



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

MALDIVES

Mainstreaming Climate Change into Public
Financial and Investment Management
Green PFM and Climate PIMA

APRIL 2024

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High-Level Summary Technical Assistance Report

Fiscal Affairs Department

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: An IMF Team assessed the green public financial management (PFM) practices, drawing on the IMF's Green PFM framework, and conducted a Climate Module of the Public Investment Management Assessment (C-PIMA) in the Maldives. It identified strengths related to the recent public investment management (PIM) reforms, but also several remaining priorities along the budget and investment cycle in the Maldives that affect the efficiency, and its capacity to respond to climate change-related challenges. The mission team makes six priority recommendations in integrating climate change considerations in PFM and PIM practices, prioritized based on the country's capacity, financial resources, and ongoing reform initiatives.

Keywords: climate challenge; public investment management (PIM); green public financial management (green PFM); Small Island Developing States (SIDS); sea level rise; climate budget tagging; Climate Budget Statement; climate-aware planning and coordination; project appraisal and selection

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Background

In response to a request from the Minister of Finance, a team from the IMF's Fiscal Affairs Department (FAD) evaluated the scope to introduce Green Public Financial Management (PFM) practices, drawing on the IMF's Green PFM framework, and assessed the extent to which climate change considerations are addressed in the public investment management (PIM) cycle, using the Climate Module of the Public Investment Management Assessment (C-PIMA). The mission took place during January 8-21, 2024, with a series of preparatory virtual meetings prior to the mission.

Summary of Findings

Climate change represents a major potential threat to the Maldives' economic success. The low-lying nature of the islands makes the Maldives vulnerable to sea level rise, coral bleaching, and increasing flooding that could lead to permanent inundation. The Maldives has a high level of public debt, creating heavy constraints on fiscal space. The country's debt position means that strategies to respond to the climate challenge need to be carefully prioritized, costed, and delivered across the public sector, including for public investment. At the same time, the authorities are developing a range of ambitious national and sectoral strategies, including specific plans for climate adaptation and mitigation to be delivered by government and the wider public sector, including state-owned enterprises (SOEs). Taken together, this means that the government will need to make carefully prioritized spending decisions. This is particularly the case for public infrastructure: starting from a hitherto high level of public investment, the authorities must now respond to the climate challenge with possibly more limited but well-prioritized spending.

Green PFM practices are mostly absent at present, but there are several ongoing PFM initiatives, supported by development partners, as enablers for developing green PFM tools. The ongoing work regarding program budgeting and Sustainable Development Goals (SDG) budget tagging can be complemented by climate budget tagging which could provide the overall picture of the scale of climate-related expenditure to highlight the importance of climate change concerns during resource allocation decisions.

Regarding PIM, a review of progress since the 2016 Public Investment Management Assessment (PIMA) shows that while there has been good progress in some PIM practices, the country still requires improvement across a range of key processes. The Maldives has made some good progress in improving the project management and monitoring framework, increasing the competitiveness and transparency of the procurement process, and strengthening the oversight of SOEs and Public-Private Partnership (PPP) projects. However, several gaps in PIM practices identified by the 2016 PIMA are still to be addressed. The critical areas include investment planning, project appraisal and selection, project funding and the development of a realistic project pipeline. Without progress on these fundamentals, the integration of more advanced climate change considerations into PIM procedures is unlikely to be successful.

The C-PIMA suggests that climate change issues are currently not effectively factored into PIM processes. This illustrates that high climate awareness has not yet resulted in concrete measures and actions to address climate change considerations in public investment. More specifically, the current level of climate-aware planning and coordination in public investment is weak, there is no climate consideration in project appraisal and selection, and the processes for budgeting and fiscal risk management do not actively consider climate change.

Summary of Recommendations

The mission recommended taking advantage of the ongoing PFM initiatives, supported by development partners, as enablers for developing green PFM tools and adding climate dimensions to PIM processes (particularly in project appraisal and selection) with strong central guidance. Considering the country's capacity and financial resources in integrating climate change considerations in PFM and PIM practices, the mission team prepared a medium-term action plan, structured around five high-priority recommendations listed below.

- *Identify, analyze, and report on climate related expenditure*, by introducing climate budget tagging and a Climate Budget Statement into the budget process.
- *Assess climate change risks to infrastructure assets and long-term fiscal sustainability*, by committing to regular periodic analysis of the long-term fiscal costs, risks, and impacts of climate change.
- *Give centralized guidance/support for climate-aware planning and strengthen coordination*, by providing guidance to the public sector on how to incorporate climate sensitivity into investment plans, with a stronger role for the Ministry of Finance and Ministry of Climate Change.
- *Update project appraisal and selection arrangements*, by issuing regulations and guidelines clarifying the appraisal and selection processes and methodology for project preparation and include climate change considerations in these processes.
- *Strengthen asset management and maintenance*, by requiring the registry of climate related information for fixed assets and preparing a methodology for maintenance of fixed assets that includes climate considerations.

It is also critical for the Maldives to implement the remaining recommendations from the 2016 PIMA and continue improving the fundamental elements of its budgeting – notably capital budget credibility – accompanied as necessary by legal reforms to codify improved practices. Finally, implementation of these recommendations will require a significant effort in terms of capacity building for staff across government, and in the development of new tools and methodologies. Overall, successful transformation of PFM and PIM processes to reflect the demands of a changing climate will require strong coordination between – and commitment from – the Finance and Climate ministries.