

**Document of  
The World Bank Group**

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**Report No. 103724-MV**

**INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL FINANCE CORPORATION  
MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**COUNTRY PARTNERSHIP FRAMEWORK**

**FOR**

**THE REPUBLIC OF MALDIVES**

**FOR THE PERIOD FY16-FY19**

**March 21, 2016**

**Sri Lanka and Maldives Country Management Unit  
South Asia Region**

**The International Finance Corporation  
South Asia Department**

**Multilateral Investment Guarantee Agency  
Asia and the Pacific Region**

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**The last Interim Strategy Note was discussed by the Board on June 26, 2014.**

**CURRENCY EQUIVALENTS**

Currency Unit = Maldives Rufiyaa (MVR)

USD 1 = 15.40 MVR

(As of March 10, 2016)

**FISCAL YEAR**

January 1 – December 31

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## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	MIGA	Multilateral Investment Guarantee Agency
ASA	Advisory Services and Analytics	MNU	Maldives National University
ASPIRE	Accelerating Sustainable Private Investments in Renewable Energy	MSMEs	Micro Small and Medium Enterprises
CCTF	Climate Change Trust Fund	MVR	Maldives Rufiyaa
CIF	Climate Investment Funds	MW	Megawatts
COP21	2015 Paris Climate Conference	NBFI	Non-Bank Financial Institutions
CPF	Country Partnership Framework	NBS	National Bureau of Statistics
CPI	Consumer Price Index	NSPA	National Social Protection Agency
CPPR	Country Portfolio Performance Review	OED	Operations Evaluation Department
DFAT	Department of Foreign Affairs and Trade	PAS	Public Accounting System
ESMAP	Energy Sector Management Assistance Program	PFM	Public Financial Management
EU	European Union	PLR	Performance and Learning Review
EXIM	Export Import	PIU	Project Implementation Unit
FAO	Food and Agriculture Organization	POISED	Preparing Outer Islands for Sustainable Energy Development
FDI	Foreign Direct Investments	PPP	Purchasing Power Parity
FIRST	Financial Sector Reform and Strengthening	PV	Photovoltaic
FM	Financial Management	SCD	Systematic Country Diagnostic
FSAP	Financial Sector Assessment Program	SDR	Special Drawing Lines
FY16	Fiscal Year 2016	SEZ	Special Economic Zone
GCF	Green Climate Fund	SMART	Specific, Measurable, Assigned, Relevant and Timebound
GDP	Gross Domestic Product	SME	Small and Medium Enterprises
GEPR	Growth Elasticity of Poverty Reduction	SOE	State Owned Enterprises
GNI	Gross National Income	TVET	Technical and Vocational Education Program
HIES	Household Income and Expenditure Survey	UMIC	Upper Middle Income Country
IBRD	International Bank for Reconstruction and Development	UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
IDA	International Development Association Strategy Note	UNDAF	United Nations Development Association Framework
IFAD	International Fund for Agriculture Development	UNDP	United Nations Development Programme
IFC	International Finance Corporation	UNESCO	United Nations Educational, Scientific and Cultural Organization
ILO	International Labor Organization	UNFCCC	United Nations Framework Convention on Climate Change

IMF	International Monetary Fund	UNFPA	United Nations International Children's Emergency Fund
INDC	Intended Nationally Determined Contribution	UNICEF	United Nations International Children's Emergency
ISDB	Islamic Development Bank	UNOPS	United Nations Office for Project Services
ISN	Interim Strategy Note	USD	United States Dollars
JICA	Japan International Cooperation Agency	WBG	World Bank Group
LIC	Lower Income Country	WHO	World Health Organization
M&E	Monitoring and Evaluation	WMC	Waste Management Centers

### **Acknowledgments**

The World Bank Group is grateful to the government of the Republic of the Maldives, in particular the Ministry of Finance and Treasury, for its collaboration throughout the preparation of the Country Partnership Framework. Françoise Clottes, World Bank Country Director as well as Ivan Rossignol, Maria Angelica Sotomayor and Yaa Oppong (peer reviewers) guided its preparation. The core team included Amena Arif, Rafael Dominguez, Petal Jean Hackett, Igor Kecman, Zeenath Marikar, Andrea Merrick, Rolande Pryce, Christine Richaud, Adam Sack, Emanuel Salinas Munoz, Ulrich Schmidt, Charles Undeland, Ralph Van Doorn, and Hafiz Zainudeen. Sincere thanks to all, including the members of the Maldives Country Team, who contributed to the preparation of the Country Partnership Framework.



# FY16-19 COUNTRY PARTNERSHIP FRAMEWORK FOR THE REPUBLIC OF MALDIVES

## TABLE OF CONTENTS

<b>I. INTRODUCTION</b> .....	1
<b>II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA</b> .....	1
2.1 Social and Political Context.....	1
2.2 Recent Economic Developments and Outlook .....	3
2.3 Poverty Profile .....	7
2.4 Key Development Challenges and Constraints to the Twin Goals.....	8
<b>III. WORLD BANK GROUP PARTNERSHIP STRATEGY</b> .....	12
3.1 Government Program.....	12
3.2 Proposed WBG Country Partnership Framework.....	13
3.2.1. Lessons from ISN Implementation and Stakeholder Consultations .....	13
3.2.2. Overview of World Bank Group Strategy .....	14
3.2.3. Objectives Supported by the WBG Program.....	18
3.3 Implementing the FY16-19 Country Partnership Framework .....	28
<b>IV. MANAGING RISKS TO THE CPF PROGRAM</b> .....	30
<b>Tables</b>	
Table 1. Maldives Selected Indicators, 2014 - 2020.....	7
Table 2. Systematic Operations Risk Rating (SORT) .....	31
<b>Boxes</b>	
Box 1. WBG Comparative Advantage in Maldives.....	15
Box 2: The Procurement System in Maldives .....	30

## **Figures**

Figure 1: Priorities for Action as Identified by the SCD .....12

Figure 2: CPF Strategic Goal, Objectives and Cross-Cutting Themes .....17

## **Annexes**

Annex 1: CPF Results Matrix .....34

Annex 2: Proposed IDA Program FY16-19 .....42

Annex 3: Selected Indicators of Bank Portfolio Performance and Management .....43

Annex 4: Maldives Operations Portfolio .....44

Annex 5: IFC Committed and Disbursed Outstanding Investment Portfolio .....45

Annex 6: Partnerships and Donor Coordination .....46

Annex 7: Summary of County Partnership Framework Consultations .....49

# FY16-19 COUNTRY PARTNERSHIP FRAMEWORK FOR THE REPUBLIC OF MALDIVES

## I. INTRODUCTION

1. **The Country Partnership Framework (CPF) presents the proposed engagement of the World Bank Group (WBG) in Maldives over the next four years (FY16-FY19).** The CPF aims to contribute to the achievement of some of the government's medium-term goals in areas that are critical for the reduction of extreme poverty and the promotion of shared prosperity, and consistent with the WBG's comparative advantage. The CPF is guided by the government's priorities as outlined in the 2013 Manifesto and anchored in the sector plans for the period in the areas of Tourism, Education, and Energy.

2. **In the aftermath of the global crisis, Maldives underwent a challenging period marked by a complex political transition and substantial macroeconomic uncertainties.** The WBG accompanied the government during this period through a selective program which attempted to lay the foundations for the resumption of a full country program as set out in its FY14-FY16 Interim Strategy Note (ISN). Through the implementation of the ISN, the WBG aimed to meet some of the country's most pressing needs in the areas of renewable energy, education, and public financial management, while deepening policy dialogue and strengthening the analytical foundations of future WBG engagement.

3. **The findings of the 2015 Systematic Country Diagnostic (SCD) have re-oriented the WBG program** towards enhancing opportunities for the local population in tourism and fisheries (traditional growth sources), enabling opportunities for creation of new sources of growth which are inclusive, and improving management of the country's wealth-generating natural resources and financial resources to better redistribute wealth. The SCD identified the most critical constraints and opportunities facing Maldives in accelerating progress toward the goals of ending extreme poverty and promoting shared prosperity in a sustainable manner. The CPF relies heavily on this analysis.

## II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

### 2.1 Social and Political Context

4. **Maldives is an archipelago nation in the Indian Ocean comprising 1,190 small coral islands of which 188 are inhabited by a local population of 346,284 individuals** (resort islands are not considered as inhabited islands by the authorities)<sup>1</sup>. The capital, Malé, is home to one-third

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<sup>1</sup> Ministry of Finance and Treasury, National Bureau of Statistics (2014), 2014 Maldives Census. Based on the same source, residents of the Maldives including foreigner workers total 402,071 individuals.

of the population, residing on a congested two square kilometer island, while the rest of the population is thinly spread out over the archipelago which stretches 750 kilometers from north to south. Since the mid 1970s, the country has been highly successful in building on its extraordinary natural assets to develop high-end resort-based tourism. Like many small island states, however, development has been hindered by a range of structural constraints, including limited economic opportunities, high costs of transport and service delivery, a small domestic market, shortage of local skilled labor, and vulnerability to natural disasters.

5. **The development of the tourism sector in Maldives has created sizeable revenues, which have been used to address some of the country's structural challenges and support poverty reduction.** In particular, through taxation and other fiscal means, tourism revenues have been used to: support job creation in the public sector;<sup>2</sup> finance the provision of public services and expansion of access to primary health and education facilities beyond Malé; provide social insurance against financial risks of old age and out-of-pocket health expenditures; and insulate the local economy from international price fluctuations through a system of universal subsidies on food and energy. The Constitution of 2008 was accompanied by an increase in the level of redistribution through the introduction of explicit electricity subsidies and a universal health insurance scheme as well as an increase in coverage and generosity of pension system.

6. **This development model has delivered strong human development gains.** Whereas Maldives was among the poorest countries in the world 30 years ago, it has now reached upper middle income status. Among South Asian countries it ranks second on the Human Development Index and in measures such as life expectancy and infant mortality. The country also fares significantly better than many countries when it comes to gender equality, ranking 49th on the 2014 Gender Inequality Index. It has attained gender parity in primary and secondary enrolment, and the number of Maldivian women attaining university degrees is at par with that of men.

7. **Since the adoption of the new Constitution in 2008, which marked a transition to a multi-party democracy, the political environment has been dynamic.** The first President elected under the Constitution left office in 2012. Subsequent Presidential elections in 2013 were marred by political and legal complications during the electoral process according to observers.<sup>3</sup> After three rounds, the current President won the elections, and undertook to consolidate his power following the victory of his coalition in the 2013 Parliamentary elections. Political contestation has been fierce, often spilling over to demonstrations in Malé.

8. **Government institutions remain relatively weak.** The Constitution of 2008 mandated independence of the legislative, executive and judicial branches, established a set of new State institutions at the central and local levels, and a number of independent commissions. However, there is a lack of clear delineation of authority among these institutions, such as in how independent

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<sup>2</sup> Jobs in the public sector account for 17.3 percent of total employment, while jobs in education, health and social services account for 20.5 percent of employment (as of 2010).

<sup>3</sup> Report of the Commonwealth Observer Group, Maldives Presidential Election 9 November 2013, [www.commonwealth.org](http://www.commonwealth.org).

commissions exercise oversight. In effect, formal institutional roles are relatively weak. Decision and policy making has been driven by two Cabinet level committees, the Economic and Youth Council and the Social Council.<sup>4</sup>

9. **Progressively more conservative views in Maldives have had an impact on female labor participation.** Maldives has been an Islamic country for centuries and the 2008 Constitution requires that all Maldivians practice Islam and Sharia Law be the basis for legislation. In recent years, Maldivian women have been facing increasing pressure to comply with strict religious rules regarding dress and social and economic roles, driven by a more conservative interpretation of Islam. As an illustration, the 2005 and 2012 surveys by the Human Rights Commission found evidence of a decline in the population's support for women to work outside the home: in 2005, 88 percent of male and female rural respondents combined and 82 percent of urban respondents supported women's right to work. By 2012, these figures had dropped to 69 percent and 73 percent in rural and urban areas, respectively<sup>5</sup>.

10. **Youth unemployment is a growing source of concern.** In 2014, approximately 45 percent of the population of Maldives was under 24 years of age. The most recent HIES data from 2010 showed the unemployment rate for individuals in the 15 to 24 age group was 25 percent, more than double the unemployment rate of the total work force. The lack of suitable economic opportunities for the youth is fueling other social ills such as drug abuse and gang-related violence.

## 2.2 Recent Economic Developments and Outlook

11. **The development of high-end tourism has resulted in very high economic growth rates over the past three decades.** GNI per capita<sup>6</sup> increased from USD 275 in 1980 to USD 7,170 in 2014. This growth rate, which averaged 6.7 percent between 2002 and 2014, is mainly driven by tourism and non-tradable tourism-related activities (including construction, transport and communications). Economic growth has been supported by capital accumulation through investment in resorts, and by an increase in the labor force which has mainly benefited foreign workers.

12. **While economic growth in Maldives has been driven by the tourism sector, the contribution of other economic activities has declined in relative terms.** Tourism accounts directly for around 29 percent of nominal GDP,<sup>7</sup> and represented about 32 percent of real GDP

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<sup>4</sup> As an illustration, in May 2015 the finance ministry amended the public finance regulations to authorize the Cabinet to award 'mega projects' and projects carried out with concessional loans or assistance from a foreign country without a bidding process or approval by the tender evaluation board. PFR Revision 11 - Chapter 8-8.15 Bidding.pdf, May 28, 2015, [www.finance.gov.mv](http://www.finance.gov.mv)

<sup>5</sup> Source: WB Gender Assessment, 2015.

<sup>6</sup> Using the Atlas method which adds to GDP net income from abroad (outflows in the case of Maldives) and converts GDP in local currency to USD using a three-year moving average of inflation-adjusted exchange rates. GDP per capita calculated at market exchange rate rates in 2014 was USD 7,600.

<sup>7</sup> Relative to GDP at basic prices.

growth between 2002 and 2014. Including tourism-related sectors<sup>8</sup>, these numbers increase to a share of 67 percent of nominal GDP and 77 percent of real growth. There are few other primary industries contributing to economic growth. Fisheries is the second most prominent industry in the country, as the largest goods export earner and an important source of employment, and was the main source of growth before the development of tourism. In 2014, Maldivian total export values accounted for USD144.84 million where the main export product, seafood, accounted for USD125.27million of total export. While Maldives benefits from access to high quality fisheries stocks, a large share of its value is lost through export of fish as commodities to intermediary markets where value addition occurs. Hence, fisheries accounts for a very small contribution to GDP (1.5 percent in 2014). While the economy more than doubled in size between 2002 and 2014, fisheries shrunk by 17 percent, and agriculture grew by only 26 percent as a share of GDP. Fisheries has traditionally played an important role in providing employment and livelihoods, especially among the poorest Maldivians. Overall, manufacturing, fisheries and agriculture combined accounted for 8.5 percent of GDP in 2014, and private sector-led growth outside of the tourism sector has been limited.

**13. GDP growth in Maldives has moderated in recent years, with construction expected to drive growth in 2016 and beyond.** After dipping to 2.5 percent in 2012, GDP growth continued its recovery in 2014, reaching an estimated 6.5 percent.<sup>9</sup> This recovery has been driven by tourism and related sectors, which maintained an upward trend albeit at a slower pace. The industrial sector also expanded, driven by a significant increase in construction activity—which grew at 21.4 percent in 2014, whereas manufacturing contributed only marginally. Conversely, the agriculture and fisheries sector contracted in 2014 owing to a decline in the fisheries output. Going forward, the government estimates that growth in 2015 will reach 6.4 percent, but this appears difficult to attain as the growth in key tourism indicators, such as arrivals and bed nights, is well below the rates observed in 2014. In the near term, growth is expected to be driven by construction, fueled by both private sector construction and large public investment projects, while tourism growth is likely to remain subdued because of a slowdown in China, the recession in Russia, the appreciation of the MVR (pegged against the USD) against major currencies, and the cancellations of tourism reservations due to the domestic unrest.

**14. Following the global decline in commodity prices, CPI inflation has slowed down in 2014 and 2015.** Annual average inflation in Malé reached 2.4 percent in 2014, and fell further to 1.4 percent in 2015, dragged down by low food, transport and communication prices. Inflation is projected to remain subdued as long as global commodity prices remain low, with positive impacts on the current and fiscal accounts.

**15. Maldives' high levels of fiscal deficits and public debt pose a significant risk, as the country is structurally spending beyond its means.** Even though high costs of public service

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<sup>8</sup> Transport, communication, financial services and business services benefit directly from tourism activity and tend to be highly correlated to tourism bed-nights, while real estate and construction are heavily determined by investment in the tourism sector.

<sup>9</sup> GDP at constant market prices. In 2014 the government re-estimated national accounts at market prices which is a more accurate reflection of the size of the economy.

delivery can logically be expected in a multi-island country with a scattered population, high levels of public spending in recent years have been primarily driven by the increasing costs associated with the country's redistributive model, including the high public sector wage bill, pensions, universal health insurance and subsidies for food and electricity, and transfers to state-owned enterprises (SOEs). Continuing trends from previous years, public spending was estimated at 44.4 percent of GDP in 2015, leading to a fiscal deficit estimated at 8.5 percent of GDP despite a high and increasing level of revenue (35.9 percent of GDP in 2015).<sup>10</sup> This large increase in the level of expenditure resulted from further increases in public sector salaries, allowances and pensions. In this context, management of the constrained cash flow has become an increasing challenge, leading to the build-up of arrears and costly domestic borrowing.<sup>11</sup> Heavy reliance on domestic sources of financing have also contributed to increase the exposure of the domestic banking system to sovereign risk.

**16. The 2016 budget is expansionary with large public investment projects and one-off revenue measures.** The budget projects total revenue to reach 40.5 percent of GDP while expenditure is projected at 46.5 percent of GDP, driven by public investment, with a deficit of 6.0 percent of GDP. Wages are projected to be frozen in nominal terms, while the budget foresees major cuts in electricity and food subsidies. The budget includes a number of large multi-year infrastructure investment projects. Staff projects a higher deficit for 2016 of 12.9 percent of GDP, given the experience of underestimating current expenditure, and uncertainty about whether the new revenue measures will yield the expected revenue and whether the subsidy cuts will be implemented as planned.

**17. Balance of payment pressures have attenuated somewhat in recent months, and the exchange rate has remained stable.** Loose fiscal policy and recourse to monetary financing of the deficits have contributed to substantial balance of payment pressures in recent years. Nevertheless, the decline in global commodity prices, and the associated decrease in the import bill (notably for diesel), together with a marked increase in tourism-related net capital inflows have led to a recent improvement of the balance of payment. As a result, gross official reserves increased from USD 368 million at the end of 2013 to USD 564 million at the end of 2015. However usable reserves (net of short-term foreign liabilities to the banking sector) remain low, at only USD 194 million, covering only about 1.2 months of imports of goods. Nevertheless, the exchange rate of MVR 15.4 per USD has remained stable. In practice the tourism industry appears to be supplying sufficient quantities of foreign exchange at a stable premium over the official exchange rate.

**18. The lack of macro policy buffers leaves the country with few instruments to cope with a further downturn in tourism or other shocks.** While Maldives has an efficient tax system,

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<sup>10</sup> These are staff estimates, based on published data on actual borrowing by the government in 2014, because of concerns about actual fiscal expenditure not being fully recorded. The government estimated fiscal expenditure at 34.8 percent of GDP and the fiscal deficit at 2.9 percent of GDP.

<sup>11</sup> To address the high cost of domestic borrowing with 1-year Treasury Bills rates reaching 10.8 percent in May 2014, the government fixed interest rates on Treasury Bills to a range of 7.5 to 9 percent between June 2014 and September 2015, and further reduced it to 3.5 to 4.6 percent in October 2015. Because of the lack of alternative investment opportunities, this has not reduced the purchase of Treasury Bills by the private sector.

there is a risk that the introduction of Special Economic Zones could erode the tax base. With high debt and an already high fiscal deficit, it will be difficult for the government to increase expenditure or reduce taxes in the case of an economic downturn. Furthermore, weakening growth in China and the lack of recovery in Europe could lead to a further slowdown in growth in tourism arrivals. Moreover, Maldives is a small island state which imports most consumption and capital goods and faces a high pass-through of exchange rate fluctuations into inflation.<sup>12</sup> In this context, exchange rate stability is very important. However the country's usable official foreign exchange reserves are low,<sup>13</sup> which limits the country's ability to respond to potential pressures on the exchange rate.

**19. The risk of external debt distress could move from moderate to high, if the large increase in capital investment is carried out as planned in the medium term.**<sup>14</sup> Driven by a fiscal deficit reaching close to 20 percent of GDP by 2018, public debt would rise fast and could exceed 120 percent of GDP by 2020. While the airport expansion project could relieve a constraint on growth, the overall impact of the large loans could mean that the external public and publicly guaranteed debt-to-GDP ratio would breach the policy-dependent thresholds defined under the Low-Income Country Debt Sustainability Framework, especially since a number of these loans were contracted on non-concessional terms.<sup>15</sup>

**20. A sequenced implementation of investment projects with a more limited fiscal deficit could mitigate the risk of debt distress to some extent as shown in Table 1.** This scenario would limit the fiscal deficit and could keep the public debt-to-GDP ratio below 100 percent. Moreover, as most capital goods are imported, sequencing the projects would also limit imports and the current account deficit, leading to more foreign exchange reserves by the end of the projection period.

**21. Besides the risk to public debt of large investment projects, rising recurrent spending<sup>16</sup> could destabilize the balance of payments.** While imports of materials and other construction goods for foreign-financed investment projects (driven by FDI or foreign project loans) are usually offset by foreign capital inflows, an increase in recurrent spending financed by

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<sup>12</sup> 88 percent of a change in the nominal effective exchange rate is passed to consumer prices within one year (Masha and Park, 2012).

<sup>13</sup> It should be noted though that large quantities of foreign exchange remain outside the Central Bank, and private agents are often able to find foreign exchange when needed.

<sup>14</sup> The Joint Bank-Fund LIC-Debt Sustainability Assessment of January 2015 rated the risk of external debt distress as moderate. An updated DSA is under preparation, but its release is scheduled for after the finalization of the CPF.

<sup>15</sup> Moreover, as an IDA-grant eligible country, Maldives is subject to the IDA's Non-Concessional Borrowing Policy (NCBP) on a continuous basis, under which it is expected to minimize non-concessional borrowing (that is, with a grant element below 35 percent), and seek a waiver for non-concessional borrowing for projects with expected high returns.

<sup>16</sup> The government's published medium-term framework projects a total decline in non-interest recurrent expenditure of 2.6 percent between 2015 and 2018, driven to some extent by planned subsidy reforms. WB staff projects that recurrent expenditure will continue to grow in line with GDP, as it is not yet clear how effective other expenditure control mechanisms will be.

domestic borrowing will lead to a widening balance of payments deficit and a weakening of the foreign exchange reserve position.

**Table 1. Maldives Selected Indicators, 2014-2020**

	2014e	2015e	2016p	2017p	2018p	2019p	2020p
Real GDP (% annual change)	6.5	1.9	3.5	3.9	4.6	4.7	4.8
Inflation (% average, Malé)	2.4	1.4	1.3	2.5	2.8	3.0	3.2
	(in percent of GDP)						
Revenue and grants	32.1	35.9	35.6	35.6	36.8	36.3	36.2
Expenditure and net lending	41.1	44.4	48.5	49.4	48.6	46.0	42.4
Overall balance	-9.0	-8.5	-12.9	-13.7	-11.8	-9.7	-6.2
Public debt	65.5	72.1	81.9	91.0	96.9	99.5	99.0
	(in percent of GDP unless otherwise indicated)						
Current account	-4.1	-8.0	-7.7	-11.8	-14.6	-11.5	-9.7
Exports	108.7	100.6	100.9	99.1	97.3	97.5	98.0
Imports	90.1	85.8	84.9	87.4	88.6	84.9	83.1
Current transfers	-10.6	-11.4	-11.8	-11.8	-11.9	-11.9	-11.9
FDI	12.1	10.6	10.0	10.9	10.8	12.1	10.6
Gross reserves (in months of imports of goods)	2.7	2.5	2.7	3.2	3.3	3.7	4.0
Usable reserves (in months of imports of goods)	0.9	1.2	...	...	...	...	...
Exchange rate (MVR per USD, end of period)	15.4	15.4	...	...	...	...	...

Note: e is estimated, p is projected

Source: Ministry of Finance and Treasury, Maldives Monetary Authority and staff projections.

## 2.3 Poverty Profile

22. **Maldives' poverty incidence is substantially in line with that of upper middle-income countries.** According to the latest available HIES, collected in 2009/10, the share of population living on less than USD1.25 in 2005 PPP a day was 4.9 percent, while the corresponding share using the USD2-a-day poverty line was 17.02 percent. These shares are very similar to the average poverty outcomes of upper middle income countries (UMICs) neighboring Sri Lanka.

23. **Over the seven years between 2003 and 2010, poverty declined substantially nationwide, but not uniformly across Maldives' territory.** As detailed in the SCD, between 2003 and 2010, Maldives achieved a sizeable decline in poverty. The poverty headcount based on the national poverty line declined by seven percentage points, from 23 percent in 2003 to approximately 16 percent in 2010. Similar positive trends are observed considering the USD2 PPP international poverty line. However regional disparities emerged. Poverty declined in the Atolls while it remained stable in the capital area Malé. The poverty rate is the highest in the Central

North and Southern atolls, while the capital area Malé is home to the largest share of poor individuals. Sustained migration from the atolls to the capital accounts for most of the diverging poverty trends at the subnational level.

**24. Despite substantial progress, the pace of poverty reduction has been below potential when considering the high GDP growth of the economy, as the growth elasticity of poverty reduction (GEPR) in Maldives is relatively low by international standards.** In particular, considering the USD2 PPP poverty line, the GEPR in Maldives is only about 1.2 percent, meaning that for each percent increase in Maldives' per capita GDP, poverty fell by a mere 1.2 percent<sup>17</sup>. Given the slow pace of poverty reduction, Maldives will be able to reduce extreme poverty to under 1 percent only by 2040, a much longer period than upper middle-income countries and other countries in South Asia.

**25. The lack of shared prosperity in Maldives is the main determinant of the limited impact of growth on poverty reduction.** Between 2003 and 2010, consumption growth of the bottom 40 percent was 2.8 percent annually, well below the average (3.5 percent). The lack of shared prosperity is further reflected by inequality trends. While inequality as measured by the Gini index declined slightly from 39.9 percent in 2003 to 38.6 percent in 2010, the polarization as measured by quintile ratios increased. In particular, if in 2003 the poorest individual in the top 10 percent of the distribution was consuming 4 times more than the richest individual in the bottom 10 percent of the distribution, in 2010 that individual was consuming 5.3 times more. Polarizing trends are reflected by the unequal distribution of resources: in 2010, the top 20 percent of the population commanded as much as 45 percent of total consumption against only 17 percent of the bottom 40 percent. This un-equalizing impact of growth has slowed down poverty reduction. Had all the segments of the population benefited equally from growth (i.e. had growth been distribution neutral), poverty would have declined by as much as 11 percentage points.

## **2.4 Key Development Challenges and Constraints to the Twin Goals**

**26. Maldives has successfully built on its remarkable natural assets to underpin its development, but challenges have emerged that point to the need for a more inclusive and sustainable growth model.** Structural challenges are linked to Maldives' small scale, scattered population, and vulnerability to economic and climatic shocks. Above all, as detailed in the SCD, the country has followed a dualistic development pattern, centered on resort-based tourism as the main source of growth and foreign exchange, but with limited backward and forward linkages with the other sectors and heavy reliance on imported labor (both skilled and unskilled) and supplies. The lack of inclusiveness of this growth model has substantially limited the gains achieved in terms of shared prosperity, and raises issues of social sustainability, particularly in light of the growing discontent of the Maldivian youth. In parallel, the population has benefited from a generous

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<sup>17</sup>The limited contribution of growth to poverty reduction in Maldives is evident when compared to other countries. For example, while Maldives and Sri Lanka shared the same growth rate (approximately 4.8 percent a year over the period 2003 - 2010), poverty reduction in Maldives was one-third less than experienced in Sri Lanka.

redistribution of tourism revenues through public employment, social transfers and subsidies, which despite the high level of revenue collection in the country, has become fiscally challenging and may no longer be sustainable. Recent developments have also raised concerns regarding the environmental sustainability of Maldives' development model, with potentially significant implications for future poverty reduction and prosperity enhancement.

### *Inclusiveness*

**27. Limited suitable labor opportunities in the main economic sectors, especially for low-skilled labor, are likely to have played an important role in limiting the contribution of growth to poverty reduction in the Maldives.** As labor income from wages and self-employment (notably in fisheries and manufacturing) is the main source of household income for the poor, an inclusive development of the labor market is key for reducing poverty and boosting shared prosperity. Labor income accounts for more than 70 percent of the total household income of the poor, and it is the main source of income for 70 percent of poor individuals. However, the driving sectors of the economy offer limited suitable labor opportunities for the Maldivians, particularly the youth and women. While tourism accounts for about a third of the country's GDP, it only contributes to an estimated 16 percent of employment in the country. Job opportunities in the tourism sector are not seized by the local population due to a host of factors, including: (1) reservation wage that is too high for unskilled jobs; (2) lack of skills for technical and managerial jobs; (3) social norms; (4) lack of adequate transport; and (5) lack of access to finance. . Moreover, linkages between resorts and the local economy are similarly limited, with very few products and services supplied by local enterprises. There are still unrealized opportunities for linkages between tourism and local providers of fish and agriculture products. The lack of linkages plays an important role in constraining the development of suitable labor opportunities for the population. Finally, although women perform as well as men in terms of educational outcomes, their social and economic inclusion is limited by a number of factors beyond the lack of economic opportunities, such as social norms about gender roles and the lack of childcare facilities. This is reflected in the higher levels of female unemployment and inactivity.

**28. The lack of growth in fisheries is also an important factor behind the limited contribution of growth to poverty reduction, especially in the Atolls.** While fisheries accounts for a very small contribution to GDP (1.7 percent), the sector represents a much larger share of employment (10.5 percent)<sup>18</sup> and livelihood. However, the sector has been declining due to inadequate management and governance issues. Furthermore, employment in the extremely narrow fish processing industry is very limited, particularly for women. Apart from tourism and fisheries, there are no significant economic activities in the country capable of generating inclusive growth, while fiscal pressures have prompted an effective freeze on public sector employment over the past five years.

**29. Expanding and improving human capital will be of vital importance to promote prosperity and enhance the participation of the Maldivians, notably the youth, in the economy.** Significant improvements have been achieved on health and education outcomes over

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<sup>18</sup> Data as of 2010.

the past decades, but issues remain. Particularly constraining are the prevalent weaknesses in the education and training systems which weigh on the ability and incentives of the Maldivians, notably the youth, to gain skills and seize labor opportunities. This limits the inclusion and productive participation of the youth in the economy and society.

**30. In relation to the above, access to quality public services is a key dimension of shared prosperity and an important determinant of inclusiveness.** The government aims at expanding the delivery of basic public services to all inhabited islands, consistent with the Constitution which defines access to services as a right. However the geographical dispersion of the archipelago and its scattered population complicate the achievement of this objective, as approximately 71 percent of the 187 inhabited islands (besides Male') have less than 1,000 inhabitants. This dispersion prevents achieving economies of scale, and therefore the country faces very high unit costs of infrastructure and other public service provision. The cost of electricity generation through imported diesel, for example, is the highest in South Asia, especially in the Atolls, while subsidies have led to overconsumption of electricity and underinvestment in renewable sources of energy.

#### *Sustainability*

**31. Growing youth unemployment and ensuing social discontent may significantly undermine shared prosperity goals.** Driven by the lack of opportunities for a productive labor market engagement, discontent among the youth is compounded by the high levels of actual and perceived inequality, and a progressive deterioration of the social contract. As detailed in the SCD, social ills such as gang violence and drug abuse are on the rise, further contributing to excluding the youth from prosperity gains. Similarly, violence against women is also increasing, fueled by social discontent among a fraction of the male population. Moreover, a growing support of more conservative religious practices among the youth and negative perceptions towards the tourism industry may also contribute to challenge the social sustainability of Maldives' development model.

**32. Global climate change poses a considerable long-term threat which could significantly challenge poverty and shared prosperity goals.** With 42 percent of the population and more than 70 percent of critical infrastructure within 100 meters of shoreline, rising sea levels could have dire social and economic consequences, notably for the poorer and most vulnerable. The entire country could be submerged before the end of the century as 80 percent of land is less than one meter above sea level.<sup>19</sup> In order to partially address this, the government prepared a Strategic National Action Plan in June 2011 to integrate disaster risk reduction and climate change adaptation, but its implementation appears to be limited. Despite past efforts, Maldives is not prepared to withstand a rise in sea levels, as most lifeline infrastructure (such as power houses, hospitals and harbors), population centers (such as schools) and dwellings are not adequately designed. Increasing vulnerability to climate change is driven and reinforced by the absence of systematic adaptation planning and practice.<sup>20</sup> As part of the United Nations framework Convention on Climate Change (UNFCCC) climate deal agreed upon in December 2015 at the

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<sup>19</sup> <http://www.climatehotmap.org/global-warming-locations/republic-of-maldives.html>

<sup>20</sup> UNFCCC Country Information: Maldives

COP21, the authorities have committed to important objectives for climate change mitigation and adaptation by 2030, with an important focus placed on climate resilience. The country's Intended Nationally Determined Contribution (INDC) "recognizes the status of Maldives as a nation suffering from the adverse impacts of climate change and [the need] to build its capacity to ensure a safe, sustainable and resilient and prosperous future".

**33. Shortcomings in the management of natural resources are a growing concern in terms of sustainability.** The most pressing issues relate to sewage and solid waste management as these have a direct impact on coral reefs and fisheries. Uncontrolled waste disposal and floating debris at tourist resorts are the most visible threats to the country's reputation as a pristine high end tourist destination. They also affect the quality of the ground water with direct impact on island communities.

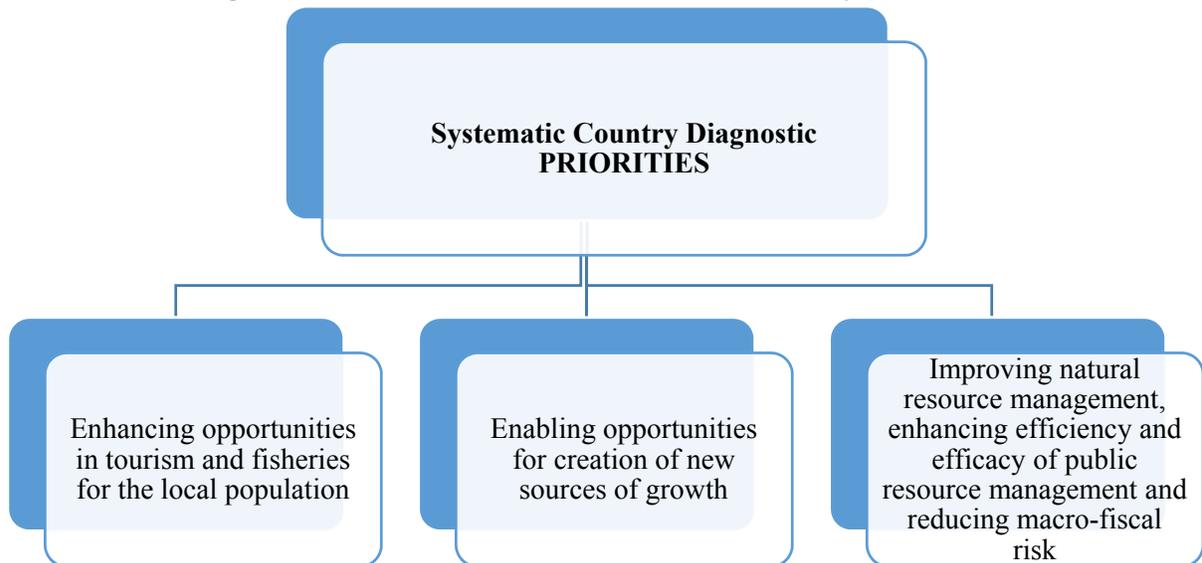
**34. Ensuring a stable macro-economic framework will provide an important platform for sustained growth and shared prosperity.** Maldives is highly vulnerable to economic shocks due to its small size, lack of economic diversification and heavy reliance on imports. Its rigid budget in a context of low fiscal buffers raises immediate sustainability concerns, with direct implications in terms of poverty reduction and shared prosperity, because the budget is a central tool to redistribute the wealth generated by tourism to the population.

**35. The contribution of social spending to poverty reduction and shared prosperity in Maldives has been substantial, but has been declining over time, and has raised concerns in terms of sustainability, equity, and impact.** Although the current system of redistribution has contributed to achieving important development outcomes, improvements are needed in terms of efficiency and cost effectiveness to ensure its sustainability. As detailed in the SCD, universal electricity subsidies disproportionately benefit the richer households, while the generosity of the social pension system has exacerbated intergenerational equity issues. Furthermore, increasing reservation wages fueled by social spending and a mismatch between youth aspirations and opportunities contribute to weaken incentives for productive participation of the youth in the economy.

*Priorities for achieving the twin goals*

**36. In this context, the SCD for Maldives identified three specific priority areas to promote growth, reduce poverty, and increase shared prosperity in a sustainable manner.** The first priority area involves enhancing opportunities in tourism and fisheries for the Maldivian population. These opportunities should be linked to regional and global value chains to sustain growth. The second priority area focuses on enabling opportunities for new sources of inclusive growth, with emphasis on the investment climate, access to finance and human capital. The third priority area focuses on improving natural resource management, enhancing the efficiency and efficacy of public resource management and reducing macro-fiscal risks.

**Figure 1: Priorities for action as identified by the SCD**



37. **Governance issues appear in many of these priority areas as a fundamental cross-cutting constraint.** Various dimensions of governance constraints can be identified. Some governance challenges associated with public institutions affect significantly the business environment and the soundness and sustainability of economic and fiscal management. Such challenges include limited capacity in the public sector, a complex institutional framework with overlapping and sometimes unclear responsibilities, and deficiencies in the management of SOEs. Institutional capacity in particular, remains much lower than that of an average upper middle income country. Other governance challenges limit the ability of the State to support and accompany social and economic progress in the main economic sectors. These include a lack of transparency in the management of the tourism sector, overlapping roles of government agencies and inadequate licensing processes in fisheries, an incomplete and sometimes weakly enforced legal and regulatory framework, and weak natural resource management capacity.

### **III. WORLD BANK GROUP PARTNERSHIP STRATEGY**

#### **3.1 Government Program**

38. **The government's program is reflected in the detailed 2013 Election Manifesto of the ruling party and sector strategies.** Higher economic growth, diversification, and fostering entrepreneurship and job creation are some of the goals outlined in the Manifesto. Achievement of these goals is planned through the establishment of regional urban centers, the creation of Special Economic Zones (SEZs) to attract domestic and foreign investment, and the launching of large government-sponsored infrastructure projects. Through these endeavors, the government

aims to promote new segments of activity within the tourism sector, such as the guesthouse segment, and the development of ancillary industries, such as entertainment, fisheries, and agriculture. A number of sector strategies including in particular the Fourth Tourism Master Plan 2013-2017; Ministry of Education Strategic Action Plan 2014 – 2018, and the Maldives Scaling-up Renewable Energy Program 2012, informed the design of the WBG strategy.

**39. The government also seeks to promote suitable employment opportunities for Maldivians, particularly the youth, and to provide cost-effective basic public services to the country's inhabitants.** To this end, the government targets substantial improvements in health and education outcomes in order to build human capital for the future and address the pervasive skills mismatches which prevail in the labor market. Improvements in transport infrastructure, energy and housing are also planned to accompany and support the development process.

**40. The 2013 Manifesto is ambitious and the likelihood of its effective implementation would be enhanced were it coupled with an action plan for implementation that includes costing, prioritization and sequencing.** The government has taken steps to pursue the achievement of the objectives outlined in the Manifesto. However, weak coordination and planning such as the lack of feasibility studies for large infrastructure projects, including the assessment of associated contingent liabilities and long-term fiscal implications of these projects, have inhibited progress. Nonetheless, some notable advancements have been made such as the conclusion of an agreement with the government of China valued at some USD200 million to finance the bridge between the capital, Malé, and the satellite suburb Hulhumalé, which is presently only accessible by ferry boat.

## **3.2 Proposed WBG Country Partnership Framework**

### **3.2.1. Lessons from Stakeholder Consultations and ISN Implementation**

**41. Consultations were conducted with a broad range of stakeholders to inform the preparation of the ISN, SCD and CPF.** Consultations around strategic products have been held annually since 2014 relative to the preparation of the ISN (March 2014), the SCD (May 2015) and the CPF (January 2016). The messages from the CPF consultations were largely consistent on the first two occasions. Thus, the approach in the most recent consultation was to focus on the theme of enabling employability and employment for Maldivians, particularly women and youth, and engage government, private sector (ranging from small start-ups to relatively large well established firms) and civil society (including youth groups and chambers of commerce) on this issue in particular. A summary of the CPF consultations appears in Annex 7.

**42. The consultations confirmed economic participation for Maldivians as a priority, acknowledged the challenges in attempting to address the issue and offered key insights for consideration in designing interventions.** Governance as well as employment and employability were identified as critical issues. Governance issues included the lack of sequencing and consistency in policy reforms by the government and the capture of economic opportunities by a powerful minority. Issues around employment and employability included the inability of new

entrepreneurs to access finance, voluntary unemployment by the youth, the necessity for improvement of access and quality of education and the role of religious conservatism in limiting the participation of women in employment. Participants suggested that WBG interventions could look at helping to change attitudes towards work (through school curricula and public awareness campaigns), locating employment opportunities close to inhabited islands and encouraging the provision of transportation and childcare to permit women to engage in employment.

43. **Lessons from the implementation of the 2008-2012 Country Assistance Strategy and the 2014-2016 ISN** have been integrated in the design of the CPF. They point to the following key recommendations:

- The limited financial envelope and resources available for Maldives call for the need to be highly selective, while underlining the importance of partnerships and financial leverage including from the private sector to scale up the impact of WBG interventions.
- Sustaining involvement in areas where there is broad stakeholder support and strong government commitment for reform objectives provides for continuity in a politically uncertain environment. Prioritizing interventions where resources reach the beneficiaries directly (such as school level interventions) mitigates the risk of unpredictable policy shifts.
- Adequate consultation and community buy-in are necessary for the success of investment financing projects, as is the need to take account of local conditions, which vary widely across and within Atolls.
- Just in time technical assistance and analytical work are better positioned to deliver results in Maldives, given the fluidity of the political and institutional context and the need to be highly responsive to the needs and priorities of the government.
- Weak institutional capacity calls for the prioritization of activities that emphasize the strengthening of systems and processes and aim at building institutional capacity at all levels in a sustainable manner. For the same reason, simple project design, implementation mechanisms and monitoring and evaluation processes are also necessary.
- Intensive implementation support to project management staff, particularly in the areas of financial management and procurement, is needed to maintain satisfactory outcomes for project management in implementing WB projects.
- The small size, limited number of service providers, unique geographical features of the archipelago and relative geographic isolation of the Maldives makes it difficult to estimate costs accurately, particularly for the provision of specialized goods and civil works.

### 3.2.2. Overview of World Bank Group Strategy

44. **The FY16-19 CPF program aims to contribute to enabling more inclusive and sustainable growth through better use of the country's assets, including human capital, natural assets and financial resources.** By design and at the request of the government, the CPF period aligns notionally with the election cycle, as Presidential and Parliamentary Elections are expected to occur in 2018. The SCD findings have influenced the orientation of the CPF program towards enhancing the economic participation of Maldivians to improve the inclusiveness of growth. In addition, the CPF program will scale up or deepen ongoing successful interventions in the sectors reflected in the legacy portfolio which covers: education, public finance management,

natural resource management and renewable energy. These areas were confirmed by the SCD analysis as priorities for achievement of the twin goals.

45. **In a context of a fluid political environment and complex decision-making systems, WBG engagement will aim to maximize development impact by implementing a highly-selective set of interventions.** These interventions are in line with the government’s priorities and are well-positioned to contribute to achieving the twin goals of poverty reduction and shared prosperity. Given the IDA resource envelope, it will be particularly important to avoid fragmentation of the portfolio, and focus on selective interventions which can bring about concrete changes. In the same vein, IFC and MIGA engagement will be highly selective given the difficult operating environment marked by uncertainty around government support for public private partnerships and the lack of scale in some projects. In implementing the CPF, IFC will give priority to: (i) sustainable tourism, including SME-oriented guest houses; (ii) financial inclusion and access, including access to finance by SMEs and the underserved segments, financial infrastructure/secured transactions, and housing finance; (iii) infrastructure/public –private partnerships, including solid waste management, renewable energy, and inter-island transport. IFC will pursue climate smart solutions, including adaptation and mitigation in its interventions. Opportunities for leveraging financial and other resources to complement WBG interventions will be sought actively from the private sector, other development partners and trust funds to enhance impact.

46. **Selectivity in the CPF will be underpinned by three overlapping considerations,** which frame the choice of the proposed focus areas and activities. These selectivity filters include: (i) alignment with the government’s program and priorities for WBG support, as described in Section 3.1; (ii) emphasis on priority areas identified by the SCD (Section 2.4); and (iii) WBG comparative advantage (Box 1).

#### **Box 1 – WBG Comparative Advantage in Maldives**

The WBG’s comparative advantage in the main areas of engagement proposed in this CPF lies in: (i) the WBG’s substantial global expertise in the areas under consideration (education, public financial management, financial sector development, poverty measurement, universal health coverage, renewable energy, etc); (ii) the accumulation of significant experience and knowledge in Maldives over the past 25 years; (iii) the WBG’s global engagement in promoting responsible stewardship of global public goods, notably with respect to climate change; (iv) its ability to leverage ongoing global initiatives and facilitate access to related resources (e.g., the Climate Investment Funds (CIF), the Green Climate Fund (GCF), and the global Energy Sector Management Assistance Program (ESMAP) initiative); and (v) the WBG’s ability to leverage private resources, notably through guarantees (such as in the ASPIRE initiative) and IFC investments.

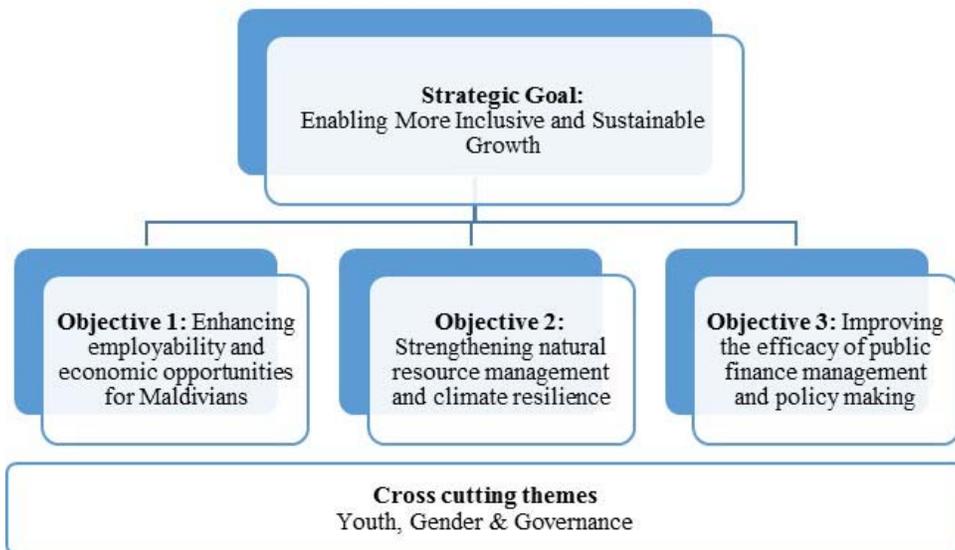
47. **The SCD was focused and presented a limited set of priorities which are all reflected in the CPF.** In each area of engagement, the proposed program focuses primarily on strengthening capacity, systems and institutions through selective WBG interventions which seek to bring the financial and technical resources directly to the beneficiary. Experience has shown that these are the most effective ways for the WBG program to deliver results in Maldives, in a context of weak institutional capacity, geographical dispersion, and complex decision-making environment. The

CPF program is designed as a set of targeted activities that complement each other for enhanced contribution to the twin goals of poverty reduction and shared prosperity. Presently, the World Bank does not envisage supporting major policy reforms over the CPF period. In addition, the WBG will not engage in some areas, which, while considered high priority by the government, do not meet the WBG's criteria in terms of comparative advantage. In particular, the World Bank does not envisage any substantial involvement in the government large infrastructure projects and SEZs, partly because of the limited resources available and the need to maximize impact by avoiding fragmentation.

48. **The WBG will strive to seize opportunities as they emerge for impactful engagement,** through the provision of just-in-time responses to the government's requests for technical assistance and analytical work in areas that address or are directly related to priorities identified in the CPF. Through its ongoing lending and technical assistance operations, the WBG will seek to encourage broader dialogue in priority areas for which there is currently limited client demand such as addressing macro-fiscal risks and improving the performance of state-owned enterprises, among others. The program may also be adjusted should the conditions for successful implementation of the proposed activities no longer be in place or to respond to emerging priorities that are consistent with the CPF. Potential adjustments in the strategy and corresponding results indicators as well as indicators for operations under preparation would be reflected in the Performance and Learning Review (PLR) at mid-term.

49. **Building on these principles of engagement, the CPF program targets one strategic goal, encompassing three main objectives,** as described in Figure 1. This approach is well-positioned to contribute to the twin goals by supporting enhanced participation and integration of the Maldivians in the country's growth and development process, and by helping to improve the management of the country's fiscal resources and natural assets, thereby addressing key vulnerabilities which may affect the poorest disproportionately.

**Figure 2 - CPF Strategic Goal, Objectives and Cross-Cutting Themes**



50. **The strategic goal of the CPF is to contribute to enabling more inclusive and sustainable growth through better use of the country’s assets, including human capital, natural assets and financial resources.** Building on Maldives’ impressive growth performance, the purpose is to help set the stage for higher quality of growth, which emphasizes increased participation of the population in the economy, and enhanced social, fiscal and environmental sustainability of the country’s development model. This strategic goal is articulated around three objectives:

- *Objective 1:* The SCD posits that limited participation of the local population in the existing job market and entrepreneurial activities reduces the contribution of growth to poverty reduction. WBG activities will therefore seek to enhance employability and economic opportunities for Maldivians in the productive sectors, building on improved access to financial services and quality education.
- *Objective 2:* The sustainability of the Maldives’ development model is dependent on how well the authorities manage the country’s wealth generating natural assets and resources and how resilient the country is to shocks and climate risks. However, climatic risks and long term resilience are not sufficiently integrated into plans and policies. Shortcomings in the management of natural resources, particularly with regard to marine and reef fisheries, solid waste management, fresh water and coral reefs, and the country’s high dependency on imported fuel as a source of energy, also represent key pressing issues, which are intertwined with the challenges of sustainable growth, poverty reduction and climate resilience. The WBG program will therefore seek to contribute to strengthening natural resource management and climate resilience.
- *Objective 3:* Macroeconomic imbalances and escalating public debt, associated in part with the high costs of the country’s generous redistributive system and weak fiscal management, also represent a growing source of vulnerability. Weakness in this area may threaten the fiscal

sustainability of the country's economic and social development model. The WBG program will help to address this problem through support to improvement the efficacy of public finance management and enhance statistical capacity to better inform policies and programs, notably with regard to labor markets and the drivers of poverty reduction.

51. **These strategic goal and objectives are consistent with the WBG's 2016 South Asia Regional Update** that prioritizes: private sector development; social and financial inclusion; and governance and security.

52. **The CPF program will be underpinned by three cross-cutting themes of youth, gender and governance.** These themes were identified by the SCD as essential for sustainable management of resources and social inclusion. The themes will be mainstreamed in the design and implementation of WBG investment operations and analytical work, which will proactively target results in these areas. All lending and advisory operations and analytical work will explore ways in which women and youth can participate in the relevant sector/activity. The Country Gender Assessment that was finalized in 2015 has contributed significantly to the design of the CPF and will be a reference tool in the design of specific interventions. The impact of WBG interventions on the youth and women will be monitored and evaluated using gender- and youth- sensitive indicators and disaggregated data.

53. **Given the particular vulnerability of Maldives to the adverse consequences of climate change, actions geared at supporting the government's agenda for climate change mitigation and adaptation will be mainstreamed across the whole CPF program,** consistent with the government's commitment taken in its INDC. In light of this, the CPF program will follow a two-fold approach: (i) the CPF will target improvements in natural resource management and climate change adaptation and mitigation, with a focus on climate adaptive planning, waste management, coral reefs, water, and renewable energy (see Objective 2 below); and (ii) the WBG will seek to mainstream climate change adaptation and mitigation across the other areas of the program, through climate-smart activities in tourism and fisheries. In addition, as a matter of WBG policy, projects will be climate risk screened and designs adapted accordingly to mitigate climate risk. This approach will integrate relevant monitoring and evaluation mechanisms, informed by the longer-term objectives of the INDC.

54. **The aforementioned cross-cutting themes are consistent with the focus areas of the United Nations Development Assistance Framework 2016 – 2020:** Youth and Children; Gender; Governance; and Environment and Climate Change. The WBG will collaborate closely with the United Nations agencies in implementing the CPF program to ensure coherence and to optimize leverage where possible.

### **3.2.3. Objectives Supported by the WBG Program**

55. **The three main objectives of the proposed WBG program over FY16-19 are described in more detail below.** Results by the end of the CPF period are expected to be achieved mainly through ongoing financing, analytical and advisory work, while new activities under the CPF will,

for the most part, generate outcomes beyond the timeframe of this program. These results are therefore indicated below but will not fall under the scope of the CPF Results Monitoring Matrix (Annex 1). The new activities that the WBG intends to launch in FY16-19 are indicative only and may be adjusted over the coming years to respond to changing country circumstances or government priorities, within the framework of this strategy. The proposed IDA program is set forth in Annex 2.

## **Objective 1 – Enhancing employability and economic opportunities for Maldivians**

56. **A priority goal of the government of Maldives is to foster a more inclusive development model through enhanced participation of the population in the economy.** The SCD concluded that greater inclusiveness is an important requirement to achieve further poverty reduction and shared prosperity in the country. Productive participation of the Maldivian population in the development process may be enhanced by tightening the linkages between the tourism sector and local communities; supporting sustainable growth in sectors that are key for poverty reduction, livelihoods and jobs, such as ancillary industries related to tourism and fisheries; improving access to financial services; and, more broadly, addressing constraints to enhanced economic participation of the more disadvantaged segments of the population, including the poor, youth, and women. On the supply side, enhancing the quality of education and addressing the existing skills mismatches may contribute effectively to greater inclusion through jobs. The CPF program seeks to support these priorities for enhanced employability and economic opportunities for the Maldivians.

### ***Jobs and entrepreneurship in the productive sectors***

#### *Key development challenges and government priorities*

57. **The tourism industry offers significant potential for developing more suitable jobs and entrepreneurship opportunities for the Maldivians within the sector and in related sectors.** This would involve building on the development of local supply chains for agricultural products and fish, the growth of the guesthouse segment of the tourism sector, and the development of adequate transportation to resort destinations, particularly for women. The government aims in particular to strengthen the ability of local producers to enhance the quality, quantity and reliability of products supplied to the tourism sector and to develop shorter supply chains. Within the tourism sector, the government also supports the development of the guest house segment as a valuable option for diversification and more inclusive growth. Importantly, this fast-growing segment appears to create opportunities for tourism activities that are better integrated with local communities. However, the rapid and unplanned growth of this market segment has already impacted negatively the environment, compounding existing challenges in inhabited islands in terms of waste management, land-use planning, and water and natural resource management. In this context, the government aims at formulating and implementing a strategy for sustainable development of guesthouse segment of the tourism sector.

58. **Fisheries play a vital role in Maldives, particularly for the rural and coastal poor.** Fish is the backbone of food security for the country. Furthermore, marine fisheries represent the most important primary industry of Maldives and the main economic activity in most inhabited islands. Maldives has an excellent opportunity to further develop its fisheries sector, including aquaculture. However the sector is facing multiple challenges in terms of sector management, governance, and protection of fishery resources from uncontrolled extraction, enabling business environment (including access to finance), technology development, and investment attraction. This has led to declining catch volumes; lack of value addition; and falling employment, particularly for women. Furthermore, coral reef degradation represents a threat to the sustainability of fisheries and is also compounding the effects of climate change on coastal and marine ecosystems and fish resources. The government of Maldives' has undertaken to address these issues, with the objectives of: (i) sustainably increasing the growth and competitiveness of the fisheries sector; (ii) implementing interventions for more sustainable fisheries management practices, including community-based management; and (iii) expanding employment, livelihood and other economic opportunities in the sector, especially for the youth.

59. **The ability of the Maldivian population to seize opportunities for entrepreneurship and participate fully in the economy is constrained by the lack of access to financial services and financial efficiency.** Enhancing access to credit for entrepreneurs is one of the priority areas in the Ruling Party's 2013 Manifesto. Overall, improving access to financial services (particularly credit, savings, and payment services for the more disadvantaged segments of the population and in remote atolls), which calls for a range of institutional, legal and regulatory reforms in the financial system, represents an important objective for enhancing financial inclusion, and shared prosperity. Further, improved financial efficiency can enhance opportunities for isolated communities contributing to the development of more distant islands and improve the spatial distribution of income ultimately enhancing shared prosperity.

*Objectives and expected results of the WBG engagement*

60. **To help foster job creation and entrepreneurship in the productive sectors, and in line with government's objectives, the proposed WBG engagement over the CPF period will aim at contributing** to: (i) enhancing the ability of the Maldivians, particularly youth and women, to access more and better jobs in the tourism and fisheries industry and related sectors; (ii) identifying and enabling better upstream and downstream linkages between mainstream tourism and local communities of agricultural producers and fishermen; (iii) improving the enabling environment for community-based sustainable tourism and fisheries development; and (iv) enhancing institutional capacity for adequate strategic planning, regulation and management of tourism market segments and marine fisheries resources. The program will also aim at supporting the authorities and the private sector to increase the population's access to financial and payment services, especially in the outer islands and atolls, notably through facilitating the development of mobile money solutions.

61. **These objectives will be pursued through a combination of WBG financing and advisory services.** IFC will explore investment opportunities in the tourism sector, tourism-related

ancillary industries, and tourism-related transport infrastructure, as well as opportunities to support private sector solutions in downstream fish processing and other productive sectors. IFC will also seek opportunities to improve access to finance for MSMEs through investments in banks and NBFIs and advisory services. In doing so, IFC will collaborate with other developing partners active in this area to ensure coherence in approaches and to maximize impact. IDA will complement this activity with advisory services and financing, most notably through the planned FY17 Sustainable Fisheries project and the planned FY17 Entrepreneurship and Jobs project. In the design and implementation of the former operation, IDA will leverage partnerships with other key players in the sector, including JICA, which is providing support for the development of a Fisheries Sector Master Plan, and IFAD, so as to build on its more recent experience with similar interventions in Maldives.

**62. Should demand from private clients arise and relevant opportunities emerge, MIGA will consider supporting foreign direct investment in support of job creation.** MIGA will consider opportunities across all sectors, but expects to focus notably on tourism and on other key supporting sectors where significant foreign capital may be needed (such as infrastructure). MIGA currently has no exposure in the Maldives.

**63. Building on ongoing just-in-time technical assistance, facilitation of mobile money development will be pursued through the provision of trust-funded advisory and technical support** under the Financial Sector Reform and Strengthening (FIRST) Initiative, with possible complementary IFC engagement with e-payment companies. In parallel, a Financial Sector Assessment Program (FSAP) development module and follow-on Technical Assistance is planned, to be carried out in close coordination with the International Monetary Fund (IMF). These activities will focus on ways to enhance financial efficiency and the inclusion of the bottom 40 percent of the population, in order to inform the government's decision-making process as it moves forward on reforms.

**64. In parallel, the WBG will aim to shed light on options to inform specifically the government's objective of enhanced social inclusion and economic empowerment of young men and women across the economy** mobilizing advisory and analytical services and its convening power. Collaboration with other partners on issues related to youth and gender will be sought, notably with UNFPA.

**65. There will be a range of results to support economic participation of all segments of Maldives' population.** While many of the proposed interventions under Objective 1 will be launched during the course of the CPF, and specific outcomes have yet to be identified and agreed upon, it is expected that the main results by the end of the CPF period would include the following: (i) a regulatory framework for sustainable development of the guesthouse tourism sector is developed; (ii) pilot for community-based management schemes for sustainable marine resources management are launched; (iii) operable non-bank led mobile money solutions are launched; (iv) strategy for financial sector development adopted; and (viii) government policy or programs on youth and gender informed. Should opportunities for IFC support materialize, IFC activities could also contribute to an increase in the number of MSMEs with access to finance. As the program

develops further, indicators may be refined and changes reflected in the PLR. Over the longer term (beyond the timeframe of the CPF), WBG interventions are expected to contribute to the creation of more and better jobs and entrepreneurship opportunities in the tourism and fisheries sectors and related industries. The specific results contemplated include (i) the participation of local producers in supply chains for the tourism sector increases; and (ii) more effective surveillance, controls and reporting systems for improved fisheries sector governance are in place.

### ***Education and skills***

#### *Key development challenges and government priorities*

66. **Expanding and improving human capital is vital to sustain growth and improve access to suitable jobs for young people.** From the demand side, enterprises have identified the lack of staff with adequate skills and qualifications as a major constraint to employment and growth. This has led to significant reliance on the employment of expatriates in the productive sectors, thus limiting significantly the inclusiveness of Maldives' development model. Tourism is an important source of job creation with about 3,300 new jobs expected to be created per year. However, only 15 percent of the employed men and 4 percent of the employed women in Maldives work in tourism. From the supply side, there is a growing number of youth who have attended school and are unwilling to accept the perceived lower-status, lower-paying jobs in fisheries or other non-white collar sectors. These youth may also feel little financial pressure to work, because most daily necessities are subsidized by the State.

67. **Maldives has performed well in providing access to primary and lower secondary education, but lags behind in terms of education attainment at the higher secondary level, higher education participation, and learning outcomes.** The gross higher secondary net enrollment rate is about 35 percent, which is very low by international standards. While the government has recently expanded the number of schools offering secondary education, many of these schools are over-crowded and under-equipped. Similarly, higher education participation is extremely low for a middle-income country. The gross higher education enrollment rate is only about 6 percent in Maldives, resulting in a shortage of local professionals, managers and technical experts. The quality of education at all levels is also a major challenge facing Maldives, both in terms of inputs and outcomes, with substantial regional disparities. The absence of a system for measuring cognitive achievements impedes quality improvement as does the absence of a systematic quality assurance process in the school system. The quality and relevance of the technical and vocational education program (TVET) must be improved in close collaboration with the private sector.

#### *Objectives and expected results of the WBG engagement*

68. **The WBG will focus on strengthening strategic dimensions of education access and quality.** The WBG is a major partner in the education sector in Maldives, and has built a successful engagement over the past years. Going forward, key results are expected to be achieved through the ongoing Enhancing Education Development Project. Expected outcomes by the end of the CPF

period would include: (i) an increase in the survival rates through higher secondary education, i.e. the proportion of students enrolling and completing higher secondary education; (ii) the establishment and implementation of a system of national assessments of cognitive achievements; and (iii) the establishment of a quality assurance system for schools. The WBG will seek to continue leveraging support through partnerships with other key players in the sector, particularly UNESCO and UNICEF. This engagement is expected to contribute significantly to the twin goals, as the children from poor households and from the bottom forty percent of households are those most disadvantaged in terms of accessing good quality education. The WBG also plans to support the objective of strengthening skills among jobseekers, particularly through the planned FY17 Entrepreneurship and Jobs project, the outcomes of which are yet to be defined, and may partly fall beyond the timeframe of the CPF.

69. **Furthermore, the WBG will work with the government and other relevant stakeholders to shed light on the future needs of the Maldivian economy in terms of human capital.** These efforts will contribute to formulating strategic options and informing policy decisions to orient the education and training systems accordingly. Particular emphasis will be placed on assessing specific constraints and opportunities facing the bottom 40 percent of the population. This review is also expected to provide the analytical foundations for future WBG financial support in the education sector, including a planned Education and Training for an Upper Middle-Income Country (UMIC) investment financing operation which could be delivered towards the end of the CPF period (FY19).

## **Objective 2: Strengthening natural resource management and climate resilience**

### *Climate resilience and natural resource management*

#### *Key development challenges and government goals*

70. **Vulnerability to climatic risks poses a considerable long-term threat which could challenge poverty and shared prosperity goals.** In this context, the country's INDC lays out a range of important multi-sectoral measures for climate mitigation and adaptation that the government intends to achieve by 2030 to mitigate Maldives' contribution to global emissions, and improve climate resilience. An important priority is to address the absence of systematic adaptation planning and practice.

71. **Shortcomings in the management of sewage and solid waste also pose an immediate challenge.** Hundreds of thousands tons of solid waste are generated every year, with growing volumes of non-biodegradable materials and lubricant residues. However, most of the 134 Island Waste Management Centers (WMCs) are not fully functional, resulting in intertwined environmental, economic and health challenges which may affect the bottom 40 percent of the population disproportionately. In addition, uncontrolled waste disposal threatens the country's reputation as a pristine high-end tourist destination and negatively impacts the country's coral reefs and fisheries, undermining in turn the economic and environmental benefits of these resources for

island communities. The country would have better capacity to address these issues with an effective national solid waste management strategy and private sector participation in solid waste management and service provision.

72. **The loss of coral reefs represents a particular threat to the sustainability of the tourism industry and fisheries, and is also compounding the effects of climate change.** As described in the SCD, significant damage to coral reefs is caused by harbor dredging and reclamation, as well as the rise in sea temperature and pollution, and unsustainable exploitation of high-value reef resources. As coral reefs also play an important role in protecting shores against rising sea levels, their destruction may also aggravate the impact of climate change. Furthermore, the loss of coral reef is resulting in the loss of valuable bait fish which are used for tuna fisheries, a major source of food and income in outer atolls.

73. **Fresh water sources are also at high risk due to the rise in sea levels associated with climate change and pollution linked to untreated sewage disposal into the ground.** It is estimated that per capita ground water and rain water availability will decline by 34 percent by 2035 (compared to 2009), while demand will continue to increase due to population pressure, making water security for potable and irrigation purposes a key challenge to the twin goals. However the institutional framework for managing fresh water supply is weak. The country is also vulnerable to shocks to drinking water supplies due to the lack of back-up arrangements.

74. **Overall, institutional capacity for managing the country's natural resources is relatively weak.** A lack of technical and managerial capacity constrains the implementation of environmental policies. Furthermore, information on environmental issues is fragmented and sparse. Because of constrained resources, natural resource management is largely done on a limited and voluntary basis on the islands. Governmental environmental agencies also face important issues in retaining scarce qualified staff. Aware of these challenges, the government aims at increasing the institutional capacity to effectively manage environmental risks and threats to fragile coral reefs and marine habitats.

#### *Objectives and expected outcome of WBG engagement*

75. **The CPF program will continue to focus on local capacity enhancement for climate adaptive planning and management through the adoption of a multi-sectoral approach that will address improved management of coral reefs, solid waste and other natural resources.** The WBG has been supporting these activities over the past years through the Climate Change Trust Fund (CCTF) with funding from the EU and the Australian government. Building on the first phase of this engagement, WBG activities over the CPF period (CCTF-II) will focus on the Addu and Gnaviyani Atolls, with the aim of providing a demonstration effect that could later be replicated in other atolls. During the course of the CPF period, IFC will explore options for supporting climate-smart solutions for adaptation and mitigation. Expected results beyond the end of the CPF include the establishment of an operational protected wetland area management system. Furthermore, more information on environmental issues will be available to inform policy-making, and a substantial proportion of targeted communities will participate in the assessment, monitoring

and stewardship of key resources such as fisheries and coral reefs. Over the longer term, these activities would set the stage for better integration of climatic risks and resilience objectives into islands' development planning.

**76. Additionally, the program will support the establishment of enhanced solid waste management systems.** Capacity building to select Atoll Councils for planning an atoll level-integrated solid waste management system will be provided as part of CCTF-II. In addition, IDA and IFC will combine efforts through financing, investments and advisory services, including for public-private partnerships should the enabling environment become more conducive for public-private partnership transactions. By the end of the CPF, it is expected that: (i) an increasing number of island representatives of select Atoll Councils will demonstrate improved capacities to plan and manage an integrated solid waste management system and other multi-sectoral sectoral measures; and (ii) an increasing number of waste management centers will be operational. In the outer years, the WBG would consolidate its engagement on solid waste management, possibly through a Solid Waste Management Project, with the objectives of contributing to the establishment of effective solid waste management systems in all inhabited islands and broadening the use of solid waste management facilities by inhabitants.

### ***Renewable Energy***

#### *Key development challenges and government objectives*

**77. Power is currently supplied by diesel generators through isolated, island-specific grids, spread over 900 square kilometers.** As explained in the SCD, the country relies almost entirely on costly imported fossil fuel to supply the generators. Furthermore, the country has a long history of subsidized energy prices that have contributed to fiscal pressures, over-consumption, and limited incentives to invest in renewable energy sources. High real and perceived risks as well as vested interests have been constraining the development of renewable energy. These challenges have been exacerbated by the lack of quality data on renewable energy to guide policymakers, and the lack of an enabling environment for private investors. Currently, the cumulative installed photovoltaic (PV)-based generation capacity is less than 2 MW, spread across several islands. While this capacity is still limited, it has demonstrated its viability as a source of cheaper and cleaner energy. The 2010 National Energy Policy and Strategy recognizes this potential and focuses on creating an enabling environment for the growth of a reliable and sustainable energy sector.

#### *Objectives and expected outcomes of WBG engagement*

**78. Over the CPF period, the WBG will continue supporting ongoing government's efforts to develop renewable energy in order to lower the cost of electricity generation and move progressively to a carbon neutral economy.** These objectives may contribute to the twin goals in several ways. Lower cost of electricity will help promote competitiveness and growth, resulting in better economic prospects for the population. More directly, through capacity building and skill enhancement in a sunrise industry, job opportunities dispersed across the islands will be

created in the private sector. Furthermore, reducing government spending on electricity and energy subsidies, may free up public resources for poverty-reducing and equity-enhancing expenditures.

79. **In this context, the program will focus on increasing PV generation through private investment.** The World Bank is currently supporting the government's goals through the Accelerating Sustainable Private Investments in Renewable Energy Project (ASPIRE), in close coordination, notably, with the ADB's Preparing Outer Island for Sustainable Energy Development (POISED) initiative. ASPIRE combines technical assistance, concessional financing, and innovative risk mitigation instruments to address private sector's issues of perceived and real political risk to investing in the nascent PV market. The project is being designed as a partial risk guarantee supporting standardized project contracts in the photovoltaic sector. Over the CPF period, this support will be continued and complemented through supplemental IDA financing targeted towards additional outer and remote islands, and possible IFC investments in renewable energy and energy efficiency, including in coordination with other partners, notably ADB and JICA. The WBG program will also support renewable electricity generation as part of the global ESMAP initiative, through activities aimed at increasing awareness of the government and the private sector about the resource potential of solar and wind as well as providing the government with a geospatial planning framework to guide commercial investment in the sector.

80. **Key expected results of these interventions by the end of the CPF period include, in particular, the implementation of at least 10 MW of PV through private investment.**

81. **Furthermore, the WBG will build on its involvement in the solid waste and renewable energy sectors to explore options for engaging in the waste-to-energy area.** This objective is currently only at an early stage of consideration, and may be further developed over the course of the CPF, depending on government's interest, WBG available resources and comparative advantage, and related considerations.

### **Objective 3 – Improving the efficacy of public finance management and policy making**

#### *Key development challenges and government goals*

82. **Maldives is highly vulnerable due to its small size, limited economic diversification and heavy reliance on imports, but lacks macroeconomic buffers to respond to shocks.** High fiscal and external imbalances and escalating public debt represent a growing source of fiscal and external vulnerability. While the Maldivian economy has shown resilience in the past, the country may currently lack appropriate buffers to cope with a shock, with negative potential consequences on employment and livelihoods. This is a source of risk to the twin goals, which calls for the need to restore adequate fiscal buffers to help preserve and sustain poverty reduction and equity gains. Furthermore, high public debt poses an issue of inter-generational equity that may also have implications in terms of shared prosperity.

83. **Public sector management in Maldives suffers from a number of inefficiencies, which may affect the efficacy, equity and sustainability of its redistributive model and the quality**

**of public service delivery.** In a context of limited participation of the Maldivian population in the economy, Maldives' redistributive model has played a major role in poverty reduction and prosperity gains over the past years. Since the late 2000s, the level of redistribution has augmented with: (i) the introduction of explicit electricity subsidies; (ii) the introduction of a universal health insurance scheme, Aasandha; and (iii) an increase in coverage and generosity of the pension system. However significant inefficiencies undermine the effectiveness, equity and sustainability of this redistributive model and hamper the fulfillment of public-sector functions, resulting in deficiencies in public service provision and regulation, with disproportionate negative consequences for the poor who cannot afford private alternatives.

**84. Vulnerabilities and inefficiencies associated to public sector management also arise from weaknesses in the public financial management (PFM) and procurement systems.** There are shortcomings with respect to budget preparation, execution, monitoring and evaluation; lack of transparency in budget management; deficiencies in debt management; and poor oversight and management of SOEs. Limited fiscal space associated to weak public finance management also constrains the ability of the government to fulfill its social objectives in a sustainable manner. Weaknesses in public sector management undercut the government's ability to delivery services and perform regulatory functions which are critical to achieving progress towards the twin goals.

**85. The sustainability, efficiency and effectiveness of the Maldives' universal health coverage program, Aasandha, face significant challenges.** The universal health insurance system, Aasandha, was introduced in January 2012. As detailed in the SCD, dependents, informal sector workers and poorer segments of the population seem to have benefited the most from the scheme. However, inadequate preparation of the reform and continued capacity issues within the government have contributed to continued efficiency, impact and escalating costs issues, challenging the fiscal sustainability of Aasandha. The government has therefore undertaken to identify and implement mid-course corrective measures.

**86. The quality of policy making is hampered by relatively limited statistical capacity and insufficient availability of reliable data in Maldives, especially on social issues.** In particular, understanding of poverty and equity and labor markets issues in Maldives is limited by data quality and comparability constraints, and by pitfalls in the current poverty measurement framework. There is a need to expand the knowledge on household welfare in Maldives to gain a better understanding of recent trends and nature of poverty, labor market outcomes, economic opportunities and social exclusion. The limitations of the evidence base for economic and social trends affect directly the effectiveness of government's policies and programs in relation to the twin goals of poverty reduction and enhanced prosperity. In this context, the government's goal is to support the production and use of reliable and timely data for improved evidence-based policy making.

87. **The WBG plans to continue supporting the government’s efforts to enhance fiscal and debt management.** Interventions will aim to continue setting up and strengthening the foundations for credible, sound, and effective PFM and public procurement systems. Building on ongoing capacity-building activities, and in coordination with the IMF, the WBG will also target improvements in the country’s debt and risk management capacity and institutions, and possibly enhancements in the development of domestic debt markets (based on feasibility). A comprehensive review of revenue and expenditure priorities could be considered in response to client demand. These interventions would be provided through a combination of IDA and trust-funded financing and technical assistance, notably the ongoing PFM Systems Strengthening Project, with a strong emphasis on institutional capacity strengthening and the reinforcement of systems and processes. Expected outcomes by the end of the CPF period include notably improved public access to fiscal information, expansion of the coverage of the internal audit function among government agencies; and adoption of a debt management strategy.

88. **Furthermore, to help address the challenges facing Aasandha, the WBG plans to continue and deepen its ongoing technical assistance to the National Social Protection Agency (NSPA), the Ministry of Health and other stakeholders.** This work will be carried out during the first half of the CPF period in close coordination with the WHO to avoid duplication of efforts. Expected results include increased capacity at the NSPA to undertake ongoing data analysis, and the formulation and beginning of implementation of corrective measures to strengthen the sustainability, efficiency and effectiveness of Aasandha.

89. **During the course of the CPF, ongoing WBG programmatic analytical and advisory support to Maldives’ National Bureau of Statistics (NBS) will also be continued.** The objectives of the WBG engagement will be to further strengthen the country’s statistical capacity for monitoring and evaluation, including for sex-disaggregated analysis; and to help fill the knowledge gap on poverty and shared prosperity in Maldives. Key expected outcomes by the end of the CPF would include: (i) an improved Household Income and Expenditure (HIES) designed, implemented; and (ii) the establishment of an official poverty line for Maldives. The WBG will collaborate with the International Labor Organization (ILO) on labor issues.

### **3.3 Implementing the FY16-19 Country Partnership Framework**

#### *WBG resources*

90. **The WBG program will be delivered in FY16-19 through a combination of ongoing and planned investment financing, guarantees, and analytical and advisory services.** The indicative IDA envelope for Maldives over the period will be of approximately SDR 23.2 million or USD32.4 million equivalent. This reflects the remaining IDA 17 envelope (SDR 12.8 million or USD17.9 million equivalent) and the indicative IDA allocation for the first two years under

IDA 18.<sup>21</sup> Regional IDA resources will be leveraged where possible, in particular for planned lending in the fisheries sector. Opportunities for IFC investments and MIGA guarantees will be explored in priority areas, in synergy or as a complement to IDA interventions, to leverage private investment in some of the priority sectors highlighted in the CPF.

### *Leverage and partnerships*

91. **The WBG will continue to seek opportunities for leveraging financial resources from the private sector, other partners and trust funds to enhance impact.** In doing so, an important objective will be to deepen partnerships, including with other development partners which are active in the proposed areas of engagement, so as to ensure that interventions complement and leverage each other.

92. **Maldives receives aid from a large number of bilateral and multilateral donors.** The total aid commitment in the Maldives for 2015 stood at approximately USD 505 million<sup>22</sup>, with the top four donors being Export-Import Bank of China (30 percent of total commitments), ADB and IsDB (approximately 10 percent each of total commitments) and United Nations (UN) agencies and WBG (approximately 8 percent each of total commitments). Sectors with the highest level of donor financing include infrastructure, energy, and sanitation<sup>23</sup>. The pillars of the United Nations Development Assistance Framework (UNDAF) for Maldives mirror the crosscutting themes of this CPF, providing an optimal scenario for collaboration and increased development impact. As partners are involved in all areas of the proposed WBG engagement, coordination is important and opportunities to build on and deepen partnerships are significant.

93. **IDA-funded projects will continue to use most of the elements of Maldives' financial management system.** Projects in Maldives rely entirely on the country's internal control framework and external auditing arrangements, while there is partial reliance on the country's budgeting system, FM staff and funds flow mechanisms. Project implementation will continue to operate via Project Management Units with dedicated FM staff. In addition, all IDA-funded projects will continue to have designated bank accounts to closely track the usage of funds and will therefore not use the Treasury Single Account. Finally, projects will continue to have ring-fenced arrangements for accounting, reporting and internal audit. This is explained by the fact that the project management module of the Public Accounting System (PAS) is not yet implemented. In addition, weaknesses in internal audit call for specific arrangements for the internal audits of projects. The ongoing PFM Systems Strengthening Project (2014) aims at addressing some of the weaknesses highlighted above (see Objective 3 of the CPF – paragraph 87).

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<sup>21</sup> While the amount of the envelope for the remaining two years of the CPF (FY18-19) will not be known until end-FY17, it is assumed here that the IDA 18 allocations will be the same as those under IDA 17 (SDR 15.6 million or USD 21.8 million) split evenly over the period. Actual IDA allocations will depend on: (a) the country's performance; (b) its performance relative to that of other IDA recipients; (c) the total resources available to IDA; (d) changes in the list of active IDA-eligible countries; (e) the terms of financial assistance provided (grants or loans); and (f) the amount of compensatory resources received for the Multilateral Debt Relief Initiative.

<sup>22</sup> As per the Ministry of Finance and Treasury Quarterly review of investment projects (July 2015).

<sup>23</sup> See Annex 6 for description of specific donor projects by sector

94. **Procurement risk is considered high, therefore procurements funded under IDA-financed projects will continue to be carried out strictly in accordance with the Bank’s procurement guidelines** through dedicated procurement specialists employed by each procuring entity. Box 2 highlights the main weaknesses in the country’s procurement system, some of which are being addressed through the ongoing PFM Systems Strengthening Project. The specific arrangements under IDA-funded projects will help to ensure that project implementation meets acceptable fiduciary standards. Furthermore, extensive support will continue to be provided to procurement staff in project implementation units, which helps in developing procurement skills of the procuring entities. The annual review of procurement processes for the “post reviewed procurements” suggest that there are no serious violations observed in the procurement processes.

### **Box 2 – The Procurement System in Maldives**

**The procurement system is hampered by an inadequate formal regulatory framework, the absence of a procurement performance and monitoring system, and shortages of qualified staff in ministries, agencies and at the National Tender Board.** In May 2015, the government made further changes to the public finance regulations to authorize the Cabinet to award “mega projects” and projects carried out by concessional loans or assistance from a foreign country without a bidding process or approval by the National Tender Board. Under the new rules, the Economic Council is only required to review information such as the project’s details, estimated cost and chosen contractor before approving contracts. This process is highly vulnerable to corrupt practices in awarding contracts.

**With the support of the ongoing 2014 Public Financial Management Systems Strengthening Project, procurement processes are being strengthened through the establishment of standards and benchmarks based on international good practice.** Specifically, the intervention aims at (i) training staff and developing capacity building through twinning arrangement with world-class procurement training institutions; (ii) strengthening the tender evaluation section within the National Tender Board, (iii) developing a procurement monitoring system; (iv) setting up a complaint handling system; and (v) updating standard bidding documents and developing procurement manuals.

95. **Monitoring and evaluation of the results of the CPF program will be carried out using the CPF Results Matrix** by the WBG, in close partnership with the government and other stakeholders. This process will draw on specific monitoring and evaluation arrangements instituted for ongoing and planned interventions under the program. As the strategy may be adjusted within the Framework during the course of the program, changes to expected outcomes and targets will be introduced as relevant in the matrix at the time of the Performance and Learning Review.

## **IV. MANAGING RISKS TO THE CPF PROGRAM**

96. **Risks to achieving the CPF program objectives are assessed as substantial overall.** The program has been designed in a way that helps mitigate some of the main fiduciary, technical,

stakeholder and institutional risks, through the application of selectivity filters that emphasize government ownership, coupled with specific implementation arrangements for financial management and procurement and a strong focus on systems strengthening. Nevertheless, there remain six important risks that may substantially affect the implementation of the program and expected outcomes: (i) the country’s complex political and governance environment; (ii) weak institutional capacity; (iii) fiduciary issues; (iv) social risks associated with the discontent of the youth and increasing conservatism in some segments of society; (v) macro-economic instability; and (vi) climate change (see SORT reflected in Table 2 below).

**Table 2 - Systematic Operations Risk Rating (SORT)**

<b>Risk Categories</b>	<b>Rating*</b>
1. Political and governance	Substantial
2. Macroeconomics	Substantial
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Low
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and social	Substantial
8. Stakeholders	Moderate
9. Climate	Substantial
<b>Overall</b>	<b>Substantial</b>

\*Rating - the categories are as follows: High, Substantial, Moderate, Low

97. **A fluid political environment and governance deficiencies in some key areas of engagement may have substantial negative implications for the achievement of CPF outcomes.** In the areas of fisheries, tourism, and renewable energy, strong vested interests and governance weaknesses may weigh on the sound development of the activities targeted by the CPF, thus threatening the achievement of program objectives. This substantial risk will be partly mitigated by the program’s focus on areas which benefit from demonstrated broad ownership including that of the government, such as guesthouse development and PV generation, and which target specific improvements in the management of the sectors through improved capacity, systems, and data. Possible vested interests may also affect political support for interventions in the area of public sector management. This risk is substantial but is being partially mitigated by a strong focus on much needed technical support and capacity building, and emphasis placed on managing change and maintaining constituency for reforms through regular consultations. Should political support and governance conditions deteriorate to the point that WBG interventions may no longer be satisfactorily implemented, the program would be adjusted to respond to these

challenges.

98. **Weaknesses in institutional and fiduciary capacity may hamper the full realization of expected outcomes or affect the sustainability of results.** While a strong focus has been placed on capacity building in all areas of the proposed program, the risks associated with weak institutional capacity remain substantial, notably because of the high staff turnover in Maldivian institutions. To mitigate these risks, proactive implementation support in all areas of the program will continue to be sought, coupled with a strong focus on reinforcing systems and processes for strengthened institutional and fiduciary capacity. Finally, simple implementation arrangements will continue to be sought in the design of WBG interventions. In addition, some of the main weaknesses in the country's procurement system are being addressed through the ongoing Public Financial Management Systems Strengthening Project. Risk mitigation will be further enhanced through the conduct of targeted training in the fiduciary aspects of project management for government officials by the WBG.

99. **Youth unemployment and increasing conservatism in some segments of the Maldivian society are a general country risk, which may potentially impact CPF outcomes in several ways.** Social discontent may create incentives for the government to scale up the country's fiscally unsustainable redistributive model, notably with regard to health insurance, and to postpone fiscal consolidation efforts and associated PFM reforms. Social discontent may also affect the ability to attract private investment in tourism, fisheries, renewable energy, solid waste management, education, and other areas. In addition, marginalization may also prevent some of the youth to seize new opportunities for training and jobs in the areas targeted by the CPF, resulting in a vicious circle of disenfranchisement and social ills. Moreover, increasing conservatism may have a substantial detrimental effect on the ability of women, including the youth, to enhance their participation in secondary and higher education and to benefit from labor opportunities in sectors targeted by the CPF. While the full mitigation of these risks falls well beyond the scope of the CPF, the government is well aware of these challenges, and has made a priority of enhancing economic and social inclusion of the youth, an objective to which the proposed CPF program seeks to contribute directly. Furthermore, WBG analytical, advisory and convening services may help raise awareness on some of the risks associated with discontent of the youth and conservatism, and thus facilitate consensus building on ways to address them. Overall, in the event of social unrest, the Bank's engagement would be adjusted to respond to emerging priorities and challenges.

100. **Substantially growing employment in tourism for Maldivians at the bottom of the pyramid, especially among women, will be difficult given that in parts of the society, participation in the type of work in demand at resorts is discouraged.** This presents a risk to the program, particularly Objective 1 of the CPF. To mitigate this risk, efforts will be made to explore different approaches to increase family acceptance of women working in resort islands. This risk may be further mitigated by efforts to facilitate the development of innovative ideas by Maldivians around the main hotel industry and in other areas, including through the local provision of services. The growth of SMEs should reap important job creation benefits.

101. **Macroeconomic instability may also potentially affect the achievement of program**

**objectives.** In the event of a shock, government resources may be diverted from program implementation, while labor opportunities in tourism and fisheries, and private investment attraction in renewable energy and other sectors, may be negatively affected by a deterioration in the country's macroeconomic situation. Ad hoc fiscal decision-making resulting from macro instability could erode the credibility of the budget and the medium term fiscal framework with knock on effects on the debt management strategy, effectively undermining the outcomes under Objective 3 of the CPF. This risk is partially mitigated by the application of selectivity filters, which have led to select areas which are considered as high priority by the government. Furthermore this risk will continue to be closely monitored by the WBG, in close coordination with the IMF, and the CPF program may be adjusted accordingly should a shock occur.

102. **Climate change represents a long-term threat which may also have potential shorter-term negative impact on the expected outcomes of the proposed CPF program.** Productive sectors, particularly tourism and fisheries, may be highly vulnerable to damages to beaches and coastal infrastructure as well as loss of productive land due to frequent events of cyclones and degradation of critical coral reef ecosystems due to frequent El Niño related events. Similarly, tuna stocks and live bait fish could be negatively impacted by climate change because of changes in migration patterns and habitat alteration, which has a direct impact on fisheries and livelihoods in the Atolls. Hence, the CPF objective of enabling enhanced opportunities for jobs and entrepreneurship for the Maldivians in these sectors may be partly hindered by a deterioration of the country's environment in relation to climate change. The authorities' commitment to step up efforts to improve climate resilience, which is supported by the proposed program (Objective 2), is expected to contribute to partly mitigate this risk.

## Annex 1: CPF Results Matrix

<b>Strategic Goal – Enabling More Inclusive and Sustainable Growth</b>
<p>Between 2003 and 2010, poverty declined substantially in Maldives, but the pace of poverty reduction has been below potential when considering the high GDP growth of the economy. The modest impact of growth on poverty reduction stems largely from the lack of shared prosperity in Maldives, associated to limited participation of the Maldivians in the economy. Furthermore the country faces growing social, environmental and fiscal vulnerabilities which may affect the poor disproportionately, and could threaten the sustainability of past achievements in terms of growth and poverty reduction. In this context, the government has identified enhanced inclusiveness and sustainability of the country’s development model as key priorities going forward. The strategic goal of the CPF is therefore to contribute to enabling more inclusive and sustainable growth, through better use of the country’s assets, including human capital, environmental assets and financial resources. The WBG program will assist the government with: (i) enhancing employability and economic opportunities for the Maldivians, (ii) strengthening natural resource management and climate resilience, and (iii) improving the efficacy of public financial management and policy making. These objectives aim to contribute to the twin goals, through an emphasis on the increased participation of the local population in the economy, and through improved management of the country’s assets for enhanced social, fiscal and environmental sustainability of growth. The objectives outlined above will be buttressed by an additional focus on incorporating the cross cutting elements of youth, gender and governance into the proposed interventions. Resilience to climate will also be mainstreamed into the WBG interventions.</p>
<b>CPF Objective 1</b> <b>Enhancing employability and economic opportunities for Maldivians</b>
<b>Intervention Logic</b> <p>The limited ability of the population to seize economic opportunities, particularly in the fast-growing tourism industry, is due to a host of factors, including: (1) reservation wage that is too high for unskilled jobs; (2) lack of skills for technical and managerial jobs; (3) social norms; (4) lack of adequate transport, (5) and lack of access to finance. Furthermore, progressively more conservative views in the Maldives have had an impact on female labor participation. The lack of growth in fisheries is also an important factor behind the limited contribution of growth to poverty reduction, especially in the atolls, as fisheries represent a significant source of jobs and livelihoods for the Maldivian population. In line with the government’s priorities, WBG activities will seek to contribute to enhancing employability and economic opportunities for Maldivians in the productive sectors, building on improved management of the sectors, enhanced access to financial services, and quality education. The proposed interventions in the productive sectors,</p>

particularly tourism and fisheries, will aim to contribute to address some of the constraints associated with the demand for skilled labor. Improved access to financial services, especially in the outer atolls, will also be sought in support of entrepreneurial and commercial activities. On the supply side, the interventions in the education sector will aim to help better align skills with the needs of the economy and address some of the constraints faced by the youth and women in participating in the labor market.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><b><i>1.1.1 Regulatory framework for sustainable development of the guest house segment of the tourism sector developed</i></b>            Baseline: No (2015)            Target: Yes (2019)</p> <p><b><i>1.1.2 Pilot for community-based management schemes for sustainable marine resources launched</i></b>            Baseline: No (2015)            Target: Yes (2019)</p> <p><b><i>1.1.3 Operable non-bank-led mobile money solution launched</i></b>            Baseline: No solution (2015)            Target: Operable solution in place (2018)</p> <p><b><i>1.1.4 Strategy for Financial Sector Development adopted</i></b>            Baseline: No (2015)</p>	<p><b><i>Framework for community-based management schemes for sustainable marine resources drafted</i></b>            Baseline: No (2015)            Target: Yes (2018)</p> <p><b><i>Legal framework that enables and regulates operable non-bank-led mobile money solution drafted</i></b>            Baseline: No (2015)            Target: Yes (2018)</p>	<p><u>Ongoing</u></p> <ul style="list-style-type: none"> <li>• Enabling Youth and Gender Inclusion (ASA)</li> <li>• Enabling a Non-Bank Mobile Money Solution (TF)</li> <li>• Enhancing Education Development Project (FY13)</li> </ul> <p><u>Proposed</u></p> <ul style="list-style-type: none"> <li>• Sustainable Fisheries Development Project (FY17)</li> <li>• Entrepreneurship and Jobs Project (tourism focus) (FY17)</li> <li>• FSAP Development Module (FY16)</li> <li>• FSAP Follow-on Technical Assistance (FY17)</li> <li>• Education Sector Study (FY17)</li> <li>• Education and Training for an Upper Middle Income Country Project (FY19)</li> <li>• WBG Advisory Services</li> <li>• IFC investments</li> <li>• MIGA guarantees</li> </ul>

<p>Target: Yes (2018)</p> <p><b>1.1.5 Increased survival rates through higher secondary education (grades 1-12)</b>  Baseline: 20% (2015)  Target: 27% (2017)</p> <p><b>1.1.6 National Assessments of Learning Outcomes completed</b>  Baseline: First national assessment of cognitive achievement in English and mathematics commenced (2015)  Target: Two national assessments of cognitive achievement English and Mathematics completed (2017)</p> <p><b>1.1.7 Proportion of atolls in which a system of quality assurance self-evaluations are established and findings incorporated in the implementation of school improvement plans</b>  Baseline: 40% (2015)  Target: 80% (2017)</p> <p><b>1.1.8. Number of students who will benefit from access and quality enhancing activities increased - of which female</b>  Baseline: 22,000 – 47% (2015)  Target: 50,000 – 48% (2017)</p>	<p><b>Proportion of atolls implementing school-Professional Development Programs informed by and related to quality assurance reviews</b>  Baseline: 40% (2015)  Target: 80% (2017)</p>	
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<p><b>1.1.9 Government policy or programs on youth or gender informed</b></p> <p>Baseline: No (2015) Target: Yes (2019)</p>	<p><b>Gender Assessment disseminated</b></p> <p>Baseline: No (2015) Target: Yes (2016)</p>	
<p><b>Data Sources:</b></p> <ol style="list-style-type: none"> <li>1) ISRs and ICR for Enhancing Education Development Project</li> <li>2) Completion Summary for Maldives #C001 Enabling a Non-Bank Mobile Money Solution</li> <li>3) FSAP (2016) and FSAP follow up (2018)</li> <li>4) Completion Summary for Youth and Gender Inclusion</li> </ol>		
<p><b>CPF Objective 2</b> <b>Strengthening natural resource management and climate resilience</b></p>		
<p><b>Intervention Logic</b></p> <p>Shortcomings in climate adaptive planning and the management of natural resources in the Maldives, particularly fishery resources, coral reefs, waste management and fresh water, together with the country’s high dependency on imported fuel as a source of energy, represent key pressing issues which may affect the jobs, livelihoods and health of the poorer and bottom 40 percent of the population disproportionately. Addressing these challenges is therefore a priority for the government. The government also seeks to reduce dependency on imported fuel, so as to increase the country’s competitiveness, generate new jobs opportunities, and free up fiscal resources for poverty-reducing and equity-enhancing expenditures. In line with this, the WBG strategy will therefore seek to contribute to improving climate adaptive planning and natural resource management, and to support electricity generation from renewable sources. For enhanced inclusiveness and sustainability, the interventions aim to set the stage for better integration of climatic risks and resilience objectives into development planning at the island level. The strategy will also emphasize community participation in the assessment, monitoring and stewardship of key resources such as fisheries and coral reefs. Furthermore the strategy will seek to address shortcomings in the management of sewage and solid waste management that pose a threat to fresh water sources and marine life. In parallel, the interventions on renewable energy will focus on increasing PV generation through private investment.</p>		
<p><b>CPF Objective Indicators</b></p>	<p><b>Supplementary Progress Indicators</b></p>	<p><b>WBG Program</b></p>

<p><b><i>1.2.1 Targeted island representatives in the Addu Atoll and Gnaviyani Atoll that demonstrate improved capacities to plan and manage multi-sectoral measures</i></b>  Baseline: 0% of Targeted island representatives demonstrate improved capacities to plan and manage multi-sectoral measures (2015)  Target: 50% of Targeted island representatives demonstrate improved capacities to plan and manage multi-sectoral measures (2018)</p> <p><b><i>1.2.2 Integrated Waste Management Centers in Fuvahmulah and Hithadhoo are operational</i></b>  Baseline: 0 (2015)  Target: 2 (2018)</p> <p><b><i>1.2.3 Increasing photovoltaic (PV) generation in the Maldives through private investment</i></b>  Baseline: 2 MW (2015)  Target: 10 MW (2019)</p>	<p><b><i>Direct beneficiaries of Atoll/Island Councils in the Addu Atoll and Gnaviyani Atoll that directly benefit from training on mainstreaming environmental management and climate change into island development planning and monitoring – of which female</i></b>  Baseline: 300 – 5% (2015)  Target: 800 – 15% (2018)</p> <p><b><i>Strategic options study on solid waste management completed</i></b>  Baseline: No (2015)  Target: Yes (2017)</p> <p><b><i>Standard contracts and guidelines for private sector investment in photovoltaic (PV) generation in the Maldives developed</i></b>  Baseline: No (2015)  Target: Yes (2017)</p>	<p><u>Ongoing</u></p> <ul style="list-style-type: none"> <li>• Environmental Management Project (FY08)</li> <li>• CCTF II Climate Change Adaptation Project (TF)</li> <li>• ASPIRE-Accelerating Sustainable Private Investment in Renewable Energy project (Guarantee/TF)</li> <li>• Renewable Energy Resource Mapping and Geospatial Planning (ASA)</li> </ul> <p><u>Proposed</u></p> <ul style="list-style-type: none"> <li>• <i>Solid Waste Management for the Greater Malé Region (FY17)</i></li> <li>• <i>Solid Waste Management Project (FY18)</i></li> <li>• <i>IFC investments</i></li> </ul>
<p><b>Data Sources:</b></p> <ol style="list-style-type: none"> <li>1) ISRs and ICR Climate Change Adaptation Project (2018)</li> <li>2) ISRs and ICR for ASPIRE (2017)</li> </ol>		

**CPF Objective 3****Improving the efficacy of public finance management and policy making****Intervention Logic**

In Maldives, poverty reduction has largely been achieved through the redistribution of the tourism revenues to support job creation in the public sector, to finance the provision of public services, to fund a generous pension system and universal health insurance, as well as to insulate the local economy from international price fluctuations through a system of universal subsidies on food and energy. However, lack of fiscal restraint and weaknesses in public sector management have contributed to growing macroeconomic imbalances, increased fiscal risks, and inefficiencies in public spending. This may affect the quality of public service delivery, and the equity and sustainability of Maldives' redistributive model, with disproportionate consequences for the poorer. In addition, the quality of policy making is hampered by relatively limited statistical capacity and insufficient availability of reliable data in Maldives, especially in the social areas. In line with government priorities, the WBG program will target improvements in the efficacy of public financial management, and support the government's efforts to enhance debt management and improve efficiency and equity in the health insurance (Asandha) system. WBG interventions will also provide support to Maldives' National Bureau of Statistics (NBS) to enhance statistical capacity so as to better inform policies and programs, notably with regard to labor markets, gender-disaggregated analysis and the drivers of poverty reduction.

<b>CPF Objective Indicators</b>	<b>Supplementary Progress Indicators</b>	<b>WBG Program</b>
<p><b><i>1.3.1 Public access to monthly in-year budget execution reports provided within one month of completion</i></b>            Baseline: No (2015)            Target: Yes (2019)</p>	<p><b><i>Financial statement audits (conducted in accordance with international audit standards) reported to Parliament</i></b>            Baseline: 5 pilots (2015)            Target: 9 pilots (2016)</p>	<p><u>Ongoing</u></p> <ul style="list-style-type: none"> <li>• PFM Systems Strengthening Project</li> <li>• Universal Health Insurance ASA</li> <li>• Medium Term Debt Strategy ASA</li> <li>• Macro Monitoring and Analysis (ongoing)</li> </ul>
<p><b><i>1.3.2 Internal audit function is operational in Central Government Entities (CGEs) that have revenues and/or expenditures over Rf 500 million</i></b></p>	<p><b><i>Performance audits (conducted in accordance with international audit standards) reported to Parliament</i></b>            Baseline: 1 pilot (2015)</p>	<ul style="list-style-type: none"> <li>• Poverty and Shared Prosperity in the Maldives ASA</li> </ul> <p><u>Proposed</u></p>

<p>Baseline: The internal audit function is operational in 4 CGE's (2015) Target: The internal audit function is operational in 7 CGE's (2019)</p> <p><b><i>1.3.3 Medium-term debt management strategy based on cost and risk analysis approved by government</i></b> Baseline: No (2015) Target: Yes (2017)</p> <p><b><i>1.3.4. New Household Income and Expenditure Survey (HIES) conducted</i></b> Baseline: HIES 2009-10 (Data constraints limited poverty measurement and analysis) Target: New and improved HIES conducted (2017)</p> <p><b><i>1.3.5 Official poverty line endorsed by government</i></b> Baseline: No official poverty line (2015) Target: Government endorsement (2018)</p>	<p>Target: 3 pilots (2016)</p> <p><b><i>Credible macro fiscal framework is used for national budget preparation</i></b> Baseline: No (2015) Target: Yes (2019)</p> <p><b><i>Medium-term debt management strategy based on cost and risk analysis developed</i></b> Baseline: No (2015) Target: Yes (2016)</p> <p><b><i>New labor force survey (that analyses sex-disaggregated employment data and sex-disaggregated data on the wage gap and its determinants) conducted</i></b> Baseline: No LFS existent (2015) Target: Pilot LFS (with questions on sex-disaggregated employment and wage gap data) conducted (2017)</p> <p><b><i>National Social Protection Agency finalizes bundle package rate for medical admissions that consist of 40% of total overseas admissions and payouts</i></b> Baseline: No (2015) Target: Yes (2018)</p>	<ul style="list-style-type: none"> <li>• <i>PFM Systems Strengthening Additional Financing (FY18)</i></li> <li>• <i>WBG Advisory Services</i></li> </ul>
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Data Sources:

- 1) ISRs and ICR of PFM Systems Strengthening project
- 2) Maldives Monetary Authority publications
- 3) HIES and LFS publication from the National Bureau of Statistics
- 4) Administrative report on Asandha from the National Social Protection Agency

## Annex 2: Proposed IDA Program FY 16-19

### Indicative FY16 activities

Enabling Youth and Gender Inclusion (Advisory)

Universal Health Insurance (Advisory)

Poverty and Shared Prosperity in the Maldives (Advisory and Analytics)

Maldives Medium Term Debt Strategy (Advisory - Trust Funded)

Financial Sector Assessment Program - Development Module (Trust Funded)

### Indicative FY17 activities

Entrepreneurship and Jobs project (*Tourism focused*) (USD 8.9 M, IDA)

Sustainable Fisheries Resources Development Project (USD 9 M, IDA)

Education Sector Study to prepare for FY19 project (Analytics)

Solid Waste Management for the Greater Malé region (Analytics)

Financial Sector Assessment Program follow-on (Advisory)

### Indicative FY18 activities

Solid Waste Management project (USD 8 M, IDA)

Public Financial Systems Strengthening AF (USD 2 M, IDA)

### Indicative FY19 activities

Education and Training for a Upper Middle Income Country Project (USD 4.5M, IDA)

Note: Volume of IDA allocated over the CPF period is expected to be USD 32.4 M.

### Annex 3: Selected indicators\* of Bank Portfolio Performance and Management

As of 2/22/2016

Indicator	FY13	FY14	FY15	FY16
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	3.0	4.0	3.0	3.0
Average Implementation Period (years) <sup>b</sup>	3.1	3.1	3.4	4.1
Percent of Problem Projects by Number <sup>a, c</sup>	0.0	0.0	0.0	0.0
Percent of Problem Projects by Amount <sup>a, c</sup>	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Number <sup>a, d</sup>	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Amount <sup>a, d</sup>	0.0	0.0	0.0	0.0
Disbursement Ratio (%) <sup>e</sup>	26.9	34.0	33.6	19.0

#### Portfolio Management

CPPR during the year (yes/no)

Supervision Resources (total US\$)

Average Supervision (US\$/project)

Memorandum Item	Since FY 80	Last Five FYs
Proj. Eval by OED by Number	10	1
Proj. Eval by OED by Amt (US\$ millions)	104.5	5.9
% of OED Projects Rated U or HU by Number	30.0	100.0
% of OED Projects Rated U or HU by Amt	28.1	100.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

\* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

**Annex 4: Maldives Operations Portfolio (IBRD/IDA and Grants)**  
*As of 1/31/2016*

Closed Projects 12

<u>IBRD/IDA*</u>	
Total Disbursed (Active)	19.62
of which has been repaid	0.00
Total Disbursed (Closed)	69.64
of which has been repaid	20.05
Total Disbursed (Active + Closed)	89.26
of which has been repaid	20.05
Total Undisbursed (Active)	11.56
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	11.56

Active Projects

Last PSR

**Supervision Rating**

Original Amount in US\$ Millions

**Difference between  
Expected and Actual**

Project ID	Project Name	Supervision Rating		Fiscal Year	Original Amount in US\$ Millions				Disbursements <sup>a</sup>		
		<u>Dev Objectives</u>	<u>Implementation Progress</u>		IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P131331	Enhancing Education Development Project	S	S	2013	0.0	10.0		0.0	6.8	0.6	0.0
P145317	Maldives: PFM Systems Strengthening Project	S	S	2014	0.0	6.5		0.0	3.9	0.0	0.0
P108078	MV: Environmental Management Project	MS	MS	2008	0.0	16.5		0.0	0.9	-1.5	-1.5
<b>Overall Result</b>					<b>0.0</b>	<b>33.0</b>		<b>0.0</b>	<b>11.6</b>	<b>-1.0</b>	<b>-1.5</b>

\* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

**Annex 5: IFC Committed and Disbursed Outstanding Investment Portfolio**

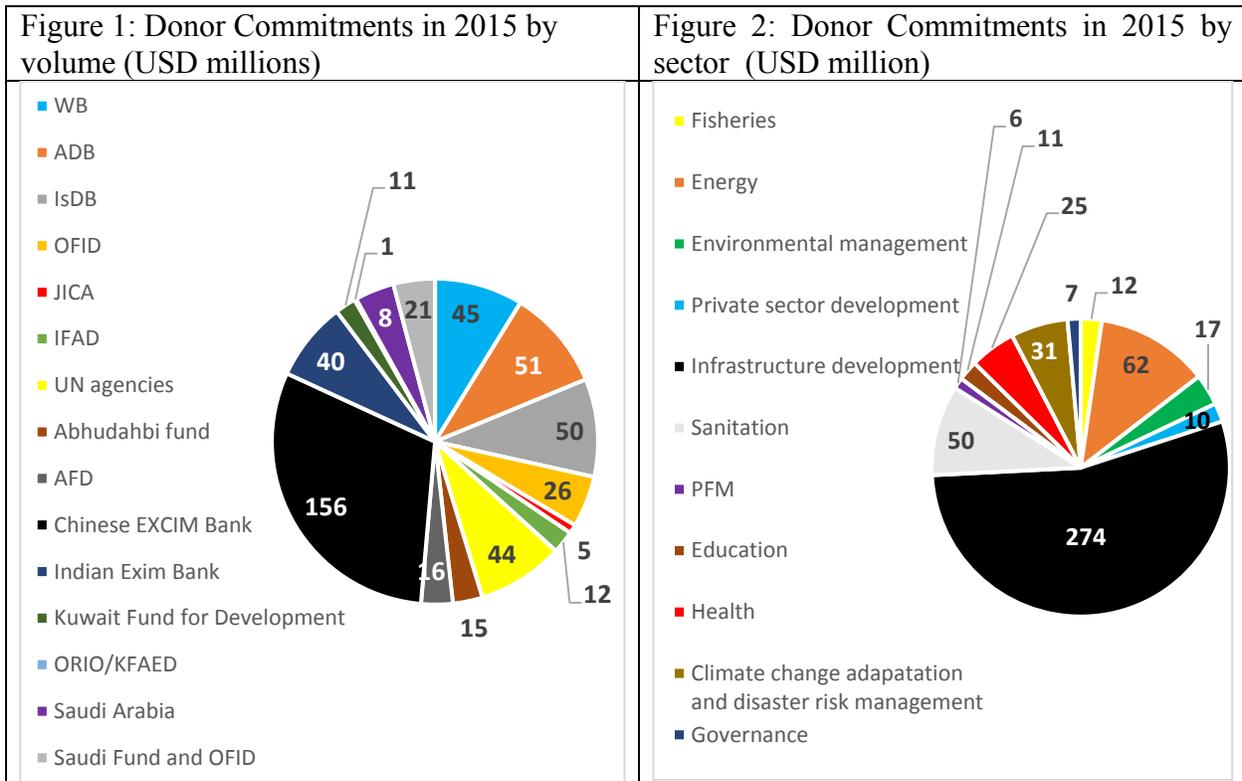
*As of 1/31/2016*

**(In USD Millions)**

FY Approval	Company	<b>Committed</b>					<b>Disbursed Outstanding</b>				
		Loan	Equity	Equity	*GT/RM	Participant	Loan	Equity	Equity	*GT/RM	Participant
				**Quasi					**Quasi		
FY09	ADDU INVESTMENTS	2.50	0.00	0.00	0.00	0.00	2.50	0.00	0.00	0.00	0.00
FY08	HDFC MALDIVES	0.00	2.25	0.00	0.00	0.00	0.00	2.25	0.00	0.00	0.00
<b>Total Portfolio:</b>		<b>2.50</b>	<b>2.25</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>2.50</b>	<b>2.25</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

## Annex 6: Partnerships and Donor Coordination

**1. Maldives receives aid from a large number of bilateral and multilateral donors making partnerships an important priority in the CPF.** The total aid commitment in the Maldives for 2015 stood at approximately USD 505 million. Approximately 55% of this aid from bilateral donors and 45% from multilateral donors. The top four donors in terms of commitments were: Export-Import Bank of China (30% of total commitments), ADB and IsDB (approximately 10% each of total commitments) and United Nations (UN) agencies and WBG (approximately 8% each of total commitments). See Figure 1. Sectors with the highest level of donor financing: infrastructure (approximately 54% of total commitments), energy (approximately 12% of total commitments), and sanitation (approximately 10% of total commitments). See Figure 2.



Note: Donor commitments per sector includes WBG commitments

Source: Ministry of Finance and Treasury Quarterly review of investment projects (July 2015), unpublished UN data and WBG staff calculations.

**2. UN interventions for the period 2011- 2015 focused primarily on the environment (climate change related), infrastructure and governance sectors with a total funding envelope of USD 44 million<sup>24</sup>.** The Low Emission Climate Resilient Development (LECRd) program

<sup>24</sup> Source: WBG staff calculations and unpublished data on project financing volumes and project details for UN agencies for the UNDAF period 2011 -2015.

(with a total financing envelope of USD 9.2 million) was the most significant intervention undertaken by the UN, involving 7 agencies: UNDP, UNICEF, UNOPS, UNFPA, UN WOMEN, WHO and FAO. The UNDP together with the GEF also supported on a USD 9.3 million grant to integrate climate change risk into resilient island planning. UNOPS is implementing the infrastructure component of integrated water supply and sanitation project in Lhaviyani Atoll at a cost of USD 3.8 million. An integrated governance program (including governance assessments and monitoring, civic engagement, electoral systems and processes, independent media, access to information, parliamentary development, access to justice and rule of law, local governance and development, public administration reform, economic governance, and human rights) was implemented jointly with the support of the UNDP and Institute for Global Policy with financing in the amount of USD 5.5 million.

**3. Given the overlapping priorities, the WBG will seek to scale up its partnerships with UN agencies throughout the implementation of the CPF.** The strategic focus areas of the United Nations Development Assistance Framework (UNDAF) 2016 map to the cross-cutting themes of the CPF. And thus present a good opportunity to enhance collaboration for greater development impact. Specifically, the WBG will continue leveraging support through partnerships with its collaboration with UNESCO and UNICEF on the ongoing program, and in the preparation of the proposed Education and Training for an Upper Middle Income Country Project in the outer years of the CPF.

#### **UNDAF 2016 – 2020**

The UNDAF (2016-2020) identifies four strategic focus areas namely youth and children, gender, governance, environment and climate change. The four areas have been selected to respond to national needs and make use of the United Nations’ comparative advantages. These were identified and further detailed into outcomes and outputs through an intensive consultation process with the government.

Full implementation of the UNDAF will require an estimated US\$53.79 million (of which nearly 80% consists of non-core resources). Budget allocation for specific priority areas is as follows; 15.76 percent for youth and children, 3.68 percent for gender, 23.97 percent for governance; and 56.59 percent for environment and climate change. Approximately 25 percent of the resources are expected to enhance gender equality and women’s empowerment, with gender mainstreaming occurring across all priority areas.

Source: UNDAF 2016-2020

**4. The Bank will build on established partnerships with other donors to support improved public financial management and natural resource management.** In support of government efforts on improving public financial management and debt management, the Bank will continue to closely collaborate with the IMF. Statistical capacity building will be enhanced, through collaboration with the ILO, on the development of the labor force survey and HIES labor module. The Bank will continue to collaborate with EU and DFAT in financing environmental management activities, and with both ADB and JICA on the development of the renewable energy sector.

**5. Given the CPF’s focus on supporting sustainable fisheries, the Bank will continue to closely collaborate with IFAD and JICA.** IFAD currently supports a Maldives Mariculture Enterprise Development Project (2013-2018) with a total investment of US\$7.1 million. JICA is supporting Maldives in the development of a Fisheries Sector Master Plan that aims at formulating a mid- and long-term development plan for the fisheries sector.

**6. The proposed ADB program will focus on infrastructure development.** The ADB will take the lead in financing small infrastructure development through the provision of grants and, possibly, concessional loans valued at approximately USD 25 million for harbor expansion and community connectivity during the period 2016- 2018. The projects will include components to contribute to diversifying the economic base and improving environmental management.

**Table1 - Donor interventions per sector (as at October 2015)**

Donors/sectors	Fisheries	Energy	Environmental Management	Climate change Adaptation and Disaster Risk Management	Private Sector Development	Infrastructure	Sanitation	Governance	Health
IFAD	X								
ADB		X							
JICA	X	X		X					
UN Agencies			X	X		X		X	
Orio Netherland			X			X	X		X
ISDB					X	X	X		X
Saudi Arabia						X			X
Chinese EXCIM Bank						X			
Indian EXIM Bank						X			
Abu Dhabi Fund						X			
Agence France de Développement						X			
Kuwait Fund for Development							X		
World Bank		X	X	X				X	

## Annex 7: Summary of Country Partnership Framework Consultations

**1. Consultations involving a broad range of stakeholders was carried out as part of the preparation of the Maldives Country Partnership Framework (CPF) in Malé in January 2016.** Participants were drawn from government, civil society organizations, private sector and development partners.

**2. The consultations were focused on the theme of enabling employability and employment for Maldivians, particularly women and youth.** During the sessions, the WBG provided a broad overview of context and challenges for Maldives as had been identified by the Maldives Systematic Country Diagnostic (SCD) and the strategic framework and proposed interventions identified in the CPF. The consultations sought to obtain feedback from stakeholders on: 1) the challenges and constraints facing Maldives as identified by the SCD, ii) the proposed interventions of the CPF; and 3) increasing the effectiveness of the interventions. The observations shared at the consultation could be summarized into two main categories: (1) Issues and opportunities for private sector development and economic diversification; and (2) Issues relating to the participation of young people and women in the economy.

*“The same stories are being repeated...”*

**3. Participants broadly agreed with the challenges and constraints identified while highlighting that the same issues had been identified in the past.** It was noted that even though the challenges associated with sustainable and equitable growth (as identified by the Maldives SCD) had been identified and discussed for the last decade in different fora, the same challenges exist currently, as no effective policy reforms had been undertaken to address the root causes. However, employability and governance were cited as the two most critical factors affecting the Maldives.

*Issues and opportunities for private sector development and economic diversification*

*“We invest and then lose because the policy changes...”*

**4. Lack of sequencing and consistency of policy reforms by the government was identified as key constraints for the development of the private sector.** Participants noted that successive governments had reversed policy measures implemented by former governments without due consideration of the impact such changes had on long term business planning and security of investments. Participants explained that rapid changes to policy affected both the growth of existing business and the diversification of the economy. The sequencing of government interventions was also described as a major impediment in tackling development challenges. Participants questioned why the government had made the construction of infrastructure (such as the bridge connecting Male and Hulumale) a priority when other pressing issues such as solid waste management, drinking water shortages and climate change resilience had not been effectively addressed. Participants also noted a lack of political will to tackle such long standing issues.

*“My monthly turnover was more than a million Rufiyaa but banks still refused to give me a loan...”*

**5. The expansion of entrepreneurial activities has been constrained by access to finance and corruption.** Participants explained that access to finance for entrepreneurs was constrained by both collateral requirements imposed by banks and the lack of knowledge on the availability of the various funding schemes. A change in collateral requirements (from depending largely on land, housing or vessels), and the introduction and promotion of tailored financial products and instruments was seen as key measures that could promote entrepreneurship. Such collateral requirements were only seen as being beneficial to large players in the private sector. Business incubation was seen as an important means by which entrepreneurial activities could be increased in the Maldives. Corrupt practices that prevented less well connected entrepreneurs from gaining access to business opportunities was also described as an impediment to the expansion of entrepreneurial activities.

*Issues relating to the participation of young people and women in the economy*

***Voluntary unemployment exists because blue collar jobs are seen as 3D (dirty, dangerous and demeaning) jobs...”***

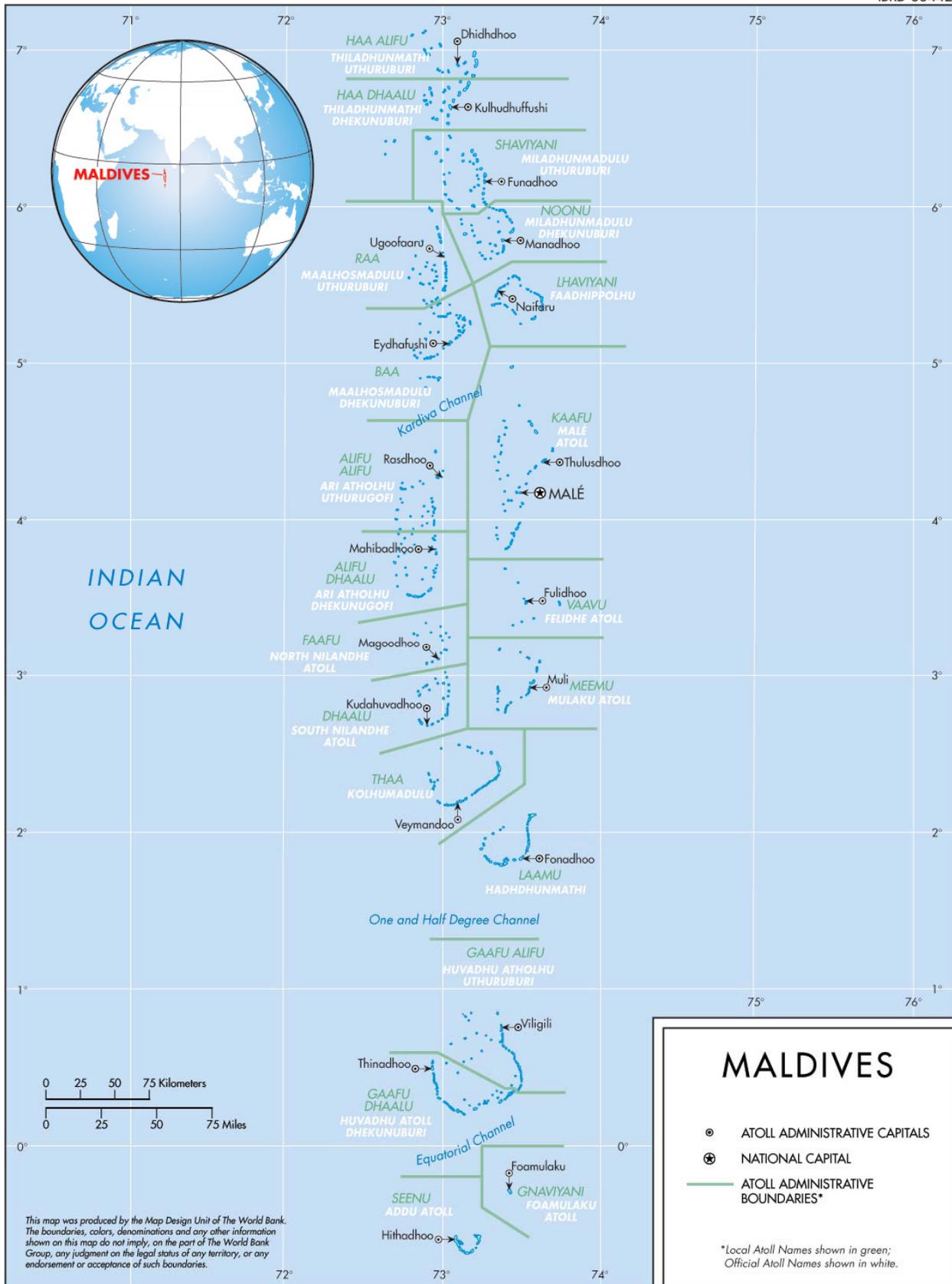
**6. Voluntary unemployment and a skills mismatch have affected youth participation in the economy.** The skills mismatch was attributed by participants to the lack of vocational training opportunities and poor technical skill development which had impeded the access of youth to the job market in the Maldives. The lack of vocational training opportunities was linked to the shutdown of several technical colleges in the last decade. However participants explained that voluntary unemployment had a greater causality on the high rate of unemployment among youth than the skills mismatch. Voluntary unemployment was attributed to the disconnect between the aspirations of an ‘ideal’ job among the current generation of youth (and their parents), and available job opportunities. However entrepreneurial activities was identified as one means by which voluntary unemployment could be tackled in the Maldives. Such activities were described as being more appealing especially to youth who were voluntarily unemployed. It was noted that youth were drawn to be employed in small start-ups (especially in the services sector) even if they were over-qualified for the positions, if the business activity was less traditional (“barista” instead of “waiter”).

**7. Improving the quality of education was a key priority identified by participants.** Participants noted that while the interventions proposed under the CPF targeted quality improvements of teachers, syllabus revisions were also required to raise the quality of education provided in the Maldives. Some aspects of the syllabus (for primary and secondary students) were described by some participants as promoting fundamentalism and gender bias. The syllabus was also criticized for not incorporating practical skills development. Other participants noted that a National Curriculum Framework was being developed to tackle issues relating to the current syllabus for all primary and secondary students. However visible changes to the syllabus would take a number of years to implement across the board.

**8. Participants also identified the lack of access to quality higher education as an issue affecting Maldivian youth.** With a large number of students being unable to gain entrance into state run higher education institutes, private institutes are the principal means by which Maldivian youth have access to higher education. However, participants used an example where law students from private institutes were prevented from using the public law library at a state run university to show that students from private institutes were being prevented from accessing public resources. The lack of government support for the development of private institutes was cited as preventing access to tertiary education opportunities in Male.

*“Our culture in the past promoted the role of women in society but this is no longer true.....”*

**9. The consultations revealed that religious conservatism was undermining the role of women in Maldivian society.** The example of a Friday prayer sermon (broadcasted across the nation) being used to define the role of women as being limited to domestic duties was used by participants to show that religious conservatism was stereotyping the role of women, and thus negatively impacting women’s choices to enroll in education and search for jobs. Participants also noted that the number of women serving as parliamentarians, judges or having senior management positions in the private sector was significantly lower than their male counterparts. This was attributed to changing norms (linked to religious conservatism) among Maldivians that discouraged women from playing an active role in Maldivian society.



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# MALDIVES

- ⊙ ATOLL ADMINISTRATIVE CAPITALS
- ⊕ NATIONAL CAPITAL
- ATOLL ADMINISTRATIVE BOUNDARIES\*

\*Local Atoll Names shown in green; Official Atoll Names shown in white.