.
