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The Governance of State-Owned Enterprises

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GOVERNANCE PUBLIC SECTOR & INSTITUTIONS (GGO18)
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MAIN ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AGO	Auditor General's Office
BML	Bank of Maldives
CGC	Corporate Governance Code
CMDA	Capital Market Development Authority
DHR	Dhivehi Raajjeyge Gulhun (Dhiraagu)
HDC	Housing Development Corporation
HDFC	Housing Development Finance Corporation
IBRD	International Bank for Reconstruction and Development
KWH	Kilowatt Hour
MACL	Maldives Airports Company Limited
MIFCO	Maldives Industrial Fisheries Company Limited
MIRA	Maldives Inland Revenue Authority
MMA	Maldives Monetary Authority
MOFT	Ministry of Finance and Treasury
MSE	Maldives Stock Exchange
MTDC	Maldives Tourism Development Corporation
MTCC	Maldives Transport and Contracting Company
MW	Megawatt
MWSC	Maldives Water and Sewerage Company
OECD	Organization for Economic Cooperation and Development
PA	Performance Agreement
PCB	Privatization and Corporatization Board
PEMEB	Public Enterprises Monitoring and Evaluation Board
QFA	Quasi-Fiscal Activity
RA	Results Agreements
SOEs	State-Owned Enterprises
STELCO	State Electricity Company Limited
STO	State Trading Organization

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ACKNOWLEDGEMENTS

The World Bank would like to express its sincere gratitude for the close collaboration of Government of Maldives in the preparation of this diagnostic of the corporate governance of state-owned enterprises (SOEs) in Maldives. The report is the culmination of a series of technical assistance and knowledge exchange activities undertaken by the World Bank at the request of the Government of Maldives and with the support of the Korean Trust Fund.

Under the guidance and supervision of Alexandre Arrobbio (Practice Manager) of the South Asia Governance Practice, the World Bank team was led by Immanuel Steinhilper (Sr. Public Sector Specialist and Task Team Leader) and Saw Young Min (Public Sector Specialist and Co-Task Team Leader). Core project team members included Bernard Haven (Young Professional), Federico Guala (Lead SOE Consultant) and Charlotte Suc (Consultant, Fiscal Risk).

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EXECUTIVE SUMMARY

1. **The Government of Maldives requested the Bank to conduct an assessment of the SOE corporate governance framework in Maldives.** Three priority areas were agreed: SOE ownership arrangements; SOE performance monitoring; and SOE fiscal risk analysis, including a pilot assessment of the electricity company STELCO. The report is complemented by a medium-term Action Plan to operationalize and sequence possible reform steps in a gradual and solution-oriented approach.

SOE Country Diagnostic

2. **Maldives' SOEs play a critical role for the country's economy and the delivery of public services, representing over 50% of GDP and 18% of the total workforce.** While Maldives currently counts a total of 97 SOEs, [1] their economic impact is concentrated in 17 fully and 8 partially owned SOEs. In 2015, the combined gross revenues of these main SOEs totaled over 26 billion Maldivian rufiyaa, equaling over 50% of Maldives' GDP. SOEs also employ over 19,000 people or 18% of the country's total work force. SOEs are active across key sectors such as electricity, water, financial services, telecommunications, and tourism and are instrumental for the provision of essential public services to citizens across the Maldives' numerous islands.

3. **While many Maldivian SOEs generate profits, they also receive financial support from the Government.** In 2014 and 2015, most of Maldives' SOEs recorded profits on their financial reports. Meanwhile, several SOEs, including profitable companies, also received Government financial support in the form of subsidies, transfers, and loan guarantees. Currently, only seven SOEs pay dividends, and some SOEs have accumulated tax and debt arrears, which could pose a potential fiscal risk for the budget.

4. **Maldives is in the process of putting in place a robust SOE corporate governance framework, starting with the establishment of a centralized SOE ownership entity.** A 2013 law established a centralized SOE ownership framework while other key corporate governance provisions are covered in the Companies Act[2], Audit Act and, in the case of listed companies, the Corporate Governance Code. Listed SOEs select their board members at their Annual Shareholders Meeting based on the recommendation of a board Nomination Committee. They are required to publish quarterly financial statements and appoint an independent external auditor from the private sector. For non-listed SOEs, the President of the Republic nominates SOE board members which are subsequently reviewed by the SOE ownership entity PCB. The Auditor General is responsible for the external audit of these SOEs. Box 1 provides an overview of Maldives' SOE corporate governance provisions.

[1] The Government of Maldives defines SOEs as any entity with a state participation of 5% or higher.
[2] Most Maldivian SOEs are Limited Companies.

Box 1: SOE Corporate Governance Arrangements in Maldives[3]

Legal Framework
• "Privatization and Corporatization Board Law" of 2013 established a centralized SOE ownership framework. • Companies Act stipulates rules for the formation, registration and management of companies (incl. SOEs). • Listed SOEs subject to Corporate Governance Code; 100% owned SOEs subject to PCB policies. • Audit Act specifies SOE audit requirements and created an Auditor General's Office.
Ownership/Oversight Arrangements
• Centralized SOE ownership entity: 7-member Privatization and Corporatization Board (PCB) supported by PCB Secretariat in Ministry of Finance and Treasury (legal owner of shares on behalf of Government). • Main functions: SOE financial monitoring; development of SOE policies; review of SOE Board nominations for non-listed SOEs; preparation of reports for political level (President, Parliament, Ministry of Finance); liquidation of non-operational SOEs; piloting of SOE performance agreements.
Performance Monitoring
• *Performance Monitoring:* PCB tracks SOE financial and non-financial data for 25 largest SOEs in a database. • *Performance Agreements:* PCB has recently initiated a pilot to introduce performance agreements for 17 fully-owned SOEs (of which 13 have developed draft result agreements, currently no agreements signed).
SOE Board of Directors
• Unitary board structure; average board size of 5, at least 2 members per board. Most members from the private sector with backgrounds in management, accounting, finance. Cabinet ministers not eligible to serve on boards. • *Listed SOEs:* Nominations of board members at the shareholders' Annual General Meetings based on recommendations of Nomination Committee. • *Non-listed SOEs:* Nomination of board members by President of Republic, reviewed by PCB.
SOE Transparency & Audit
• Reporting requirements vary between listed and non-listed SOEs: • *Listed SOEs:* Mandatory publication of quarterly financial statements under Capital Market Development Authority (CMDA) rules. SOEs select their own external auditors (private firms). • *Non-Listed SOEs:* Required to submit their financial reports to PCB. Auditor General responsible for external audit (can be sub-contracted to private audit firms). • Internal audit practices and adoption of IFRS standards more common in larger SOEs.

5. Regarding SOE ownership arrangements, in 2013 the Government established the Privatization and Corporatization Board (PCB) as a centralized SOE ownership entity. PCB consists of a 7-member Board reporting to the President of the Republic and Parliament and is supported by a 9-member Secretariat located in MoFT. PCB has progressively assumed typical functions of a centralized SOE ownership entity including the collection of SOE financial information and development of an SOE database. In addition, it has developed draft SOE policies (human resources, dividends, procurement, board procedures) and reviews nominations for SOE boards of non-listed SOEs. PCB has also initiated the preparation of performance agreements for fully-owned SOEs and started liquidating non-operational SOEs. There are opportunities for further progressively strengthening the oversight capacity and systems of PCB.

6. Regarding SOE performance management, PCB has initiated the preparation of results agreements for 17 fully-owned SOEs, 13 of which have prepared draft agreements. The process is at an early stage and has started as a voluntary pilot program targeting 17 fully-owned SOEs. Out of this group, 13 SOEs have prepared draft results agreements which are under review, with no agreement signed to date. All other SOEs are currently not covered by the exercise. PCB plans the finalization and gradual implementation of the results agreements for fully-owned

[3] Given the Government's priority to focus on corporate governance areas related to the state ownership function and corporate governance mechanisms for the state monitoring of SOEs, dimensions such as "Equitable treatment of shareholders" and "Stakeholder relations" have not been analyzed as part of this report.

SOEs in 2017. Over time, it is also envisaged to make the agreements mandatory, expand their scope to additional SOEs and link the achievement of results with performance incentives.

Pilot Fiscal Risk Assessment of STELCO

7. **Financial projections by the Bank team suggest that STELCO will remain strongly dependent on Government finances.** The main risk factor for STELCO stems from the fact that both its main cost (price of diesel) and its revenues (fixed electricity tariff) are externally determined. The pilot fiscal risk assessment based on a model developed jointly with MoFT, PCB and STELCO leads to the conclusion that the current oil input cost, tariff structure and associated subsidy mechanisms do not allow STELCO to meet public policy objectives while maintaining a strong financial position. Even if the planned expansion of STELCO's activities would allow the company to increase revenues over the medium-term, the evolution of international oil prices implies limited operating profits and a likely continued high financial dependency on the State. Alternative scenarios further develop the extent of the risk through: (i) the withdrawal of the fuel surcharge subsidy; and (ii) an increase in the electricity tariff. Under all scenarios, the net flows to the Government are projected to remain negative.

Proposed Action Plan

8. **The proposed Action Plan identifies sequenced reform options designed to further strengthen SOE corporate governance through a gradual and sustainable approach.** Developed jointly between the Bank and Government authorities, the proposed Action Plan takes into account specific capacity and contextual factors and aims at developing sustainable and effective capacity of the centralized SOE oversight system. It is focused on three main areas:

- Strengthening the capacities of the SOE ownership entity PCB.
- Enhancing SOE performance monitoring.
- Introducing increased fiscal risk management of SOEs.

9. **Regarding the SOE ownership function, the Action Plan aims to further strengthen Maldives' centralized ownership system by enhancing PCBs capacities and resources.** Main proposed actions include:

- Developing a Strategic Plan for PCB and updating PCB's organizational model.
- Adopting SOE ownership policies for HR, procurement, dividends, board nominations.
- Strengthening the technical capacities of PCB's Secretariat through the recruitment of additional specialized staff and targeted training and capacity building activities.
- Enhancing the electronic SOE database and systems.
- Reporting on the consolidated performance of the SOE portfolio through Annual Reports and a PCB website.
- Improving the quality and timeliness of SOE financial audit in coordination with the Auditor General's Office and offering training opportunities for SOE board members.

10. **Regarding performance management, the Action Plan aims to support PCB in its efforts towards gradually introducing SOE performance agreements.** Main proposed actions include:

- Defining minimum standards/indicators for SOE financial reporting and SOE monitoring, with a particular focus on major strategic SOEs.
- Consolidating data for the SOE portfolio as a whole, reinforcing communication channels between PCB technical staff and SOE management and board members.
- Enhancing IT systems for effective SOE financial monitoring.
- Developing a sequenced calendar for the introduction of SOE performance agreements and signing results agreements with at least 2 SOEs.
- Developing performance incentives for the achievement of results agreement targets.

11. Regarding fiscal risk, the Action Plan aims to progressively strengthen the Government's capacity to effectively conduct fiscal risk analysis of individual SOEs, with a focus on SOEs with high fiscal / service delivery impact. Main proposed actions include:
- Developing a framework/model for SOE fiscal risk assessment.
- Reviewing and regularly updating the pilot fiscal risk assessment for STELCO.
- Establishing a fiscal risk Unit within PCB.
- Conducting fiscal risk assessment for at least two other targeted SOEs.
- Taking risk mitigation measures for analyzed SOEs to reduce risks to the budget.

1. Introduction

Context and Rationale

12. **SOEs in the Maldives play a critical role in the development of the economy as they are located in strategic sectors and provide essential goods and services.** SOEs are one of the main drivers of the economy as they play a pivotal role in key sectors such as tourism, fisheries, telecommunication, and financial services, contributing to revenue generation and employment. Like other small island states, Maldives faces specific challenges related to its geography. Its high dependency on imports, limited access to certain specialized skills, a small domestic market and scattered population make the provision of goods and services costly and limit the attractiveness of markets to the private sector. As a result, historically SOEs have played a significant role in providing essential goods and services to citizens.

13. **While many Maldivian SOEs generate profits, the performance of the SOE portfolio could be further enhanced.** While most large SOEs in Maldives realized net profits in 2014 and 2015, financial performance across SOEs varies substantially, and some SOEs generated important losses. Currently, only 7 SOEs pay dividends, and not all SOEs contribute to tax revenues. In addition, the profitability on SOEs' balance sheets may in part be due to Government support in the form of subsidies and grants and loans or loan guarantees, which could pose a potential fiscal risk and impact the delivery of essential services.

14. **International experience suggests that strengthening corporate governance can contribute to improved SOE performance.** Countries' experience with SOE reforms have made clear that challenges faced by SOEs are often caused less by exogenous problems and more by fundamental governance challenges. SOEs are often driven by a myriad of interests between ownership (by the government on behalf of the citizens) and control (by the directors and managers that run the company). This includes complex or contradictory mandates, the absence of clearly identifiable owners, risks of a politicized boards and management, lack of SOE autonomy in day-to-day operational decision making, weak financial reporting and disclosure practices, and insufficient performance monitoring and accountability systems.[4] In turn, promoting clear ownership rules and responsibilities, establishing strong SOE oversight entities, developing independent and professional boards, implementing robust performance monitoring mechanisms, and introducing disclosure of financial and audit reports can positively impact performance.

15. **Given the economic importance of SOEs, the Government of Maldives has initiated corporate governance reforms in 2013 focusing on ownership arrangements, performance monitoring and fiscal risk.** Despite the economic relevance of SOEs in Maldives, in the past, information on SOE financial performance and its impact on the government budget was not comprehensively available, posing potential fiscal risk to public finances. As a response to these challenges, the Government adopted a law in 2013 establishing a new ownership institution,[1] and is planning to improve SOE performance management and fiscal risk monitoring. This gradual and sequenced approach focusing first on institutional arrangements and monitoring tools was

[4] Corporate Governance of State-Owned Enterprises: A Toolkit, World Bank (2014), p. xxii.
[1] Privatization and Corporatization Board (PCB): see Chapters 2 and 3.

considered most appropriate to introduce corporate governance changes and strengthen the overall performance and transparency of the SOE portfolio given current context and capacities. This approach is also viewed as the most direct to contribute to reducing the fiscal gap, ensuring macroeconomic stability, and maintaining a strong capacity to deliver public services.

16. In this respect, the Government of Maldives requested World Bank support to assess and advise on the SOE corporate governance reforms initiated in 2013. The Ministry of Finance and Treasury (MoFT) and the SOE ownership entity, the Privatization and Corporatization Board (PCB), requested Bank support in assessing and advising on the Government's recent SOE corporate governance reforms. Given the reform focus on ownership arrangements and performance management, Bank support is expected to focus primarily on ownership arrangements, performance monitoring, and fiscal risk.

17. The present diagnostic is complementary to other World Bank activities. In particular, the report could further inform an active IBRD-funded Bank project on Strengthening Public Financial Management Systems[5] and contribute practical knowledge to a regional Community of Practice of SOE ownership entities in which Maldives actively participates.

Objective

18. The objective of this study is to generate knowledge and inform the Government of Maldives, and World Bank staff, about the Corporate Governance of SOEs and related reform actions. To achieve this objective, the study incorporates the following activities; an SOE Corporate Governance Country Diagnostic, a pilot analysis on fiscal risk management, and a medium-term Action Plan. The study thus seeks to respond to the Government's expectations of international knowledge exchanges and a gradual solution-oriented approach to identified challenges.

Scope of Work

19. At the request of the Government, the report focuses on three topics that are considered the most appropriate to gradually improve SOE performance and reduce SOE-related fiscal risk. The Government requested to concentrate the diagnostic on the following three SOE corporate governance dimensions:

- **State Ownership and Oversight Arrangements:** Building on the 2013 reform that established the Privatization and Corporatization Board (PCB) as Maldives' centralized SOE ownership entity, the Government envisages to further significantly strengthen PCB's role and capacity to effectively exercise the state ownership function.
- **Performance Monitoring:** The Government also plans to strongly enhance the performance monitoring of SOEs through the gradual introduction of pilot SOE performance agreements, a process which was recently initiated by PCB.
- **Fiscal Risk Monitoring:** Finally, given the size of SOEs in the economy and their budgetary implications, the Government considers strengthening fiscal risk monitoring for strategic SOEs

[5] Maldives: PFM Systems Strengthening Project (P145317), which includes an activity to support the initiation of performance agreements.

a priority and proposed to conduct a pilot fiscal risk assessment of the State Electric Company – STELCO.

20. The report also provides a general overview of the "SOE sector" and existing SOE corporate governance arrangements in Maldives. Regarding SOE corporate governance, the report focuses on the areas related to the role of the state and the corporate governance mechanisms for the state to monitor the SOE portfolio. Therefore, the areas covered in the report are:

- SOE Legal Framework.
- SOE Ownership and Oversight Arrangements.
- SOE Performance Monitoring.
- SOE Board of Directors.
- SOE Transparency and Audit.

21. Based on the diagnostic, an Action Plan proposes sequenced reform options that reflect the contextual specificities of the Maldivian public sector. The Action Plan, which was developed jointly with Government authorities, includes proposed measures aimed at strengthening the capacities of the SOE ownership entity PCB, improving performance monitoring, and introducing enhanced fiscal risk management of SOEs. It provides policy options for possible sequencing and prioritization of reforms in several sub-areas taking into account specific capacity and contextual factors.

Methodology

SOE Corporate Governance: OECD Guidelines and World Bank Toolkit

22. The analysis of the corporate governance arrangements and practices of SOEs in Maldives is based on the *OECD Guidelines* and *the World Bank Toolkit on Corporate Governance of SOEs.* Following this overall framework, the study covers the following dimensions of SOE corporate governance: legal and regulatory framework; exercise of the state's oversight and ownership role; monitoring of SOE performance and fiscal risk; boards of directors; and transparency and disclosure. The review analyzes the existing corporate governance framework and practices in Maldives in relation to international good practice and provides reform options for consideration (Box 1.1). The study provides an assessment of the existing institutional arrangements and laws and regulations in Maldives while taking into account *de facto* practices drawn from discussions with key stakeholders.

Box 1.1: Extract of OECD Guidelines on Corporate Governance of State-Owned Enterprises (2015 Edition)

- **Rationales for State ownership:** The state exercises the ownership of SOEs in the interest of the general public. It should carefully evaluate and disclose the objectives that justify state ownership and subject these to a recurrent review.
- **The State's role as an owner:** The state should act as an informed and active owner, ensuring that the governance of SOEs is carried out in a transparent and accountable manner, with a high degree of professionalism and effectiveness.
- **SOEs in the marketplace:** Consistent with the rationale for state ownership, the legal and regulatory framework for SOEs should ensure a level playing field and fair competition in the marketplace when SOEs undertake economic activities.

- **Equitable treatment of shareholders & other investors:** Where SOEs are listed or otherwise include non-state investors among their owners, the state and the enterprises should recognize the rights of all shareholders and ensure shareholders' equitable treatment and equal access to corporate information.
- **Stakeholder relations & responsible business:** The state ownership policy should fully recognize SOEs' responsibilities towards stakeholders and request that SOEs report on their relations with stakeholders. It should make clear any expectations the state has in respect of responsible business conduct by SOEs.
- **Disclosure and transparency:** State-owned enterprises should observe high standards of transparency and be subject to the same high quality accounting, disclosure, compliance and auditing standards as listed companies.
- **Responsibilities of the boards of SOEs:** The boards of SOEs should have the necessary authority, competencies and objectivity to carry out their functions of strategic guidance and monitoring of management. They should act with integrity and be held accountable for their actions.

Fiscal Risk Assessment: World Bank Tool for assessing SOE Fiscal Risks

23. **The pilot fiscal risk analysis of the study is based on the World Bank Tool for assessing fiscal risks associated with SOEs.** The World Bank has developed a practical tool which aims to produce a detailed analysis of fiscal risks associated with SOEs. Based on SOE-related information (financial data, business plans, tariffs, etc.), the tool proposes both quantitative and qualitative analyses of the risks that can arise from SOEs, and their potential impact on government finances. Box 1.2 presents the steps and related scope and objective of the fiscal risk assessment. Each step remains independent and the fiscal risk analysis can target specific steps. Annex 3 provides a detailed presentation of the methodology to forecast fiscal risks.

Box 1.2: SOE Fiscal Risk Tool

Step	Scope	Objective
Step 1: Classification of SOEs by degree of risk	Portfolio of SOEs	• Establishment of a classification of the SOEs according to their degree of risk. • Review of different types of risk: undue political interferences in SOEs policy; interactions with the Government; rules governing accountability mechanisms; financial sustainability; other risk factors (size of SOEs). • Extraction of a sample of SOEs to conduct fiscal risk analysis.
Step 2: Financial Analysis	Extracted sample of SOEs	• Review of financial health of SOEs, including: capital structure review, key financial ratios (profitability, solvency, leveraging, and growth rates). • Establishment of a dashboard with key indicators.
Step 3: Identification of Quasi-Fiscal Activities	1 or 2 subsidized entities	• Estimation of QFAs: mispricing or payment arrears. • Utilization of a benchmark price reference (for mispricing) and payment arrears data. • Analysis applied to utilities.
Step 4: Projection of fiscal risks	Few entities from the sample	• Prospective analysis of the risks. • Examination of SOE resilience through forecasting techniques. • Scenarios analysis (baseline, optimistic, pessimistic) and stress tests over the medium-term.

Source: World Bank staff.

24. **For both the corporate governance diagnostic and the fiscal risk analysis, the study relies on the most recent data available provided by the Government counterparts.** The study relies on information obtained through research and missions in Maldives conducted in close cooperation with Government authorities. Information has been collected from different sources, including the MoFT, the PCB Secretariat, SOEs, Auditor General's Office, Debt Management Department and other Government officials. In some areas, comprehensive updated data was not yet available, which may limit the analysis.

Audience

25. **The primary audience of the report is the Government of Maldives, in particular the PCB and MoFT.** Subject to a prior agreement with the Government, the report or parts thereof could subsequently be considered for publication for the benefit of a larger audience including the Auditor General's Office, SOE management, boards of directors and other interested practitioners in Maldives and beyond.

Structure of the Report

26. **The report is organized as follows:**

- **Chapter 2 – the SOE Sector in Maldives:** Provides an overview of the Maldives "SOE sector"[6], focusing first on its size, scope, and performance; and second on key dimensions of SOE corporate governance.
- **Chapter 3 – SOE Ownership Arrangements:** Assesses the functions of the Maldives oversight entity, its recent initiatives and overall capacity and objectives to exercise core ownership functions.
- **Chapter 4 – Performance Monitoring of SOEs:** Covers SOE performance monitoring, and attempts to present the current framework and objectives for performance monitoring in Maldives.
- **Chapter 5 – Fiscal Risk Assessment:** Focuses on fiscal risks related to SOEs and presents a detailed assessment of STELCO, including scenario analysis and stress tests.
- **Chapter 6 – SOE Governance Action Plan:** Proposes an Action Plan with reform options adapted to the country context, aimed at improving SOE corporate governance in an appropriately sequenced manner.

[6] In this report, the term "SOE sector" refers to the universe of SOEs in Maldives. It does not mean to imply that SOEs in Maldives form a homogenous group or belong to the same sector.

2. The SOE Sector in Maldives

LANDSCAPE OF THE SOE SECTOR IN MALDIVES

Evolution of the SOE Sector

27. **SOEs have historically played a key role in the Maldivian economy.** Since the 1960s, the Republic of Maldives has been highly influenced by state-owned enterprises. Originating with the State Trading Organization, which has imported essential fuel and food products since the country's independence, operations undertaken by SOEs have grown to cover a wide range of activities. Today, SOEs provide electricity and utilities, communications, financial, and tourism services, air and sea transport, and operate fisheries, among other activities. In recent years, while the Government has sought to reduce the public sector's presence in the economy, SOEs still maintain a prominent role.

28. **Considering the economic importance of SOEs, the Government established PEMEB in 1995 as a centralized SOE monitoring unit.** As SOEs continued to hold a more important role in the Maldivian economy, the Public Enterprises Monitoring and Evaluation Board (PEMEB) was created as a division within the Ministry of Finance and Treasury. The Board's role was to act as an SOE monitoring and evaluation unit and to provide recommendations on ways to improve SOE performance and increase the return on investments. Given the size of the sector, however, complete supervision of all SOEs proved challenging.

29. **In the early 2000s, several SOEs faced performance challenges, and Maldives engaged in a restructuring program for the sector.** As a result of damage incurred by the December 2004 tsunami, the performance of several SOEs deteriorated and required direct financial support from the Government. In an attempt to mitigate pressures on the national budget, the Government's Sixth National Development Plan (2001-2005) envisaged the private sector to become the driver of economic development. With technical assistance from the Asian Development Bank in 2006, the Government developed an SOE reform plan and identified three SOEs to be privatized, and for STELCO, the primary electricity provider, to be restructured. However, a shifting political landscape from 2008-2012 limited the impact of the proposed policy recommendations.

30. **In 2013, the Government relaunched its SOE reform agenda and created the Privatization and Corporatization Board to strengthen SOE oversight function.** In order to strengthen the role of the SOE monitoring unit, the Government replaced PEMEB with the Privatization and Corporatization Board (PCB). In 2013, PCB was created through the Law of Privatization, Corporatization, Monitoring and Evaluation of Government Business with a mandate to plan, implement, manage, and monitor the Government's privatization and corporatization efforts. PCB's initial activities focused on reestablishing standards for financial reporting and promoting better corporate governance as a means to improve SOE financial performance as outlined in Chapter 3.

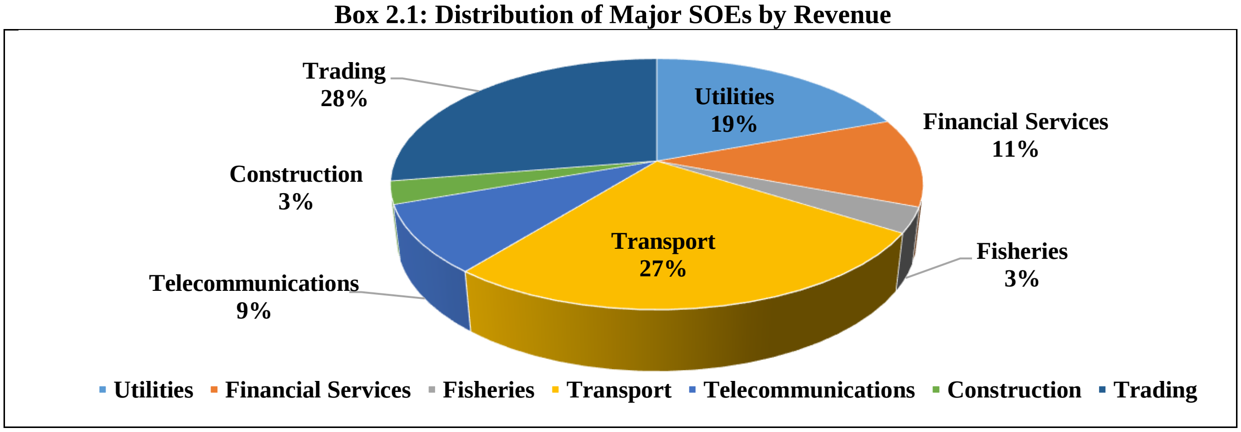
31. **Maldives is currently embarking on an unprecedented scale up in public infrastructure involving SOEs which could significantly expand Maldives' economy but also pose a potential fiscal risk.** The Government has invested in expanding the capacity of Ibrahim

Nasir International Airport in order to increase passenger traffic from 1.5 million to 7 million, and has also entered into an agreement with the Chinese government to construct a bridge between the airport island, Hulhumalé, and the capital city of Malé. The projects have been adopted with the expectation that they will increase tourism revenues and develop a larger local economy, but financing has been undertaken through external loans. As noted by the IMF in 2015, while these investment projects could provide a boost to economic activity, there is also the risk that they become a fiscal burden in the event of an economic or environmental shock. Several Maldives SOEs are involved in the implementation of these activities.

Economic and Strategic Relevance of SOEs

32. SOEs contribute significantly to the economy across a variety of sectors. SOEs cover a wide spectrum of activities, including trading, transport, and utilities, and provide key public services to Maldives' citizens. SOEs have also maintained a significant role in terms of their contribution to fiscal revenues (considering the country's narrow tax base) and as a crucial source of public employment. Combined gross revenues from the largest SOEs totaled MVR 26.1 billion and accounted for approximately 54% of GDP in 2015.[7] Between 2015 and 2016, SOE-related employment rose from 16,238 to totals 19,444 employees,[8] representing an estimated 18.5% of the country's total workforce.[9] Box 2.1 shows the current sector composition of the Maldivian SOE portfolio by revenues.

Box 2.1: Distribution of Major SOEs by Revenue



Note: Graph based on 16 largest SOEs, representing 99% of total revenues from state enterprises in 2015.

33. While there are currently 97 SOEs in Maldives, their economic impact is concentrated in a few major firms.[10] In Maldives, an SOE is defined as an entity where the state holds at least 5% ownership. The Maldivian state currently possesses 100% ownership in 17 large SOEs, including STELCO and FENAKA, the country's major electricity providers, and Maldives Airports Company Limited, which led SOEs in gross profits in 2015. The state also possesses a majority stake (greater than 50%) in 4 large enterprises, including the State Trading Organization (STO), in charge of importing fuel, and the Bank of Maldives, the country's largest financial institution. Additionally, significant state minority positions are held in another 4 large SOEs

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[7] Data collected from Privatization and Corporatization Board, Ministry of Finance and Treasury.
[8] Presentation by PCB: An Overview of SOEs and Functions.
[9] Total population estimated at 365,000.
[10] Annex 2 includes a full list of Maldives' SOEs.

(ranging from 41.8%-49%), namely Dhiraagu, the largest telecommunications provider; Housing Development Finance Corporation; Maldives Tourism Development Corporation; and Maldives Transport and Contracting Company. Maldives also owns 38 joint-venture entities with smaller state minority positions (5-30%)[11], 10 non-operating "paper companies", and 24 SOEs identified for liquidation.[12] The Box 2.2 below describes selected main SOEs in Maldives while Box 2.3 summarizes the different categories of SOEs in Maldives.

Box 2.2: Selected State Owned Enterprises in Maldives

Bank of Maldives (BML) – (66.3% Govt. share) Bank of Maldives PLC is Maldives primary commercial financial institution and the largest employer in the banking sector. BML has a customer base of 265,000, a deposit base of MVR 14 billion, and assets of MVR 18 billion – almost 50% of GDP and 1.5 times FY 2014 central government revenues. 2015 net revenue was MVR 1.61 billion and net profit was MVR 662 million.

Dhiraagu (DHR) — (41.8%) Dhivehi Raajjeyge Gulhun PLC was established in 1988 and is the largest telecommunications provider in the Maldives with 79% market share in both mobile and broadband services, and over 400,000 customers. 2015 net revenue was MVR 2.27 billion and net profit was MVR 724 million. DHR is Maldives' leading company in terms of market capitalization, which totals MVR 6.46 billion.

Fenaka Corporation Limited (FENAKA) – (100%) FENAKA was established by Presidential decree in 2012 with a mandate to provide island communities outside the Male region with electricity, water, sewerage, and waste management services. The company generates power for more than 150 islands and serves around 70% of the population. 2015 net revenue was MVR 1.2 billion and net profit was MVR 116.2 million.

Housing Development Finance Corporation (HDFC) – (49%) The Housing Development Finance Corporation provides financing for the residential and commercial housing sector and promotes infrastructure development. HDFC was privatized in 2008 with the IFC (18%), Asian Development Bank (18%), and HDFC Investments (15%). 2015 net revenue was MVR 114 million and net profit was MVR 60.5 million.

Maldives Airports Company Limited (MACL) – (100%) Maldives Airports Company operates Maldives Ibrahim Nasir International Airport (MLE) and provides aviation and fuel services to regional airports. In 2015, MACL was the highest revenue generating (MVR 3.85 billion) and most profitable (MVR 1.12 billion) company. The Government has invested in increasing the capacity of MLE from 1.5 million passengers to 7 million passengers over the next few years in order to increase tourism generated revenues.

Maldives Industrial Fisheries Corporation Limited (MIFCO) – (100%) MIFCO manages the largest fish procuring operation in the country and is a major processor and exporter of tuna to Japan and Europe. The company is one of Maldives' least profitable SOEs, noting losses of around MVR 112 million in 2015.

Maldives Transport & Contracting Company (MTCC) — (55.3%) The Maldives Transport and Contracting Company PLC offers a diverse range of services, such as construction, logistics, and transport. The company is the leading sea and land transport provider, operating commuter ferry services between Malé and nearby islands. 2015 net revenue was MVR 1.03 billion and net profit was MVR 156 million.

State Electricity Corporation Limited (STELCO) – (100%) State Electric Company Ltd. is the main entity responsible for the production and distribution of electricity, operating power systems across 30 islands, including the capital, Malé. STELCO provides electricity to around 45% of Maldives' citizens. While 2015 net revenue was nearly MVR 3.2 billion, the company realized a net loss of MVR 128 million.

State Trading Organization (STO) — (81.63%) The State Trading Organization, established in 1964, undertakes trading and commercial activities on behalf of the Maldivian government. The company is responsible for the import of fuel, food, construction materials, and medical supplies, among other products. In 2015, net revenue was MVR 7.1 billion and net profit was MVR 430 million.

Source: Websites and interviews.

[11] These joint ventures operate primarily in the tourism sector – often the state holds a 5% position and the respective private sector partner takes responsibility for developing and operating tourism infrastructure on the islands.

[12] 8 companies have been assigned to a private contractor for liquidation; the rest are being announced for tender.

34. Five of Maldives' largest SOEs are listed on the Maldives Stock Exchange (MSE). Bank of Maldives (BML), State Trading Organization (STO), Maldives Transport and Contracting Company (MTCC), Maldives Tourism Development Company (MTDC), and Dhiraagu (DHR), all partially government owned companies, provide 98.5% of the stock exchange's total market capitalization, which totaled MVR 8.34 billion in 2016.[13] Despite the fact that some the largest SOEs in Maldives are listed on the exchange, investment opportunities available to the public are narrow given the limited number of companies and outstanding shares. Actual trading in listed SOEs is currently limited, as most investors primarily hold shares to receive dividend payments.

Box 2.3: Overview of Maldives' SOEs by Category

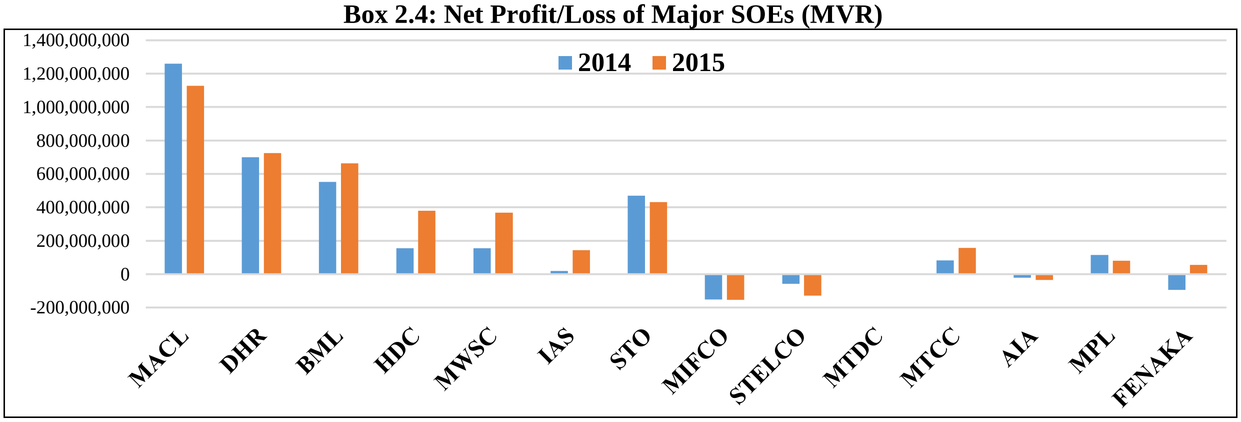
Type of SOE	Number
Fully-owned SOEs (100% Government share)	17
Majority-owned SOEs (50-99.9%)	4*
Significant Minority Stake (30-49.9%)	4**
Small Minority Stake/Joint Ventures (5-30%)	38
Paper Companies (non-operational)	10
Entities identified for Liquidation	24
Total	**97**

* Of which 2 listed. ** Of which 3 listed. Source: Privatization and Corporatization Board.

SOE Financial Performance

35. In 2015, the overall SOE portfolio in Maldives realized net profits of over 3.87 billion rufiyaa. In 2015, the majority of Maldives' largest SOEs were profitable, with 18 of the 22 largest SOEs reporting net profits on their balance sheets. Maldives Airports Company Limited led the sector in net profits (MVR 1.12 billion), followed by the telecommunications company Dhiraagu (MVR 724 million). In turn, the electricity company STELCO and fish processor and exporter MIFCO were the two largest loss-making enterprises, losing MVR 128 million and MVR 112 million, respectively. Overall, the sector accumulated a total net profit of MVR 3.87 billion. Box 2.4 summarizes recent net profitability data of major SOEs according to their financial statements.

Box 2.4: Net Profit/Loss of Major SOEs (MVR)



Source: Privatization & Corporatization Board.

36. At the same time, SOEs' profitability is also affected by SOE public service obligations, Government transfers, loan guarantees, and other factors. SOEs' profitability on their balance sheets may only provide a partial picture of their underlying performance. Several

[13] Capital Market Development Authority, April 24, 2016.

SOEs are indeed charged with public service obligations which distinguishes them from private companies. For instance, MTCC is mandated to provide regular low-cost ferry services to ensure connectivity between islands, including on unprofitable routes. Meanwhile, the company received Government transfers totaling 62 million rufiyaa which represented close to 30% of its gross profits. Similarly, STO received transfers of 332 million rufiyaa for food subsidies, equaling 44% of the company's gross profits. SOEs may also benefit from loans guaranteed by the Government to finance their investments or operational activities.[14]

37. In recent years, some large SOEs have been directed to take on unprofitable projects outside of their traditional business lines. Selective mandating of projects has led some SOEs to undertake projects that negatively impact their profitability. For example, Maldives Industrial Fisheries Corporation has started operating ferry services at a loss. In another case, STELCO has been mandated to include water and sewage services as part of its operational activities but cannot generate a profit from this line of business.

38. Maldives' SOEs indebtedness varies widely with gearing ratios from 0% to 90% for individual SOEs. As at Q4 2015, the State Trading Organization displays the highest absolute level of current liabilities at 2.5 billion rufiyaa, followed by Bank of Maldives (1.5 billion), the fish processing and exporting company MIFCO (684 million) and the Male region electricity company STELCO (637 million). In terms of debt to equity ratio (gearing), the airport company MACL (0%) and telecommunications provider Dhiraagu (5%) display low gearing ratios, while the highest gearing ratios are observed with STELCO (56%), the Housing Development Finance Corporation HDFC (57%), the Maldives Tourism Development Corporation MTDC (83.5%), and the Maldives Hajj Corporation (93.34%), indicating a higher level of risk of the latter companies. Box 2.5 summarizes the assets and liabilities and debt ratios of selected main SOEs.

Box 2.5: Assets and Liabilities of Selected SOEs

SOE	Current Assets**	Current Liabilities**	Current Ratio	Gearing Ratio (%)
Bank of Maldives	1,805***	1,518	N/A	5.3%
Telecommunications (Dhiraagu)	1,344	758	2.0	5%
Electricity for islands outside Male (FENAKA)	N/A	N/A	N/A	N/A
Electricity in Male region (STELCO)	585^	637^	0.92^	56%^
Housing Development Finance Corporation (HDFC)	N/A	N/A	N/A	57%
Maldives fisheries processing and exports (MIFCO)	206	684	0.30	0%
Maldives Airport (MACL)	4,128	543	7.61	0%
Construction and transport services (MTCC)	959	741	1.3	7%
Oil imports and trading (STO)	2,852	2,489	1.15	18%
Maldives tourism development (MTDC)	22	2.9	7.7	83.50%
Water company (MWSC)	738	411	2	19%^
Maldives Hajj Corporation (MHCL)	16	26	0.6	93.34%

* Source: PCB, as of Q4 2015 unless otherwise indicated. ** In MVR million. *** Total Assets. ^ As of Q3.

SOE Macro-Fiscal Implications

[14] In several countries SOE profitability can also be influenced by factors such as monopoly status and related-party transactions that are not carried out at market prices (e.g., SOEs charging higher or lower prices to each other).

39. While SOEs contribute to revenues through dividend payments, currently only a few companies issue dividends. Historically in Maldives, SOE dividends and profits have been important sources of non-tax revenues. SOE dividends paid to the Treasury in 2015 amounted to MVR 464.4 million, up from MVR 322.7 million in 2014. Overall, dividend transfers accounted for approximately 10.7% of non-tax revenue and 2.4% of total revenue in 2015. However, a majority of dividends come from a limited number of companies. Only seven SOEs currently declare dividends, while most state owned entities do not pay dividends. Other companies, like STO, have declared dividends (of MVR 1.8 billion), but have not yet paid the outstanding amount to the Government.

40. SOEs are also contributors to tax revenues, but not all SOEs make tax payments and others hold deferred tax liabilities. While the Maldives Inland Revenue Authority (MIRA) has made substantial progress in updating its systems by tracking tax receipts for large companies (Maldives' primary tax contributors) and improving accountability, comprehensive data is currently not yet available for the entire SOE portfolio. According to MIRA, while SOE contributions were significant, only 15 SOEs were recorded as paying taxes in 2015. Other SOEs hold substantial deferred tax liabilities – for example, STELCO accumulated MVR 64 million in deferred tax liabilities in 2015.[15]

41. Further, the Government supports SOEs extensively through direct subsidies and transfers. Despite many SOEs reporting considerable profits on their balance sheets, several entities benefit from government support. In 2015, the government provided SOEs an estimated MVR 1.134 billion, approximately 7% of current central government spending.[16] Subsidies were primarily directed towards SOEs providing food and energy. While these estimates show a decrease from 2014 subsidies, this is to a large extent explained by the temporary suspension of transfers to STELCO.[17] More data would be needed in order to fully assess the level of subsidization for each SOE.

42. The overall net effect of SOE operations on the Government budget can only be partially assessed. In the absence of comprehensive data on subsidies paid to SOEs and SOE tax payments, the net impact of SOEs on Government finances can currently only partially be estimated.[18] However, the Government is in the process of consolidating financial reports and tracking SOE budgetary implications, which could allow for a more accurate assessment going forward. Based on the available data, Dhiraagu led FY2015 in terms of transfers to government. MACL, on the other hand, which led all SOEs in net profits, paid no dividend at all. Further, transfers from the Treasury to SOEs have increased in order to cover operational losses. Box 2.6 below presents the dividends and taxes paid and subsidies received of selected SOEs.

[15] At the time of the preparation of this report, detailed information on SOE tax payments was not yet readily available.
[16] Maldives Monetary Authority, *Annual Report.* 2015.
[17] Lower global oil prices and increased scrutiny on company operational activities have led to a cut back of transfers to the company. STELCO still received MVR 9 million through operational grants in 2015.
[18] An estimation of the net contributions of Aasandha, STO, and STELCO has seen a declining trend (World Bank Systematic Country Diagnostic, 2015).

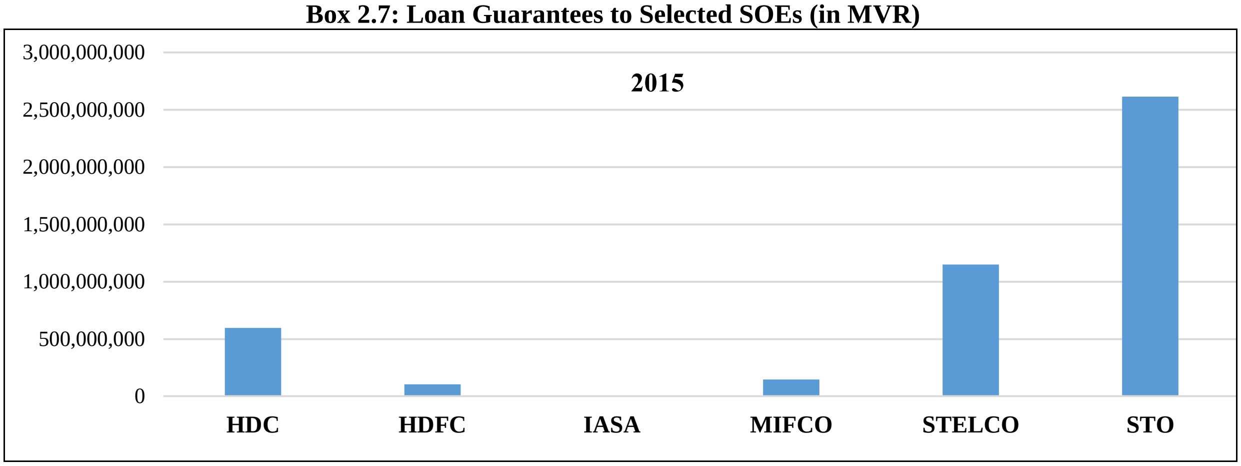
Box 2.6: Net Profits and Transfers to Government from Selected Maldivian SOEs (2015)

Name of SOE	Dividends Paid	Taxes Paid	Subsidies	Net Effect on Government Budget
Bank of Maldives	50,061,968	229,112,000	Data not available	279,173,968
Dhiraagu	303,722,634	125,284,000	Data not available	429,016,634
Maldives Airports Company Ltd.	0	Data not available	Data not available	n/a
Maldives Transport & Contracting Company	5,000,000	29,301,445	62,260,000	(27,958,555)
State Trading Organization	0*	84,600,000	312,392,782**	(227,792,782)
STELCO	0	0	Data not available	n/a

Figures in Maldivian Rufiyaa (MVR).
* Outstanding dividend payment owed to Government of 259,806,357.
**Only food subsidies accounted for in this figure.

43. **The Government further supports SOEs through the issuance of loan guarantees.** Several SOEs lack the capacity to borrow based only on the strength of their own businesses, and as a result require loan guarantees from the government in order to finance activities. Loan guarantee requests from SOEs have increased sharply since FY2010[19], and high levels of SOE debt have impacted the central government's ability to borrow. Government loan requests are affected by the non-performing loans of SOEs. Compounding this risk is the fact that non-performing loans are not included in the budget, making the total liability of SOE loans difficult to estimate. Given that Maldives' public debt has risen rapidly since 2004, growing from around 36% of GDP in 2004 to 74.6% of GDP in 2014, a close monitoring of SOE loan guarantees could become increasingly important from a fiscal risk perspective. Box 2.7 shows the extent of loan guarantees to selected SOEs in 2015.

Box 2.7: Loan Guarantees to Selected SOEs (in MVR)



Source: PCB.

44. **Inter-SOE transactions also render the assessment of the financial performance of individual SOEs and fiscal risks related to the portfolio of SOEs more complex.** SOEs dominate core economic sectors and often provide services to one another, resulting in a high level

[19] Furthermore, most Maldivian SOEs are implicitly backed by the government, regardless of their profitability or credit risk.

of interconnectedness in the form of cross subsidies, cross debts or discounted sales. For example, STO as the only importer of petroleum, provides discounted, or at times, marked up petroleum to STELCO and FENAKA. In addition, trade credits between SOEs, where some entities allow others to pay after the delivery of goods and services, have begun to accumulate into arrears. The stock of accumulated domestic arrears between SOEs was estimated at 6.2% of GDP in 2012[20]. To fully understand the extent of fiscal risk posed by SOEs, better information on the pricing of transactions between SOEs, and the business relationships between specific entities would be required.

SOE Service Delivery

45. SOEs are central to the provision of electricity and water. The production and distribution of electricity and water, and the provision of waste management services, are provided by state enterprises. STELCO and FENAKA are primarily responsible for providing electricity across the islands[21], while Maldives Water and Sewerage Company and FENAKA both provide waste management and sewerage services. MWSC, of which the government holds an 80% ownership stake, produces and distributes drinking water (primarily to Malé). Any disruption in SOE operations can have substantial impacts on the lives of citizens. For example, in 2014, Malé faced a water crisis when the capital's only desalination plant was destroyed in a fire. The Government declared a state of emergency, and in order to protect consumers from price shocks due to severe shortages, offered water free of charge.

46. Transportation and construction services throughout the country are facilitated by SOEs. Air, land and sea transport services are all provided by state enterprises. Maldives Airports Company Limited operates Ibrahim Nasir International Airport (MLE), and provides aviation services to Maldives' regional airports. Maldives Transport and Contracting Company, which is involved in various construction projects, also provides subsidized ferry services to the public from Malé to neighboring islands. The Government is investing in expanding the capacity of MLE from 1.5 million passengers to 7 million passengers. The Government is also constructing a bridge between the airport island of Hulhumalé and the capital Malé, through an agreement with a Chinese contractor.

47. SOEs are also crucial for administering banking and financial services across the islands. In previous years, banking services were concentrated primarily in Malé, however, recently, financial services provided by SOEs have also expanded across the country. For instance, Bank of Maldives currently serves over 265,000 customers,[22] with 29 branches spread across 20 atolls. Not only has the company provided citizens with access to financial services, but BML has also expanded employment opportunities for Maldivians. Approximately one third of Bank of Maldives' workforce is located in the atolls.[23]

48. The service delivery requirements of some SOEs have kept profits below their potential. Public service obligations impact SOEs' financial performance, as ensuring service delivery across Maldives' scattered islands is costly and presents a considerable challenge. For

[20] World Bank: Maldives Country Diagnostic (2015).
[21] STELCO serves the Malé region, while FENAKA provides services to the remaining islands.
[22] Population of Malé estimated at 153,379 (2014).
[23] Bank of Maldives employs 850 people in total.

example, STELCO, which is required to provide electricity to over 30 islands, has high fixed costs and is currently not able to achieve economies of scale. As a result, the company does not make a profit from its operations on any island except Malé. Similarly, MTCC, which provides ferry services to the public, charges low prices that have impacted the company's overall profitability. In some cases, service delivery requirements have kept profits below their potential, while in other cases, mandates have forced companies to borrow persistently to finance operations.

OVERVIEW OF SOE CORPORATE GOVERNANCE

Legal and Regulatory Framework

49. The Republic of Maldives' legal system is based on Islamic Law and English Common Law. The Constitution of Maldives is the country's supreme law and was established during Maldives' democratic transition in 2008. The Constitution sets out the functions, powers, obligations, duties and mandates of the President of the Republic, the People's Majlis ("The Parliament"), and the Judiciary.

50. The legal and regulatory framework of SOEs in Maldives is organized around a few key laws, many of which have been recently adopted. The primary legal framework applicable to SOEs has been adopted within the past decade, as shown in Box 2.8 below. The introduction of new legal instruments for SOEs, such as the Privatization, Corporatization, Monitoring and Evaluation of State Owned Enterprises Act (Law No. 3/2013), and the Corporate Governance Code (amended in 2014), have contributed to balancing trade-offs between the state's public interest and its commercial objectives.

Box 2.8: SOE-related Legislation in Maldives

Law	Year of last amendment
Law No. 10/1996 "The Companies Act" (CA)	1996
Law No. 2/2006 "Maldives Securities Act" (SA)	2006
Law 4/2007 "Audit Act" (AA)	2007
Law No. 5/2007 "Civil Service Act"	2007
Constitution, 1932	2008
Employment Act and Civil Service Act	2008
Banking Act	2009
"Maldives Monetary Authority Act" (MMAA)	2010
Law No. 3/2013 "Privatization, Corporatization, Monitoring and Evaluation of State Owned Enterprises Act" (PCBA)	2013
Corporate Governance Code (CGC)	2014
Fiscal Responsibility Law	2014

Source: PCB, AGO, CMDA.

51. The Companies Act (CA) regulates the formation, registration and management of private companies, but the law also apply to SOEs. Article 95 CA provides that companies, whose shares are held solely by the Government or a body of the Government, have to be formed by a law or by a decree of the President of the Republic. The liability of the shareholders of these companies is limited to the amount, if any, unpaid on the shares held by the Government as stipulated in the decree or law forming the company. The CA also provides a legal framework for the liquidation of companies. Under Articles 75 to 93 of the CA, in conjunction with Article 39 of Law. 3/2013, the legal procedure for the PCB to liquidate SOEs has been established.

52. Law 4/2007 "Audit Act" establishes the requirements for the audit of all Government institutions, accounts, and entities, and outlines the duties and responsibilities of the Auditor General's Office (AGO). The Auditor General's Office was created in 2008 in an attempt to further strengthen the accountability and governance in the public sector, including SOEs. In line with the 2008 Constitution, the AGO audits all SOEs, with the exception of those listed on the MSE, which are regulated by the Capital Market Development Authority (CMDA).

53. The "Banking Act", passed in 2009, provides regulations for financial institutions operating in Maldives, including state-owned banks. Through the Banking Act, the Maldives Monetary Authority (MMA) introduced in 2009 new regulations for banks, which span from capital adequacy to corporate governance requirements, and include related party transactions. These regulations apply also to state-owned banks as well as to branches of foreign banks operating within the Maldivian territory.

54. Law No. 3/2013 governs all privatization and corporatization efforts by the Government and established the Privatization and Corporatization Board (PCB). Law No. 3/2013 regulates: (i) the privatization, corporatization, and monitoring & evaluation of state owned enterprises and their assets, and (ii) how shares of these enterprises are to be offered publicly, and the relevant legal procedures to follow in such instances. To this effect, the law established the PCB, which is tasked with planning, implementing, administering and monitoring the Government's privatization and corporatization efforts. The Act also developed rules for Board appointment, composition, and length of term for PCB members as outlined in Chapter 3.

55. The CMDA's Corporate Governance Code applies to all listed companies and was updated and revised in 2014. The Capital Market Development Authority (CMDA) issued the Code of Corporate Governance (CGC) for the first time in year 2007. Since 2008, all listed companies, including SOEs, have been required to comply with the CGC, or to explain their areas of non-compliance. Other public companies and private companies that intend to list are encouraged to comply with the provision of the CGC. The CGC focuses primarily on board procedures, but also contains important provisions on internal and external audit, disclosure and transparency, and shareholder rights.

56. In 2014, the Fiscal Responsibility Act was ratified in order to promote better financial management of the national budget. The bill was passed by the People's Majlis on April 15, 2013 and ratified in 2014 by the President. The Act calls for an accountable, transparent, and sustainable implementation of state fiscal policy. The new law sets limits on government spending and public debt based on a proportion of GDP and sets limits on borrowing. As part of the Act, contingent liabilities, including those of SOEs, will be included as part of the total debt. The Debt Management division of the Ministry of Finance is tasked with submitting a Strategic Plan to reduce overall debt levels to Parliament.

Ownership Arrangements

57. Maldives currently applies a centralized ownership model with the PCB in charge of SOE oversight as further outlined in Chapter 3. While ownership of SOEs is held by the Ministry of Finance directly, the SOE oversight function is ensured by an independent centralized ownership entity, the Privatization and Corporatization Board (PCB), which is supported by a Secretariat located in the Ministry of Finance. PCB is responsible for overseeing the privatization, corporatization, and liquidation of state owned enterprises. Other responsibilities include reviewing and appointing candidates for SOE board positions, collecting financial information from state companies, and setting corporate governance guidelines for non-listed SOEs. In recent years, the PCB has increased its capacity in order to carry out these functions. Chapter 3 covers the Maldives ownership and oversight arrangement in further detail.

Performance Monitoring

58. PCB has enhanced its performance monitoring role and recently begun initiating pilot SOE performance monitoring agreements, as further outlined in Chapter 4. Since its establishment, PCB has significantly strengthened its monitoring of SOE financial performance and is progressively taking on the role of the central data management unit for all SOE related information. Performance agreements with SOEs are in the early stages of development as PCB has recently initiated pilot SOE performance agreements for fully state-owned SOEs. Chapter 4 discusses Maldives' advances in the area of performance monitoring in greater detail.

SOE Board of Directors

Mandate of Board Members

59. For listed SOEs, the mandate of board members is covered by the Companies Act and the Corporate Governance Code while for non-listed SOEs similar comprehensive provisions are currently missing. Under CGC provisions, boards of listed SOEs have the main responsibility for setting the company's long-term goals and making all strategic decisions, as well as taking care of the appointment and supervision of management. In line with international practices, SOE boards also hold responsibility for ensuring the establishment of efficient governance rules and must be accountable to shareholders for overall performance. Currently, no similar rules exist for the boards of non-listed SOEs, creating a gap in governance provisions. To address this issue, the PCB is developing a Corporate Governance Policy which will apply the same principles as the CGC to SOEs setting out the roles and responsibilities of boards and management. This policy has not yet been approved by the PCB Board. Box 2.9 describes key responsibilities typically assumed by SOE boards according to the OECD guidelines.

Box 2.9: Key Responsibilities of SOE Boards of Directors – OECD Guidelines

1. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
2. Monitoring the effectiveness of the company's governance practices and making changes as needed.
3. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
4. Aligning key executive and board remuneration with the longer-term interests of the company and its shareholders.
5. Ensuring a formal and transparent board nomination and election process.
6. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
7. Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
8. Overseeing the process of disclosure and communications.

Source: OECD.

Size and Structure of SOE Boards

60. **While there are some common minimum standards of SOE boards, the board size, internal structure, and composition typically varies by SOE.** Boards in Maldives generally follow a unitary structure, with an average SOE board size of approximately five and a minimum size of at least two members. Under the Companies Act, SOEs are required to select corporate secretaries who report to SOE management. A review of the current profile of SOE boards indicates that board members hold a range of relevant academic and professional qualifications, with a concentration in management, finance and accounting.[24] The duration of board appointments varies between SOEs at this time and is not fixed by law. Cabinet ministers are not eligible for board membership while foreign board members are permitted. Most SOE boards meet at least four times per year, although the frequency of board meetings varies[25].

61. **While there are no common rules and practices, SOEs may establish specialized board sub-committees, which usually exist in larger and listed SOEs.** The most common sub-committees relate to audit, remuneration, and corporate governance, with the Auditor General encouraging the establishment of an audit sub-committee. SOEs may also establish committees for the nomination of board members. Overall, larger SOEs and in particular those listed on the stock exchange, tend to have boards with stronger capacity including specialized sub-committees.

Nomination of SOE Board Members

62. **For listed companies, the nomination of board members is made at the shareholders' Annual General Meeting (AGM) while the President of the Republic is the primary authority for the appointment and removal of board members of non-listed SOEs.** For listed companies, the nomination procedures are regulated by the Corporate Governance Code (CGC). A Nomination Committee composed of at least 3 directors, all of whom must be non-executive, makes recommendations to the shareholders' AGM on the appointment and removal of board members.

[24] PCB maintains a comprehensive list of board positions (executive and non-executive), current members, and educational qualifications/professional designations.
[25] In some cases, the frequency of SOE board meetings is determined in the SOE's articles of incorporation.

Nomination Committees must also review the composition of the board annually to ensure that it complies with existing regulations. For non-listed SOEs, the authority for the nomination of board members rests with the President of the Republic.[26] Under this procedure, the Presidency nominates individuals to the PCB for appointment (or removal) to specific board positions. In some cases, ministers will submit nominee requests to the Presidency which will then inform the PCB. The PCB is tasked with screening nominees for appointment.

63. **The PCB has developed a framework to ensure that SOE board nominees for fully-owned SOEs are qualified for their respective positions.** While the law does not provide for specific criteria required for SOE board members, PCB is given the authority to set criteria and determine an appointment procedure.[27] Accordingly, board candidates are subjected to a criminal background screening and evaluation of their educational background, work experience and overall suitability relative to the position.[28] In cases where a candidate is deemed to be unsuitable for a position, PCB provides an explanation and requests an alternative recommendation from the Presidency. Thus far, the PCB has developed a record of enforcing criteria for board confirmation. When candidates are approved, the PCB confirms appointments directly with the candidate and the respective SOE. The PCB is currently developing an Appointment & Removal of Board of Directors Policy to formalize the procedures and criteria used to appoint and remove SOE board members.

Nomination of SOE Management

64. **Meanwhile, SOE boards are responsible for the selection, appointment, oversight, and removal of management.** The PCB does not play an active role in the selection of SOE management which remains the prerogative of SOE boards. In the event of any financial irregularities, boards are responsible for taking action, flagging the issue to PCB, and cooperating with Anti-Corruption Commission investigations.

Board Remuneration

65. **Board remuneration is tracked and approved by the PCB and is based on a four grade scale set by the MoFT, depending on the size and responsibilities of the SOE.** The MoFT pay scale sets rates for board directors, chairmen, and managing directors. Compensation varies between companies and includes basic pay, sitting allowances, and other allowances. Based on exchanges with counterparts, SOE board and CEO compensation is generally considered to be attractive and competitive and higher than public sector salaries. As most private companies in Maldives do not pay board members, SOE board compensation is likely higher than private sector compensation. However, the salaries of managing directors may not exceed the salaries of line ministers. There are currently no provisions for payments based on performance. An evaluation of board performance is foreseen under the draft performance agreement pilots, which are described

[26] In some countries, the authority to nominate board members is allocated to the centralized SOE ownership entity.
[27] PCB maintains information on SOE-specific board size and membership criteria, as specific criteria are required by some articles of incorporation.
[28] For example, PCB requires that Chairmen have at least ten year of leadership experience in a relevant field, with three to four years of technical experience.

in further detail in Chapter 4. In some cases, listed SOEs have undertaken self-evaluation of board performance.

SOE Transparency and Disclosure

66. Financial reporting standards in Maldives vary for non-listed and listed companies, with the latter subject to stricter requirements. While according to the Companies Act all incorporated SOEs are legally required to prepare annual reports, reporting varies between listed and non-listed companies. Listed companies are required to publish financial statements publically on a quarterly basis per the Corporate Governance Code. Listed SOEs tend to have stronger quality financial reports in line with IFRS accounting standards.[29] While the Companies Act also applies to non-listed SOEs, financial reporting standards are less rigorously applied for this group of SOEs. All companies are required to submit their reports to the PCB. Annual reports are required to be submitted before the end of January each year, as the PCB subsequently reports on the sector to Parliament in February.

67. Reporting requirements for listed SOEs are monitored and actively enforced by the Capital Market Development Authority (CMDA). The CMDA has developed Maldives' Corporate Governance Code, which is the primary legal document promoting strong corporate governance practices in Maldives for all listed companies, including listed SOEs. The Code was updated in 2014 and requires listed companies to follow 'comply or explain'[30] guidelines. It includes provisions for board procedures, shareholder rights, internal and external audit, and disclosure standards. In line with these standards, Maldives' listed SOEs provide comprehensive and up to date financial information, including regular quarterly reports, audited annual reports, and published financial statements on their websites. Listing on the exchange has thus not only facilitated financing options of SOEs, but also strengthened reporting and transparency. While non-compliance of listed companies is rare, in previous cases where SOEs' quarterly reporting was delayed, the CMDA's Enforcement Committee fined the organization for non-compliance with CGC standards.[31]

68. In Maldives, the Auditor General's Office is responsible for the external audit of all non-listed SOEs while listed SOEs select their own independent external auditors. Per its constitutional mandate, the AGO is required to audit all non-listed SOEs. While the entire SOE portfolio is not yet covered, the AGO has improved transparency and reporting in recent years through increased coverage and improved audit processes. The AGO has increased its staff to 20 members and begun to publish audit reports on its website.[32] Audits are conducted by external firms for larger companies while the AGO itself performs audits for smaller companies that cannot afford to hire one of the international auditors.[33] In some cases, special audits related to performance or possible irregular activities are undertaken by the AGO as well. Audit reports are

[29] Overall, financial reporting is stronger for larger SOEs. Smaller SOEs generally do not apply IFRS standards.
[30] If companies do not follow all provisions of the CGC code, they must provide a reasonable explanation to the CMDA justifying their non-compliance.
[31] While the fines have a relatively low monetary value, they serve as an effective deterrent, as non-compliance requires automatic public ad-hoc reporting to shareholders.
[32] http://www.audit.gov.mv/.
[33] There are currently 3 external audit firms in Maldives – KPMG, PWC, and Ernst & Young, which conduct audits in line with international standards.

delivered to the MoFT, and when related to SOEs, are sent directly to the PCB, with the President's Office and Parliament also informed. In turn, the external audit for listed SOEs is conducted by private external audit firms selected by the SOE's general shareholder meeting.

69. Internal Audit practices vary greatly depending on the size of the SOE and are more common in larger SOEs. The degree of internal control, and the extent of internal audit practices across SOEs depends largely on the enterprise. While in principle all SOEs are supposed to have internal audit functions, this function is more strongly developed in larger SOEs. For example, Dhiraagu's Audit Committee approves, reviews, and prepares an Internal Audit Plan, from which the guidelines for the internal audit are conducted. Internal auditors then deliver their report to the Board, which reviews and scrutinizes the audit. In turn, many smaller SOEs have not yet adopted internal audit practices.

3. SOE Ownership Arrangements

Concept and International Experience

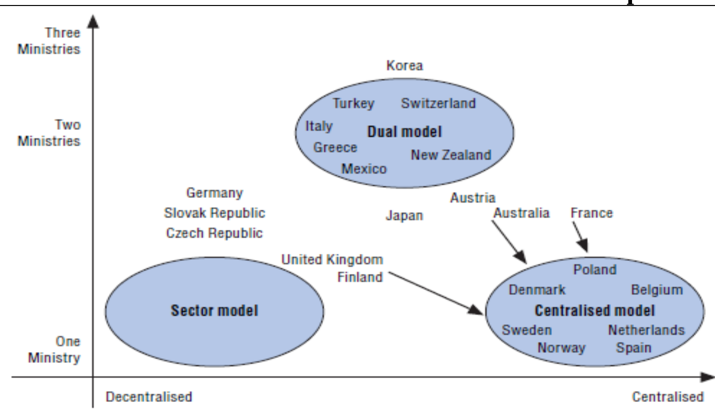
70. SOE ownership arrangements refer to the way in which the state organizes itself to exercise its ownership rights over SOEs. In particular, these rights include functions such as the nomination of members of SOE boards, the right to vote shares at the general meeting of shareholders, and the monitoring of SOE performance.

71. While countries' SOE oversight arrangements vary substantially, ownership models fall broadly into four categories:

- *The decentralized model*, where ownership responsibilities are dispersed among different line ministries.
- *The dual model*, a variation of the decentralized model, where in addition to line ministries a second ministry, such as the Ministry of Finance, may also exercise certain ownership responsibilities.
- *The advisory model,* where ownership remains dispersed but an advisory or coordinating body is created to advise ministries on ownership matters.
- *The centralized model*, where ownership responsibilities are centralized in an entity, for example, a ministry or an SOE ownership unit.

72. Since the early 2000s, there has been a strong trend towards adopting and consolidating the centralized model of ownership. In OECD countries, this centralization has sought to enhance state ownership functions, transparency and accountability and SOE board functions. In Latin American countries such as Brazil, Chile and Paraguay, centralization has targeted more efficient oversight of SOEs. East Asian countries such as the Republic of Korea, China, Malaysia, and Singapore have also established strong centralized ownership entities to ensure consistent oversight and enhance the performance of their SOE portfolio. Box 3.1 below illustrates the international trend towards centralized SOE ownership models.

Box 3.1: Trend towards the Centralized SOE Ownership Model



Source: OECD Corporate Governance of SOEs Survey (2005).

SOE Ownership Arrangements in Maldives

73. **Since 1995, the Government of the Maldives has operated a centralized ownership model based within the Ministry of Finance and Treasury (MoFT).** The Public Enterprises Monitoring and Evaluation Board (PEMEB) was established within the MoFT in 1995 to strengthen financial oversight over SOEs. PEMEB sought to ensure that "all Public Enterprises operate in an efficient manner and in compliance with corporate governance requirements." Its mandate covered three main functions:

- *Strategic Development and Corporate Governance*, by providing operational assistance to SOEs by facilitating government assistance and promoting ethics of good governance in all business transactions.
- *Performance Evaluation and Monitoring*, by monitoring and evaluating financial and overall performance of SOEs, and giving them recommendations to improve performance and thus increase the return on investments.
- *Privatization/PPP Support*, by supporting government-led privatization and public private partnership projects.

74. **In 2008, the Government of the Maldives began efforts to strengthen its centralized ownership model while launching a wave of corporatizations and privatizations.** PEMEB began to collect regular quarterly and annual financial ratios from SOEs in a central location for the first time. This information supported the Government's decision-making process for a series of corporatizations and privatizations that began in 2008 in radio and television, construction, aviation, telecommunications and tourism.

75. **In 2013, the Government further strengthened its ownership entity under a new law establishing the Privatization and Corporatization Board (PCB).** The PCB, which took over the functions of PEMEB, was established with a mandate to support commercial growth and competitiveness, broaden ownership participation, and increase government revenues. The "Law of Privatization, Corporatization, Monitoring and Evaluation of Government Business"[34] established the PCB Board and a supporting Secretariat, setting out clear procedures for privatization and corporatization of loss making SOEs and for financial monitoring of SOEs, among others. Following a handover period to ensure continuity, PEMEB operations ended.

Structure of the Privatization and Corporatization Board (PCB)

76. **Established by law, Maldives' centralized SOE ownership entity, PCB, has a two-tier structure and reports to the President and Parliament, and cooperates closely with MoFT.** PCB consists of a two-tier structure including the Board itself and a Secretariat. PCB reports to the President of the Republic and Parliament (People's Majlis) mostly through an Annual Report on the SOE portfolio and ad hoc reports and advice on specific SOEs upon request. Given the financial importance of SOEs, PCB also works closely with the Ministry of Finance and provides regular reports to the Minister of Finance.[35]

[34] Law no. 3/2013.

[35] While the President and Vice President of PCB work out of MoFT offices, they are not civil servants and retain an independent status as members of the PCB Board.

77. The PCB Board consists of seven members who are appointed by the President of Maldives and approved by the Parliament for a four-year mandate in accordance with the legal requirements. The Board is led by a President and Vice-President who serve on a full-time basis while the remaining 5 PCB Board members serve on a part-time basis and are drawn from different sectors. The PCB Board meets at least twice per month and reports to the President of the Republic and Parliament (People's Majlis).

78. The PCB Secretariat, which is located in MoFT, is the administrative body of PCB and consists of MoFT civil servants including a Secretary General, an Assistant Director, and 9 staff.[36] The Secretariat serves as the administrative body of the PCB Board, carrying out PCB's day-to-day functions. Staff are assigned monitoring responsibilities for specific SOEs according to their experience and background. All the staff of the Secretariat are MoFT civil servants selected on the advice of the PCB Board. A Secretary General is the highest ranking officer among the Secretariat and attends all PCB Board meetings. In addition, the PCB Secretariat also comprises 1 Assistant Director, 6 Senior Accounts Officers, 1 Senior Administrative Officer, 1 Accounts Officer and 1 Assistant Accounts Officer.[37] The Secretariat has requested a financial analyst to assist with more in-depth reviews of SOE financial statements and audit recommendations. The tasks of the Secretariat include in particular:

- Advice to the PCB Board on privatization and corporatization procedures.
- Monitoring activities including maintaining a database of SOEs.
- Drafting of reports on the SOE portfolio.
- Review nominations of board members for fully-owned SOEs.
- Develop draft SOE policies and guidelines.
- Prepare liquidation process of non-operational SOEs.

79. While PCB is established by law, it does not count with an independent budget and the staff of the PCB Secretariat is administratively mapped to MoFT. The PCB law foresees that the PCB Board's annual budget request is subject to MoFT approval. Similarly, the PCB Secretariat currently has no independent budget, and its operating cost are included in the general MoFT budget. Both the PCB Board and the PCB Secretariat currently use offices and facilities located inside MoFT.

PCB Responsibilities on SOE Ownership

80. PCB is responsible for state oversight of the SOE portfolio and has started most of the ownership functions typically associated with a centralized ownership entity. PCB liaises regularly with the Presidency, the Parliament, the MoFT and SOEs, systematically gathering information from SOEs to respond to requests for updates on investment projects and corporate performance. Since its creation, PCB has started assuming many of the ownership functions typically associated with a centralized ownership entity. They include in particular:

- Developing SOE policies, tools, and guidelines for good governance.
- Advising and assisting the board nomination process for non-listed SOEs.

[36] Two of these positions are currently vacant.
[37] Five of the staff hold bachelor's degrees and two have A-level standards and diplomas in management. Given limited salaries compared to the private sector, PCB is experiencing some turnover and currently has two vacant positions.

- Performing financial monitoring and oversight functions.
- Initiating the preparation of SOE performance agreements.
- Preparing and disseminating aggregate information on SOEs.

81. **The PCB coordinates closely with other government entities to carry out its functions**. The PCB works closely with the Auditor General to ensure that SOEs are regularly audited and implement audit recommendations. It also works with MIRA, the revenue office, to ensure SOEs are making timely tax payments. The PCB also responds to requests for information from the Debt Management Unit of the MoFT. By providing relevant information from its electronic files and by maintaining notes of government guarantees. MoFT indicated that it would benefit from more detailed credit profiles of SOEs. Finally, the PCB also cooperates with the Anti-Corruption Commission (ACC) and law enforcement bodies, as required.

Developing policies, tools, and guidelines for SOE governance

82. **The PCB Secretariat has recently prepared draft policies to guide SOEs and create a common approach to key issues.** [38]In particular, the draft policies seek to standardize SOE practices in the areas of human resources, procurement, dividend payments, board nominations and board performance evaluations. They also aim to develop SOE corporate governance guidelines for all SOEs by replicating and adapting existing policies already mandatory for listed companies. The policies are currently in draft status and have not yet been approved by the PCB Board. The draft policies developed by PCB are presented in Box 3.2 below.

Box 3.2: PCB Draft Policies

Draft Policy	Objective
SOE Human Resources	Standardize recruitment, appointment, performance management and termination across SOEs.
SOE Procurement	Standardize procurement thresholds and procedures across SOEs.
SOE Payment of Dividends	Standardize the establishment and payment of SOE dividends.
Appointment & Removal of SOE Board of Directors	Formalize the process by which the PCB appoints and removes directors on behalf of the Presidency.
Performance Appraisal of SOE Board Directors	Establish procedures to appraise board performance.
SOE Corporate Governance Guidelines	Set out corporate governance standards for all SOEs, including unlisted companies.

Advising and assisting the board nomination process

83. **PCB is responsible for reviewing and appointing candidates for SOE board positions of non-listed SOEs and has recently developed new criteria for board members.** While ultimate authority for the nomination of board members to specific vacancies within SOE boards is given to the President of the Maldives, PCB reviews the candidates and provides its recommendation on their suitability. Recently, PCB has strengthened its involvement in the board nomination process by developing specific criteria for SOE board membership. Box 3.3 describes the criteria for SOE board membership developed by PCB.

[38] These policies have not yet been approved by the PCB Board.

Box 3.3: SOE Board Membership Criteria developed by PCB

While the qualifications required for appointment to boards of directors at wholly-owned SOEs are not specified under law, PCB drafted an internal policy on board appointment which has been approved by the President of the Maldives to guide decision making:

- *Chairman* — requires at least ten years of experience, leadership experience in a related field, and three to four years of technical experience.
- *Managing Director* – requires a bachelor's degree in management or a related field and five years of working experience at a senior level.
- *Non-Executive Directors* – requires a diploma with five years of experience in a related field.

Following the nomination of a candidate, the PCB Secretariat verifies the qualifications and conducts a conflict of interest review as required by internal policy, making a recommendation to the PCB Board. The PCB Board formally decides to confirm the appointment or request a new candidate from the Office of the President. PCB actively exercises this verification function and has reportedly requested new candidates on some occasions. The PCB Secretariat may also recommend changes to existing SOE boards to the PCB Board, which may decide to recommend such a change to the Office of the President.

Conducting SOE financial monitoring and oversight

84. Since its establishment in 2013, PCB has made significant progress in strengthening its monitoring function and developed a basic electronic database with SOE information for 22 of the 25 largest SOEs. Maintained by the PCB Secretariat, [39]the database compiles key information for 22 large SOEs[40] on financial performance data and ratios; SOE boards of directors; audited financial reports; SOE employment statistics; SOE business plans; SOE dividend payments; SOE debt guarantees; and basic information on SOE investment projects. In addition, PCB maintains basic records of SOE loans guaranteed by the government, in coordination with the MoFT's Debt Management section. PCB prepares a quarterly monitoring report for the SOEs included in the database and actively participates in the Annual General Meetings of SOEs. PCB is also mandated to review fiscal policies and analyze business plans and cash flows of SOEs, although given the availability of information from SOEs, this function is at present not systematically implemented.

85. The database represents visible progress in SOE monitoring since the establishment of PCB and could be further strengthened going forward. The database represents visible progress compared to the situation observed by a Bank mission in June 2014 when financial information for most SOEs was incomplete, not yet systematically updated and in some cases paper-based. Going forward, the database could be further strengthened and expanded. Thus, the database could also aim to include a function to aggregate data for the SOE portfolio as a whole. Information on SOE tax payments could also be added to the database.

[39] The database represents visible progress compared to the situation observed by a Bank mission in June 2014 when financial information for most SOEs was incomplete, not updated and in some cases paper-based.

[40] The database includes information for 14 out of the 17 active fully-owned SOEs as well as information for all 8 SOEs with state majority ownership and a significant state minority stake. The following 3 fully-owned SOEs are not yet captured in the database: Hazana Maldives Ltd. (a special purpose vehicle for Islamic Finance), Maldives Center for Islamic Finance and Maldives Sports Corporation Ltd. The financial information of SOEs with a small state minority stake, paper companies, and SOEs identified for liquidation is currently not monitored in the database.

Initiating the preparation of SOE performance agreements

86. PCB has initiated the design process of pilot results agreements with fully-owned SOEs. Building on a model developed in India, the PCB plans to establish financial and non-financial indicators to measure performance of the companies it oversees, starting with designing agreements for fully-owned SOEs. In the longer term, it is envisaged to link these performance agreements to SOE management and board compensation and retention. The initiative to introduce performance agreements is described in further detail in Chapter 4.

Preparing and disseminating aggregate SOE portfolio information

87. PCB is responsible for the production of an Annual Report to the President and to Parliament on the overall performance of SOEs. The first of these reports was completed following the passage of the 2013 law establishing the PCB. While the annual reports are currently not publically available, PCB is considering to publish the Annual Reports on its website in the future. In addition to the regular portfolio reports, PCB prepares ad-hoc reports on selected SOEs upon request of political authorities.

Liquidating non-operational SOEs

88. The PCB also plays a role in winding up non-operational, defunct or loss-making entities and has identified 24 loss-making SOEs for liquidation. This process is initiated through a court order, following the procedures outlined in the Companies Act. To support this process, private sector liquidators specializing in this task have been engaged to manage the process of winding down operations and liquidating assets of these companies. To date, eight companies have been assigned to a private contractor for liquidation, while the rest are still in the process to be announced for tender.

PCB Responsibilities on SOE Privatization and Corporatization

89. PCB also has a mandate for privatization and corporatization. Detailed procedures for privatization are outlined in the 2013 law that establishes the PCB. While the PCB may draw up a list of proposed privatizations, a Divestiture Sequence Plan must be approved by the President of the Maldives. The privatization must be publicized in local newspapers and a valuation of the government business must be performed, with a report presented to the PCB. The Government may keep a share in privatized companies to maintain special decision rights. Box 3.4 presents the policies governing corporatizations in Maldives.

Box 3.4: Policies Governing Corporatization in the Maldives

Four main policies govern corporatization, broadly reflective of OECD guidelines:

- **Clear Goals**: Government companies are required to have clear, non-conflicting financial and non-financial goals. Regulatory responsibility must be separated to external entities.
- **Providing Independence and Power**: Government companies must have an independent board of directors with decisional authority to set measurable goals. If the government has a role in running the company, it must be clearly articulated.
- **Taking Responsibility**: The board of directors must be jointly and severally liable to shareholders for results achieved against established corporate objectives.
- **Competition:** Government companies should not accord monopoly rights to individuals. No special protections should be provided for state-owned companies that are not accorded to private companies. Government companies must allow sufficient market space for competitors and be adjusted where they hold a dominant market position.

90. The PCB is granted significant flexibility in the procedures it may use for privatization. Available procedures include public sale of shares, submission of competitive bids, sale of shares to a specific entity, producing and selling new shares, sale of the properties, re-organizing the business before selling all or part of the business, sale to the entities running the business or its staff, public private partnerships, or any other process decided by the Board and approved by the President of Maldives.

91. To date PCB has primarily focused on oversight and corporate governance of main SOEs rather than privatization and corporatization. Since its inception in 2013, PCB has primarily focused on strengthening its monitoring function, processes and systems as well as on developing policies and guidance for further strengthening SOE corporate governance. In turn, the privatization of SOEs has not been an important agenda, and as of the preparation of this report, PCB had not completed any privatizations or corporatizations.

Opportunities to Strengthen PCB Ownership Functions

92. Despite significant progress since 2013, there are opportunities to strengthen PCB capacities in terms of ownership. While establishment of a centralized ownership entity is itself a significant accomplishment, additional measures can be taken to continue to strengthen SOE oversight functions in a gradual, robust, and sustainable manner. Some of the areas identified are outlined below.

- **PCB Secretariat Capacity** – PCB's current 7 staff members[41] are responsible for numerous mandates, including oversight of 97 SOEs, liquidation of selected companies, and managing responses to Presidential and Parliamentary requests for information. The PCB Secretariat noted the need to strengthen the capacity and number of staff, expressing a need for additional resources and training.[42]
- **Information Systems** – Using internal resources, the PCB established a basic information system on its intranet. This system requires further investment to achieve the PCB's vision of a web-based platform through which SOEs themselves maintain key records directly in a standardized format, reducing the administrative burden of information management on the

[41] Excluding the Secretary General, Assistant Director and two vacancies.

[42] Both the MoFT and PCB expressed to the Bank staff their interest in recruiting a long-term external consultant to provide on-the-job training and support.

PCB Secretariat. With a large portfolio of companies producing quarterly and annual reports, the current volume of reports is difficult to manage.

- **Common Policies** – The PCB has drafted policies for management of human resources, procurement, dividend payment, appointment, removal and appraisal of board directors, and corporate governance with a view to standardizing management practices across SOEs. Implementing these policies would provide stronger guidance and controls.
- **Performance Agreements –** As noted above, the PCB is piloting performance agreements with SOEs. In the longer term, the PCB plans to link compensation and retention of management and boards of directors to performance agreements.
- **Audit Recommendations** – The Auditor General's Office has faced delays in obtaining audits due to constrained audit resources. On its side, the PCB has very limited staff capacity to analyze the issues identified in SOE audits and to track required corrective measures.
- **Legal Framework** – Both the PCB and MoFT noted that the legal framework covering SOEs will require updating. Further analysis and resources would be required to review this.
- **SOE Board Training** – The PCB has identified a need for additional standardized training for SOE board members, based on best practices, which in turn could also facilitate interactions with the ownership entity and enhance reporting from SOEs.

4. Performance Monitoring of SOEs

Conceptual Framework and International Experience

93. **Monitoring SOE performance is a core function of the State as an owner to ensure transparency and accountability in the use of public funds**. A performance monitoring system refers to the institutions, processes and documents that government uses to monitor the financial and non-financial performance of SOEs. Performance monitoring typically involves three key elements: setting mandates, strategies and objectives; structuring performance agreements between government and SOEs to monitor how well each SOE performs; and developing key performance indicators and targets. A sound performance monitoring framework seeks to acknowledge and manage inherent tensions related to SOE performance such as conflict among commercial and non-commercial objectives or information asymmetries between SOE management and ownership entities. It also helps to explicitly identify core financial and non-financial objectives for SOEs as well as the government's preferences.

94. **Ownership entities are increasingly using 'Performance Agreements (PA)' or similar tools to monitor and incentivize SOEs' financial and non-financial performance.** Monitoring the performance of SOEs can be complicated, because even though SOEs may be defined as enterprises and as such expected to be profit making organizations, they are also often mandated to carry out social activities which may not be profitable. To capture this duality in the mandate of SOEs, many countries have adopted Performance Agreements (PAs) as tools to facilitate SOE monitoring. The scope and content of these agreements, including relevant financial and non-financial targets, are usually negotiated and agreed between the SOE and the ownership entity on behalf of the government. In countries where the process of PAs is fully developed, strategic objectives are typically defined for a multi-annual period, while the expected targets on relevant performance indicators are monitored, revised and agreed on an annual basis. Box 4.1 presents some common financial performance indicators that countries are monitoring.

Box 4.1: International Examples of Financial Performance Indicators used for Monitoring SOEs

Country	What is monitored			
	Shareholder returns	**Profitability/efficiency**	**Solvency**	**Budgetary appropriations**
India	• Sales to capital • Net profit / net worth • Return on capital	• Value added (at market prices) • Production/sales costs • Cost of sales/sales • Inventory/sales	• Investments (equity/loans) • Net worth • Debt/equity	
Brazil	• Shareholder returns	• Return on capital • Operational margin	• Liquidity • Assets/liabilities (including debt) • Net worth • Change in net borrowing	• Deficits/surpluses (institutional differences)
Indonesia	• Returns on equity	• Returns on assets • Expense/income ratio • Net interest income	• Nonperforming loans • Capital adequacy ratio • Assets/liabilities • Loans/deposit ratio	

Country	What is monitored			
	Shareholder returns	Profitability/efficiency	Solvency	Budgetary appropriations
Canada			• Changes in net borrowing from private/public • Assets/liabilities	• New government investment • Government credit injections/support
New Zealand	• Dividend yield • Dividend pay out • Equity return	• Return on capital • Operating margins • Efficiency ratios	• Gearing ratio • Interests covered by earnings • Current assets/current liabilities	
China	• Net profit available to shareholders less opportunity cost of equity capital			

Source: World Bank (2014). Corporate governance of state-owned enterprises: A Toolkit.

95. **At least four main steps are typically involved in structuring Performance Agreements.** These steps are enumerated below and the typical components of PAs are synthesized in Box 4.2.

- Obtaining baseline information on SOEs by the ownership entity— this usually requires the selection of main SOEs to be subject to monitoring, collection of relevant financial and sector-related data and developing expertise on the SOE industry;
- Setting clearly the SOE mandate, strategy, objectives and government's priorities;
- Developing sound financial and non-financial performance indicators and associated targets, based on pre-defined strategic objectives; and
- Establishing procedures and providing standardized format for reporting — specifying minimum content and its frequency.

Box 4.2: Main Elements of SOE Performance Agreements

Concept	Description
SOE's mandate	It defines the core and noncore activities of the business that the board is accountable for delivering. The mandate provides two-way benefits: it serves as a constraint on the company, imposing a discipline against undertaking non-relevant activities that may not be in the best interests of the owner; and it protects the board and management from being asked to undertake activities that are inconsistent with the core business.
SOE's strategy	A clear mission, vision, and strategic plan provide conceptual clarity for both management and employees. Clear SOE strategies provide a basis for measuring performance, and they are expected to include specific objectives / goals.
Financial and nonfinancial performance indicators and targets associated to them	They are the main elements allowing reviewing and monitoring SOE performance. A commonly used "tip" to build up effective performance indicators is to make sure that they are "SMART", i.e. Specific, Measurable, Achievable, Result-oriented and Time-based.
Procedures for reporting, including frequency.	When not otherwise described in law or regulation, the performance agreement could explicitly lay out the reporting requirements and deadlines for the SOE.

Source: "Corporate Governance of State Owned Enterprises – A Toolkit" World Bank Group (2014).

96. PAs are globally considered as a key tool for improving SOE performance and accountability. Conflicting SOE goals due to the coexistence of commercial and non-commercial objectives complicate the definition of a 'good performing SOE'. Furthermore, unclear strategic planning and lack of future goals can add to problems. Since PAs address these issues, they are emerging as a popular performance monitoring tool globally. Many OECD and South Asian countries such as India and Bangladesh are using PAs as a tool to ensure a strong oversight and accountability. However, the implementation of PAs is a process that typically takes time, requiring planning, dedication and adequate capacities. Furthermore, expected results on improved accountability and SOE performance will depend in each case on a myriad of factors, including ownership arrangements, the actual design of PAs, and the existence of adequate incentive/enforcement mechanisms. Therefore, PA outcomes are usually visible only in the medium term, requiring a gestation period.

Performance Monitoring in Maldives

Financial Performance Monitoring

97. The Republic of Maldives is at an early stage of developing an SOE performance monitoring framework. The Privatization, Corporatization, Monitoring and Evaluation of Government Businesses Act of 2013 requires the PCB to track the financial performance of each SOE. This includes information on profits made by the SOE and their distribution, budget analysis and its utilization, among other financial figures. In other words, PCB is the central data management unit for all SOE related information. Information is collected quarterly and serves as a basis for the preparation of annual reports submitted to the Presidency and the Parliament. Currently these reports are not in the public domain. See Box 4.3 for details about these reports:

Box 4.3: Financial Performance Monitoring tracked by PCB

Financial Performance Monitoring	Description
Quarterly Monitoring	PCB collects quarterly data on various financial indicators and ratios for each SOE; compares it with the previous quarter and the same quarter from the previous year. Financial ratios are classified in four broad categories: - Profitability ratios - Liquidity ratios - Efficiency ratios - Financial stability ratios
Annual Report	PCB annually prepares a report on the financial performance of each SOE and submits it to the Presidency and the Parliament. Currently, these annual reports are not available publically.

Source: Elaborated on the basis of information gathered by the Bank from the PCB.

98. The PCB is in the process of implementing an online data management tool to more effectively monitor SOE financial indicators. Considering the number of SOEs and limited resources/capacities currently available at PCB, there is a significant need for an electronic SOE database. Therefore, the PCB, in collaboration with the MoFT has designed an online database, which allows it to collect, store and retrieve information more easily, facilitating the analysis of SOEs. Key SOE performance indicators are presented in Box 4.4. The database is still being developed, and thus, some of its sections, such as SOE board composition and project monitoring,[43] are not yet completed. The database could be further improved by upgrading the software, generating sector-wise data, and consolidating SOE data. At the moment, this database is only for internal use.

Box 4.4: Financial Indicators tracked quarterly by PCB using the online database

Revenue	Net Profit/(Loss)	Current Ratio
Gross Profit/(Loss)	Fixed Assets	Net Profit Margin
Total Expenditure	Current Assets	Gearing Ratio
Capital Expenditure	Current Liabilities	

Source: Elaborated on the basis of information gathered by the Bank from the PCB.

SOE Results Agreements

99. **In 2015, the MoFT took steps to strengthen SOE oversight and accountability by introducing Results Agreements.** With support from the Public Financial Management System Strengthening Project funded by the World Bank, the MoFT targeted improvements in SOE oversight and accountability. The Government of Maldives invited an international consultant, Professor Prajapati Trivedi to provide technical support. The project began with an inception mission in July, 2015 which led to the recommendation of introducing Performance Agreements to strengthen the SOE oversight in Maldives. The MoFT accepted this recommendation and agreed to implement bilateral RAs between the government and individual SOEs. A methodology manual was recently released to launch RAs for Maldivian SOEs.[44]

100. **Proposed Results Agreements in Maldives aim to provide a summary of the mutually agreed upon objectives that SOEs are expected to deliver within a given financial year.** RAs are designed to overcome some of the critical challenges faced by Maldivian SOEs by shifting the focus from process-oriented oversight to results-oriented management, and improving the overall objectivity in evaluating SOE performance. The agreements capture the understanding between the PCB, representing the Government's priority and vision, and the Chief Executive of individual SOEs representing the SOE's mandate. As per the Methodology Manual, RAs in Maldives have five sections, which are described in Box 4.5.

Box 4.5: Structure of Results Agreements in Maldives

Sections	Title	Description
Section 1	Vision, Mission, and Objectives	Provides the context and background for the RA by highlighting the overall vision & mission of the SOE and the objectives to be fulfilled by SOEs in the current year to achieve the Vision & Mission in the long-run.
Section 2	*Inter se* priorities among key objectives, success indicators and targets.	Most important section of RA as it breaks down the objectives into measureable indicators and provides agreed targets for a given year. At the end of the year, overall performance can be evaluated by simply comparing the actual achievement against the indicated targets.
Section 3	Trend values of the success indicators.	Provides achieves for previous two years, target for the current year and the expected development in the coming two years for each of the indicators.

[43] As a part of the online data management tool, PCB plans to monitor the progress made in key projects of each SOE.
[44] Trivedi (2015): Methodology Manual for Reviewing Performance of State Owned Enterprises (SOEs).

		This helps contextualize and assess the target for the current year.
Section 4	Description and definition of success indicators and proposed measurement methodology.	Helps de-code the official jargon used by the government entities at times to make the document relevant for the general public as well as who may not always be familiar with all the terms, etc.
Section 5	Specific performance requirements from other SOEs and Government that are critical for delivering agreed results.	Helps assess and keep track of the interdependencies of SOEs with other SOEs, Government and the Private sector.

Source: Trivedi (2015): Methodology Manual for Reviewing Performance of State Owned Enterprises (SOEs).

101. It is envisaged that RAs in Maldives will include both financial and non-financial aspects of SOE performance. The expectation of MoFT is that all SOEs recover at least some part of their costs through revenue generated via the selling of goods and services. On the other hand, some SOEs are tasked with activities aimed at improving social welfare even at the risk of foregoing profit or incurring losses. For example, STELCO is mandated to provide electricity to many scarcely inhabited islands. This duality in SOEs' objectives is what differentiates them from a "pure" private company. RAs address this by bringing both financial and non-financial aspects of performance under consideration. As per the Methodology Manual, RAs will have 3 different types of objectives with different weights. These objectives are further divided to specify the activities that a given SOE will undertake to achieve these objectives during a financial year. RAs will also mention Key Performance Indicators for each activity, clarifying how to measure the success in achieving targeted activities. Box 4.6 below presents the types of objectives to be included in SOE results agreements.

Box 4.6: Types of Objectives in SOE Results Agreements in Maldives

Mandatory Financial Objectives (MFO)	• It will include financial objectives such as Gross Margin, Profitability, etc. • Since it is Mandatory, they will be decided by PCB and will be common for all SOEs. • It will carry a total weight of 50%.
Mandatory Non-Financial Objectives	• It will include objectives such as estaliching Grievance Redress Mechanism, introducing Effective Project Implementation, etc. • Since it is Mandatory, they will be decided by PCB and will be common for all SOEs. • It will carriy a of weight of 20%.
SOE Specific Objectives	• It will include projects and activities that are specific to the particular SOE e.g. STELCO could have an indicator such as providing electricity to customers at affortable price. • It will be specific for any given SOE. • It will account for 30% of the weight.

Source: Trivedi (2015): Methodology Manual for Reviewing Performance of State Owned Enterprises (SOEs).

102. At present, the PCB is piloting the introduction of RAs with seventeen fully owned SOEs. A two-day workshop was held by PCB in December 2015 to train SOEs on the concept, design and implementation of RAs. [45]As a part of the workshop, SOEs were asked to prepare prototype RAs to get hands-on experience in drafting the agreements. Following the workshop, the seventeen SOEs were asked to prepare draft RAs, and thirteen SOEs have already submitted draft RAs to PCB for evaluation. According to PCB authorities, there will be a one-year trial period, after which RA implementation is expected to commence by 2018.

103. RAs are expected to provide an objective and unified measure of SOE performance in Maldives. At the end of the financial year, PCB will be able to calculate the composite score for any individual SOE by summing the ratio between targeted versus actual achievement of each indictor, multiplied by its respective weight. The score calculated will convey, everything considered, whether the SOE's performance is good, satisfactory or needs improvement. Naturally, the accuracy of the composite score will highly depend on the quality of the RA, and then a high score on a poorly drafted RA could lead to misleading results. Therefore, it is beneficial for PCB to engage actively with SOEs to negotiate their objectives and targets, ensuring that both, SOE's mandate and government's priorities are adequately reflected.

104. The implementation of RAs in Maldives could be envisaged as gradual reform path taking into account the critical contextual factors. International experience suggests that the effective implementation of RAs is a complex process that takes time and strong support from various stakeholders. Therefore, the roll-out of RAs could potentially be carried out in a phased manner while simultaneously working towards increasing the oversight capacity of PCB in line with the new responsibilities related to performance agreements. The current status of implementation of Result Agreements in Maldives is summarized in Box 4.7.

Box 4.7: Status of Introduction of Results Agreements (RAs) in Maldives as of June 2016

Type of SOE	Number of SOEs	Number of RA pilots initiated	Number of RAs signed
Fully State-Owned	17	13	0
Majority Owned	4	0	0
Significant State Minority Share	4	0	0

[45] The training was conducted by Prof. Trivedi, engaged as an international consultant as a part of the PFM Strengthening Project supported by the World Bank.

5. Fiscal Risk Assessment

Fiscal Risk Concepts

105. Fiscal risks can be defined as variations in fiscal outcomes from prior expectations. In the context of the budget, a deviation of the budget outcome from budget projections would constitute a fiscal risk. The definition of fiscal risks can also include unforeseen variations in government assets and liabilities and off-balance sheet items (e.g., guarantees under public-private partnership contracts, etc.). Furthermore, fiscal risks pertain to both explicit legal obligations (e.g., loan guarantees and public service obligations) and implicit burdens placed on the government by public expectations or by political circumstances (e.g., recurring cost of investment projects and SOE bailouts). The Box 5.1 provides a typology of Government's liabilities.

Box 5.1: Government's direct and contingent liabilities

	Direct	Contingent
Explicit	**Mandatory and predictable:** • Budgeted expenditure programs; • Multi-year investment contracts; • Civil service salaries; • Pensions and debt obligations.	**Legal or contractual obligations triggered by a discrete event that may or may not occur:** • State guarantees for loans contracted by non-central government entities (subnational governments, SOEs, private enterprises, etc.); • State insurance schemes (for banking deposits, natural disasters, etc.).
Implicit	**Obligation or expected burden for the government which is not legal, but arises from public expectations:** • Maintaining public infrastructure; • Social security scheme.	**Non-legal obligations triggered by a discrete event that may or may not occur:** • Government intervention to avoid systemic banking sector crises; • Natural catastrophes.

Source: extracted from SIGMA, Managing public expenditures, 2001.

106. Fiscal risks associated with SOEs can be partially explained by the existence of non-commercial objectives. The delivery of essential goods and services for all the segments of the population has at times justified public management of activities in targeted sectors such as utilities, services, or strategic industries. This practice is reflected in the public ownership of enterprises that pursue non-commercial objectives beyond what private companies would deliver.

107. SOEs may benefit from explicit subsidies from the Government, and may also generate implicit subsidies through Quasi-Fiscal Activities (QFAs). Beyond traditional explicit subsidies and transfers received from the Government, SOEs carry out activities representing potential expenses for the Government. SOEs are frequently involved in QFAs, where the Government mandates activities or prices that result in losses for the SOE. QFAs may hinder fiscal sustainability as the cost of QFAs can go beyond the amount of explicit subsidies from the budget and may represent a significant share of GDP. QFAs include mispricing, payment arrears or excessive losses, as presented in Box 5.2.

Box 5.2: Examples of Quasi-Fiscal Activities

- **Mispricing**: situation where the output price charged to the final consumer is less than usual, below the market rate or the recovery cost, which creates a quasi-fiscal subsidy towards final end-users.

- **Arrears of payment on collection**: refers to the situation where end-users of the output do not pay their bill. They are reflected through collection ratios.
- **Excessive losses**: correspond to losses which exceed the normally expected amount.
- **Underinvestment**: it comes from the existence of arrears, which do not encourage SOE to invest in maintenance and replacement of assets, or expansions.

Source: IMF.

108. Contingent liabilities also represent a fiscal burden for the Government and a fiscal risk. Many SOEs are unable to obtain credit independently. As a result, governments may borrow on their behalf or provide guarantees for SOE debt. This practice limits SOE incentives for efficiency and profitability and may represent a significant component of public expenditure and create an important fiscal risk. Given the scale and lack of transparency of contingent liabilities, these often pose significant fiscal risks to the Government.

Pilot Fiscal Risk Analysis in Maldives: The Case of STELCO

109. The Government requested a pilot fiscal risk analysis for the State Electric Company Limited (STELCO) given both its strategic role in service delivery and its operating deficit. In collaboration with the Ministry of Finance and Treasury, PCB, and staff of the company, a fiscal risk model was developed for STELCO.[46] The model was developed based on STELCO's audited financial reports through 2015 and on complementary information obtained from company staff. Key assumptions about fuel prices, GDP and exchange rates are derived from the IMF's World Economic Outlook and the World Bank's Commodity Price Database.

110. The electricity sector in Maldives consists of a regulatory agency, the Maldives Electricity Authority, and two SOEs, STELCO and FENAKA. The sector is regulated by the Maldives Electricity Authority, a formally independent regulatory organization affiliated with the Ministry of Housing and Environment, which is responsible for the approval of tariffs on customers. The production of electricity, primarily through fuel power stations, and its distribution, is carried out primarily by two SOEs: STELCO, which operates in the capital and 34 nearby islands, and FENAKA, which operates in more remote islands.

111. STELCO's financial condition depends on external arrangements both in terms of revenues and costs. STELCO's primary sources of revenue include electricity billed to customers and Government subsidies. Electricity revenues depend on the tariff, which is regulated and determined by the Maldives Electricity Authority. The fuel surcharge subsidy is currently the only subsidy complementing STELCO's revenues: the SOE is allowed to reflect an increase in diesel prices into final prices[47], and the Government subsidizes the part affecting domestic consumption. On the expense side, the diesel price, which is the main operational cost driver, is determined by another SOE, the State Trading Organization (STO). Under this arrangement, the unit cost of electricity production exceeds the tariffs charged to domestic residential customers.

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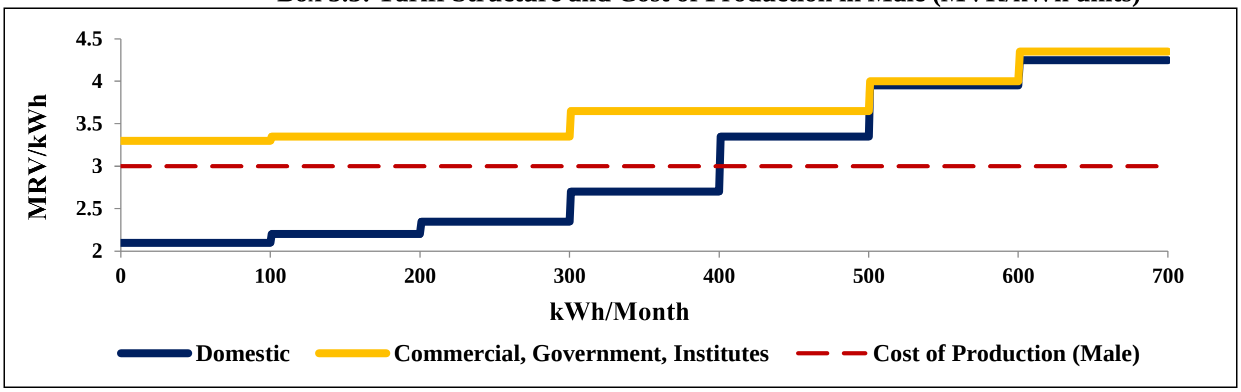
[46] This analysis complements previous work carried out by the ADB in the preparation of the project called *Preparing Outer Islands for Sustainable Energy Development*. While ADB analysis intended to present financial profile and debt sustainability of both FENAKA and STELCO, this work aims at extracting specific indicators of fiscal risk linking STELCO and the State in order to gauge a potential burden on public finances.

[47] In 2010, utility providers were allowed to raise the tariffs to reflect fuel price increases above a threshold: for every MVR 0.1/liter increase above MVR 8.0/liter, the tariff would increase by MVR 0.03 per kWh.

112. The tariff structure resulting from the 2009 reform has not allowed STELCO to maintain a viable financial position. The tariff structure consists mostly in charging higher rates to businesses and government institutions and lower rates charged to domestic users[48]. The price charged for domestic monthly consumption of up to 400 kWh units of electricity does not cover the cost per unit of production (Box 5.3). Given the levels of tariff for each type of customer, their respective share of total electricity consumption, and the evolution of diesel prices, this mechanism has contributed to operating difficulties for STELCO, whose financial position began to deteriorate in 2010. Since 2013, STELCO has registered net losses, and it has not been able to generate dividends nor pay taxes. Additionally, STELCO holds significant debt and has accumulated debt payment arrears.

Box 5.3: Tariff Structure and Cost of Production in Male (MVR/kWh units)



Source: Bank Staff graph.

113. The reform was accompanied with the implementation of two direct subsidies, which have created a burden on public finances. The main objective of the reforms in 2009 was to revise the tariff rate in order to better reflect market prices, following the increase in international oil prices and the global economic crisis. In order to limit the impact of a tariff increase on domestic consumption, the government has provided two types of direct subsidies:

- **Usage subsidy:** The government introduced a subsidized tariff rate for consumption bands up to 400 kWh units per month which is equivalent to the tariff rates set for these consumption bands prior to the price reform. The usage subsidy is also slab-based, which means that consumption up to 400 kWh units is subsidized irrespective of the total number of units consumed. This subsidy was abolished in February 2016.
- **Fuel surcharge subsidy:** During 2010, utility providers were allowed to raise the tariff rates to reflect fuel price increases above a certain threshold. In the case of STELCO, if fuel prices were to increase more than MVR8.0/liter, the tariff will increase by MVR0.03 kWh for every MVR0.1/liter increase. As fuel surcharge accounts for 50–60% of the total electricity bill and the government subsidizes 100% of the fuel surcharge, this poses a massive fiscal cost for the government.[49]

These subsidies have created a significant burden on public finances since 2009 and represent a source of fiscal risk.

[48] Cross-subsidization.
[49] Source: Fiscal Costs and Challenges of Social Protection and Subsidies: The Case of the Maldives, 2016, Maldives Monetary Authority.

114. Pricing rules have a limited effect in ensuring that electricity tariffs remain in line with variations in diesel prices, which can pose a fiscal risk. Current rules were enforced in 2009 (tariff revision) and 2010 (fuel surcharge). Given the evolution of international oil prices over the past years, maintaining diesel prices in line with the 2009-2010 regulation on tariffs has limitations. Following the recent declines in international oil prices, the cost of diesel fuel fell below the fuel surcharge threshold of 8 MVR/liter. To reflect this decrease in domestic electricity prices, the Government decided to apply an ad hoc temporary "discount" price to final customers. At the time this report was being prepared, Government discussions were underway on a potential tariff reform program.

115. Using a fiscal risk model developed by Bank staff, jointly with staff from MoFT, PCB and STELCO, scenarios were developed to model fiscal outcomes and risks under different conditions. The fiscal risk analysis is based on three scenarios (one baseline and two alternative scenarios) and one macroeconomic stress test:

- **Baseline Scenario: current tariff conditions.** The baseline scenario intends to present a likely outlook for STELCO, under current conditions, i.e. tariff equivalent.
- **Alternative scenario 1: value created by STELCO under current cost conditions.** This scenario envisages the withdrawal of the subsidy to gauge the value of the SOE.
- **Alternative scenario 2: general increase in the tariff.** The scenario maintains the fuel surcharge, and considers an increase in the tariff.
- **Macroeconomic stress test:** a petroleum price shock considering the price of the barrel higher by USD 25 is applied to the baseline.

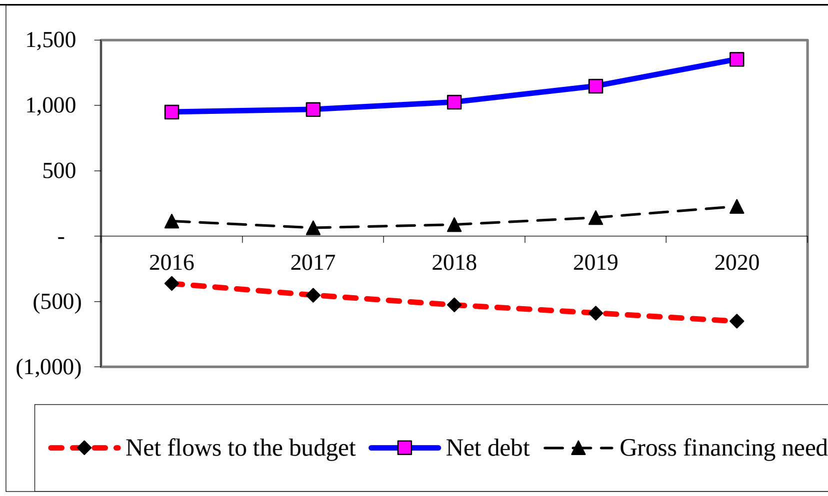
116. The baseline scenario includes the following STELCO management expectations regarding revenues, expenses, and investments over the next five years:

- Production capacity of 69 MW will be increased by an additional 50 MW over the next five years to meet the demand related to the development of Hulhumalé Island.
- In 2015, STELCO was given a new mandate of airport power plant management.
- While the main activities of STELCO concern the generation, transmission and distribution of electricity, the company has recently expanded to cover water and sewerage. Additionally, STELCO has started a water bottling project. The new line of business has been taken into account in the baseline scenario.
- In total, STELCO plans to make capital investments of over MVR 400 million over the next five years.

117. Under such expectations, STELCO would need to maintain important levels of debt and remain dependent on State support. Management expects revenues to increase with this expansion plan. However, given the current financial position of STELCO and its cost structure, the tight financial position of the SOE would require additional support to carry out the planned investments. With limited financial flexibility, it will likely remain dependent on Government financial support. The net debt and financing needs of the company are expected to increase over the period. Box 5.4 illustrates this baseline scenario.[50]

Box 5.4: Baseline Scenario (in MVR million)

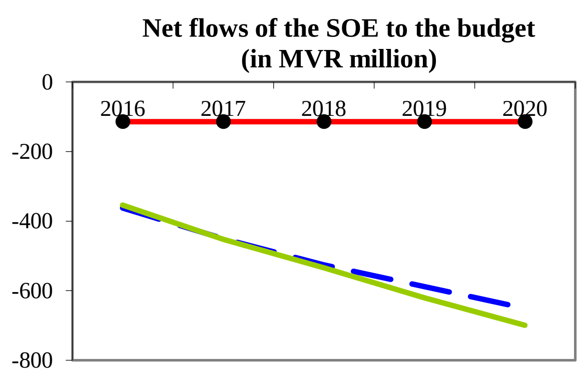
[50] Full definition of fiscal risk indicators is provided in Annex 3.

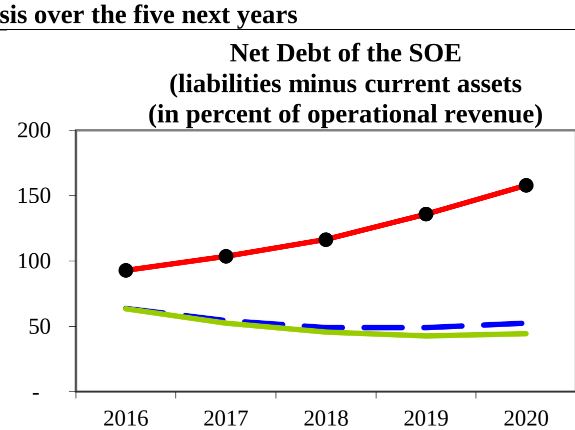


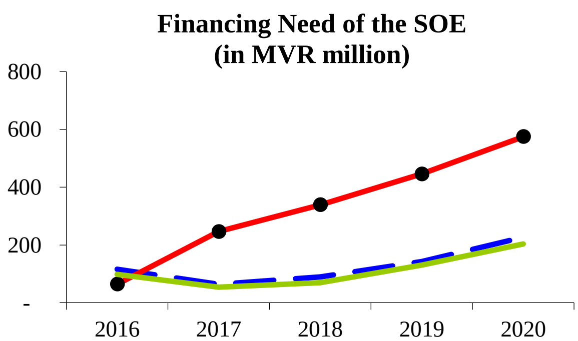
Source: Bank staff estimates.

118. The first alternative scenario presents the financial value of STELCO in the absence of the fuel surcharge subsidy, keeping domestic electricity prices unchanged. These conditions intend to represent the net worth of STELCO without State support. In fact, this alternative scenario highlights the importance of Government subsidies in limiting the deterioration of STELCO's financial position. Under such circumstances, while flows from the Government to the company would be significantly reduced compared to the baseline, STELCO would record increasing and significant levels of net debt and financing needs (Box 5.5).

Box 5.5: Scenario analysis over the five next years







Blue: Baseline
Red: Alternative scenario 1
Green: Alternative scenario 2

Baseline scenario:
- Current tariff conditions.

Alternative scenario 1:
- Fuel surcharge subsidy abolished.

Alternative scenario 2:
- General increase of the tariff (+10%).

Source: Bank staff estimates.

119. The second alternative scenario illustrates the impact of a general increase in electricity tariffs. This scenario is a slight variation of the baseline, considering an increase in electricity tariffs. Given STELCO's financial condition, this scenario shows that increased revenues due to higher tariffs might not be sufficient to allow the company to revert its structural operating deficits over the medium-term.

120. Stress tests for macroeconomic risks demonstrate further vulnerability to fiscal risks. Box 5.6 shows the impact of a sudden sharp increase in oil prices on the indicators. STELCO's financial performance would be affected: most of the impact of this shock is through an increase in the oil price which would deteriorate the operational balance of the STELCO. This shock would likely require prompt support of the Government to limit the negative impacts on both STELCO and customers, and the additional shortfall in liquidity would lead to larger financing needs.

Box 5.6: Petroleum price shock (higher by USD 25 per bbl.) in MVR million

	2017	2018	2019	2020
Change in net flows to the budget	(153)	(173)	(194)	(205)
Change in net debt of SOE (liabilities minus current assets)	384	854	1 398	1 997
Change in gross financing needs of SOE	560	500	574	617

Source: Bank staff estimates.

121. The above-presented pilot fiscal risk assessment of STELCO aimed at highlighting the impact of selected contingencies and could represent a preliminary step to further and more extensive fiscal risk analysis. The analysis could be deepened by incorporating further details and insights of the operations of STELCO in order to improve the precision of the risk assessment and the quantification of the fiscal risk. This would allow staff at MoFT/PCB in charge of monitoring fiscal risk to undertake other scenarios in a more integrated and enhanced model. It could also be envisaged to extend the fiscal risk assessment tool to other SOEs facing financial performance challenges and representing a fiscal burden for the states.

6. SOE Governance Action Plan

RATIONALE & MAIN PRIORITIES OF THE ACTION PLAN

122. **The proposed Action Plan for strengthening SOE corporate governance in Maldives intends to serve as a tool to support the Government in maintaining and reinforcing the course of action initiated in 2013 with the introduction of PCB.** In line with this objective, the proposed Action Plan supports the Government in the identification of reform priorities for improving the governance of SOEs and suggests a time-frame for implementation. All measures contemplated by the Action Plan fall under the umbrella of PCB-led efforts, initiated in 2013 and fully supported by the MoFT. They aim at developing sustainable and effective capacity of the centralized SOE oversight system in Maldives to enhance the overall corporate governance and performance of the SOE portfolio.

123. **The Action Plan proposes a series of measures which are designed to gradually address the most critical SOE governance challenges in a feasible and context-appropriate manner.** The proposed measures are customized to Maldives' public sector and institutional context and aim at providing practical solutions to main challenges related to the governance of SOEs. The approach is selective and prioritizes measures that are expected to be feasible within the current oversight framework, provided there is political will. In line with this approach, potential changes that would require substantive adjustments to the legal framework have not been considered.

124. **The Action Plan is also conceived taking into account the multiple stakeholders involved in the proposed reforms.** SOE corporate governance reforms usually involve the Presidency, the Parliament, and Supreme Audit Institution, whose support and leadership are critical for the success and sustainability of these reforms. Within the executive, beyond the MoFT and the PCB, some sector ministries may also be crucial for the implementation of the reforms. Finally, SOE corporate governance reforms require strong cooperation with SOE board members and management. The interaction between these different actors is critical to the determination of the approach and its success.

Pillars of the proposed Action Plan

125. **On the basis of the close dialogue with the Government, the Action Plan has been structured around three pillars:**

- **Strengthening PCB's resources and capacities,** to boost the role of the State as an effective owner of Maldivian SOEs, following the current centralized institutional framework for SOE oversight.
- **Supporting SOE performance monitoring**, led by the PCB, and oriented toward the implementation of medium-term bilateral performance agreements between PCB and individual SOEs.
- **Supporting SOE fiscal risk assessment**, by developing capacities within the Government for regularly monitoring SOEs' financial information and fiscal risk.

126. The three pillars of the proposed Action Plan have been conceived in a broad sense, thus allowing addressing some specific corporate governance-related issues. In particular, the first pillar, "*Strengthening PCB's resources and capacities*", which is focused on SOE ownership and institutional arrangements, also addresses (indirectly) some other particular SOE corporate governance issues that emerged as crucial to the government during the period of preparation of this report, namely, improving SOE board procedures and enhancing transparency.

Pillar 1: Strengthening PCB's resources and capacities

127. In the short term, PCB would benefit from designing and adopting a suitable Strategic Plan and related internal organizational model and finalizing key SOE policies. The Strategic Plan could be elaborated by the PCB Secretariat and focused on the set up of SOE financial monitoring related activities, including the definition of strategic objectives and targets, a sequenced implementation calendar, a human resources and training plan, and a calendar for the liquidation of selected SOEs. At the same time, in line with the objectives of the Strategic Plan, the PCB would gain from developing and adopting its internal organizational model by efficiently allocating oversight functions and clearly distributing monitored SOEs among its staff. The finalization and adoption of several SOE policies being now drafted by the PCB Secretariat would be another key step towards the completion of these activities.

128. In the medium term, the PCB may consider focusing on implementing its Strategic Plan and complementing this through activities related to staff recruitment and training and enhanced reporting and transparency. A series of reform actions are envisaged in order to successfully implement PCB´s Strategic Plan. These include the strengthening technical capacities of PCB´s Secretariat through recruitment of additional specialized staff, as well as developing a core curriculum and delivering targeted training and capacity building activities for PCB staff. Updated policy and training activities could also ideally be provided for SOE board members.[51] In terms of enhanced reporting and transparency, it could be advisable to concentrate on: i) providing regularly internal SOE financial reporting to the PCB Board, the MoFT, and other key stakeholders such as the Presidency, Parliament and line ministries; ii) launching a PCB website to disseminate public reports; and iii) improving the quality and timeliness of SOE financial audit in coordination with the Auditor General Office.

Expected results over the medium term would include the following:

- Consolidated Annual Reports on SOE portfolio prepared by PCB including key financial and non-financial indicators for main SOEs.
- Financial statements prepared and up to date for all main SOEs.
- Audits prepared and up to date for all main SOEs.
- Audits for at least 2 SOEs published on website.
- At least 2 SOEs liquidated.
- Board members of at least 2 main SOEs trained.

[51] There is currently no standard training program for SOE board members. A local college does provide a board training certificate course that some SOEs provide to new board members. However, improving and expanding training for board members has been identified by the PCB as a priority area in the future.

Pillar 2: Supporting SOE performance monitoring

129. All planned reform actions related to SOE performance monitoring in Maldives are oriented towards supporting PCB in its efforts towards gradually implementing SOE performance agreements. To accomplish this, a series of initial actions would include, among others, defining minimum standards/indicators for SOE financial reporting and SOE monitoring by PCB, with a particular focus on major strategic SOEs showing high fiscal and service delivery impact; building up consolidated data considering the SOE portfolio as a whole, reinforcing communication channels between PCB technical staff and SOE management and board members; and developing of a sequenced calendar for the introduction of SOE performance agreements. Over the medium term, it is envisaged that PCB will systematically and regularly collect SOE financial and non-financial information, by means of modern procedures and IT systems for effective SOE financial monitoring. It is also expected that PCB will negotiate and implement bilateral performance agreements with at least 2 SOEs, based on sound indicators and targets, and that adequate incentive mechanisms will be considered for cases where those targets are successfully met by the corresponding SOEs.

Expected results over the medium term would include the following:

- PCB SOE monitoring database complete and up to date.
- At least 2 pilot performance agreements signed between PCB/Government and SOEs.
- Incentive mechanisms introduced related to SOE performance agreements.
- Performance monitoring mechanism set up to monitor the performance agreements.
- Regular reports on the implementation of performance agreements.

Pillar 3: Supporting SOE fiscal risk assessment

130. The overall objective is to identify a series of actions allowing PCB over time to effectively conduct fiscal risk analysis on individual SOEs, with a focus on those enterprises with high fiscal / service delivery impact. In order to support this, the Action Plan proposes several initial activities such as the development of a framework/model for SOE fiscal risk assessment, the undertaking of a pilot fiscal risk assessment for the state electricity company STELCO, the identification of priority areas within the universe of SOEs for fiscal risk analysis, and establishing a fiscal risk Unit within the PCB, among others. Over the medium term, proposed activities foresee the periodic collection of financial information to update the fiscal risk model on STELCO, as well as conducting fiscal risk assessment for at least two other targeted SOEs, e.g., STO and FENAKA. The identification of risk mitigation measures for analyzed SOEs and the eventual broadening of fiscal risk analysis to other strategic SOEs posing a potential risk are also envisaged.

Expected results over the medium term would include the following:

- SOE Fiscal Risk Unit operative, with at least 2 staff trained.
- Fiscal risk analysis conducted and updated for at least 2 SOEs.
- Budget transfers to SOEs reduced.
- Contingent liabilities of SOEs reduced.
- Dividend payments of SOEs increased.
- Tax payments of SOEs increased.

PROPOSED MATRIX OF ACTIONS
Potential Options to Strengthen SOE Governance Framework in Maldives

	Short-Term Measures (12-18 months)	Medium-Term Measures (18 months – 5 years)	Results (3-5 years)

Strengthening PCB's Resources and Capacities	***PCB Strategic Plan & Organization***
	• Design and adopt PCB Strategic Plan:
	  o Strategic objectives and targets.
	  o Indicators to measure progress.
	  o Sequenced implementation calendar.
	  o Definition of available resources and resource needs.
	  o Human resources and training plan.
	  o SOE liquidation plan.
	• Develop and adopt PCB's internal organizational model and procedures: definition of regular oversight tasks, allocation of SOEs by staff, etc.
	• Strengthen coordination between PCB and other Government institutions and define data to be exchanged on a regular basis (MoFT Debt and Budget Departments, Maldives Revenue Authority, Auditor General Office).
	• Assess the possibility to incorporate the PCB Secretariat into the PCB Board and to give corporate, administrative, and budget autonomy to PCB.
	
	PCB SOE Policies & Guidelines
	• Finalize and adopt SOE policies:
	  o Corporate Governance Policy.
	  o Human Resources Policy.
	  o Procurement Policy.
	  o Dividend Policy.
	  o Appointment & Removal of Board of Directors Policy.
	  o Performance Appraisal of Board of Directors Policy.
		Strengthening PCB Capacities
		• Strengthen PCB Secretariat through recruitment of additional specialized staff.
		• Develop a core curriculum and deliver targeted training and capacity building activities for PCB staff (aimed at exercising SOE oversight function).
		
		Strengthening PCB Ownership Functions
		• Implement PCB Strategic Plan and track progress.
		• Prepare consolidated Annual Reports on the performance of the SOE portfolio for President's Office, Parliament, and Minister of Finance.
		• Prepare specific ad-hoc reports as needed (e.g., on SOEs with major new developments).
		• Launch PCB website with adopted policies, reports, etc.
		• Coordinate with Auditor General Office to strengthen timeliness and quality of audits of main SOEs.
		• Strengthen the criteria for nomination of SOE board members and involvement of PCB in the nomination process.
		• Strengthen SOE boards through updating policy and facilitating training opportunities for SOE board members.
			SOE Oversight Capacity Strengthened:
			• Consolidated Annual Reports on SOE portfolio prepared by PCB including key financial and non-financial indicators for main SOEs.
			• Financial statements prepared and up to date for all main SOEs.
			• Audits prepared and up to date for all main SOEs.
			• Audits for at least 2 SOEs published on website.
			• At least 2 SOEs liquidated.
			• Board members of at least 2 main SOEs trained.

	Short-Term Measures (12-18 months)	Medium-Term Measures (18 months – 5 years)	Results (3-5 years)

Supporting SOE Performance Monitoring	***SOE Performance Monitoring***
	• Define standardized format/template for SOE reporting.
	• Define minimum standards/indicators for SOE financial reporting and SOE monitoring by PCB for all SOEs.
	• Define additional standards and indicators for major strategic SOEs with the highest fiscal and service delivery impact.
	• Establish a calendar of regular meetings between the PCB technical staff and selected SOE management/boards to build knowledge and create effective channels of communication.
	
	SOE Database[52]
	• Introduce consolidated/aggregated information for overall SOE portfolio in PCB database.[53]
	• Include additional indicators in PCBs SOE monitoring database:
	  ○ SOE tax payments/arrears (in coordination with MIRA).
	  ○ Subsidies to SOEs (in coordination with MOF Budget Department).
	  ○ SOE contingent liabilities (in coordination with MOF Debt Department).
	  ○ Date of last audit (in coordination with Auditor General Office).
	
	SOE Performance Agreements
	• Develop a sequenced calendar for the introduction of medium-term performance agreements, starting with strategic SOEs.
		SOE Performance Monitoring
		• Collect systematically and regularly update SOE financial and non-financial information.
		• Develop and implement procedures and IT systems for SOE financial monitoring.
		
		SOE Performance Agreements
		• Design and introduce of incentive mechanisms for cases where pre-established targets are met/not met by the SOE.
		• Negotiate pilot performance agreements between PCB/Government and at least 2 SOEs defining:
		  ○ "SMART" financial and non-financial indicators specific to each SOE (via PCB technical advice).
		  ○ Targets associated to performance monitoring indicators.
		  ○ Performance monitoring system and reports for performance agreements.
		• Allocate pilot SOEs among PCB technical staff (PCB Secretariat at the MoFT), considering their sector knowledge, background and expertise.
			SOE Performance Monitoring Strengthened:
			• PCB SOE monitoring database complete and up to date.
			• At least 2 pilot performance agreements signed between PCB/Government and SOEs.
			• Performance monitoring mechanism set up to monitor the performance agreements.
			• Regular reports on the implementation of performance agreements.
			
			SOE Performance Improved
			• Financial performance of SOEs with performance agreements improved.
			• Service delivery performance indicators in 1-2 critical sectors (e.g., electricity) improved.

[52] As a priority, regular comprehensive information could be collected for the following SOEs: 100% state-owned, majority state-owned, SOEs with significant state minority share. Information for the remaining entities (small state minority share, paper companies, SOEs identified for liquidation) could be collected as needed, starting with the entities with the highest financial impact.

[53] SOE performance information in the PCB database is available by SOE, but the database currently does not include aggregated totals on the performance of the SOE portfolio as a whole.

	Short-Term Measures (12-18 months)	Medium-Term Measures (18 months – 5 years)	Results (3-5 years)

Supporting SOE Fiscal Risk Assessment	***Framework & Plan for Fiscal Risk Assessment***
	• Develop a framework/model for SOE fiscal risk assessment.
	• Identify priority sectors/SOEs for fiscal risk analysis.
	• Develop cooperation mechanisms between PCB and MOF Debt Department on fiscal risk management.
	• Organize training on fiscal risk model.
	
	Conduct Pilot Fiscal Risk Assessment
	• Collect financial information from SOEs to prepare baseline projections for fiscal risk analysis (SOE financial statements, SOE business plan, SOE medium-term projections, transactions between SOE and Government and SOE and other SOEs).
	• Conduct pilot fiscal risk analysis for STELCO.
	• Identify selected additional SOEs for fiscal risk analysis.
		Strengthen Capacity for Fiscal Risk Assessment
		• Establish in PCB a Unit dedicated to SOE fiscal risk monitoring and develop relevant capacity.
		
		Update STELCO Fiscal Risk Assessment
		• Update annually the fiscal risk analysis for STELCO:
		  o Collect the latest financial information and significant developments on STELCO and the electricity sector.
		  o Update the baseline projections.
		  o Adjust scenarios and stress test analysis.
		• Prepare a Summary Note on STELCO fiscal risk analysis as an input for budget discussions.
		
		Expand Fiscal Risk Assessment to other SOEs
		• Develop model and conduct fiscal risk analysis for STO.
		• Develop model and conduct fiscal risk analysis for FENAKA.
		• Conduct a consolidated fiscal risk analysis including STELCO, STO, and FENAKA.
		• Identify selected additional SOEs and calendar for fiscal risk analysis (e.g., SOEs in financial stress).
		
		Measures to Reduce Fiscal Risk
		• Identify measures to reduce fiscal risk of analyzed SOEs.
			Government Capacity for SOE Fiscal Risk Management Strengthened:
			• SOE Fiscal Risk Unit operational, with at least 2 staff trained.
			• Fiscal risk analysis conducted and updated for at least 2 SOEs.
			
			SOE Fiscal Risk Improved:
			• Budget transfers to SOEs reduced.
			• Contingent liabilities of SOEs reduced.
			• Dividend payments of SOEs increased.
			• Tax payments of SOEs increased.

ANNEX 1: LIST OF PERSONS MET

Ministry of Finance and Treasury (MoFT)
- Ahmed Munawwar, Minister of State for Finance and Treasury (appointed Hon. Minister of Finance and Treasury on June 22, 2016)
- Arif Hilmy, Senior Advisor to the Minister
- Mr. Mohamed Zahy, Senior Project Officer (Desk Officer for World Bank)
- Khadeeja Hussain, Financial Controller

Privatization and Corporatization Board (PCB)
- Mohamed Nizar, President
- Mohamed Yasir, Vice President

Privatization and Corporatization Board Secretariat
- Ahmed Siraj, Secretary General
- Mohamed Musnim Rasheed, Assistant Director and other staff of Secretariat

Debt Management Division
- Aminath Nashia, Director, External Relations and Debt Management Division
- Shurufa Abdul Wahid, Director, Strategy and Risk Management
- Mariyam Abdul Nasir, Director, Debt Recording and Reporting
- Mohamed Anas, Senior Debt Portfolio Analyst
- Hawwa Rishda Mohamed, PFM Project Coordinator
- Sujatha Haleem, World Bank Consultant, PFM Project

Economic and Development Policy Division (EPDB)
- Ali Abdu-Raheem, Assistant Director
- Ahmed Saruvash Adam, National Consultant for Development Policies

Maldives Inland Revenue Authority (MIRA)
- Asma Shafeen, Senior Director, Technical and Planning
- Mohamed Siraj Muneer, Director, Large Taxpayer Service
- Hasna Ahmed, Senior Officer, Technical and International Relations

Auditor General's Office (AGO)
- Hussain Niyazy, Assistant Auditor General
- Ibrahim Fazeel, Director of Audit SOEs
- Fathmath Firushana Rasheed, Manager, SOEs & SBs
- Mohamed Shahid, Manager, SOEs & SBs
- Badhrulla Waheed, Manager SOEs & SBs

Capital Market Development Authority (CMDA)
- Ahmed Naseer, Chief Executive Officer *(now at MOFT)*
- Aishath Ibrahim, Deputy Manager, Corporate Governance Section
- Muslih Mohamed Ismail, Deputy Manager, Corporate Governance Section

State Electric Company Limited (STELCO)
- Mohamed Latheef, Deputy Managing Director
- Ali Mujthaba Mohamed, A. Director
- Mohamed Saleem, Deputy Director and Head of Finance and Accounts Department
- Karthigesar Sivathasan, Financial Controller
- Enas Ahmed, Assistant Director Finance and Accounts Department
- K. Sivathasan ACMA, Financial Controller
- Abdul Malik Thoufeeg, Engineer

Annex 2: List of SOEs in Maldives

Fully State Owned (17 Entities)

	Name	Industry
1	Aasandha Pvt. Ltd	Health
2	Fenaka Corporation Limited	Utilities
3	Gulhifalhu Investment Ltd.	Industry
4	Hazana Maldives Ltd.	SPV for Islamic Finance
5	Housing Development Corporation Ltd (HDC)	Financial Services
6	Island Aviation Services Ltd (IAS)	Aviation
7	Maldives Airports Company Ltd. (MACL)	Aviation
8	Maldives Center for Islamic Finance	Finance
9	Maldives Hajj Corporation Ltd.	Hajj
10	Maldives Industrial Fisheries Company Ltd. (MIFCO)	Fisheries
11	Maldives Marketing and Public Relations Corporation	Services (Marketing)
12	Maldives Ports Limited (MPL)	Cargo
13	Maldives Post Limited	Services (Postal)
14	Maldives Road Development Corporation Ltd. (MRDC)	Construction
15	Maldives Sports Corporation Ltd.	Sports
16	State Electric Company Ltd. (STELCO)	Utilities
17	Thilafushi Corporation Ltd.	Industry

Majority and Significant Minority Stake (8 Entities)

	Name	Govt. Ownership %	Industry
18	Addu International Airport Pvt. Ltd.	50%	Aviation
19	Bank of Maldives (BML)	50.80%	Financial Services
20	Dhivehi Raajjeyge Finance Corp. (Dhiraagu)	41.80%	Telecom
21	Housing Development Finance Corp. (HDFC)	49%	Financial Services
22	Maldives Transport & Contracting Co. (MTCC)	48%	Transport
23	Maldives Tourism Development Corp. (MTDC)	47%	Tourism
24	Maldives Water and Sewerage Co. Ltd. (MWSC)	80%	Water & Sewage
25	State Trading Organization (STO)	81.63%	Trading

Small Minority Stake (38 Entities)

	Name	Govt. Ownership %	Industry
26	Addu Investments Pvt. Ltd.	30%	Tourism
27	Akirifushi Investment Pvt. Limited	10%	Tourism
28	Angiri Joint Venture Pvt. Limited	10%	Tourism
29	Aqua Sun Investment Pvt. Limited	10%	Tourism
30	Bodumohoraa Investment Pvt. Ltd	10%	Tourism
31	Big Stone Investment Pvt. Ltd	10%	Tourism
32	Champarlers Holdings Pvt. Ltd	10%	Tourism
33	Cocoon Investments Pvt. Limited	5%	Tourism
34	Dheebaja Maldives Pvt. Limited	5%	Tourism
35	Dhigufaru Investments Pvt. Ltd	10%	Tourism
36	Dhonkeyo Holdings Pvt. .Limited	10%	Tourism
37	Dutch Doclands Maldives Pvt. Ltd	5%	Tourism
38	Fushifaru Investment Pvt. Ltd	10%	Tourism
39	Handhuvaru Ocean Resorts Pvt. Ltd	10%	Tourism

40	Ifuru Investments Private Limited	5%	Tourism
41	Kandholhudhoo Island Pvt. Limited	10%	Tourism
42	Koddipparu Investment Pvt. Ltd.	10%	Tourism
43	Kuda Villingili Developments Pvt. Ltd	5%	Tourism
44	Lagoon Resorts Pvt. Ltd	10%	Tourism
45	Malahini Holdings Pvt. Ltd	10%	Tourism
46	Maldives Islamic Bank Private Limited	15%	Banking
47	Maldives Overseas Investment Pvt. Limited	10%	Tourism
48	MRT Holdings Pvt. Ltd	10%	Tourism
49	Nackachaa Huraa Holdings Pvt. Ltd.	10%	Tourism
50	Navaagan Pvt. Ltd	10%	Tourism
51	POLWEK	10%	Tourism
52	Prime Capital Maldives	25%	Tourism
53	RFH Holdings Pvt. Ltd.	10%	Tourism
54	Satinseas Pvt. Ltd.	10%	
55	SIFCO	10%	Tourism
56	Theluveliga Retreat Pvt. Ltd.	10%	Tourism
57	Thiladhoo Investment Pvt. Limited	10%	Tourism
58	Trifidus Investment Pvt. Limited	10%	Tourism
59	Trinus CAE Southern Hotels and Resorts	5%	Tourism
60	Trinus CAE Northern Hotels and Resorts	5%	Tourism
61	Veli Madivaru Pvt. Ltd.	10%	Tourism
62	Vermillion Private Limited	5%	Tourism
63	Zen Resorts Pvt. Limited	10%	

Paper Companies, Non-Operational (10 Entities)

	Name	Govt. Ownership %
64	Felivaru Port Limited	100%
65	Fuahmulak Development Corporation	51%
66	Hanimaadhoo Airport Company Limited	100%
67	Hulhumale Integrated Economic Zone Limited	51%
68	Kaadedhoo Airport Company Limited	100%
69	Kulhudhuffushi Development Corporation	51%
70	Maldives Green Fund	100%
71	Maldives Industrial Agriculture Company	100%
72	Male International Airport Pvt. Ltd.	100%
73	Thinadhoo Development Corporation	51%

Winding Up/Liquidation (24 Entities)

	Name	Govt. Ownership %
74	Maldives Entertainment Company Limited	Entertainment
75	North Central Utilities Limited	Provision of utilities
76	Northern Utilities Limited	Provision of utilities
77	South Central Utilities Limited	Provision of utilities
78	Southern Utilities Limited	Provision of utilities
79	Upper North Utilities Limited	Provision of utilities
80	Upper South Utilities Limited	Provision of utilities
81	Waste Management Corporation Limited	Waste management
82	Works Corporation Limited	Contract Business.
83	Hithadhoo Port Limited	Cargo Handling
84	Gan Airport Company Limited	Airports
85	Kulhudhuffushi Port Limited	Cargo Handling
86	Male' Health Services Corporation Limited	Health services

87	Kooddoo Fisheries Maldives Limited	Fisheries
88	Felivaru Fisheries Maldives Limited	Fisheries
89	Southern Health Services Corporation Limited	Health services
90	Central Health Service Corporation	Health services
91	Northern Health Service Corporation	Health services
92	North Central Health Service Corporation	Health services
93	South Central Health Service Corporation	Health services
94	Upper North Health Service Corporation	Health services
95	Upper South Health Service Corporation	Health services
96	Kaddoo Airport Company Limited	Airports
97	Villingili Investments Pvt. Ltd.	

Annex 3: Methodology for Assessing SOE Fiscal Risk Projections[54]

Specification and measure of SOE fiscal risks

The quantification of risks requires the specification of risk factors that can perturb the fiscal accounts through their impact on SOEs. Risk factors include changes in the following sets of variables:

- **Macroeconomic:** including international commodity prices (especially for oil) and exchange, interest, and inflation rates.
- **Regulatory:** including price regulations (e.g., those related to Public Service Obligations), but also the effect of entry and universal service obligations.
- **Operational:** including delays and cost overruns in the implementation of capital projects and factors that impact on technical (or operational) efficiency.
- **Sectoral:** sector-specific factors that drive demand, changes in market share, and the cost of production (e.g., competition and wages).
- **Force majeure:** natural disasters, civil strife, and other uncontrollable risk factors.

The impact of these risk factors on the fiscal accounts can be captured through various measures. In particular, the template developed assesses fiscal risks through the impact of risk factors on the following variables:

- **Net contribution of the SOE to the budget,** through VAT and other indirect taxes, corporate income tax, dividends, subsidies, net equity and debt payments, and calls on government guarantees). This measures the direct impact on fiscal revenue and spending.
- **Financing need of the SOE:** this complements the previous measure, because the SOE can offset the impact of a risk factor on its net contribution to the budget by taking on additional debt. But this also reduces the scope for net contributions in the future, ceteris paribus. The financing need can be measured on a net basis (i.e., not taking into account debt rollover) or on a gross basis (useful in cases where debt rollover is at risk).
- **Net debt of the SOE**, measured as total liabilities minus current assets of the SOE. Rising net debt increases the exposure of the government to adverse shocks on the SOE balance sheet and operations (i.e., through the need to provide financial support to the company and the likelihood of reduced net contributions to the budget in the future).
- **Off-balance sheet liabilities.** An example of such liabilities is a guarantee (e.g., for toll road revenue) under public private partnership contracts. Off-balance sheet liabilities are typically of a contingent nature (if they are direct liabilities they would likely be included in liabilities on the balance sheet). This measure complements the previous measures, as an increase in off-balance sheet liabilities has a similar impact on the net worth of the SOE for the government as an increase in net debt.

Framework for projecting SOE fiscal risk: spreadsheet-based template

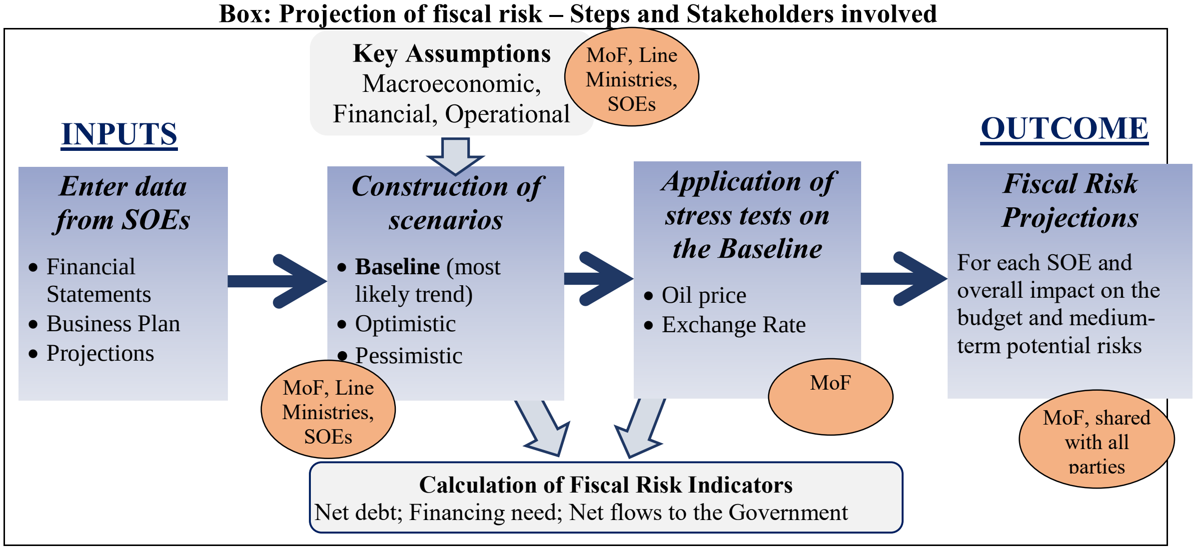
[54] Source: Assessing fiscal risk from State-Owned Enterprises, Verhoeven and al., IMF, 2008.

The framework is centered on a spreadsheet-based template. The template develops the risk analysis for each individual SOE and includes a consolidated assessment of the fiscal risks posed by the SOEs in aggregate. The template is used to collect and process the relevant data from the SOEs in order to develop both quantitative indicators and qualitative analysis of the potential risks. In particular, the quantitative analysis focuses on three key indicators of SOE fiscal risk: (i) net impact on the annual budget; (ii) changes in net debt of the SOE; and (iii) financing need of the SOE. In addition, the template also provides key financial indicators for the SOE.

As illustrated in the Box below, the template is organized around four main steps:

- **The first involves gathering relevant information on the SOEs**. This includes information from their financial statements (operating statement and balance sheet), business plans, and projections for the medium term, as well as detailed information on their transactions with the government and other SOEs. The level of detail of the data would depend on the perceived risk factors and size of risk. In addition, the company could be requested to report on its off-balance sheet contingent assets and liabilities (e.g., supply contracts that can involve significant contingent liabilities).

Box: Projection of fiscal risk – Steps and Stakeholders involved



Source: Verhoeven and al., Bank staff consolidation.

- **A parallel step would be to set the key assumptions needed for the risk assessment**. These could focus on the main risk factors which could have an impact on the budget or balance sheet of the government. The MoF will provide the key macroeconomic assumptions, such as the exchange rate, interest rate, and oil price. In addition, assumptions will also need to be made on sector -or company-specific factors that affect the operations and balance sheet of the company, such as sales price, volume, and cost of main inputs.

- **A key step will be to set up baseline and alternative scenarios over the medium term.** It will be critical to define the sensitivity of the operations and the balance sheet of the

SOE to the key assumptions, such that the baseline and alternative scenarios reflect how the operations and balance sheet are likely to be affected by economic shocks and changes in the business or regulatory environment. In some cases, the baseline scenario may not be exactly identical to the SOE's scenario—although it could be constructed in consultation with the SOE—as it will likely be a more simplified model than the financial program used by the SOE for its own planning and projections.

- **The main output of the template is the risk assessment based on the analysis of alternative scenarios and stress tests** as well as discussion of qualitative factors that could have a significant impact but are difficult to quantify. The use of three scenarios—baseline, optimistic, and pessimistic—permits to assess the overall extent of fiscal risks posed by different SOEs and the size of potential liabilities for the government in the medium term. Stress tests are particularly useful to assess the consolidated impact on the budget from a macroeconomic shock (such as an increase in the oil prices). In addition, the template includes data on a series of financial indicators (e.g., on profitability and liquidity) that would help assess the financial position of the SOE.

- **Finally, the key indicators used to assess the fiscal risks posed by each SOE may be consolidated in a master spreadsheet that aggregates the information from all monitored SOEs and allows for a check of the consistency of the projections for inter-SOE transactions**. This is particularly useful if a shock has a negative impact on the budget through some SOEs while it has a positive impact on the budget through other SOEs. Both the individual and consolidated assessments will be useful to help monitor SOEs, improve coordination between the government and SOEs, and contain fiscal risks.