



# The Maldives

## World Bank Group Country Program Snapshot

September 2013



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**Maldives' development agenda has been ambitious.** In its fifth year of a political transition to multi-party democracy, the country has been working to cement newly-established democratic institutions, as well as assuming a leading role in international efforts on climate change. Implementation of this agenda has taken place within the context of a macro fiscal crisis that started with the Asian tsunami of 2004. The fiscal crisis was exacerbated by the global food and fuel shocks of 2007-08 and the subsequent global financial crisis of 2009. As a small, open economy relying on a large share of tourist arrivals from Europe and importing almost the entirety of its food and fuel needs, these external shocks were deeply felt in the Maldives.

## RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

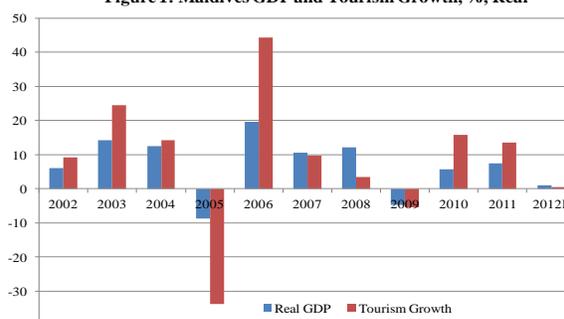
### Growth Performance and Prospects

**Until recently<sup>1</sup>, Maldives had been a development success story.** In the early 1980s the Maldives was one of the world's 20 poorest countries with a population of 156,000. Today, with a population of over 350,000, it is a middle-income country with annual per capita income of over US\$6,833<sup>2</sup>. Real GDP growth, while volatile in step with the fortunes of the tourism industry, has averaged nearly 7 percent since 2000. The last decade saw significant progress in poverty reduction with poverty, as measured by the international poverty line of US\$2 per capita per day, having declined from 31 percent in 2003 to 24 percent in 2009.<sup>3</sup> The sustained growth and rising prosperity of the last three decades was founded on a private sector-led tourism industry based upon the country's extraordinary natural assets. The Maldives consists of 1,192 small tropical islands that cross strategic shipping routes, and it has a marine environment that is richly diverse. With more territorial sea than land, marine resources have played a vital role shaping the contours of economic development, with nature-based tourism being a key driver of economic growth.

### **GDP growth moderated substantially in 2012 on the back of a weakening tourism sector.**

Economic growth in 2012 is estimated to have slowed down to 3.4 per cent from 7 per cent achieved in 2011. The country fell short of the 1 million tourist arrival target it had set for 2012, due largely to a contraction in arrivals from Europe. This decline reflected the slowdown in the Eurozone economy following the debt crisis, as well as the political reverberations of early 2012 (during the peak season), which dampened overall arrivals. While arrivals from China have continued to grow (accounting for one-third of overall tourist arrivals), Chinese travelers' average duration of stay is lower than that of their European counterparts. This has led to a small dip in tourist bed nights in 2012, leading to overall flat levels of earnings from tourism (estimated at US\$1.87 billion). However, on per capita (arrival) terms, earnings dropped by around 2.5 percent in 2012 to US\$1,955 per arrival in 2012, compared to US\$2,006 per arrival in 2011.

Figure 1: Maldives GDP and Tourism Growth, %, Real



Sources: Maldives Monetary Authority and WB staff estimates

<sup>1</sup> Until the Asian tsunami in December 2004.

<sup>2</sup> GNI (Atlas) per capita, 2012, World Bank.

<sup>3</sup> The Government of Maldives measures poverty using a *relative* line fixed at half the median of per capita household expenditure in the atolls. Using the HIES 2009-10 relative poverty line (Rf.22 per capita per day), poverty declined from 21 to 15 percent between 2003 and 2009.

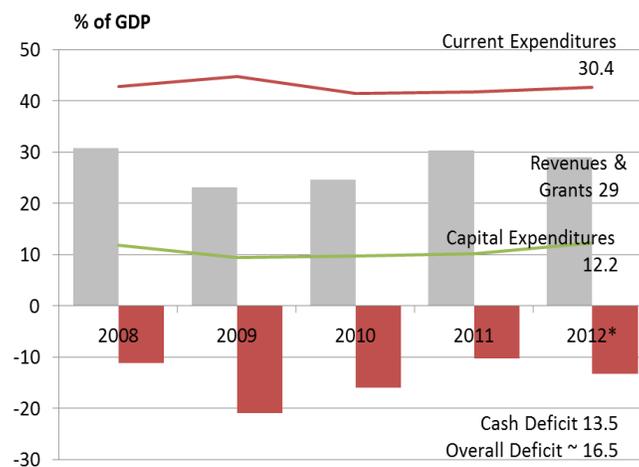
**Non-tourism sectors, notably construction, fishing and manufacturing, have, however, performed well.** These sectors posted growth of 16.1 percent, 9.7 percent, and 17.5 percent, respectively, in 2012. While fishing recorded robust growth after years of lackluster performance, the sector remains relatively insignificant within the overall economy, accounting for less than 2 percent of GDP—a drop from nearly 25 percent of GDP in the early 1980s. Growth in construction was buoyed mainly by housing construction and commercial property development in the capital Male, neither of which were related to the tourism sector. Housing construction has been supported by financial assistance from the government of China, mainly for projects in the main population centers of Male and Hulumale. Manufacturing output showed robust growth in fiscal 2012, in the post-global financial crisis slump, due largely to the increased output of fish products, notably packaged and canned tuna.

### Fiscal and financial developments

**Maldives’ fiscal position continues to weaken in the face of unsustainably high public spending.** Public spending in the Maldives, at around 43 percent of GDP in 2012, is at the level of many OECD countries in terms of GDP per capita. Expenditures have risen considerably in recent years because of mounting subsidies, particularly for electricity and the recently-introduced universal health insurance scheme, *Aasandha*.<sup>4</sup> Total public expenditures rose 32 percent in nominal terms from 2010 to 2012 or from 39.6 percent of GDP to over 42 percent of GDP. The principle draw on public expenditures in the Maldives remains the high public sector remunerations, which account for nearly one-third of total expenditures (or around 14 percent of GDP), and the transfers to state-owned enterprises.

**Even though the country enjoys the highest revenue collection in South Asia, resources have been insufficient to sustain such levels of public spending.** Expenditure trends over the past five years reveal a widening gap between revenues and expenditures, financed by unsustainable levels of public debt (Figure 2). Despite the introduction of new tax measures in 2011 – notably the Goods and Services Tax (both a Tourism GST and a General GST) and the Business Profits Tax—revenue efforts have been compromised by a variety of customs duty rate reductions as well as shortfalls in resort lease collections, owing to legal developments. The fiscal deficit in 2012 reached an estimated 13.5 percent of GDP in cash terms, but was significantly higher considering payment arrears.

Figure 2: Revenues and Expenditures, 2008-12 (% of GDP)



**Financing large fiscal deficits has presented enormous challenges.** The government has turned to its domestic market, largely through the sale of government securities, for much of its deficit financing in recent years. Selling more treasury bills to the market has, however, proven challenging as its main subscribers—the commercial banks—have become increasingly reluctant to hold government paper while government efforts to promote its securities to the wider public have proven unsuccessful. Against this

<sup>4</sup> Electricity subsidies and Aasandha accounted, respectively, for 1.4 percent and 2.8 percent of GDP in 2012.

backdrop, the government has opted for three forms of financing which are likely to have far reaching consequences on the economy moving ahead: (i) increased reliance on ad-hoc forms of borrowings from both the banking sector as well as private sector at high interest rates; (ii) increased monetization of the deficit, and (iii) a build-up of payment arrears. Payment arrears have accumulated to around 6 percent of GDP. The 2013 World Bank–IMF Debt Sustainability Assessment ranked Maldives at ‘high risk’ of debt distress, with a debt-to-GDP ratio at around 73 percent, an increase from 59.4 percent in 2009. Even under the baseline scenario, debt dynamics are projected to deteriorate further to 96 percent by 2015. This debt path is unsustainable and suggests there is little room for additional borrowing.

**Credit growth to the private sector remains weak.** Total credit to the private sector contracted by 9 percent in 2012 as banks maintained a cautious stance in face of deteriorating asset quality, difficulties in loan recovery, and the need to comply with the Maldives Monetary Authority’s (MMA) single-borrower limits. The banking sector has little appetite for lending. Credit to the private sector is, however, showing signs of a slight recovery. Non-performing assets of the banking sector improved from 21 percent to 19 percent in the first quarter of 2013, with the recovery of a large non-performing loan at one of the banks. Capital adequacy is also reportedly well above required levels.

**Banking services are highly concentrated in the capital Male, and people living in the outer atolls have very limited access.** Only just over 50 percent of Maldives’ population has access to financial services. Efforts under the World Bank Mobile Phone Banking project to increase access to financial services in remote islands have been constrained by the hesitancy of the one state bank involved in the initiative’s implementation.

**The formal foreign exchange markets have been increasingly short of liquidity with the recent slowing in the tourism sector and payment of maturing foreign debt.** The parallel market for foreign exchange has, however, been burgeoning. The availability of ample liquidity in this segment vis-à-vis the formal segment has kept parallel exchange rate premiums remarkably stable for a long period of time, with the currency currently trading at a 10-15 percent premium. The lack of foreign exchange in the formal market has forced the MMA to ration foreign exchange to banks and for a significant share of private activity to be conducted in cash. For nearly the entire past 12 months, the purchasing power parity (PPP) exchange rate has languished below the nominal exchange rate indicating that the Maldivian rufiyaa is overvalued. In addition, the steady depreciation of the PPP exchange rate since July 2012 is adding increasing pressure on the rufiyaa.

**The administration of President Waheed introduced measures in its maiden budget for 2013 to prune expenditures and increase revenue.** The approved 2013 budget projected a lower financing gap (excluding grants) through increasing taxes and cutting expenditures. Meeting the approved 3.9 percent of GDP deficit for 2013, given the 13.5 percent cash deficit of the previous year, would require significant fiscal consolidation and policy measures. However, of particular significance was the increase of the Tourism GST from 8 to 12 percent effective July 2013. Further measures were also announced to increase the base for General GST as well as raise the airport departure tax from US\$18 to US\$25 although this last proposal was rejected by the country’s parliament (Majlis) in mid-April 2013. On the expenditure side, the budget advocated lower outlays for subsidies and welfare payments whilst the Majlis also introduced sweeping cuts on line agency allocations before passing the budget. Notwithstanding these initiatives, the 2013 budget is not expected to substantially reduce the fiscal deficit given both the absence of specific policies to implement the expenditure cuts and the additional expenditure enhancing and revenue compromising measures contained in the budget (such as the increased capital expenditures and removal of per unit bed tax in July 2013). In this context, the International Monetary Fund (IMF) expects the deficit to remain unchanged in 2013 at around 13.5 percent of GDP.

**The World Bank provided technical input to the government's FY13 budget preparation process in support of efforts to increase efficiency in public spending and bolster fiscal prudence.** Technical assistance has also aimed at building capacity in public expenditure analysis in the Ministry of Finance and Treasury. Additional technical assistance has informed government efforts to reform its two major

assistance schemes—the universal health insurance scheme, and electricity subsidies—examining, in particular, the social and economic impacts of reforms. This work has complemented the dialogue on fiscal sustainability and enabled the government to better assess its options to limit current expenditures in these areas while guaranteeing equity of reforms. The World Bank will continue its support for fiscal sustainability.

### Public Financial Management

**Institutional weaknesses in public financial management have undermined the government's capacity to undertake necessary fiscal adjustments in an efficient manner.** A Public Expenditure and Financial Accountability (PEFA) assessment carried out by the IMF jointly with the World Bank and the government in May 2010 underscored the need for significant improvements in the country's public financial management systems, notably in the areas of budget credibility and predictability as well as controls in budget execution, accounting and reporting. Some steps have been undertaken since the PEFA assessment to establish a platform to strengthen public financial management systems, but the agenda is unfinished. While a comprehensive strengthening program is needed to address the country's needs, an incremental approach is best suited for the Maldives given the numerous challenges it faces. The government has prioritized developing a credible annual budget and achieving the fiscal aggregates planned.

**The government has requested World Bank support to strengthen its public financial management systems.** Building on the fundamental work underway, a project is currently under preparation for FY14 delivery designed to enhance budget credibility, transparency, and financial reporting of central government finances. The project will also support greater and more efficient usage of the existing Public Accounting System as a tool for better budget execution, internal control, cash management, accounting and fiscal reporting.

### External Developments

**The balance of payments situation remains tenuous following recent debt settlements as well as pressures emanating from monetizing.** The current account deficit widened in 2012 to reach 26.5 percent of GDP from the 20.5 percent of GDP recorded in 2011. Continued fiscal pressures are contributing to the high external current account deficit.

**Reserves have held up better than expected.** The impact of loose fiscal policy on the balance of payments has been partially mitigated by debt financing and arrears, which to some extent have contained private sector imports and the demand for dollars. At the beginning of 2013, Maldives had only US\$305 million in gross reserves or 2.4 months of imports with a settlement of a US\$50 million bond due in February 2013. Yet, as of end July 2013, gross reserves improved to US\$350 million or 2.6 months of imports, even after the bond settlement. The large parallel market has helped to cushion Maldives from a serious balance of payments crisis.

### Poverty and Shared Prosperity

**Despite the challenges of a dispersed population, the Maldives has achieved notable development progress in recent decades through a combination of private sector-led tourism development and improving public service provision.** As noted further above, poverty rates, as measured by the headcount ratio, have fallen steeply, driven largely by improvements in living conditions in the atolls. However, while both poverty and inequality have been declining in the atolls, they have been on the rise in the country's capital Male.

Headcount ratio for Republic, Male' and Atolls-2002/03 and 2009/10.						
Relative Poverty Lines	Republic		Male'		Atolls	
	2003	2010	2003	2010	2003	2010
International poverty line of US \$ 1.25 (\$1-a-day poverty line used in MDGs)	9%	8%	2%	7%	12%	8%
International poverty line of US \$ 2	31%	24%	9%	19%	39%	27%
Rf. 44 (Median of Atoll expenditure per person per day for HIES 2009/10)	66%	51%	40%	44%	75%	55%
Rf. 22 (Half the Median of Atoll expenditure per person per day for HIES 2009/10)	21%	15%	4%	12%	27%	16%
<b>Gini Coefficient</b>	<b>0.41</b>	<b>0.37</b>	<b>0.35</b>	<b>0.38</b>	<b>0.40</b>	<b>0.36</b>

Note: International poverty line is measured in purchasing power parity (PPP) dollars. 1.25US\$ is equivalent to Rfy 17 (with adjustment for inflation) in 2010 and Rfy 12 in 2003.

**Other key human development indicators, such as infant mortality, maternal mortality and educational attainment, have registered improvements.** The country is on track to meet most of the Millennium Development Goals (MDGs), and has already met the MDGs on eradicating extreme poverty and hunger, achieving universal primary education, reducing child mortality, improving maternal health, and combating HIV/AIDS, malaria and other diseases.<sup>5</sup> Efforts on promoting gender equality and empowering women, as well as ensuring environmental sustainability and effective adaptation will need to be sustained to reach these MDGs.

**While Maldives' global ranking on gender equality has improved, gender gaps persist.**<sup>6</sup> Gender equality has been boosted by an increase in the ratio of girls attending primary education, higher female enrollment in tertiary education and an increase in the percentage of women holding ministerial positions (which rose from 7 percent in 2011 to 21 percent in 2012). Women remain under-represented, however, in local and national government, particularly in policy-making positions. In 2010, 55 percent of women over 15 were found to be participating in the labor force, as compared to 76 percent of men over 15. Opportunities for women to work outside the home are limited. Lack of access to resources and isolation continue to frustrate women's participation in the economy. Women also continue to face legal obstacles in terms of property rights, inheritance and provision of legal evidence. The share of female-headed households in the Maldives is amongst the highest in the world.

**Youth (males and females aged 15 to 35) comprise 36 percent of the country's total population and, according to the government, are deserving of particular attention in national policy.** Driven by boredom, peer pressure, overcrowding on the islands and poor employment prospects, drug use, and violence have escalated among young people. Against an already high national unemployment rate of 28.1 percent, Maldivian youth are feeling the impact not only of increasing expatriate labor, but of a rising number of new labor market entrants.

**The government has recognized that the country's youth are at risk of becoming unproductive citizens.** Very little systematic knowledge has been gathered, however, to better understand the challenges and problems affecting the country's youth. While the United National Development Programme (UNDP) and Asian Development Bank (ADB) have undertaken work on gender across age groups, no agency has worked specifically on youth issues in the Maldives except for UNESCO, which assisted the Government of Maldives in preparing a National Youth Policy in 1984. In 2012, the World Bank initiated an analysis of youth in the country, together with the Ministry of Human Resources, Youth

<sup>5</sup> Millennium Development Goals – Maldives Country Report 2007, Government of Maldives.

<sup>6</sup> The Maldives ranked 64<sup>th</sup> out of 148 countries in the 2012 UN Gender Inequality Index, higher than Sri Lanka (75) and Bhutan (92).

and Sports, and local counterparts, looking at both young men and women, to identify factors that contribute to positive youth behaviors and those that put youth at risk. The findings are expected to inform national poverty alleviation and employment strategies and, more specifically, youth-related policies and programs. Work which the World Bank has supported in the Caribbean is informing the analysis.

## Social Protection

**Notwithstanding the significant achievement in poverty reduction, poverty remains a concern in some atolls and vulnerability remains high.** The World Bank has been assisting the government in the design and implementation of social protection reforms, aimed in particular at strengthening the effectiveness of pensions and social assistance programs to help poor households mitigate and cope with risks. While progress has been made in recent years to expand safety net coverage and build the benefits delivery system, several important challenges remain. In collaboration with the government, the World Bank prepared an analytical report entitled *Social Protection in the Maldives: Options for Reforming Social Assistance and Pensions*, outlining major strategic directions for reform. The report identified pensions as a significant issue. A World Bank project has since been helping to establish a fiscally sustainable pension system as well as to provide social protection for the elderly. The current contributory pension program has covered the majority of the formal sector labor force and is scheduled to be rolled out to self-employed workers in 2014. Pension reform relating to civil servants is incomplete however, as transitional retirement benefits issued by the Civil Service Commission have yet to be eliminated. With additional financing, the World Bank project is helping to address another gap, namely the lack of capacity as well as integrated processes and platforms required for the effective delivery of social protection programs.

**The financial sustainability of the social protection system is a fundamental challenge, particularly with respect to the electricity subsidy program and the universal health insurance scheme.** World Bank technical assistance has supported the design of a new targeting mechanism, which combines a proxy means testing approach and cross-validation of self-reported information with existing administrative databases. The government will be piloting this targeting mechanism in one safety net program, with a view to extending it to other safety net programs. The World Bank will continue to support the pilot's implementation.

## Environment, climate change and energy

**Environmental sustainability is the fundamental development challenge in the country.** Biodiversity based sectors contribute over 70 percent of national employment, over half of public revenues, almost the entirety of exports and close to 80 percent of GDP. Indeed, so critical to the future development and prosperity of the country, the new Constitution mandates the protection of the environment as a key citizen's right. From an economic growth and development standpoint, the management of the country's natural resources and complex ecosystems will continue to determine the country's comparative advantage and growth prospects into the future. Both the government and its development partners realize the importance of environmental sustainability and are placing a high priority on work in this regard.

**Environmental management is a national priority that has underscored successive national development and tourism plans.** Environmental pressures stem from the country's fragile geography, compounded by rising population densities, increased tourism and changing consumption patterns. The Maldives faces growing problems with solid waste management and pollution from sewage and other effluents emanating from urban settlements, hotels, fish-processing plants, ships and other sources. The quantities of solid waste generated exceed disposal and treatment capacity. Most wastes are dumped onto the island foreshore and burned at low combustion temperatures. 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. Habitat degradation threatens marine assets. Coral mining for construction and dredging of lagoons for reclamation is the most prevalent

cause of reef destruction. Other pressures include damage caused by divers, illegal collection of corals, and unsustainable exploitation of high-value reef resources. Terrestrial threats include timber harvesting and destruction of mangroves, while pollutants from numerous sources lead to coral reef damage. These environmental challenges could hamper the country's economic growth especially if they undermine tourism.

**Environmental management is constrained by the lack of technical and managerial capacity to deliver the required environmental infrastructure to monitor and control environmental impacts.** The World Bank-supported Maldives Environmental Management Project is addressing these constraints, developing an integrated solid waste management system in the North Province. The project is building capacity for environmental management through the creation of a cadre of trained civil servants, introduction of a degree program at the Maldives National University and enhanced monitoring and stewardship of terrestrial and marine resources. With financing from the Maldives Climate Change Trust Fund, the World Bank is also supporting the Ari Atoll Solid Waste Management Pilot Project to develop and implement an integrated solid waste management system in selected inhabited islands of the Ari Atoll and build the capacity of the island councils and communities to manage solid waste.

**With some 200 inhabited islands spread over a widely dispersed area, water resource management and the provision of water and sanitation services are expensive and complex.** Changing environmental conditions and urbanizing populations are placing even more pressure on the sector. Increasing salinity of island freshwater lenses immediately following the 2004 tsunami and pollution of aquifers by human waste have reduced use of historically important groundwater as a potable water source in the islands. The low-lying land areas of the Maldives make it particularly vulnerable to rising sea levels-with associated saltwater intrusion and flooding problems. A survey of 70 islands undertaken by the Ministry of Environment and Energy in 2010 reported that household groundwater is contaminated in most of the islands and is not suitable for drinking. In addition, limited rainwater harvesting capacity, the high cost of desalination, and financial and institutional capacity constraints have made progress in improving water management in the nation's inhabited islands difficult.

**The unique geographic attributes of the Maldives make its water resource situation both complex and diverse.** With populations on the islands ranging from 55 to 120,000 inhabitants, even basic water and sanitation service must be tailored to local resources and population needs. Management of the limited water resources is complicated due to the small catchment areas for rainfall, limited rainwater and groundwater storage capacity, long dry seasons, and the susceptibility of groundwater aquifers to pollution from poor sanitation and salinity intrusion. As an indication of both water scarcity and low island-level water self-sufficiency, since 2005, more than 100 islands have requested shipments of "emergency water" to be delivered from Male during the annual dry season, as the islands' stored reserves ran out. The limited ability of the islands to supply sufficient water for residents is in large part due to underutilization of existing infrastructure and lack of knowledge as to the quality and safety of island groundwater sources. With a projected 60 percent increase in the number of households by 2033, the next 20 years will be critical for water and sanitation sector development.

**Integrated approaches to water resource management are needed to ensure sustainable outcomes from expenditures and to foster increased island-level water self-sufficiency.** Efforts by the government, multilateral development banks, and nongovernmental organizations to improve the water and sanitation sector over the past nine years have been fragmented, and have yet to result in achieving water security in the outer islands. The World Bank has just recently completed analytical work on the current and projected trends in water supply and demand, providing guidance on appropriate interventions to enhance water security, with emphasis on economic efficiency, environmental sustainability, and equity.

The Maldives is one of the world's most vulnerable countries to climate change, particularly with regard to rising sea levels. With 96 percent of the islands occupying less than 1 km<sup>2</sup> in area and over 80 percent of the Maldives less than 1 meter above sea level, the country is particularly exposed to the risks of intensifying weather events. Over the next 20 years, dry seasons can expect to be drier and longer, and wet seasons more wet, which has serious ramifications on water supply and sanitation systems. The safe yield levels of groundwater for islands are expected to decrease with rising sea levels. Extreme rainfall events are likely to occur at twice the current frequency by 2050. Higher ocean temperatures increase the rate of coral bleaching and increase the risk of massive coral die-off during the local ocean temperature spikes that occur during El Niño events (the severe 1998 El Niño raised sea surface temperatures around the Maldives by as much as 5°C).

**Successive governments have placed climate change issues high on the development agenda.** One of the principle engagements of the World Bank on this front was the establishment of the US\$10-million multi-donor Climate Change Trust Fund in 2010, to support adaptation and mitigation measures to combat climate change. Projects under the trust fund are providing crucial support to the government to effectively monitor and manage environmental risks to fragile coral reefs and other wetland habitats, focusing on solid waste management, climate-resilient drinking water solutions and renewable energy development.

**While the Maldives is not a major emitter of greenhouse gases, it is highly impacted by the effects of climate change attributed to global greenhouse gas emissions.** In 2009, total carbon emissions in the Maldives were 1.3 million tons of carbon dioxide equivalent, contributing a mere 0.003 percent of global carbon emissions. Under business as usual conditions, greenhouse gas emissions could double by 2020, although this would still be much lower than other emitters in Asia or elsewhere<sup>7</sup>. On a per capita basis, however, greenhouse gas emissions in the Maldives are the highest in the South Asia region.

**The complete reliance on fossil fuels for electricity generation places a significant economic burden on the national economy.** Imports of fossil fuels currently cost the Maldives 20 percent of its GDP, annually. Independence from carbon-based fuels, if achieved through energy efficiency improvements and use of indigenous renewable energy resources, would both provide energy security and avoid the costly imports of fossil fuels. In a demonstration of international leadership on climate action, the Maldives in 2009 declared a policy commitment to become the world's first carbon neutral country by 2020. Through this commitment, the Maldives will serve as an example of how developing countries can organize themselves institutionally and capacity-wise to achieve energy security through a low carbon development path for climate change mitigation.

**The World Bank is supporting the government's efforts to move to a carbon-neutral economy.** Emphasis is being placed on shifting away from diesel as the primary fuel for electricity generation and on acquiring the necessary technical and institutional capacity in renewable energy technologies and operations in order to make a seamless transition in this respect. The Clean Energy for Climate Mitigation Project under the Maldives Climate Change Trust Fund program is designed to demonstrate the techno-economic viability of integrating renewable energy technologies into the power mix in island communities as a model for future interventions in energy mitigation in the Maldives. The project is currently under implementation. The World Bank has also been supporting the regulator, the Maldives Energy Authority, through various trust fund resources to support the development of a robust regulatory framework for the energy sector.

**The Maldives is also one of only eight countries in the world participating in the Scaling-Up Renewable Energy Program for low-income countries.** As the only small island state that is part of this program that sits under the global Climate Investment Funds, the Maldives is able to tap into significant grant and concessional financing to support its renewable energy development agenda. These funds are, in

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<sup>7</sup> Total carbon emissions in Sri Lanka are 12.3 million tons of CO<sub>2</sub> (tCO<sub>2</sub>); in India 1,600 million tCO<sub>2</sub>; in Germany 787 million tCO<sub>2</sub>; and in the USA 5,800 million tCO<sub>2</sub>.

turn, expected to leverage additional resources, notably from the private sector, as well from the World Bank Group, the Asian Development Bank (ADB), and other bilateral financiers and donors. The World Bank Group has had a strong partnership with the ADB to facilitate a transformation in the sector and its economics and to develop innovative financing schemes through the scale-up of renewable energy technologies in the country. The government has completed a comprehensive Investment Plan, which was approved by the Scaling-Up Renewable Energy Program sub-committee.

**As part of the Scaling-Up Renewable Energy Program Investment Plan, the government has requested World Bank support for Accelerating Sustainable Private Investments in Renewable Energy (ASPIRE).** The ASPIRE project, currently under preparation, aims to garner private sector support for the development of renewable energy through the introduction of risk mitigation facilities and other incentive programs. The project is to be designed as a partial risk guarantee supported by IDA funds. The government will continue to draw on support from the World Bank and the Scaling-Up Renewable Energy Program to address several key barriers in the renewable energy sector, including: enhancing regulatory frameworks; difficulties attracting private sector investors given the challenges the small scale of power distribution and dispersed investment projects pose to reaching economies of scale; and an uncertain investment climate where currency and payment risks affect the economic viability of renewable energy projects.

## Health

**Sustained investment in the health sector has enabled Maldives to make remarkable progress in its health indicators.** Immunization coverage for BCG<sup>8</sup>, DPT<sup>9</sup>, measles and polio immunization has been consistently above 96 percent since 1999, while infant mortality rates dropped to 11 deaths per thousand live births in 2008 against 20 deaths in 1999.<sup>10</sup> Maternal mortality decreased to 57 deaths per one hundred thousand live births in 2008 from 115 deaths in 1999. While these indicators are impressive when compared to other countries in the region, they pale somewhat in comparison to other countries with equal levels of income or with the same levels of per capita health expenditure.

**The country's geography and dispersed population along with its high dependence on imports of medical consumables and expatriate manpower have meant that health services come at substantially higher costs than other countries in the region.** Maldives spent 9.2 percent of its GDP on health in 2009. The Maldivian health system has historically seen a predominance of public funding, but is now facing a rapid growth in out-of-pocket spending on health. The consequent adverse impact on financial protection, especially of the poorest households, necessitates policy attention to system-wide reform, to contain the total health expenditure and to improve financial protection.

**The government is proactively undertaking health sector reforms, particularly to the health insurance system.** The World Bank has worked closely with the Ministry of Health and the National Social Protection Agency to compile and analyze the necessary evidence to inform the ongoing reforms to the country's universal health insurance scheme, *Aasandha*, and its predecessor, *Madhana*. The main challenge facing *Aasandha* relates to its fiscal sustainability. As discussed in a recent World Bank Policy Note<sup>11</sup>, substantive savings for the scheme could be achieved by reducing the cost of medicines through the bulk procurement of essential and generic drugs and by reducing expenditure on overseas treatment through negotiation of close-ended package rates with providers. Yet another area for policy action is improved case management of patients with chronic illnesses at the primary care level. All these measures, while improving the scheme's long-run fiscal sustainability, will also have positive distributional implications, particularly with respect to the decrease in the cost of drugs, which would

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<sup>8</sup> Bacilles Calmette Guerin (BCG) vaccine is provided for the prevention of tuberculosis.

<sup>9</sup> This is the vaccine for three infectious diseases of diphtheria, pertussis (whooping cough) and tetanus.

<sup>10</sup> Centre for Community Health and Disease Control, Ministry of Health and Family, Maldives, 2009; Vital Registration System, Ministry of Health and Family, Maldives, 2009.

<sup>11</sup> Nagpal, Somil; Redaelli, Silvia. 2013. *Utilization Trends and Cost Containment Options for Aasandha*. Maldives Health Policy Note #1, May 2013, Washington D.C., The World Bank.

particularly help the poorest segments of the population. The Government has requested continued World Bank technical assistance with the ongoing reform process.

## Education

**The Maldivian education system has made marked strides at primary and lower secondary levels, but constraints exist at higher levels of education.** The overall net primary enrolment rate is high at 96 percent. There is also gender parity, with the net primary enrollment for boys at 95 percent and for girls at 96 percent. The net lower secondary enrollment rate is also high at 84 percent<sup>12</sup>. Enrollment drops sharply, however, at the higher secondary and tertiary education levels. The higher secondary education net enrollment rate is a mere 17 percent, marking one of the steepest drops between lower and higher secondary education in the world. Underlining the sharp drop in participation at the higher secondary level is the limited number of schools offering education for grades 11-12. Until recently, less than 10 of the 221 schools in the Maldives offered high secondary education. Enrollment in tertiary education is also low at just 3 percent.

**Increasing the quality of service provision to a standard commensurate with the country's income levels is a challenge.** Learning outcomes in both primary and secondary education are modest, with substantial regional disparities. National assessments of learning outcomes at grades 4 and 7 have identified unsatisfactory levels of learning. At grade 4 the average score of students in the English language is 32 percent and in mathematics, 38 percent. In grade 8, student scores in English and mathematics average 29 percent and 30 percent, respectively. The performance of students at national examinations is also inadequate. Only 33 percent of boys and 37 percent of girls passed the General Certificate of Examinations in 2010.

**Increasing the number of well-educated and qualified Maldivians is extremely important for the country's continued growth.** At present, the country depends heavily on expensive overseas labor for technical, administrative and managerial jobs, as there are insufficient Maldivians with higher secondary and tertiary level qualifications to take up these positions. Increasing the number of educated and highly skilled Maldivians would boost the domestic labor market and reduce the reliance on expensive expatriate labor. The World Bank is supporting government efforts to expand higher secondary and tertiary education and improve the quality of education at all levels. Building on recent World Bank analytical work and earlier lending operation in the education sector, the Enhancing Education Development project approved in April 2013 will be focusing on education access and quality, particularly for primary and secondary education. The project will cover the entire country, including the outer atolls, in an effort to promote equitable growth and development.

## WORLD BANK GROUP ENGAGEMENT IN THE MALDIVES

**The World Bank Group is in the process of developing an Interim Strategy Note with the government.** The Interim Strategy Note was due to have been presented to the Board in April 2013, but was postponed given the country's macroeconomic environment, which has been compounded by an uncertain political environment with the approach of Presidential elections in September 2013. The Interim Strategy is now expected to go to the Board in early 2014 and is anticipated to cover an 18-24 month period.

**Building on both the World Bank Group's ongoing program and the lessons learned under the FY08-12 CAS<sup>13</sup>, the Interim Strategy Note will propose a selective program of engagement and a realistic framework of results.** The Bank Group program in this interim period will remain closely aligned with the development challenges identified above. While near-term in focus, it aims to contribute

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<sup>12</sup> Boys net enrollment at 81 percent and girls net enrollment at 87 percent.

<sup>13</sup> The last CAS, discussed by the Board on January 8, 2008, covered the period FY08-12 and focused on economic governance and investment, human development and environmental management and climate adaptation.

to the fundamental building blocks of medium and long-term growth and development which would underpin a future program of engagement. The Interim Strategy is anticipated to focus on a few areas deemed central to the Maldives during this transition period: environment and natural resource management; human capital development, and; public financial management, and institutional capacity building. The strategy would remain flexible, to respond to evolving government needs and priorities. Consistent with the lessons learned, program and project designs will be simple, innovative and contain an element of capacity building so as to minimize implementation risks.

**The World Bank lending envelope in the Maldives has traditionally been limited.** The International Development Association (IDA) allocation for the Maldives is provided in grants, reflecting the country's debt distress risk rating. As of end-August 2013, the current portfolio comprises three IDA projects with a net commitment value of US\$39 million, supporting education and environmental management, as well as social protection and pension administration. A US\$7.7-million mobile phone banking project has fully disbursed. Human development (pension and education reform) accounts for 55 percent of the portfolio followed by the environment and renewable energy with 45 percent. A significant body of analytical work and non-lending technical assistance has underpinned the World Bank program over the past few years, including on human capital development, water security, tourism, the national health insurance scheme, and targeting the poor.

**With a limited lending envelope, trust fund resources have served as a vital complement to the World Bank Group's program, supporting lending activities, technical assistance and analytical work.** As of end-August 2013, trust-funded activities totaled over US\$11 million, benefitting energy and climate change activities in particular. The Maldives Climate Change Trust Fund is supplementing the World Bank's Environmental Management Project, for instance, addressing climate change mitigation and adaptation. Trust funds have been supporting analytical efforts on a host of critical issues, from youth development to fiscal sustainability.

**Maldives has a highly-rated project portfolio.** As of end-August 2013 no projects are at risk and there are no problem projects in the portfolio. The disbursement ratio has fared consistently well over the past three years, with a rate of 26.9 percent recorded for the fiscal year ending 30 June 2013.

**Project implementation is generally satisfactory and sector outcomes in some areas, such as education, have been particularly impressive.** There is however scope for further improvements in several areas including procurement, safeguards, and monitoring and evaluation. The overall financial management performance is satisfactory and the fiduciary risk after mitigation is rated as moderate for the majority of projects. Limited technical capacity is one of the leading development constraints in the Maldives, impacting all parts of government functions and project implementation. Limited local implementation capacity is compounded by the dispersed locations of Maldives' islands. Capacity constraints are usually reflected in the project designs, and technical assistance to address capacity weaknesses will continue to remain important.

### **International Finance Corporation (IFC)**

**Maldives became an IFC member country in 1983.** Since then, IFC has invested US\$157 million, including US\$8.5 million mobilized from other institutions. IFC's operations in the Maldives are overseen by its Colombo office in Sri Lanka.

**IFC's support in Maldives centers on three pillars:** (i) Inclusive growth, including the reach for the bottom of the pyramid, infrastructure building and improving access to finance for micro, small and medium enterprises; (ii) renewable energy, cleaner production, and energy efficiency financing; and (iii) regional and global integration via improved financial infrastructure, investment climate reforms, trade financing, logistics, and South-South investments.

**IFC's operations have focused on four areas: tourism, the financial sector, infrastructure, and climate change mitigation.** On the investment side, IFC has a committed portfolio of US\$38 million, strengthening tourism, telecommunications and financial services. In 2010, IFC committed an investment in a leading hotel operator in Maldives. IFC's advisory services projects have included interventions in the financial sector, including working closely with the Maldivian central bank and banking regulator, the Maldives Monetary Authority, to commercialize operations of the IFC-assisted credit bureau. They have also included: cleaner production audits for 20 resorts in Maldives to promote sustainable business practices; solid waste management (a completed public-private partnership advisory project); and the drafting of the Non-Banking Financial Institutions Act to assist the Maldives Monetary Authority.

### **Multilateral Investment Guarantee Agency (MIGA)**

**Given MIGA's global focus on supporting high development impact investments in IDA countries, Maldives is an important country for MIGA.** MIGA supports the World Bank Group strategy for the Maldives, and is currently considering several projects in the tourism and infrastructure sectors, especially renewable power. Maldives provides a challenging environment for foreign investors. However, MIGA remains engaged and is looking to provide support where it can do so on a sustainable basis.

## MALDIVES: PENSION AND SOCIAL PROTECTION ADMINISTRATION PROJECT

### **Key Dates:**

Approved: 12-May-2009

Effective: 22-Oct-2009

Closing: 30-Jun-2015

### **Financing in million US Dollars\*:**

Financier	Financing	Disbursed	Undisbursed
IDA	15.8	7.17	8.58
Govt. of Maldives			
Total Project Cost	15.8	7.17	8.58

\*As of August 31, 2013



### **Background and Objectives:**

The Pension and Social Protection Administration Project set out to support the implementation of the National Pension Act, to strengthen institutional capacity of key agencies responsible for implementing the National Pension Act, and to develop the processes and platforms required for the delivery of social protection programs. The project, including a credit of US\$3.8 million, was approved on May 12, 2009. An Additional Financing Grant, in the amount of US\$12 million, was approved on June 2, 2011, which extended the project's original closing date of December 31, 2012 to a June 30, 2015.

There are five components:

- 1) Technical Assistance and Capacity Building for the New Pension Program**, supporting: policy analysis and the legal framework related to the country's pension system; provision of technical advisory services, goods, and training for the setting up and operation of Maldives Pension Administration Office (MPAO); as well as a supervisory unit for pensions under the Capital Market Development Authority as the pension regulator.
- 2) A Public Awareness Campaign**, supporting the design and implementation of a public information campaign to educate members of the new pension system on its objectives and mechanisms.
- 3) A Public Accounting System**, supporting the automation of public financial management.
- 4) Administration of Health Insurance, Disability, and Targeted Assistance**, supporting the National Social Protection Agency in developing a social protection information system and health insurance management information system; and
- 5) Payout of Pension Liabilities**, supporting the Maldives Retirement Pension Scheme through the provision of pension payouts to public sector employees retiring during the period of project implementation, who have been credited with Recognition Bonds in accordance with the National Pension Act.

### **Key Results Achieved and Expected:**

- MPAO was successfully established and at present has 34 full time professional staff managed by the chief executive officer and the Governing Board, both appointed by the President of Maldives. Both the Maldives Retirement Pension Scheme and the Old Age Basic Pension are fully operational, with 73,644 active individual accounts being maintained under the former and 15,435 eligible beneficiaries receiving benefits under Old Age Basic Pension as of the end of March 2013. Both numbers exceed project targets. MPAO is also administering the payment of other pension benefits for the government under a memorandum of understanding with the Ministry of Finance and Treasury. The government has decided to open the Maldives Retirement Pension Scheme to self-employed workers in 2014.
- The project has conducted 324 targeted information sessions since project inception, with 19,090 people having attended. More than 100 TV and Radio talk shows have also communicated information on the pension systems. Seventeen media briefing sessions have been organized to date. Billboards, banners, event sponsorships, print media and web have been used to achieve the project objectives. MPAO has also conducted door-to-door visits.
- The Human Resources/Payroll module of the public accounting system has been rolled out to 92 out of a total 110 agencies in Male' and is expected to be rolled to all agencies across Male' by the end of 2013. Good progress has also been made for the other public accounting system modules.

**Key Development Partners:** The project has three implementing agencies:

- Maldives Pension Administration Office – coordinating all activities of the project and specifically overseeing components one, two, and five;
- The Ministry of Finance and Treasury – overseeing component three; and
- The National Social Protection Agency – overseeing component four.

## MALDIVES: ENVIRONMENTAL MANAGEMENT PROJECT

### Key Dates:

Approved: June 10, 2008

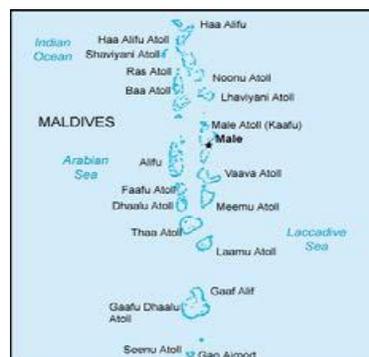
Effective: December 5, 2008

Closing: June 30, 2014

### Financing in million US Dollars\*:

Financier	Financing	Disbursed	Undisbursed
IBRD			
IDA	13.15	6.94	6.21
Govt. of Maldives	0.73	0.52	0.21
Other			
<b>Total Project Cost</b>	<b>13.88</b>	<b>7.46</b>	<b>6.42</b>

\*As of June 30, 2013



The country's geography underscores the challenge of environmental management.

### Background and Objectives:

Environmental pressures in the Maldives stem from its fragile geography, coupled with rising population densities, increased tourism, and changing consumption patterns. First, the country faces growing problems with solid waste management and pollution from sewage and other effluents emanating from urban settlements, hotels, fish-processing plants, ships, and other sources. The quantities of solid waste generated exceed disposal and treatment capacity. Most wastes are dumped onto the island foreshore and burned at low combustion temperatures. 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. Second, habitat degradation threatens marine assets. Coral mining for construction and dredging of lagoons for reclamation is the most prevalent cause of reef destruction. Other pressures include damage caused by divers, illegal collection of corals and unsustainable exploitation of high-value reef resources. Terrestrial threats include timber harvesting and destruction of mangroves while pollutants from numerous sources lead to coral reef damage. These environmental challenges could hamper the country's economic growth especially if they undermine tourism. Hence, environmental management is a national priority, as evident in its recurrence as a core theme of successive national development and tourism plans.

This project aims to establish a solid waste management system that inhabitants on targeted islands use solid waste management facilities, reducing the risks of contamination associated with accumulated wastes and sea dumping. It also seeks to build human and technical capacity for environmental management so that the environmental dimension is integrated in the planning process using information and expertise developed in the project. The four components of the project are: (1) a regional solid waste management program in the North Province which is under-served by waste management facilities; (2) capacity building for the country's environmental agencies and regulators to manage the needs of a fragile environment; (3) technical assistance for strengthened environmental management and monitoring to expand the knowledge base regarding critical natural resources; and (4) project management and communications.

### Key Results Achieved and Expected\*:

With regard to the first component, the government completed the: (i) complex process of identifying the island as the site for the Regional Solid waste Management (RSWM) facility and approval of the selected site; (ii) selection of the technology and engineering design for the RSWM facility; (iii) design of a waste management system of composting and segregation at the island level; and (iv) development of community-based cost recovery for island waste management through user fees. The project's final target for the user fee collection in 50 percent of the participating islands was achieved 1.5 years ahead of schedule. After a protracted delay, the disbursement condition provided in the Financing Agreement – and specifically linked to the construction of the RSWM and island facilities and the acquisition of a residual waste transfer vessel – was met in August 2013, paving the way for implementation of the RSWM component activities. The government will request a reallocation of funds from the cost savings of other project components into the RSWM program as well as a one-year extension of the project closing date.

Considerable progress has been made in building human and technical capacity, including the creation of a cadre of trained civil servants, enhanced access to information from environmental monitoring and research to support planning processes as well as community participation in environmental management in 75 percent of the targeted islands (which exceeds the project target).

\*As at end-August 2013

**Key Partners:** The Ministry of Environment and Energy and the island councils of the North Province.

## MALDIVES: CLIMATE CHANGE TRUST FUND (CCTF)

### **Key Dates:**

Administrative Agreement signed (Bank, donors):  
Dec. 2009 (European Union), Jun.2010 (AusAID)  
End Disbursement Date: Mar 31, 2015

### **Financing in million US Dollars\*:**

Financier	Pledged amount
EU	8.7
AusAID	2.0
Total	10.7

\*As of June 30, 2013



### **Background and Objectives:**

The Maldives Climate Change Trust Fund (CCTF) was launched in December 2009 with the explicit objective of developing a climate-resilient economy and society in the Maldives through adaptation to climate change as well as mitigation for a carbon-neutral development path. This multi-donor trust fund represents a collaborative partnership and coordinated approach to addressing climate change between the European Union (EU), the Australian Aid Agency for International Development (AusAID), and the World Bank (as administrator). The arrangements build on each institution's comparative advantages to create synergies and make the most effective use of available resources.

The CCTF's objective is to support the development and implementation of the climate change strategy for Maldives, and to build a climate-resilient economy and society through adaptation and mitigation activities. CCTF consists of the following components: (i) Adaptation — Building a Climate Resilient Economy and (2) Mitigation — Promoting Low Carbon Development

### **Key Results Achieved and Expected:**

**CCTF program:** An integrated Projects Management Unit in the Ministry of Environment and Energy is implementing the trust fund projects and is fully staffed. A Permanent Secretary rank official is the Program Director.

**Investment projects:** There are three projects under the CCTF:

- Clean Energy for Climate Mitigation, US\$2.5 million).
- Wetlands Conservation and Coral Reef Monitoring for Adaptation to Climate Change, (US\$3.8 million).
- Ari Atoll Solid Waste Management, US\$1.3 m)

A total of US\$3.0 million has been disbursed.

**Current Project Status:** All three projects are under implementation under the leadership of the Ministry of Environment and Energy. AusAID replenished the CCTF with supplemental financing of AUD1 million in May 2013. The EU has officially conveyed to the World Bank and the government that it would provide supplemental funds of US\$5 million by December 2013 for the second phase of CCTF. The World Bank team is in a dialogue with the EU and the Government on the formulation of this second phase.

**Key Partners:** The Ministry of Environment and Energy, the Ministry of Fisheries and Agriculture, the Environmental Protection Agency, the Marine Research Center, and the FENEKA Corporation, as well as atoll and island councils.

## MALDIVES: ENHANCING EDUCATION DEVELOPMENT PROJECT

### **Key Dates:**

Approved: April 30, 2013

Effective: July 26, 2013

Closing: June 30, 2018

### **Financing in million US Dollars\*:**

Financier	Financing	Disbursed	Undisbursed
IBRD			
IDA	10		
Govt. of the Maldives	1		
Other			
<b>Total Project Cost</b>	<b>11</b>		

\*As of August 31, 2013



### **Background and Objectives:**

The project supports the Government of Maldives to develop the education sector, with special focus on primary and secondary education. More specifically, the project aims to enhance and strengthen strategic dimensions of education access and quality.

The project was prepared through a process of consultation and collaboration with a broad range of stakeholders: the Ministry of Education, the Ministry of Finance and Treasury, the atoll education agencies, public and private employers, public and private education institutions, academics, and school principals, teachers, parents, and students. Prior to this project, the Bank had undertaken rigorous policy and technical analysis through a programmatic series of education sector reports, whose findings and recommendations were incorporated into the project's design. The reports were *Human Capital for a Knowledge Society: Higher Education in the Maldives, an Evolving Seascape* (2011), and *Human Capital for a Modern Society: General Education in the Maldives, an Evolving Seascape* (2012).

The project includes three components: (a) national-level education development; (b) school-level education development; and (c) project management, monitoring and evaluation, and program development. The project will assist the Government in: developing a system of national assessments of learning outcomes to inform education policy; conducting regular school level quality assurance reviews to feed into school improvement activities; and implementing a school-based professional development program for teachers. The project will also support government efforts to develop a network of good quality secondary and higher secondary schools. Further, it will strengthen the human resource capabilities of education officials in the country's atolls and in its capital Male'. In addition, the project will help the Ministry of Education to prepare a master plan for the development of higher education.

### **Key Results Achieved and Expected:**

The project has just become effective. The key anticipated outcomes are:

- An increase in the survival rate of students through secondary education;
- The establishment of a system of national assessments of learning outcomes; and
- The development of a quality assurance system for schools.

### **Key Development Partners:**

The Ministry of Education is responsible for the overall project oversight and will implement the project through its institutions. The World Bank is the only donor providing large scale support to the education sector in the country. The Bank collaborates with UNESCO and UNICEF which also provide assistance for education.