

**GOVERNMENT OF THE MALDIVES
MINISTRY OF ATOLL DEVELOPMENT
DEPARTMENT OF PLANNING AND COORDINATION**

**FUNCTIONS AND FISCAL RESOURCES
FOR LOCAL COUNCILS IN THE MALDIVES**

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Disclaimer

The views expressed in this paper are those of the consultant who wrote this paper and do not necessarily represent those of the Ministry of Atolls Development or the United Nations Development Programme which provided funding for the consultant. Any errors or omissions in the interpretation of the data are entirely the responsibility of the author.

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Functions and Fiscal Resources for Local Councils in the Maldives

A. INTRODUCTION

The President's reform agenda for strengthening democracy and good governance in the Maldives includes elements for:

- Promoting the rule of law and access to justice
- Democratisation and political rights
- Promoting human rights
- Promoting transparent, accountable and efficient public administration
- Strengthening the role and participation of the Maldives in the international arena.
- Decentralising government and establishing local councils

Each of these elements is described in more detail in the Seventh National Development Plan for the period 2006 – 2010. Policy options for decentralising government, establishing local councils, and the implications of implementing these strategies, are reviewed in a series of Discussion Papers prepared by MOAD. A *Concept Note on Local Governance Reform* (Paper Number 1) explains proposed options for decentralisation and local governance reform. *Financing Local Councils* (Paper Number 2) clarifies some of the issues involved in financing expenditures by local councils once they are established and identifies matters that need to be researched further. A third paper outlines a *National Decentralization Programme* that would be needed to implement policies for decentralization.

The purpose of this paper is to explore the implications of transferring functions and responsibilities to elected local councils and to assess potential fiscal resources that would be required to support these functions. Section B summarises key issues in decentralising government and stresses the importance of linking functional responsibilities with the provision of adequate fiscal resources for the purpose. Section C reviews current and potential responsibilities of island administrations for the delivery of public services, making a distinction between the tasks of policy making, planning and production. Section D analyses the range of fiscal resources currently available to island administrations in terms of revenues generated locally and revenues shared with central government. It also explores the potential for increasing fiscal resources for atolls and islands in part through special purpose grants for sectoral expenditures and block grants for development purposes. The final section E discusses possible scenarios for implementing the transfer of functions and fiscal resources to local councils once they are established, outlines a feasible course of action based on current conditions in the Maldives, and explains how this might be financed. Annex C explains the purpose and scope of block grants for development purposes and presents a model for determining the allocation of central government grant funds among atolls.

The analysis of functions and fiscal resources contained in this report are based in part on information available from MOAD, the Department of Inland Revenue and other central government agencies, and in part on a recent nationwide survey of

atolls and islands designed and implemented by MOAD earlier this year. The content of the survey and the scope of responses from atolls and islands is explained in Annex B.

B. ISSUES IN DECENTRALISING GOVERNMENT

Decentralising government implies a potentially major transformation in the roles and responsibilities performed by central government once local councils are established. At present, since no local councils exist, responsibility for the delivery of all public services lies with the sectoral agencies of central government. This means that decisions concerning the allocation of resources and the planning, the design and management of public infrastructure, services and facilities are all made at the centre. Even though local communities may propose ideas for new small scale public investments through the Island and Atoll Development Committees (IDCs and ADCs), these proposals still have to be submitted to the centre for review, approval and allocation of funds. Likewise, as shown in Section D, local communities are currently almost entirely dependent on central government for financial resources to support local administrations and to pay for local services. While islands and atolls may generate revenue from local sources and receive a share of certain other revenues accruing to central government, in most cases these yield minor amounts.

With decentralization, the situation may change significantly. The draft *Law on the Management of Island and Atoll Councils* envisages the creation and election of atoll and island councils, and delegates to them responsibility for many functions now performed by central government. Proposed powers and responsibilities for Atoll councils, for example, would allow them to:

- Make decisions on behalf of the atoll community
- Establish and enforce atoll level policies and regulations
- Formulate and implement development plans that reflect island plans
- Operate enterprises for the provision of public utilities, although other profit seeking business enterprises are not encouraged
- Acquire and rent property, reefs and lagoons
- Formulate land use plans for the atoll
- Take possession of private land and property for public uses after due compensation
- Coordinate and monitor the operation of island councils
- Manage services and projects serving more than one island.

Island councils are granted similar powers that relate to the island level and in addition are to be responsible for the delivery of a range of public services for the local population.

Granting atoll and island councils such powers and responsibilities is only one part of the picture. In order for them to carry out their duties and functions effectively, they will need financial resources commensurate with the tasks involved. This may seem obvious, but in many poorer countries attempting to decentralise government this is often given inadequate attention. Local governments may be authorised to levy fees and taxes, and to generate other kinds of income, but the potential revenue to be

derived from these sources is limited and almost always insufficient to finance the tasks assigned to them.

Fortunately, the legislation proposed for local councils in the Maldives goes some way towards addressing this constraint. In addition to an array of fees and licenses, atolls and islands are also authorised to levy user charges for public utilities, and generate revenue from the rental and leasing of land and property. They will also be entitled to receive a proportion of certain revenues accruing to central government, as is currently the case. However, the wording in the legislation leaves open the nature of these revenues and the specific proportions to be shared with local councils once they are established. Section D of this report attempts to estimate the potential revenue yield from these sources, but even with optimistic assumptions, aggregate income will still fall short of meeting projected expenditures.

In anticipation of this shortfall, the draft legislation also makes other provisions to finance local councils. Annual general grants (commonly referred to as block grants) funded from the central government budget are to be provided for public services and development projects undertaken by local councils. Special purpose grants likely funded from the budgets of sectoral agencies may be provided for specific programmes or activities delegated to local councils. In addition, councils will be allowed to seek loans from local and even foreign banks and financial institutions, although it is unclear whether these institutions would be willing to extend loans without some form of central government guarantee.

While the proposed legislation provides the legal framework for decentralising government, it also implies that a massive effort will be needed to implement it. In anticipation of the work required, MOAD has drafted a National Decentralization Programme (NDP), which identifies the outcomes to be achieved for successful implementation. (See *Discussion Paper No 3.*) These are discussed in terms of six components:

1. Creating local governments
2. Electing local councils
3. Transferring responsibilities
4. Providing fiscal resources
5. Enabling government staff
6. Empowering citizens.

The total cost of the NDP has yet to be determined accurately, but provisional estimates suggest a figure around US\$6 million, a heavy burden for the government, especially given the huge budget deficit it currently faces. Since the Maldives has little experience with decentralization, part of the training for government staff may have to be arranged abroad, and many issues will require technical inputs from international experts. To assist these efforts, the government is seeking support from the donor community.

C. RESPONSIBILITIES AND FUNCTIONS OF LOCAL GOVERNMENT

1. Policy, planning and production

In discussing decentralization, it is important to clarify the extent of local council authority. Some people worry that by transferring responsibilities to local councils, central government will be unable to exert influence over key matters of national concern. This is not the case, as is explained in the *Concept Note on Local Government Reform* (Discussion Paper No 1). To understand why, it is helpful to distinguish between three elements of service delivery: policy, planning and production. (See Table 1.)

Policy entails setting national goals for each sector, drafting administrative regulations and performance standards, and monitoring implementation of policies. Responsibility for all major policy matters and most minor ones is and will remain with the central government. Atolls may be delegated authority over policy matters of a purely local nature, such as the use of reefs, lagoons and uninhabited islands within their boundaries or resolving disputes among islands.

Planning has to do with planning, budgeting and supervising the production or delivery of infrastructure and services in specific areas. It entails allocating budget resources, determining who is to produce infrastructure and services, and overseeing their performance. Responsibility for planning depends on the nature of the matter being planned. Central government will continue to allocate budget resources among sectors and atolls, sectoral agencies will continue to make plans and budgets within their sector and to plan the location of major facilities serving regions of the country. However atoll councils will be delegated responsibility for such tasks as compiling atoll development plans, allocating budget resources for development and preparing land use plans. Island councils will be responsible for preparing their own budgets and development plans, plans for island-wide services such as water sourcing, electricity generation and distribution, and monitoring delivery of local services.

Production refers to the actual delivery of a service on the ground to consumers and residents. This may involve procurement of contractors, supplies and equipment, the construction of physical infrastructure, as well as the operation and maintenance of facilities or services. Again, responsibility for production depends on the nature of the service in question. For the construction of larger public works and the operation of major facilities, central government will retain control, since these require national or even international contractors and institutions to build and operate them. Typical examples include ports, higher education centres and major hospitals. For services and infrastructure serving the entire atoll or several islands, the atoll will be responsible for operation and maintenance, procurement, and management sub-contracts where appropriate, providing local capacity is adequate. If not, they may call on central government line agencies for assistance. Islands will manage infrastructure and services catering exclusively to the island population.

Two principles underlie this division of responsibilities. One is known as *subsidiarity*, meaning authority should be given to the smallest unit of government capable of performing the activity in question. The other has to do with what economists call *externalities*, benefits or disbenefits created by one jurisdiction which accrue to another jurisdiction. To ensure efficient pricing and curtail free riders – people who benefit from a service but do not pay for it – responsibility for a service should be

allocated to that level of jurisdiction that minimises externalities, in other words that incurs most of the costs and enjoys most of the benefits.

In planning and production, and possibly some areas of policy, complementary tasks might be undertaken by the Regional Development Project Management Offices. So far, only two have been established, and these have yet to prove themselves significant players. They could assist central government or atoll councils in several ways, but they have no decision making authority, since they are not elected bodies as are the local councils.

TABLE C1: RESPONSIBILITY FOR ELEMENTS OF PUBLIC SERVICE DELIVERY			
Elements	Central government	Atoll councils	Island councils
1. Policy (examples)	For most national and sectoral matters. <ul style="list-style-type: none"> Justice Local government Education Health 	Limited to atoll specific matters. <ul style="list-style-type: none"> Use of uninhabited islands, reefs and lagoons Resolution of disputes among islands 	Negligible
2. Planning (examples)	<ul style="list-style-type: none"> Budget allocations among sectors and atolls Transportation Location of major facilities 	<ul style="list-style-type: none"> Budget allocations among islands for development Atoll development plans Land use planning 	<ul style="list-style-type: none"> Budget allocations for local services Island development plans Water sourcing
3. Production (examples)	Larger infrastructure and services of national importance or serving several atolls. <ul style="list-style-type: none"> Airports Major ports Higher education Major hospitals 	Infrastructure and services covering the atoll or more than one island. <ul style="list-style-type: none"> Sea transport Waste disposal 	Infrastructure and services exclusively serving an island population. <ul style="list-style-type: none"> Roads Electricity Water distribution Community centre

2. Current functions of local administrations

As an indication of the kinds of functions local councils might perform, it is useful to look at what is currently undertaken by island administrations. (See Tables C2 through C5. The data in these tables comes from the *MOAD Survey of Islands and Atolls*, the scope of which is explained in Annex B.

Infrastructure. In terms of infrastructure, most islands already have street lighting (93%) the majority unpaved roads (65%) and harbours (59%), and fewer than half have bridges (40%). Other types of infrastructure, however, are rarely found, such as storm water drainage (4%), landing stages and paved roads (only 1%). Harbours of course are necessary for islands, but paved roads are a low priority, given the small number of vehicles in most islands.

Facilities. Not surprisingly, far and away the most common facility found in the islands are mosques (96%). Funding comes from contributions and central government, although islands are responsible for maintaining them. Far behind are community centres (21%) and recreation facilities (15%), mostly parks and sports fields. Only a handful of islands have meeting halls (4%) or a library (1%), usually

attached to a school. Surprisingly, few islands have provided market places, although many informal sites are to be found, most of them in poor physical structures or simply in the open air.

TABLE C2: INFRASTRUCTURE						
	North		South		Total	
	Number	%	Number	%	Number	%
Roads paved	0	0%	1	5%	1	1%
Roads unpaved	28	60%	16	76%	44	65%
Bridges	16	34%	11	52%	27	40%
Street lighting	42	89%	21	100%	63	93%
Storm water drains	3	6%	0	0%	3	4%
Landing stage	1	2%	0	0%	1	1%
Harbour	26	55%	14	67%	40	59%
Number of islands providing information	47		21		68	

TABLE C3: FACILITIES						
	North		South		Total	
Facility	Number	%	Number	%	Number	%
Market place	5	11%	1	5%	6	9%
Community centre	8	17%	6	29%	14	21%
Meeting hall	3	6%	0	0%	3	4%
Library	1	2%	0	0%	1	1%
Mosque	44	94%	21	100%	65	96%
Recreation facility	10	21%	0	0%	10	15%
Number of islands providing information	47		21		68	

TABLE C4: SERVICES						
	North		South		Total	
Service	Number	%	Number	%	Number	%
Street cleaning	37	79%	15	71%	52	76%
Pre-schools	6	13%	9	43%	15	22%
Literacy programs	4	9%	4	19%	8	12%
Skill training	1	2%	0	0%	1	1%
Emergency support	5	11%	6	29%	11	16%
Loan schemes	7	15%	7	33%	14	21%
Number of islands providing information	47		21		68	

Services. Three out of four islands organise street cleaning, one of the few tasks assigned to women’s committees, and usually performed on a voluntary basis. Not surprisingly, this is a contentious decision and one which might well be changed with the election of local councils. Few islands offer any other kind of services, the most common ones being pre-school programmes (22%) particularly in the south (43%), loan schemes (21%) usually for small enterprises, emergency support (16%) in cases of family distress, and literacy programmes (12%). Skill training provided by island administrations is rare (only 1%), although several NGOs and private institutions may offer simple courses in sewing, secretarial duties or the use of computers.

Public Utilities. With the exception of solid waste disposal, utilities are here defined as services provided directly to buildings, such as homes, shops, other business premises and government institutions. Most islands provide electricity (88%). Water distribution systems are found in less than half the islands (41%). Only 9% of islands collect solid waste from premises, but 21% of islands claim to operate solid waste disposal services, implying that in islands where these operate people are expected to take their rubbish to collection points. “Disposal”, however, usually consists of simply dumping waste in lagoons or the sea. Few islands operate sewerage services (only 6%), most commonly for septic tanks.

With the exception of electricity, which is widely available everywhere, survey results indicate that the provision of utilities in southern islands is clearly inferior to northern islands. Water distribution is available in only 29% of islands in the south versus 47% in the north, solid waste disposal 10% versus 26%, while none of the southern island respondents provide sewerage or solid waste collection versus 9% and 13% in the north.

TABLE C5: PUBLIC UTILITIES							
		North		South		Total	
Functions – Utilities		Number	%	Number	%	Number	%
	Electricity	41	87%	19	90%	60	88%
	Water distribution	22	47%	6	29%	28	41%
	Sewerage	4	9%	0	0%	4	6%
	Solid waste collection	6	13%	0	0%	6	9%
	Solid waste disposal	12	26%	2	10%	14	21%
	Number of islands providing information	47		21		68	

Business Enterprises. Quite a number of islands have established business enterprises in an attempt to generate additional local revenue. Pharmacies appear to be the most popular choice (29%), particularly in the south (48%). Other choices are cafes and restaurants (16%) and guest houses (13%), mainly for visiting government personnel. A few islands run sea transport services (7%), mostly ferry services to Male or sometimes to other islands in the atoll. As might be expected, two of the five islands reporting this kind of enterprise are atoll capitals, Funadhoo in Shaviani and Thinadhoo in Ghaafu Dhaalu.

TABLE C6: BUSINESS ENTERPRISES							
		North		South		Total	
Functions – Business Enterprises		Number	%	Number	%	Number	%
	Guest house	5	11%	4	19%	9	13%
	Café / restaurant	7	15%	4	19%	11	16%
	Pharmacy	10	21%	10	48%	20	29%
	Sea transport	3	6%	2	10%	5	7%
	Number of islands providing information	47		21		68	

3. Potential functions of local councils

The draft *Law on the Management of Island and Atoll Councils* includes a list of infrastructure and services that local councils are authorised to provide. This includes:

- Construction and maintenance of roads in the island
- Garbage disposal in the island
- Repair and maintenance of harbours
- Power, water, sanitation and sewerage system
- Basic services for primary and preventive health care
- Primary and pre-school education
- Recreational facilities
- Social protection centres
- Land allocation in accordance with the island land use plan
- Maintenance of mosques
- Maintenance of historic sites
- Within the limits of Council powers and responsibilities under law, to issue permits and registrations.

Many of these functions are similar to those already performed by local administrative offices of MOAD. Two major additions are responsibility for primary education and primary and preventive health care. However, this is looking more to the future, since it has yet to be agreed by the ministries concerned. Another new task is the maintenance of historic sites, though this likely will apply to only a few islands.

When islands were asked what kinds of new functions and responsibilities they proposed, most respondents mentioned services that their island does not yet provide, but which other islands are already providing. (See Tables C7 through C9.)

New Infrastructure. In terms of infrastructure, only 13 islands proposed new activities, most often for harbours (10%), particularly in the south (14% of 21 respondents), followed by landing stages and slipways (each 3%). Only one island expressed interest in new paved roads, presumably for the reason mentioned earlier, and new street lighting, since most already have it.

New facilities. Respondents expressed only slightly more interest in new facilities, 19 in all, mostly for recreation facilities (10% of respondents), particularly in the south (14%), marketplaces (7%) and community centres (6%). Only two islands proposed

new libraries, perhaps because few books are available in the Dhivehi language and few people outside Male understand other languages. No one proposed a new mosque, since nearly all islands are already adequately served.

TABLE C7: NEW INFRASTRUCTURE						
	North		South		Total	
	Number	%	Number	%	Number	%
New Roads paved	0	0%	1	5%	1	1%
New Roads unpaved	0	0%	0	0%	0	0%
New Bridges	0	0%	0	0%	0	0%
New Street lighting	1	2%	0	0%	1	1%
New Storm water drains	0	0%	0	0%	0	0%
New Landing stage	2	4%	0	0%	2	3%
New Harbour	4	9%	3	14%	7	10%
New slipway	2	4%	0	0%	2	3%
Total	9		4		13	
Number of islands providing information	47		21		68	

TABLE C8: NEW FACILITIES						
Facility	North		South		Total	
	Number	%	Number	%	Number	%
New Market place	2	4%	3	14%	5	7%
New Community centre	3	6%	1	5%	4	6%
New Meeting hall	1	2%	0	0%	1	1%
New Library	2	4%	0	0%	2	3%
New Mosque	0	0%	0	0%	0	0%
New Recreation facility	4	9%	3	14%	7	10%
Total	12		7		19	
Number of islands providing information	47		21		68	

New public utilities. Islands expressed much greater interest in providing new public utilities, a total of 62 proposals. The reasons are not hard to imagine. The need is great, they are regarded as higher priorities than other kinds of functions, and some have the potential to generate substantial revenue and possibly profits. Islands proposed sewerage most often (35% of 68 respondents), probably because only 6% of islands provide this at present (see Table C5), followed by water distribution (26%). Solid waste collection and disposal were proposed by 10% and 7% of islands respectively. Apart from electricity and solid waste disposal, demand expressed by southern islands was 30% – 50% higher than in northern islands, no doubt reflecting the inferior state of public utilities there.

TABLE C9: NEW PUBLIC UTILITIES						
Functions - New utilities	North		South		Total	
	Number	%	Number	%	Number	%
New Electricity	8	17%	0	0%	8	12%
New Water distribution	11	23%	7	33%	18	26%
New Sewerage	15	32%	9	43%	24	35%
New Solid waste collection	4	9%	3	14%	7	10%
New Solid waste disposal	5	11%	0	0%	5	7%
Total	43		19		62	
Number of islands providing information	47		21		68	

None of the islands mentioned taking on any new services for health and education, as proposed in the draft legislation, or any other new responsibilities of significance. It should be kept in mind, however, that the people completing the survey questionnaire were staff of local administrations, not future elected councillors, who may have different ideas.

Many island respondents, however, did propose a wide variety of new business enterprises, but this is discouraged in the draft legislation for good reasons. The track record of these enterprises is patchy at best. Although intended to generate additional local revenue through profits, many instead lose money requiring subsidies to keep them going. (See section D2 below.)

D. FISCAL RESOURCES FOR LOCAL GOVERNMENT

1. Categories of fiscal resources

Fiscal resources for local councils may be considered in terms of five broad categories:

- Revenue generated locally, also known as own-source revenues
- Revenue shared with central government
- Grants transferred from central to local government
- Loans
- Spending by central government in the jurisdiction of the local government unit.

Locally generated revenue. The principle sub-categories of locally generated revenue include taxes, fees, licenses, user charges, rents, business profits and other income. At present, local administrations generate very little revenue of their own, mainly from licenses and user charges, sometimes from rents and business enterprises. The mix and the amount generated varies widely from one island to another, depending partly on population, the extent of economic activity and the initiative of local administrators.

The draft *Law on the Management of Island and Atoll Councils* authorises local councils to levy a somewhat arbitrary miscellany of fees, licenses, user charges and

rents, with little indication of any principles guiding the list of items authorised. One significant omission is a reference to local taxes of any sort, although in other countries taxes on property and commercial sales are sometimes a major source of local government revenue. The draft law is also ambiguous about whether central government or the local council has the authority to set the amount or fees, licenses and charges.

Revenue sharing. Conceptually, this refers to revenue that accrues to either central or local government and which is shared between them according to proportions either set by central government or negotiated between both parties. In the Maldives at present, atolls receive a proportion of revenue from four sources: commercial properties owned by atolls but located in Male, leases on industrial premises in inhabited islands, boat licenses and revenue from uninhabited islands.

Draft legislation leaves open the possibility of sharing revenue from other sources as well. Although the draft does not name them specifically, it has been suggested that atolls should receive a share of revenues derived from resorts, which is the single largest source of revenue for the central government. Even a small share from this source would represent a big increase in income for local councils. The proposed legislation even stipulates a maximum of 40% of the revenues concerned to be shared with the entity that is not responsible for generating the revenue, in other words a minimum of 60% to be retained by the entity that initiates the revenue.

Table D1: Current and proposed proportions of shared revenue				
Current sources of shared revenue	Current shares		Proposed maximum share	
	Centre	Atolls	Centre	Atolls
Commercial property leases in Male*	50%	50%	40%	100%
Industrial leases from inhabited islands	10%	90%	40%	100%
Boat licenses	50%	50%	40%	100%
Rent from uninhabited islands*	50%	50%	40%	100%

* Assuming these are treated as revenues generated by the atoll

The shares stipulated have two implications. One is that current arrangements will need to be revised, as indicated in Table D1. Assuming leases and rents from Male properties and uninhabited islands are treated as revenue generated by the atoll, central government shares from three of the four sources will have to be reduced by at least 10%, meaning more revenue for local councils. On the other hand, the centre's share of revenue from the fourth source, industrial leases, could be increased, though this seems unlikely. It also seems highly unlikely that central government would agree to share as much as 40% of any resort revenue with local councils.

The second implication is that shared revenues would no longer be retained entirely by atolls, but some part would have to be passed on or paid directly to island councils. This would not necessarily harm atolls, since they would also be released from supporting island administrations. But it would mean larger resources at the disposal of island councils.

Grants. Despite the lengthy debate about the scope for increasing locally generated revenue and increasing the local proportion of shared revenues, at the end of the day the bulk of local council income will probably have to come from central government grants. This is true not only for the Maldives but most unitary states for two reasons. Local governments, and especially very small units to be created in the Maldives, simply do not have sufficiently large populations or local economies to support government administrations and the range of public services that constituents demand. Also, central government needs to maintain control over public spending as one means to steer the national economy, and their ability to do this is weakened if local governments command too large a share of public resources.

Central government grants for local councils basically comprise two types. Block grants may be designated for general budgetary support or more narrowly for development purposes only. Specific grants are usually designed to finance recurrent expenditures associated with specific facilities such as schools or health clinics or related budget items such as staff salaries or supplies and equipment. The topic has already been discussed in general terms elsewhere in Discussion Papers No 1 (*Concept Note on Local Government Reform*) and No 2 (*Financing Local Councils*) and need not be repeated here. However, Annex C in this paper takes a closer look at block grants and the criteria and formulae for allocating resources among local councils.

Loans. As mentioned earlier, the draft *Law on the Management of Island and Atoll Councils* also authorises local councils to seek loans from commercial banks and other financial institutions both national and international. The purpose of the loan is specifically restricted to financing elements of development plans or “achieving development goals”. While they may be authorised to do this, it is unlikely that any council would be able to obtain such a loan at least for the foreseeable future. Banks are generally wary of lending to local government, and would be especially cautious about lending to small newly established units with minimal resources of their own and little track record to demonstrate competence in controlling costs and balancing budgets. Some countries require state institutions to lend to local government but this is not a practice to be recommended. The draft law also allows one council to borrow from another, but again this seems highly unlikely given the limited resources they have to work with. If a council should have surplus funds, they are more likely to deposit them in a bank, rather than tie them up in a loan which may be hard to collect at short notice.

Sectoral spending. One additional source of public funds that should not be overlooked is spending by sectoral agencies of central government in each council jurisdiction, which in the aggregate may in some cases be substantial. Information on this is usually difficult to obtain, since sectoral agencies normally organise their budgets according to expenditure items not geographic locations or local council jurisdictions. Local councils would no doubt like to obtain such information and according to responses from the MOAD survey some island administrations are able to get it for certain services. But this mainly relates to specific institutions such as schools, health centres and the like. A comprehensive inventory of sectoral spending in each island would require extensive research.

However, these funds are not available to local councils and do not form part of their budgets. As such, they are not considered further in the present discussion of fiscal resources for local councils.

2. Current fiscal resources for atolls and islands

As indicated above, the fiscal resources currently available to atoll and island administrations come from three sources: locally generated revenues, revenues shared with central government and transfers from central government. At present the only source for the third category is MOAD, which provides funds for local administrative offices.

Data on the second and third source is available from the Department of Inland Revenue and MOAD. Data on locally generated revenues is more difficult to obtain. These revenues accrue to community accounts, which until recently were held with the Bank of Maldives in Male and administered by MOAD on behalf of each community. However, compiling information from these accounts is difficult for several reasons. Many island accounts have now been transferred to bank branches in the atolls. MOAD maintains information in manual ledgers which have yet to be computerised, and they do not reflect total revenues or expenditures, since some income is retained in island or atoll offices as cash for routine transactions.

Instead, this report relies on information provided by islands in the recent MOAD survey. Since this information is far from complete, the results shown in the following tables are based on extrapolations from survey samples. The reliability of the results is proportional to the size of the sample, which in some cases is far smaller than is necessary for more accurate results.

a) Locally generated revenues

TABLE D2: CURRENT SOURCES OF LOCALLY GENERATED REVENUE								
	Islands providing info	Taxes	Fees	Licenses	User charges	Rents	Business revenue	Other
North	35							
No items charged		1	1	17	31	22	8	4
No islands charging		1	1	17	27	15	6	3
% islands charging		3%	3%	49%	77%	43%	17%	9%
South	16							
No items charged		0	5	8	17	9	4	7
No islands charging		0	3	8	14	6	4	4
% islands charging		0%	19%	50%	88%	38%	25%	25%
Total	51							
No items charged		1	6	25	48	31	12	11
No islands charging		1	4	25	41	21	10	7
% islands charging		2%	8%	49%	80%	41%	20%	14%

Current sources of locally generated revenues may be discussed under seven categories: taxes, fees, licenses, user charges, rents, business profits and other revenue. Table D2 indicates the relative frequency with which islands depend on different types of locally generated revenue. Much the most common are user charges, which 80% of islands charge. About half the islands depend on revenue from licenses of one kind or another, 41% on rents from land and property, 20% on revenue from business enterprises and 14% on other sources. Less common are fees (levied in only 8% of islands). Only one island, Kandhoo in Noonu atoll, claims

to charge a tax, on agriculture, though the nature of the tax was not specified. Islands in the South rely more on business revenue, user charges, fees and licenses, while those in the North make wider use of rents, perhaps because the potential income from this source is greater there.

Estimates of per capita revenue from some of these sources are shown in Table D3. The figures reflect only those islands that derive revenue from these sources and only those among that group that provided information. Since many islands do not generate revenue from these sources, the figures should not be taken as typical for all islands.

TABLE D3: ESTIMATES OF CURRENT REVENUE FROM LOCAL SOURCES					
Source	Number of islands reporting	Average revenue per island (Rp)	Revenue per capita (Rf)		
			Island Average	Reported Max	Reported Min
Business licenses	20				
Year 2004		12,562	15	46	2
Year 2005		14,015	16	48	2
Change %		12%			
User charges - electricity	34				
Year 2004		532,295	834	2,911	67
Year 2005		656,594	1,018	4,037	94
Change %		23%			
Rents from land	19				
Year 2004		10,459	22	140	0.14
Year 2005		10,310	18	73	0.15
Change %		-1%			
Rents from property	7				
Year 2004		78,526	22	57	3
Year 2005		112,090	28	63	2
Change %		43%			
Business enterprises	8				
Year 2004		733,127	239	801	1
Year 2005		865,904	282	944	4
Change %		18%			
Agriculture and fishing	9				
Year 2004		761,481	1,622	10,218	1
Year 2005		1,093,579	2,390	12,504	1
Change %		44%			

As the figures show, the revenue which islands currently generate from these sources varies greatly. Among the 20 islands reporting data on business licenses, the average per capita revenue in 2005 was around Rf 16, but ranged from a low of Rf 2 to a high of Rf 48. Likewise, average revenue from land rents in 2004 was Rf 18, but varied from almost nothing to Rf 140, while the average from property rents was Rf 22, stretching from Rf 3 to Rf 57.

The largest revenues reported for 2005 were from business ventures in agriculture and fishing, Rf 2,350 per capita, from user charges for electricity, Rf 1018, and from business enterprises, Rf 282. Revenue from all three sources increased sharply from the year before, up 44%, 23% and 18% respectively. However, these are gross revenues and do not take into account expenditures incurred in running these operations. Net revenues are examined below.

The wide variation in revenues from each source needs explaining. It is clearly not related to size of population in an island, since the figures are based on per capita amounts. Instead, it has more to do with the level of business activity, the scale of business enterprises, the size of community holdings of land and property which are rented, and in the case of user charges from the amount charged for use. Perhaps the single most important factor is the extent to which communities capture opportunities for generating revenue from these sources, an issue which is taken up later in the discussion on potential revenues.

Since these local revenues are supposedly intended to generate income for island communities, it might be expected that the revenues accrue to them. Usually this is the case, most often to the IDC and sometimes to the island office. However, this is not always the case. As Table D4 shows, revenue in many instances is destined for other parties. (The figures in the table refer to the destination of revenues not the percentage of revenue received by different entities from each source.) In some cases revenue is shared with the atoll, with private investors or a national government entity. The destination of revenues from business licenses is particularly confused. Informants report variously that islands send this to the Ministry of Trade, that the Ministry eventually returns the revenue to the island, and that islands simply keep the revenue.

TABLE D4: DESTINATION OF LOCAL REVENUES						
Source of revenue	Number of islands reporting	Island office	IDC	Utility operator	Other parties	All parties
Business licenses	20	14%	48%	5%	33%	100%
User charges – electricity	34	0%	78%	19%	3%	100%
Rents from land	19	21%	53%	0%	26%	100%
Rents from property	7	0%	88%	0%	13%	100%
Business enterprises	8	0%	50%	50%	0%	100%
Agriculture and fishing	9	0%	38%	50%	13%	100%

Revenues from public enterprises. Almost all islands operate a public enterprise of some sort, usually for electricity, sometimes for water distribution, and often a business concern. Community goals for public utilities vary. Some islands aim merely to cover their costs, some consider they should be subsidised since unit costs are expensive for consumers, and yet others aim to make a profit from them. Public enterprises operated by islands, however, are clearly intended to make a profit in order to supplement local revenue.

TABLE D5: PROFITABILITY OF UTILITIES AND ENTERPRISES			
Year 2005	North	South	Total
Public Utilities			
Number	30	14	44
Profitable	17	6	23
% profitable	57%	43%	52%
Business Enterprises			
Number	9	4	13
Profitable	8	2	10
% profitable	89%	50%	77%

A key question then is the extent to which these public enterprises are in fact profitable. As Table D5 shows, the situation is decidedly mixed. Of the 44 public utilities for which islands reported information, only 52% made a profit in the year 2005. Even granting that some utilities may need to be subsidised, particularly in islands with small populations, this indicates many are not covering their costs either through poor management or because user charges are set too low. The situation among profit-seeking business enterprises is better but not as good as it should be. Of 13 enterprises reported, 10 or 77% made a profit in 2005, meaning nearly one in four required scarce local funds to keep going. Subsidies and losses represent a drain on limited island budgets. If these were reduced, savings could be used to expand services to those that do not already have access or put to better use elsewhere.

Electricity utilities. A particularly important component of locally generated revenues are those to be derived from electricity utilities. Almost all islands operate them, but as shown in Table D6, less than half (43%) of the 30 reported made a profit in 2005, while most are losing money. The situation has no doubt become even worse since the price of oil has risen further. While the majority were losing money, in the aggregate they managed on average a small profit of 1.7% or Rf 25 per capita.

What is particularly striking about these utilities is the range of profits and losses. At one extreme the utility in Kudhafari island of Noonu atoll was able to make a 44% profit on operations or Rf 680 per capita, while at the other extreme the utility in Dharavandhoo island in Baa atoll lost Rf 376 per capita. Again, the size of the island's population is not related to profitability. Even Fehendhoo in Baa atoll with a population of 114 managed to cover its costs (1% profit), and tiny Thinadhoo in Vaavu atoll with only 55 people actually made a respectable 9% profit or Rf 359 per capita. Compared with other sources of locally generated revenue, electricity utilities

have the potential to create substantial additional funds or to become a major drain on resources. Efficient management and appropriate pricing for these utilities are therefore key factors in efforts to increase local revenues.

TABLE D6: PROFITABILITY OF ELECTRICITY UTILITIES (Year 2005)	
Variable	Figure
Number of reported cases	30
Number of utilities making a profit	13 (43%)
Number of utilities making a loss	17 (57%)
Average Income (Rp)	642,697
Average Expenditure (Rp)	632,181
Average profit / loss (Rp)	10,516
Average % profit or loss	1.66%
Maximum % profit	44%
Maximum % loss	-23%
Average per cap revenue (Rp)	25
Maximum per cap revenue (Rp)	680
Minimum per cap Revenue (Rp)	-376

b) Shared revenues

As mentioned earlier, central government and local administrations currently share revenues from four sources indicated in Table D7. The two largest sources of shared revenues are from commercial properties owned by atolls but located in Male (60% of the total in 2005), and leases on industrial premises in inhabited islands (27%). Lesser amounts come from boat licenses (10%) and revenue from uninhabited islands (only 4% of the total).

Local administrations receive a 50% share of these revenues, with the exception of industrial leases from inhabited islands, from which they get 90%. After applying these percentages, the most important source of shared revenue for local administrations are rents from Male properties (49%), followed by Industrial leases (39%).

Distribution among atolls. It should be noted that many people loosely refer to these revenues as being shared with islands, whereas in fact the recipients are atoll administrations. In practice, no matter who collects these revenues, they accrue to the Department of Inland Revenue of the central government, who record the amounts originating from each source, including industrial leases and boat licenses in each island. After deducting certain costs and refunds to which payers are entitled, Inland Revenue calculates the aggregate shares due to each atoll and transfers these funds to MOAD, who passes them on to respective atolls. According to knowledgeable informants, atolls treat these funds as general revenue and are not required to pass on any part to the islands that may have generated the revenue in the first place.

TABLE D7: COMPOSITION OF CENTRAL REVENUES SHARED WITH ATOLLS (2005)

Source	Total (Rf)	% total	Atoll share	Atoll amount	% atoll total
Rent from uninhabited islands	773,593	4%	50%	386,797	3%
Industrial leases from inhabited islands	5,340,610	27%	90%	4,806,549	39%
Male properties	11,969,578	60%	50%	5,984,789	49%
Boat fees	1,986,730	10%	50%	993,365	8%
Total	20,070,511	100%	61%	12,171,500	100%

Table D8: Distribution of shared revenues among atolls

Atoll	Amount 2005 (Rf)	% Total	Population 2006	Per capita (Rf)	Per capita index
Vaavu atoll	440,790	4%	1,504	293	4.43
Kaafu atoll	1,722,380	14%	9,475	182	2.75
Dhaalu atoll	425,030	3%	4,671	91	1.37
Seenu atoll	1,580,983	13%	17,762	89	1.34
Alif alif atoll	429,118	4%	4,841	89	1.34
Meemu atoll	383,810	3%	4,654	82	1.25
Faafu atoll	284,819	2%	3,624	79	1.19
Thaa atoll	605,397	5%	8,536	71	1.07
Alif Dhaalu atoll	459,817	4%	6,906	67	1.01
Baa atoll	590,045	5%	8,876	66	1.00
Noonu atoll	621,122	5%	10,080	62	0.93
Lhaviyani atoll	474,050	4%	8,226	58	0.87
Shaviyani atoll	659,984	5%	11,814	56	0.84
Gaafu dhaalu atoll	609,916	5%	11,023	55	0.84
Gaafu alif atoll	433,066	4%	7,977	54	0.82
Gnaviyani atoll	341,652	3%	7,528	45	0.69
Raa atoll	586,299	5%	14,639	40	0.61
Haa alif Atoll	518,603	4%	13,272	39	0.59
Haa dhaalu atoll	624,672	5%	16,439	38	0.57
Laamu atoll	379,901	3%	12,018	32	0.48
Total	12,171,455	100%	183,865		1.00
Average	608,573		9,193	79	
			Maximum	293	
			Minimum	32	

Given the method by which shared revenues due to each atoll are computed, the resulting distribution of aggregate revenues among atolls varies widely. (See Table E2.) While the average revenue from all shared sources combined was Rf 79 per capita, the actual amount per capita received ranged from a low of only Rf 32 for Laamu atoll to a high of Rf 293 for Vaavu atoll, nearly ten times as much. Clearly the current method of sharing revenues heavily favours atolls that possess a large number of industries and own prime real estate in Male.

c) Central government funds (MOAD)

In addition to locally generated revenues and shared revenues, islands and atolls also currently receive funds from MOAD. In 2006, these funds totalled Rf 178 million (US\$ 14 million) for local administration. (See Tables D9 and D10.) Of this total, 96% were for recurrent expenditures and only 4% for capital expenditures, entirely for furniture, equipment and office communications. No part of this was intended for development expenditures, although MOAD has its own separate budget for this purpose, all of which is managed by MOAD itself, not the island and atoll administrations. (See section D.3.c.)

TABLE D9: RECURRENT AND CAPITAL EXPENDITURE 2006			
Item	Recurrent	Capital	Total
Amount Rf	171,595,076	6,332,007	177,927,083
Percent total	96%	4%	100%

Table D10: Distribution of MOAD funds among Atolls					
Atoll	Amount 2006 (Rf)	% Total	Population 2006	Per capita (Rf)	Index
Vaavu	4,420,100	2%	1,504	2939	2.56
Faafu	6,453,860	4%	3,624	1781	1.55
Meemu	6,755,231	4%	4,654	1451	1.26
Dhaalu	7,374,579	4%	4,671	1579	1.37
Alifu Alifu	6,716,379	4%	4,841	1387	1.21
Alifu Dhaalu	8,088,967	5%	6,906	1171	1.02
Gnaviyani	5,539,116	3%	7,528	736	0.64
Gaafu Alifu	9,099,868	5%	7,977	1141	0.99
Lhaviyani	6,139,250	3%	8,226	746	0.65
Thaa	10,195,885	6%	8,536	1194	1.04
Baa	9,309,431	5%	8,876	1049	0.91
Kaafu	8,361,303	5%	9,475	882	0.77
Noonu	10,635,442	6%	10,080	1055	0.92
Gaafu Dhaalu	10,117,304	6%	11,023	918	0.80
Shaviyani	14,038,695	8%	11,814	1188	1.03

Atoll	Amount 2006 (Rf)	% Total	Population 2006	Per capita (Rf)	Index
Laamu	10,783,731	6%	12,018	897	0.78
Haa Alifu	11,089,795	6%	13,272	836	0.73
Raa	10,439,414	6%	14,639	713	0.62
Haa Dhaalu	12,099,155	7%	16,439	736	0.64
Seenu	10,269,578	6%	17,762	578	0.50
Total	177,927,083	100%	183,865		1.00
Average	8,896,354		9,193	1,149	
			Maximum	2,939	
			Minimum	578	

MOAD funds are disbursed to their atoll offices, which then pass on some part to island offices to cover their administrative costs.

This funding represents far and away the largest source of revenue for atolls and islands. The total amount of Rf 178 million (Table D9) results in an average amount of Rf 8.9 million (US\$ 700,000) for each of the 20 atolls or Rf 1,149 per capita, which compares with only Rf 79 per capita for aggregate shared revenues (Table D8).

To some extent the allocation of MOAD funds among atolls is related to the size of population but not proportionate to it. Generally speaking, atolls with larger populations receive larger allocations. Seenu, for example, which has the largest population with nearly 18,000 gets 6% of the total, while Vaavu with the smallest with only 1,504 gets 2% of the total. However, as with shared revenues, the distribution of MOAD funds among atolls varies widely when compared on a per capita basis. The figures for individual atolls range from a low of Rf 578 per capita for Seenu to a high of Rf 2939 for Vaavu, which also received the highest per capita distribution of shared revenues (Table D8). In allocating funds, MOAD takes into account a base amount for certain fixed costs, which are similar for all atolls, and variable costs proportionate to population. The resulting per capita distribution evidently works in favour of islands with smaller populations.

d) Estimates of total current revenues

Table D11 presents an approximate estimate of current revenues available to atolls based on the preceding analyses. While information on shared revenues and MOAD funding is complete and presumably accurate, figures for locally generated revenues cover only those items that could be estimated from information provided by survey respondents. While net profits or losses vary widely, the average is used for estimates of the typical situation in most islands. Some additional revenue may be derived from other public utilities, chiefly water distribution, but probably not much if the pattern is similar to electricity. Net revenue from business enterprises may be significant for some islands, but is ignored here since data from the small sample of reported cases is too inconsistent to provide a guide, and many islands derive little or no revenue from this source.

Despite these limitations, one conclusion is clear. Atolls depend on central government (MOAD) for most of their revenue, estimated here to be in the order of 85 to 90% of the total. This is consistent with the situation in many other lower income unitary states. In the Maldives, the remainder comes in equal parts from locally generated revenues and shared revenues (about 6% each). Assuming islands get little or no part of shared revenues, they will be even more dependent on central government, probably for as much as 95% of their total budget.

Table D11: Estimated current revenues for atolls			
Source	Average revenue per capita	Subtotal	Percent total
Locally generated revenues (2005)		87	7%
Taxes	0		
Fees	0		
Business Licenses	16		
User charges from electricity (net revenue)	25		
Rents			
From land	18		
From property	28		
Business revenue (ignored)			
Shared revenues (2005)		79	6%
Rent from uninhabited islands (50%)	2		
Industrial Leases (90%)	26		
Male properties (50%)	45		
Boat fees (50%)	7		
MOAD (2006)		1,149	88%
Recurrent	1,107		
Capital	42		
Total		1,315	100%

3. Potential resources for local councils

Once local councils are established, they will not only require additional funding to cover the extra costs of supporting the new councils, but they will also no doubt be keen to increase revenue to fund new activities.

Cost of new councils. The estimated cost of new councils is shown in Table D12. Islands with a population less than 2000 are to have five council members and those with more than 2000 seven members. The monthly allowance for the Chairperson of the council is to be Rf 7000, for the Vice Chair Rf 5000 and for other members Rf 2500. In addition, some provision will have to be made for supporting staff, additional administrative costs, travel and accommodation costs, assumed here for the purposes of the calculation to be 25% of the cost of the council members.

Table D12: Estimated costs of new local councils							
Atoll	MOAD funding 2006 (Rf)	Cost of councillors	Associated administrative costs (25%)	Total cost	Council costs as % MOAD funding 2006	2006 MOAD support per cap (Rf)	Per cap cost of council (Rf)
Haa Alifu	11,089,795	3,690,000	922,500	4,612,500	42%	836	348
Haa Dhaalu	12,099,155	3,804,000	951,000	4,755,000	39%	736	289
Shaviyani	14,038,695	3,510,000	877,500	4,387,500	31%	1,188	371
Noonu	10,635,442	3,042,000	760,500	3,802,500	36%	1,055	377
Raa	10,439,414	3,336,000	834,000	4,170,000	40%	713	285
Baa	9,309,431	3,102,000	775,500	3,877,500	42%	1,049	437
Lhaviyani	6,139,250	1,290,000	322,500	1,612,500	26%	746	196
Kaafu	8,361,303	2,106,000	526,500	2,632,500	31%	882	278
Alifu Alifu	6,716,379	1,872,000	468,000	2,340,000	35%	1,387	483
Alifu Dhaalu	8,088,967	2,340,000	585,000	2,925,000	36%	1,171	424
Vaavu	4,420,100	1,170,000	292,500	1,462,500	33%	2,939	972
Meemu	6,755,231	1,872,000	468,000	2,340,000	35%	1,451	503
Faafu	6,453,860	1,170,000	292,500	1,462,500	23%	1,781	404
Dhaalu	7,374,579	1,638,000	409,500	2,047,500	28%	1,579	438
Thaa	10,195,885	2,808,000	702,000	3,510,000	34%	1,194	411
Laamu	10,783,731	2,868,000	717,000	3,585,000	33%	897	298
Gaafu Alifu	9,099,868	2,400,000	600,000	3,000,000	33%	1,141	376
Gaafu Dhaalu	10,117,304	2,400,000	600,000	3,000,000	30%	918	272
Gnaviyani	5,539,116	1,872,000	468,000	2,340,000	42%	736	311
Seenu	10,269,578	1,584,000	396,000	1,980,000	19%	578	111
Total	177,927,083	47,874,000	11,968,500	59,842,500	34%		
Average	8,896,354	2,393,700	598,425	2,992,125		1,149	379

Based on these numbers, the total annual cost of the new councils is estimated to be around Rf 60 million. This represents 34% or one third of total MOAD support for local administrations in 2006. Among atolls, the cost of new councils varies from a low of 19% of MOAD support for Seenu in 2006 to a high of 42% for Baa, Gnaviyani and Haa Alifu. Although Gnaviyani only has one island, it will be split into 8 wards, which partly accounts for the high relative cost there. In terms of per capita costs the average for all atolls is Rf 379, but it ranges from a low of Rf 111 in Seenu to a high of Rf 972 for Vaavu, nearly nine times higher. This is explained almost entirely by the size of atoll population. The burden on atolls with smaller populations is clearly higher than for atolls with larger populations.

The burden on atolls and islands is explored further in Table D13. This expresses costs in per capita terms to make it easier to compare with actual and potential revenues discussed elsewhere. For 7 of the 20 atolls (35%), per capita costs will be less than Rf 250, while twelve atolls (60%) will face costs in the range of Rf 250 – 500. As just mentioned, the figure for Vaavu will be close to Rf 1000.

Table D13: Range of per capita costs of councils for atolls and islands				
	Atolls		Islands	
Per capita cost range	Number	% total	Number	% total
Less than Rf 250	7	35%	47	23%
Rf 250 - 499	12	60%	62	31%
Rf 500 - 749	0	0%	43	21%
Rf 750 - 999	1	5%	17	8%
Rf 1000 - 1499	0	0%	17	8%
More than Rf 1500	0	0%	15	7%
Total	20	100%	201	100%

More to the point, though, are the per capita costs faced by individual island councils, since they will actually have to pay the bill. Due to the small populations of many islands, these figures generally range much higher. Some 23% of all islands (47) face costs under Rf 250, 31% in the range between Rf 250 and 500, and another 21% in the range between Rf 500 to 750. However, 49 islands (almost one in four) will face even higher costs, 15 of them above Rf 1500 per capita. The worst case is Thinadhoo island in Vaavu with a tiny population of only 55, where costs work out at Rf 5318 per inhabitant.

Even though central government has indicated they will provide funds to local councils to cover these costs, constituents in islands facing such high per capita costs may well question the cost-effectiveness of a local council for their island and wonder whether the money might be better spent in other ways, particularly on improving public services.

Either way, the added cost of local councils, particularly in islands with small populations, merely serves to underline the importance of increasing revenue from all sources to enable them to carry out their mandate and responsibilities.

a) Own source revenues

When asked to propose new ways of increasing locally generated revenues, survey respondents mentioned a wide variety of options. Some of these are mentioned in the draft *Law on the Management of Island and Atoll Councils* and some are already being applied in a few places. (See Table D14.)

Proposals mentioned most often were a tax on local sales (55% of respondents), fees for the use of marketplaces (48%), and fees for harbour anchorage (45%). Other favoured proposals included user charges for the collection and disposal of solid waste (38%), and a tax (or charge) on real property (38%), which is common in many other countries. Less often mentioned were user charges for piped water

(24%), perhaps because many islands currently depend on wells, and for sewerage (only 7%), again because few islands envisage providing such a service. There was also little interest in two items mentioned in proposed legislation: rents for the use of agriculture land (19%) and fees for the use of diving sites (14%), perhaps because few islands can offer such facilities.

While northern and southern islands were generally in agreement, the north was much more interested in service charges for water (32% versus 7%), sewerage (11% vs 0%), and solid waste (43% vs 29%).

TABLE D14: PROPOSED SOURCES OF LOCALLY GENERATED REVENUE										
	Islands providing info	Sales tax	Property tax	Water	Sewerage	Solid waste collection	Fees for market place	Fees for diving sites	Fees for harbor anchorage	Rents from land for agriculture
North total	28									
No of islands proposing		15	10	9	3	12	13	5	12	5
Proportion of islands proposing		54%	36%	32%	11%	43%	46%	18%	43%	18%
South	14									
No of islands proposing		8	6	1	0	4	7	1	7	3
Proportion of islands proposing		57%	43%	7%	0%	29%	50%	7%	50%	21%
Total	42									
No of islands proposing		23	16	10	3	16	20	6	19	8
Proportion of islands proposing		55%	38%	24%	7%	38%	48%	14%	45%	19%

Estimates of potential revenue from some of these sources are shown in Table D15. These are based in part on information from the survey and in part on a number of assumptions. In most cases, the estimates are averages for the group of islands that provided useable information. Projected amounts for individual islands would obviously depend on the particular characteristics of each island.

Far and away the most promising source of revenue is a tax or charge on real property. Even a modest flat fee of Rf 100 per month, or an equivalent tax, could yield an average of Rf 303 per year. This is one of the reasons why property taxes are so widely levied in other countries. However, the charge should be commensurate with the level of public services provided in the island. Another useful potential source of local revenue is a tax on shop sales. A tax of 1% might yield average annual per capita revenue of Rf 80, assuming a daily turnover of Rf 1000 per shop.

Table D15: Estimates of potential revenue from new sources					
Revenue source	Basis	Assumptions	Tax or Charge (Rf)	Gross revenue per cap (Rf)	Net revenue per cap (Rf)
Sales tax	Shops sales	Turnover per day: Rf 1000	1%		80
Property fee	All properties	Flat fee per month Rf	100		303
User charges					
Water	Litres consumed	Average 100 litres per day per property	0.05	325	33
Solid waste	All properties	Flat fee per month Rf	20	65	7
Market place	Stall holders	Weekly markets Rf	20		26
Harbour fee	Vessels	Flat fee per month Rf	100		25

Other sources would probably yield much less revenue, but as indicated in Table D3, amounts vary greatly from one island to another. For example, a user charge for water of Rf 0.05 per litre, assuming only partial coverage of households, typically might yield annual revenues of Rf 325 per capita or net revenue of Rf 33, assuming competent management achieving a 10% profit margin. Amounts could be greater with broader coverage of households and other users. However, reported data suggests that annual net revenue from a solid waste collection service would be much lower, perhaps only Rf 7. Fees charged to stall holders for the use of a weekly marketplace might raise annual per capita revenue of Rf 26 and fees for harbor anchorage perhaps another Rf 25 per year.

b) Shared revenues

Current shared revenues. As mentioned earlier in Section D.1, the draft *Law on the Management of Island and Atoll Councils* proposes a change in the proportions that local councils are to receive from revenues shared with central government. The implications for current shared revenues are spelt out in Table D17. Current aggregate annual per capita revenue for atolls from these sources amounts to Rf 79. Assuming a worst case scenario for atolls in which shares are changed according to the maximums and minimums mentioned in the legislation, then atoll shares of rent from uninhabited islands, Male properties and boat licenses would be increased from 50% to 60%, and the share from industrial leases would be reduced from 90% to 60%. The net result would be almost neutral, yielding a modest increase for atolls of only Rf 2 for a total of Rf 81. Of course, many other scenarios are possible, but all of them would yield better results for atolls.

Proposed revenue sharing. Survey respondents were also asked for proposals for current and new sources of shared revenues. (See Table D16.) Most proposals implied increasing the shares atolls receive from current sources. Curiously, the most frequently mentioned proposals related to vehicle (92% of respondents) and boat licenses (also 92%), neither of which are likely to be significant sources of income. Boat licenses at present yield only Rf 7 per capita per annum and even doubling the share to 100% would not make much difference. Income from vehicle licenses would be even less, given the small number to be found in most islands.

Table D16: Revenue sharing as implied in draft legislation					
Source	Rent from uninhabited islands	Industrial Leases	Male properties	Boat licenses	Total
Net revenue shared (Rf)	773,593	5,340,610	11,969,568	1,986,650	20,070,421
Current atoll share (%)	50%	90%	50%	50%	
Amount to atolls (Rf)	386,797	4,806,549	5,984,784	993,325	12,171,455
Avg amount / atoll (Rf)	19,340	240,327	299,239	49,666	608,573
Avg atoll per capita (Rf)	2.10	25.99	44.69	6.59	79
Revised atoll share (%)	60%	60%	60%	60%	
Revised avg atoll per cap (Rf)	2.52	17.32	53.63	7.91	81
Change	0.42	-8.66	8.94	1.32	2.01

Most proposals concerning new sources of revenue sharing were for a tax (62%) or fee (69%) on hotel rooms, obviously with an eye to capturing some part of the massive revenues that form the central government's main source of income. In both cases, northern islands mentioned this more often than southern islands, probably because the potential is seen as greater in the north.

TABLE D17: PROPOSALS FOR REVENUE SHARING								
	Islands providing info	Hotel Tax	Hotel fee	Vehicle license	Boat licenses	Commercial premises	Land for industry	Land for commerce
North total	6							
No of islands proposing		4	5	6	5	2	3	4
Proportion of islands proposing		67%	83%	100%	83%	33%	50%	67%
South	7							
No of islands proposing		4	4	6	7	5	3	3
Proportion of islands proposing		57%	57%	86%	100%	71%	43%	43%
Total	13							
No of islands proposing		8	9	12	12	7	6	7
Proportion of islands proposing		62%	69%	92%	92%	54%	46%	54%

Hotel levies. An estimate of the potential revenue to be derived from a tax or fee on hotel rooms is shown in Table D18. Assuming a daily charge of Rf 500 per room for a typical island hotel, not a resort hotel, and a 5% tax on room sales, annual revenue

per room amounts to Rf 9125. A room charge of Rf 25 per room per day would achieve the same revenue. Assuming further a daily occupancy of 10 rooms in an island, total annual revenue would amount to Rf 91,250. If this is split 50 / 50 with central government, the island would receive some Rf 46,000 per year, equivalent to an average of Rf 53 per capita. Estimates of potential per capita revenue for individual islands would obviously depend on the daily charge, the average number of rooms sold per day, and the island population.

Table D18: Potential revenue from a hotel levy		
Source	Room tax	Room fee
Tax as % room sales	5%	
Fee per room sold (Rf)		25
Charge / day (Rf)	500	
Number of days / year	365	365
Potential annual revenue per room (Rf)	9,125	9,125
Avg daily room sales / island	10	10
Potential annual revenue / island	91,250	91,250
Share for islands	50%	50%
Amount per island	45,625	45,625
Avg population / island	859	859
Potential Avg revenue per capita	53	53

c) Central government grants

As mentioned earlier, the bulk of local council revenue will have to come from the central government, both for recurrent expenditures and particularly for investment purposes. Up until now, the primary perhaps only source of central government revenue for island administrations has come from MOAD. Current revenue, or more correctly budget allocations from MOAD for recurrent and some capital expenditures related to administration have already been discussed in Section D.2. c. (See also Table D10.)

MOAD also has a budget for investment in public services for atolls and islands, but this is not passed to local administrations, but managed by MOAD itself. Table D19 indicates the amounts budgeted for 2004 through 2007 under line 9.13 for Roads and Ports, Water and Sanitation Systems. In practice, these funds are used not only for the items mentioned, but also for other local development projects as well. These development funds are budgeted under two separate accounts, MOAD and Island Development Expenditures. There appears to be no clear distinction between the two accounts as indicated by the merging of the two accounts in 2005 under MOAD, and then a large transfer back again to Island Development Expenditures in 2006. The dramatic increase in funding for 2006 of 246% was due to a promise made by the President to build more island harbours. In mid 2006, practically the entire combined amount was transferred out of MOAD to the Ministry of Construction and Public Infrastructure, which explains the sudden drop in the budget for 2007.

Once local councils are formed, MOAD will initially remain the primary source of central government budget support. Funds for recurrent and capital expenditures now allocated to atoll administrations will be allocated instead to the new atoll and island councils. Funds for development purposes are more problematic, especially since the funds MOAD used to manage have now been transferred to the Ministry of Construction and Public Infrastructure. However, one scenario is for part or all of these funds to be allocated instead to the new local councils through a block grant for development expenditures. A model for allocating these resources among atolls is discussed in Annex C.

TABLE D19: INVESTMENT FROM MOAD BUDGET 2004 - 2007				
Department/section	2004	2005	2006	2007
Ministry of Atolls Development				
9.13 Roads and Ports, Water and Sanitation systems (Rf)	27,796,287	99,999,559	13,723,970	1,012,498
Island Development Expenditures				
9.13 Roads and Ports, Water and Sanitation systems (Rf)	1,065,824		130,300,000	
Total (Rf)	28,862,111	99,999,559	144,023,970	1,012,498
Annual change %		246%	44%	-99%
Expressed as average per capita atoll revenue (Rf)			783	

d) Estimates of potential revenue for local councils

If proposed measures for increasing revenue for local councils were to be implemented, they could have a significant impact. How big an impact of course depends on which measures are implemented, what charges are levied, and most importantly the specific opportunities available in each island. The estimates in Table D20 represent current and potential island averages for each source of revenue discussed earlier.

If all these measures are implemented, total average annual revenue for islands could be doubled from Rf 1315 (Table D11) to Rf 2605. The increase would come from two main sources. One is by converting 2006 funds for development purposes into block grants to local councils, which would add Rf 783 per capita. The other, perhaps more significant source is from locally generated revenues, rising from Rf 87 per capita at present to Rf 593 per capita, a dramatic increase of nearly 600%.

The increase in locally generated revenues could be achieved mainly from the introduction of a property tax or fee (Rf 303 per capita), a new sales tax (Rf 80), and more efficient management of electricity utilities (up from Rf 25 to Rf 76). Other contributions could be raised from user charges for marketplaces (Rf 26), harbours (Rf 25), water (Rf 15), and solid waste services (Rf 7).

Functions and Fiscal Resources

Table D20: Estimates of potential revenues for atolls and islands				
Source	Note	Average revenue per capita	Subtotal	Percent total
Locally generated revenues			593	23%
Taxes				
Sales tax	New	80		
Fees				
Property fee	New	303		
Licenses				
Business license	Existing	16		
User charges				
Net revenue from electricity	Revised	76		
Water	Applied broadly	15		
Solid waste	Applied broadly	7		
Market place	New	26		
Harbour fee	New	25		
Rents				
From land	Existing	18		
From property	Existing	28		
Business enterprise revenue (ignored)				
Revenues shared with atolls			79	3%
Rent from uninhabited islands (50%)	Existing	2		
Industrial Leases (90%)	Existing	26		
Male properties (50%)	Existing	45		
Boat fees (50%)	Existing	7		
Revenue shared with islands				
Hotel levy (from inhabited islands)	New	53		
MOAD			1,932	74%
Recurrent	Existing	1,107		
Capital	Existing	42		
Investment for public works	Transferred to atolls	783		
(Block grant to atolls)				
Total			2,605	100%
Subtotal existing			1,315	50%
Subtotal revised or new			1,289	50%

For the purposes of this estimate, revenue from rents for land and property is assumed to remain stable, although it might be increased in islands which possess these assets. Revenue from business enterprises is ignored for lack of adequate data and because local councils are not encouraged to engage in such activities, which are better left to the private sector.

Shared revenues and MOAD's 2006 budget allocations for atoll and island administrations are also left unchanged. However, it is anticipated that MOAD allocations will be increased to cover the additional cost of establishing and operating local councils, estimated earlier to be an average of Rf 379 per capita (Table D12). This will clearly be needed, even given the estimated increase in locally generated revenues.

E. IMPLEMENTING DECENTRALIZATION

Scenarios. To conclude this paper, it may be useful to review possible scenarios for implementing decentralization and the implications of each scenario. Countries around the world have implemented policies for decentralization in many different ways, and others are in the process of doing so. Perhaps the most dramatic example comes from Indonesia earlier this decade. Shortly after the end of the Suharto government in 1998, sweeping changes were made that resulted in the transfer of widespread powers and resources from central government to district governments. The ground was prepared with the adoption of two critical pieces of legislation in 1999. One concerned the devolution of functions and responsibilities, the other covered fiscal resources. These changes were implemented virtually overnight, as they came into effect across the country on the 1st of January 2001. Many sceptics doubted such a radical transformation could be achieved so quickly, and predicted that a lack of local government capacity would result in chaos. As it turned out, the transition occurred with remarkably few problems, although further legislation has been needed to clarify and revise certain aspects of policy.

Several factors made it possible to carry out decentralization so smoothly. People were ready and eager for change after long years of autocratic and highly centralised decision making under Suharto. There was widespread support for legislation that allowed regions greater scope to make their own decisions. Local governments had already been in place for decades at provincial and district levels, and procedures for planning, budgeting and project implementation were well established and understood by civil servants. Local assemblies were also in place, though their leaders and members were mostly nominated by the centre. Strong political support also made it possible to convert many sectoral budgets into block grants that could be transferred to local governments.

This confluence of supporting conditions, of course, is rarely present in most other countries attempting to decentralise government. Often, legislators are divided over the merits of such a policy. Local public administration may be conducted by arms of central government agencies, there to carry out policies and programmes designed at the centre. Local governments and local assemblies may not exist alongside offices of central government, or if they do, their responsibilities and budgets may be highly restricted. In poorer countries, central government may simply not have the resources to provide adequate funding for local governments, or the will to transfer scarce resources to them.

Under these circumstances, it is more common to find policies for decentralization being implemented incrementally over a period of years. If political support is weak, laws may be introduced that cover some policy elements but are not complete. Commonly, measures may be taken to authorise the transfer of certain powers and responsibilities to local governments but not the fiscal resources commensurate with these responsibilities. In countries with low levels of education, years of capacity building may be needed before local government units can take on the responsibilities intended for them.

The Maldives. In the Maldives, several factors are conducive to creating a supporting environment that makes it feasible to decentralize government. The President's reform agenda specifically includes decentralising government and establishing local councils as one of its goals. Local administrative offices are already in place throughout all atolls and islands and may easily be converted into local government administrations. Despite large current government deficits, the country is not poor and has adequate fiscal resources to enable local councils to perform their duties and responsibilities. The geography of the country also makes it more practical to manage many public matters locally rather than from the centre. Moreover, there appears to be growing popular support for a policy of decentralization that devolves powers and resources to atolls and islands.

Given the specific conditions currently present in the Maldives, a prudent strategy for decentralising government would be to implement it in overlapping phases with clearly identified goals for each phase. These are outlined below.

1. Phase one: Assumption of current functions

The goal for the initial phase should be modest: namely, to establish local councils and enable them to effectively assume responsibilities and functions currently performed by the local administrative units of MOAD, the ADCs and IDCs. These involve a range of tasks related to public administration and record keeping on behalf of central government agencies, the delivery of strictly local public services and the implementation of small scale infrastructure and public works projects.

With one exception, the fiscal resources required for these tasks will be similar to present needs. Recurrent and capital costs for administration can probably be financed entirely by transferring MOAD funds currently allocated to local administrative offices to the new councils. One difference is that instead of MOAD passing funds to atoll offices for distribution to island offices, MOAD or more likely the Ministry of Finance will need to transfer funds directly to the accounts of island councils. Funding for development purposes is currently negligible if not zero, and may not change much during the initial phase. It will however, need to be increased substantially later on as discussed below.

The exception of course are the funds required to pay allowances for members of the new councils and their associated administrative costs. This was discussed above in Section D3. (See also Tables D12 and D13.) As indicated, total costs are estimated to be about 34% of existing budget allocations to atoll administrative offices, which implies a substantial increase over current requirements. This should not present a problem, since the MOAD budget for 2007 already includes partial provision for these costs in anticipation that the local councils would be established during the year 2007. This implies that central government has already agreed to finance these costs in the future, at least initially.

2. Phase two: Consolidation

During phase two, the goal would be to consolidate delivery of infrastructure and services that atolls and islands already provide. In part, this would entail improving performance standards of existing services and extending coverage to a larger proportion of the population. For islands that do not yet provide services commonly found elsewhere, the aim should be to launch these services in their own islands. According to survey data (Section C.3), islands commonly propose to launch or expand services for sewerage, water distribution, solid waste collection and disposal, and to build harbours, marketplaces and recreation facilities.

In fiscal terms, the consolidation phase implies two goals. One is to consolidate and strengthen revenues derived from local sources. This may be achieved in several ways. Record keeping should be systematically computerised using a standard format to allow better monitoring of collections, overdue payments and defaults. Fees and user charges should be set at least to cover costs, generate a respectable profit margin of 5 – 10%, and if possible to cover replacement costs of machinery and equipment. Utilities in some islands with particularly small populations may need subsidies for certain services such as water, but not necessarily. Survey data shows even small islands can cover their costs with efficient management and appropriate technology.

Block grants. The second implication is that central government will need to introduce a system of block grants for development purposes to enable local councils to expand coverage of services and build new facilities. A block grant is basically a fiscal transfer with few strings attached, allowing local councils wide flexibility in determining how to use the resources.

Current funding for development projects proposed by ADCs and IDCs is minimal, and for many islands virtually zero. As mentioned in Discussion Paper No 2 on *Financing Local Councils*, resources for block grants to local councils might be mobilised from a number of sources. As discussed in Section D.3.c above, one source are the investment funds that until recently were included in line 9.13 of MOAD's budget for Roads and Ports, Water and Sanitation systems, and which have now been transferred to the Ministry of Construction and Public Infrastructure. However, since these funds originate from the Public Sector Investment Programme (PSIP), it should be possible to transfer at least part of these funds to the LDF for local councils. A second potential source, which would require the collaboration of sectoral agencies, is to transfer part or all of their budgets for small scale community works to the budget for the LDF. This could include funds now allocated for local power generation, minor roads, water supplies, perhaps some smaller health and education facilities.

Resources for block grants for development purposes might be pooled into a single Local Development Fund (LDF). Such funds have been established in many developing countries and serve to highlight government efforts to support local governments and community development. They have also proved effective in attracting funds from bilateral donors and multi-lateral development agencies.

Given the large number of local councils to be created, it may be more practical to provide block grants for development purposes only to atoll councils. They would then be responsible for allocating these resources to island councils. Eventually, if

sectoral agencies agree, and if sufficient additional funds become available, block grants might also be used for atoll-wide projects serving groups of islands.

To ensure transparency and equity, the allocation of block grants to atolls will need to be based on a formula based on a set of agreed criteria. Typically, criteria might include such variables as population, land area, physical access, level of existing services and current fiscal resources. The subject is discussed further in Annex C.

3. Later phases: Expansion

The goals for later phases should be more ambitious designed to expand both functional responsibilities and fiscal resources. In terms of responsibilities, the aim should be to gradually devolve to local councils authority over an expanded range of public services now managed by central government. Draft legislation specifically mentions primary and preventive health care, pre-school and primary education. Other services might be added, but all depends on negotiations and the agreement of sectoral agencies. Some are already thinking along these lines, but others have yet do so.

Nevertheless, as discussed in section C.1, sectoral agencies will retain responsibility for all matters related to national policy, performance standards, allocation of resources among programmes within the sector and monitoring local council compliance with policy. Some tasks for planning, budgeting and supervising the production or delivery of infrastructure and services might be devolved to atoll councils, while other tasks for production or actual delivery of a service on the ground to consumers and residents could be assigned to island councils. But in all cases, the extent to which functional responsibilities are devolved will depend in part on the performance of local councils and their ability to demonstrate competence in managing services for which they are already responsible.

Sector specific grants. To finance the expansion of local council responsibilities for public services, central government will need to introduce sector specific grants, also known as conditional grants. Conditions attached to these grants specify the purposes for which local councils may use these funds. Initially, sectoral agencies will probably want to define conditions in some detail, in order to ensure funds are used for intended purposes. But gradually, as agencies and local councils gain experience in applying specific grants, conditions may gradually be relaxed, allowing local councils greater latitude in deciding how best to use these resources in order to achieve performance standards and national policy goals set by central government.

As the process of decentralization advances, and responsibility for an increasing range of public services is devolved to local councils, central government will need to pay greater attention to the equitable allocation of aggregate fiscal resources to atolls and islands. As mentioned above, this will start with formulas for block grants, but as additional fiscal resources are made available to local councils, a more comprehensive system of allocating resources will be needed that also encompasses other fiscal transfers including specific grants for sectoral purposes. At present, the distribution of sectoral spending among atolls and islands is not usually reported, but once specific grants are introduced the picture will become much clearer. The Ministries of Finance and Planning will need to establish a system to keep track of the various kinds of fiscal resources being transferred to local councils. This information will need to be monitored and should be made public so that local councils can better understand how resources are distributed. This does not imply that per

capita transfers should be equal for all councils, since the range of facilities will vary from place to place. But the information should be used to ensure that the aggregate allocation of resources is more or less equitable.

ANNEX A: List of References

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ANNEX B: The MOAD Survey of Islands and Atolls

1. Objectives

The MOAD Survey of Islands and Atolls had four main objectives:

- To generate accurate current information that is needed to assist MOAD in providing sound recommendations on decentralisation policy.
- To assist MOAD in building a management information system that will be used to guide decisions on transferring responsibilities and functions and allocating central government fiscal transfers to local councils in the future.
- More specifically, to provide data that may be used to determine criteria and formulae for calculating block grants from central government to each local council
- To gather baseline data prior to the enactment of proposed legislation to create local councils that can be used to monitor and evaluate the impact of this legislation.

2. Scope

Accordingly, the survey included sections on the following subject matter:

- Part One:
 - Section A: Public infrastructure, facilities and services provided by the island
 - Section B: Public utilities and business enterprises operated by the community
- Part Two: Fiscal Resources
 - Section C: Current revenue from local sources
 - Section D: Potential new revenue from local sources
 - Section E: Current revenue sharing with central government
 - Section F: Potential changes and additions to revenue shared with central government
 - Section G: Sectoral budgets and spending in the island

3. Information collected in the survey

PART ONE: Existing and proposed responsibilities and functions

Section A: Public Infrastructure, facilities and services provided by the island

This section was designed to find out which public services are currently available in the islands, how they are financed, and which new ones are proposed.

- The range of infrastructure, facilities and other public services currently provided by the island
- The source of funds for construction and / or capital equipment for these services
- The entity responsible for operation and maintenance of these services

- The source of funds for operation and maintenance of these services

Section B: Public utilities and business enterprises operated by the community

This section was designed to find out the range of utilities and public enterprises currently operated by island communities, whether they generate profits or require subsidies, and which new ones are proposed.

- The range of number of public utilities currently provided by the islands, such as electricity, telephones, water, sewerage, solid waste collection and disposal
- Ownership of these utilities, the source of investment funds, revenues and expenditures in 2005
- Proposed new island responsibilities for public services
- The nature and number of public business enterprises operated by island communities
- The market area served by these enterprises (local, national, international)
- Ownership of these public enterprises, the source of investment funds, revenues and expenditures in 2005
- Proposed new public business enterprises.

PART TWO

Section C: Current revenue from local sources

This section was designed to find out the nature and extent of revenue currently generated from local sources in each island. It is commonly assumed to be negligible, but it may vary widely from one island to another.

- A list of taxes, fees, licenses, user charges, property levies, rents and other sources of locally generated revenue accruing to island communities
- The entities responsible for setting each tax, fee, user charge or other levy
- Whether records of revenue collection and payment are maintained by hand or computerised
- The revenue received from each of these sources in 2004 and 2005
- The destination of each of these revenues (island office, IDC, utility operator or other).

Section D: Potential new revenue from local sources

This section was designed to estimate the potential revenue that could be generated from a variety of possible new local taxes or levies.

- A description of possible new taxes and levies
- Estimates of the revenue base to be taxed or levied, and the amounts potentially generated assuming a feasible tax or charge
- The entity that would receive the revenue (island, atoll, utility operator, other).

Section E: Current revenue sharing with central government

This section was designed to find out the nature and amount of revenue currently received by island communities from taxes and levies shared with central government.

- The types of revenue currently shared with central government
- The % of each type of revenue to be received by island and atoll communities
- The amounts collected and received by islands and atolls in 2004
- The date on which the final payment for revenues due in 2004 was received.

Section F: Potential changes and additions to revenue shared with central government

This section was designed to estimate the potential revenue that could be generated from a variety of possible new sources of revenue to be shared with central government.

- A description of the possible new sources of revenue to be shared between central government and local communities
- Estimates of the revenue base to be taxed or levied
- Feasible tax rates or levies per taxable unit and estimated potential revenues from these new sources
- The entity that would receive the revenue (island, atoll, utility operator, other)

Section G: Sectoral budgets and spending in the island

This section was designed to provide an approximate idea of recurrent and development spending by five sectoral agencies of central government on services and facilities in each island. The main agencies concerned are the ministries of Atoll Development, Education, Health, Justice and Construction.

- Budgets and actual spending for 2004 and 2005 by each of the five sectoral agencies
- The level of island responsibility for procurement and payment (none, some, or most).

4. Implementation

The survey was carried out over the period mid-March to early May 2007.

To expedite the processing of data included in the survey, the questionnaire was formatted as spreadsheets in a Microsoft Excel file. Instructions for completing the questionnaire were included in the same file. Respondents were asked to complete the questionnaire and return it in electronic format, not as a printed hard copy.

The survey was intended to be completed by staff of administrative offices in every island. A few sections of the questionnaire required information to be completed by staff of atoll offices.

A draft version of the questionnaire was field tested in one island and by a number of island staff who happened to be in Male for a training course. Based on results, a number of revisions were made to the questionnaire before it was finalised.

Given the relative complexity of the questionnaire, plans were made to assign one staff member from each atoll office to assist island staff in completing the survey, check completed questionnaires, and seek clarification from islands where needed before returning them to MOAD in Male. Plans also called for atoll staff to attend a training workshop in Male so that they could explain to island staff how the survey should be completed.

These plans were not implemented. Instead, the questionnaire was simply emailed to atoll offices, who were asked to forward copies to each island office in the atoll. Respondents were asked to email completed questionnaires to MOAD.

The lack of technical support to atoll and island staff seriously compromised the number of islands completing the survey, and the quality of information provided. A few atolls appear to have ignored the survey, since no questionnaires were received from any of their islands. Some atoll offices failed to forward the questionnaire to islands, but attempted instead to complete the survey on their behalf. Since the information provided was virtually the same for all islands and largely incomplete, questionnaires from those atolls were deemed unusable. The quality of information that islands provided varied widely, depending on local initiative and capacity. Many islands completed only certain sections of the questionnaire, a few attempted to complete all sections. Many questions in each section were left unanswered, especially in *Section E: Existing sources of shared revenues*. This was because the questions were based on assumptions about available information that turned out to be erroneous.

5. Survey returns

A team of up to five MOAD staff processed the completed returns. The Table XB1 below summarises the results of the survey. Of the 196 inhabited islands in the country, returns were received from 109 or 56%. After rejecting returns completed by atolls on behalf of islands, this left 66 usable returns representing about one third or 34% of all islands. Of the 66 islands providing usable returns, all islands completed Section A, almost all of them Section B and 52 of them Section C. Less than half of them attempted to complete Sections D and G. Only a handful attempted Sections E and F on shared revenues.

Due to the poor quality of many survey returns, considerable time and effort was needed to complete, correct and clean the data where possible. For many questions, the resulting number of usable responses was far less than the number of islands completing the section. Despite the limited number of responses to some questions, an attempt was made to use as much of the data as possible. As indicated in the main text of this report, the results of some analyses and projections based on small samples are subject to wide margins of error. In such cases, readers are asked to keep this in mind and not place undue weight on the conclusions reached.

Table XB1: Survey returns		
Item	Number	Percent
Total number of inhabited islands in the country	196	
Number of returns received from islands	109	56%
Number of usable returns	66	34%
Section A: Infrastructure, facilities and services	66	34%
Section B: Utilities and Enterprises	64	33%
Section C: Existing sources of local revenue	52	27%
Section D: Proposed new sources of local revenue	30	15%
Section E: Existing sources of shared revenues	13	7%
Section F: Proposed new sources of shared revenue	12	6%
Section G: Sectoral spending in the island	24	12%

ANNEX C: Block Grants

As explained in Section E.2, a block grant is basically a fiscal transfer with few strings attached, allowing recipients wide flexibility in determining how to use the resources. Block grants would be particularly appropriate for providing funds to local councils for development expenditures. These could be used to consolidate the provision of small scale public works projects, such as infrastructure for service delivery and physical facilities, and related capital investments for machinery and equipment.

1. Issues to resolve

In designing a system of block grants for local councils, it is first necessary to clarify a number of questions. First: what is to be the purpose of block grants, more specifically what kinds of investment activities are to be funded? Initially, central government may want to attach a positive list of activities for which block grants may be used. But to allow local councils greater flexibility and scope for innovation, it may be better instead to attach a negative list of activities for which funds may not be used.

A second question concerns the total amount of funds available for local council block grants for development expenditures. As indicated previously, the main source at present are the funds available from the PSIP, now allocated to the Ministry of Construction and Public Infrastructure. Under MOAD, these amounted to Rf 783 per capita for the total population of all islands. But the proportion to be transferred to atolls and islands has yet to be decided.

A separate decision also has to be made concerning the proportions of the block grant that are to be used for island projects and for atoll-wide projects. Given the geography of the Maldives, there may be less need for projects serving all or groups of islands within an atoll. But there will certainly be some such projects, for example for collective solid waste disposal, sea defences, land reclamation, or higher order health and education facilities.

The key question here is whether the resulting pool of funds is sufficient to provide every island with a meaningful budget allocation every year. If not, then it may be better instead to allocate block grants to atolls, and let the atoll council determine which island proposals to fund in a given year.

Other considerations also suggest it may be better to allocate larger block grants to atolls rather than smaller amounts to every island. Many public infrastructure projects require large initial lump sum investments that islands may not be able to fund with their smaller allocations. Also, islands are numerous and vary greatly in their characteristics and needs, making it difficult to determine a standard basis for allocating funds to all islands. Atoll councils, comprising representatives from each island, will be in a much better position to decide relative needs and priorities, particularly with regards to alleviating poverty in more backward communities.

2. Method of allocation

Regardless of whether block grants are to be allocated to islands and / or atolls, it will be necessary to design a method for determining how the pool of available funds is to be shared among local councils. A standard procedure is required in order to

make the process completely transparent and to minimise arguments over who gets how much.

Procedures vary from country to country, but transparent models are based on a formula that takes into account a number of variables reflecting the particular characteristics of each jurisdiction, in this case atolls or islands. The choice of variables depends in part on available data, but more importantly on the policy objectives to be achieved in allocating grants. Typically, these include equitable distribution in terms of population, a bias towards poorer communities as a means to alleviate poverty, an allowance for differences in the relative cost of providing services, and possibly some recognition of local effort to mobilise their own resources.

3. An illustrative model for the Maldives

In order to explain how blocks grants might be allocated, the rest of this annex presents an illustrative model for the Maldives. While many other versions are in use in other countries, the basic structure of the model is more or less similar in most cases. Before deciding on the specific version to adopted for the Maldives, the proposed model should be widely discussed with relevant parties to ensure that it is well understood and enjoys broad support. Given that each version of the model produces different results favouring some recipients more than others, there will always be some who would prefer an alternative version. Ultimately, the aim is to select a version that is widely accepted as more or less fair to all concerned.

Given the arguments presented earlier, this illustration is designed for the allocation of block grants to atolls not islands. Once the workings of this model are understood, it will become clear why a model designed for islands would be extremely cumbersome and would not necessarily yield appropriate results.

Criteria. The first step is to select the criteria to be taken into account in allocating resources. Any number of criteria might be considered, but generally speaking it is better to use just a few that represent key policy objectives and that people can easily understand. Increasing the number of variables merely complicates the process, makes it harder for others to understand, and rarely improves the outcome.

TABLE XC1: CRITERIA FOR BLOCK GRANTS			
	Criteria	Variable	Source
1	Population	Population	Statistics Office
2	Land area	Land area (hectares)	Statistics Office
3	Accessibility	Distance to Male	Compute from maps
4	Level of development	Composite Human Vulnerability Index	VPA2, Table 15, col 6: Equal weights 2004
5	Fiscal capacity	Shared revenues	Inland Revenue

For the purposes of this illustration, only five criteria are considered. (See Table XC1.) The first is population, to ensure some measure of equity. Two other criteria, land area and accessibility, are included to reflect variations in the cost of providing public services. Accessibility is represented by the distance from the atoll capital to Male. A fourth criteria to take into account policy objectives of alleviating poverty is

represented by level of development, as measured by the Composite Human Vulnerability Index computed in the report on *Vulnerability and Poverty Assessment* completed in 2004. A fifth criteria to encompass existing fiscal capacity is represented by aggregate shared revenues received by each atoll.

TABLE XC2: SUMMARY OF INDICATORS FOR ATOLLS									
Indicator		Population 2007	Land Area	Distance to Male (hrs)		Human Vulnerability		Fiscal capacity	
Atoll		% total	% total	Index	% total	Index	% total	Index	% total
1	Haa alif	7%	12%	1.38	7%	3.1	5.0%	1.69	7.8%
2	Haa dhaalu	9%	15%	1.24	6%	2.9	4.7%	1.74	8.0%
3	Shaviyani	6%	7%	0.99	5%	3.8	6.1%	1.18	5.4%
4	Noonu	5%	7%	0.80	4%	3.4	5.5%	1.07	4.9%
5	Raa	8%	5%	0.78	4%	3.8	6.1%	1.65	7.6%
6	Baa	5%	3%	0.51	3%	3.2	5.1%	1.00	4.6%
7	Lhaviyani	4%	1%	0.64	3%	3.1	5.0%	1.15	5.3%
8	Kaafu	5%	4%	0.12	1%	3.0	4.8%	0.36	1.7%
9	Alif alif	3%	2%	0.26	1%	3.3	5.3%	0.75	3.4%
10	Alif Dhaalu	4%	2%	0.35	2%	3.2	5.1%	0.99	4.6%
11	Vaavu	1%	0%	0.36	2%	3.0	4.8%	0.23	1.0%
12	Meemu	3%	2%	0.64	3%	3.1	5.0%	0.80	3.7%
13	Faafu	2%	1%	0.65	3%	3.4	5.5%	0.84	3.9%
14	Dhaalu	3%	1%	0.82	4%	3.4	5.5%	0.73	3.3%
15	Thaa	5%	3%	1.03	5%	3.2	5.1%	0.93	4.3%
16	Laamu	7%	12%	1.18	6%	3.5	5.6%	2.09	9.6%
17	Gaafu Alif	4%	4%	1.73	9%	3.3	5.3%	1.22	5.6%
18	Gaafu dhaalu	6%	5%	1.85	9%	2.7	4.3%	1.20	5.5%
19	Gnaviyani	4%	4%	2.24	11%	1.6	2.6%	1.46	6.7%
20	Seenu	10%	9%	2.42	12%	2.3	3.7%	0.74	3.4%
Total		100%	100%	20.00	100%	62.3	100%	21.84	100%

Shares. In order to incorporate these criteria into the model, data on each variable for each atoll is converted into shares or percentages of the total for the variable in question. (See Table XC2.) For example, if population is the only variable to be considered, block grants would be allocated according to the atoll's share of total population in all atolls, the most going to Seenu with 10% and Haa Dhaalu with 9%. Likewise for land area, in this case the most going to Laamu and Haa Alif. For the distance variable, the atoll share is the percentage of the sum of distances from all atolls to Male. The more distant the atoll, the larger the share, witness atolls in the far north and south. The same applies to Human Vulnerability Indices, where atolls with higher indices (indicating greater vulnerability) have greater shares of the sum

of all atoll indices. Here Shaviyani and Raa rank highest and Gnaviyani the lowest. For the fiscal capacity criteria, data on shared revenues received by each atoll is first converted into per capita amounts and then into an inverted index with the average as a base, from which percentages are computed. An inverted index is used to yield higher percentages for atolls with lower per capita amounts of shared revenues. In this case, Laamu ranks highest and Vaavu the lowest.

Base amount. The next step is to decide whether or not to include a standard base amount in the block grant for all atolls. This is often done to make sure all recipients receive at least a minimum amount. Without the base, an atoll scoring low shares of all variables might wind up getting very little. The base amount may vary from small to large, but the greater the base amount, the less there is to apportion according to the criteria included in the model, and hence less opportunity to compensate atolls for different characteristics.

Weights. A final consideration is to decide which criteria or variables should be given greater importance. For the purpose of the model, this means attaching weights to the base amount and each variable, where the sum of all weights must equal 1.00. The weight attached to the base amount for most block grant models is smaller rather than larger, typically 0.1 to 0.25 (or 10% - 25% of the total pool of resources), certainly no more than 0.5 maximum. Weights for other variables will depend on the importance of the policy objective represented by the variable. Most models place greatest importance on equity, which usually assigned a weight of at least 0.5 and often higher. If poverty alleviation is a major concern, then that variable would weigh accordingly. Numerous combinations are possible, each generating a different outcome.

The composite model. The various elements discussed above are assembled together into a composite model shown in Table XC3. The total pool of resources available for block grants is assumed here to be Rf 1,000,000. Atolls are listed in column B, though only a few are shown. In this simplified example, only a base amount and population are taken into account, each given a weight of 0.5. All other criteria are assigned a weight of zero (columns E through H). The total base amount is Rf 500,000 ($0.5 \times \text{Rf } 1,000,000$). When divided equally among all 20 atolls, each receives Rf 25,000 (column C.) The amount remaining from the total pool (also Rf 500,000) is allocated among atolls in proportion to their share of total population (column D).

The resulting amount of the block grant for each atoll is shown in column I. Since Seenu and Haa Alif have large populations, they receive the largest block grants of Rf 73,000 and Rf 61,000 respectively. However, on a per capita basis (column J), they come off among the worst, with only Rf 4.13 and Rf 4.60 respectively. This compares with the average for all atolls of Rf 6.54 and a standard deviation of Rf 3.36, about half the average. Meanwhile, Gnaviyani gets Rf 6.04 per capita and Vaavu the most with Rf 19.34. This happens because a high weight was attached to the base amount, which favours islands with small populations, but penalises those with large ones. Clearly this formula results in a highly inequitable distribution.

TABLE XC3: THE BLOCK GRANT MODEL										
	Scenario:		Base plus population							
	Pool of resources:		Rf 1,000,000							
A	B	C	D	E	F	G	H	I	J	
	Criteria:	Base	Population share	Land	Area	HVI	Fiscal capacity	Total	Per capita amount	
	Weights:	0.50	0.50	0.00	0.00	0.00	0.00			
	Atoll	Rf	Rf	Rf	Rf	Rf	Rf	Rf	Rf	
1	Haa alif	25,000	36,092	0	0	0	0	61,092	4.60	
	Etc									
11	Vaavu	25,000	4,090	0	0	0	0	29,090	19.34	
	Etc									
19	Gnaviyani	25,000	20,472	0	0	0	0	45,472	6.04	
20	Seenu	25,000	48,302	0	0	0	0	73,302	4.13	
	Total	500,000	500,000	0	0	0	0	1,000,000		
	Average per cap national								5.44	
	Average per cap among atolls								6.54	
	Standard deviation								3.36	
	SD as % average								51%	
	Maximum								19.34	
	Minimum								4.13	

4. Alternative scenarios

Changing the weights assigned to each variable can yield quite different results. Several alternative scenarios are explored and summarised in Table XC4.

The columns in the left half of the table show the scenario and the corresponding weights applied to each variable in the formula. Columns in the right half of the table show the results stated as per capita amounts, in terms of averages, standard deviations, maxima and minima. The national average is simply the total pool divided by the total population of all atolls, and therefore remains constant. The atoll average is the unweighted average of per capita amounts in each atoll and is therefore higher than the weighted average and varies depending on the formula applied. The last column on the right shows the figures for the four most disadvantaged atolls as represented by the highest indices for human vulnerability (HVI). All scenarios assume the same total pool of Rf 1,000,000 for block grants.

As may be seen, high weights for the base amount results in large variations in per capita atoll amounts. Scenario 1, in which all atolls receive the same amount, is clearly the most inequitable, yielding the highest standard deviation (88% of the average). The highest atoll per capita amount is more than 14 times the lowest. Scenario 2, the one explained above which gives equal weight to the base amount

and population, still yields a high standard deviation (51% of the average), although reduces the multiple between highest and lowest to 3.3 times. This supports the general practice of assigning a relatively low weight to the base amount.

Conversely, more equitable scenarios are those in which population is assigned a high weight. Scenarios 4 and 9, in which population is weighted 0.8, yield the smallest variation in per capita amounts. Close behind is scenario 10, in which population is reduced to 0.7, but fiscal capacity is weighted 0.2.

The goal of addressing poverty alleviation through block grants is more elusive and produces results contrary to what might be expected. Scenario 8, in which the HVI variable is assigned a weight of 0.3 yields almost the worst result for the group of 4 most disadvantaged atolls, only Rf 4.61. The best results is achieved in scenario 6 where access is given a weight of 0.2, which raises the per capita average for the 4 atolls to Rf 5.93. Almost the same result, Rf 5.87, is achieved by reducing the weight on population to 0.5, and placing a weight of 0.2 on fiscal resources. Part of the reason is that the most disadvantaged islands are also the most distant from Male, hence the effect of the accessibility variable.

These illustrative scenarios show clearly there is no obvious single solution to a formula for block grants. Policy objectives rarely coincide. A formula that achieves one objective may not produce good results for other objectives. But one conclusion is clear. The specific variables selected to represent policy objectives influence outcomes less than the weights attached to them. Much testing is needed to determine which combination of weights yields the optimum solution and the most acceptable allocation of block grants.

TABLE X4: BLOCK GRANT SCENARIOS														
									Per capita revenue					
Pool of resources:			Rf 1,000,000						Nat'l average	Atoll average	SD as % avge	Max	Min	Avege 4 low HVI
Scenario			Weights for each criteria						Rf	Rf	%	Rf	Rf	Rf
			Base amount	Popul-ation	Area	Access	HVI	Fiscal Cap'y						
1	Base amount only		1.00	0.00	0.00	0.00	0.00	0.00	5.44	7.64	88%	14.35	0.93	4.26
2	Base + population	50 / 50	0.50	0.50	0.00	0.00	0.00	0.00	5.44	6.54	51%	9.89	3.18	4.85
3		25 / 75	0.25	0.75	0.00	0.00	0.00	0.00	5.44	5.99	28%	7.67	4.31	5.14
4	Base, pop, area	10 / 80 / 10	0.10	0.80	0.10	0.00	0.00	0.00	5.44	5.60	11%	6.22	4.99	5.36
5	Base, pop, access	10 / 80 / 10	0.10	0.80	0.00	0.10	0.00	0.00	5.44	5.72	16%	6.62	4.82	5.62
6		10 / 70 / 20	0.10	0.70	0.00	0.20	0.00	0.00	5.44	5.78	21%	6.98	4.58	5.93
7	Base, pop, HVI	10 / 80 / 10	0.10	0.80	0.00	0.00	0.10	0.00	5.44	5.88	23%	7.21	4.55	5.08
8		10 / 60 / 30	0.10	0.60	0.00	0.00	0.30	0.00	5.44	6.32	42%	8.97	3.66	4.61
9	Base, pop, FC	10 / 80 / 10	0.10	0.80	0.00	0.00	0.00	0.10	5.44	5.72	14%	6.50	4.94	5.29
10		10 / 70 / 20	0.10	0.70	0.00	0.00	0.00	0.20	5.44	5.78	16%	6.70	4.85	5.26
11	Base + 4	Pop 60, others 10 (except Area)	0.10	0.60	0.00	0.10	0.10	0.10	5.44	6.00	27%	7.63	4.37	5.36
12	Access and Fiscal Capacity	Pop 50, FC 20, Access 20	0.10	0.50	0.00	0.20	0.00	0.20	5.44	5.90	25%	7.36	4.43	5.87