



# Maldives: Country Snapshot

March 2014



**Maldives is in the sixth year of a complex political transition to a multi-party democracy.** Its development agenda has been ambitious, working to cement newly established democratic institutions and taking a leading role in international efforts on climate change. Implementation of this agenda has taken place within the context of a challenging macro-fiscal situation which started deteriorating with the Asian Tsunami of 2004 and was exacerbated by the food and fuel crisis of 2007-08 and the subsequent global financial crisis of 2008-2009. As Maldives is a small, tourism-based, open economy, importing almost all its food and fuel needs, these external shocks were deeply felt. Over the past two years, the country has undergone significant political turmoil. Elections accepted by all parties ultimately yielded a new president in November 2013. Parliamentary elections are set to be held in late March 2014.

## 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 326,000, it is a middle-income country with annual per capita income of over \$7,177<sup>2</sup>. Real GDP growth, while volatile in step with the fortunes of the tourism industry, has averaged nearly seven percent since 2000. The last decade saw significant progress in poverty reduction with poverty, as measured by the international poverty line of \$2 per capita per day, having declined from 31 percent in 2003 to 24 percent in 2010.<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.

**Economic growth has been sustained, albeit at a slower pace.** After averaging almost seven percent for 2010-11, real GDP growth moderated to 3.4 percent and 3.7 percent respectively in 2012 and 2013. Tourism, which directly and indirectly accounts for two-thirds of economic activity in the Maldives, has been impacted by weaker demand from Europe, the country's largest market. Demand has slowly been picking up, however, as Maldives has been able to diversify into the Chinese market. In 2013, tourist arrivals grew by 17.4 percent. This strong performance will have a positive impact on the non-tourism sectors, such as construction, communications, and fisheries, which are expected to remain dynamic with a positive contribution to the economy. GDP growth is projected to reach 4.5 percent in 2014.

### Fiscal, financial and external developments

**Maldives' macroeconomic environment is significantly distressed, with double digit fiscal deficits continuing to threaten macroeconomic sustainability and public service delivery.** Maldives entered the global economic crisis of 2008-2009 in a weak macroeconomic position. At the onset of the crisis, the government's expenditure patterns proved unsustainable as tourism-related revenues declined sharply. The European debt crisis added to these challenges. Public debt has escalated sharply in recent years, rising from 58 percent of GDP in 2009 to 86 percent in 2013, and the country is deemed at high risk of debt distress<sup>4</sup>. The overall fiscal deficit rose from 11.3 percent of GDP in 2011 to 13.5 percent in 2012 and closed 2013 at about 9.8 percent. On the external front, the current account deficit reached 27 percent of GDP in 2013, a threefold increase over its 2010 level. External debt also increased, reaching 98 percent of GDP in 2013, compared to 58 percent in 2010.

**Even though the Maldives enjoys the highest revenue collection in South Asia, the country is spending beyond its means.** Expenditure trends over the past five years reveal a widening gap between revenues and expenditures, financed by unsustainable levels of public debt. In 2013, total expenditures were above 42 percent of GDP, while total revenue collection amounted to 32.8 percent of GDP. The increase in public spending has been driven by higher-than-budgeted expenditures on the wage bill (15.8 percent of GDP), universal subsidies (including food and electricity subsidies), social welfare payments (linked to the universal health insurance scheme), transfers to state-owned enterprises and capital spending in the outer atolls. In this context, management of the constrained cash flow has become a burgeoning challenge. The government has resorted largely to extraordinary means of deficit financing, including building up arrears, monetization and ad hoc borrowings from the banking and private sectors at high interest rates. While the 2013 budget introduced a host of measures to curtail expenditures and increase revenues, their impact has been limited in the absence of clear policies to ensure their implementation. Arrears, at an estimated six percent of GDP, pose a significant fiscal risk.<sup>5</sup>

Loose fiscal policy has made macroeconomic management difficult, putting pressure on the balance of payments and external reserves. While the impact of high public spending and deficit monetization on prices has been contained – inflation moderated to six percent at end 2013 as commodity prices eased and the effects of previous tax increases elapsed – pressures on the balance of payment and the exchange rate have increased. Maldives follows a pegged exchange rate regime with a horizontal band of 20 percent on either side of a central parity at 15.4 MVR per US dollar. The government's rationing of foreign exchange has resulted in a parallel dollar market, where the Rufiyaa is trading at a 10–15 percent premium.<sup>6</sup> The parallel market has helped to meet some of the demand for dollars, and reserves

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

<sup>2</sup> GNI (Atlas) per capita, 2013, 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.

<sup>4</sup> Joint Bank-Fund DSA, January 2013.

<sup>5</sup> There is no monitoring of arrears in Maldives. While the Ministry of Finance estimates arrears at 3 percent, the World Bank estimate is 6 percent or higher according to Maldives Development Update, October 2013.

<sup>6</sup> IMF Article IV 2013.

have held up better than expected. As of end 2013, gross reserves stood at \$344.7 million or around 2.3 months of imports. Usable reserves, however, are deemed to be substantially lower.

**Macroeconomic imbalances are putting stress on the banking system which faces increasing exposure to sovereign risk.** High budget deficits have led to dramatic public sector credit expansion. In the absence of an effective non-banking sector, much of the domestic financing requirement has fallen on the banking sector. This has been crowding out credit to the private sector and putting the banks' balance sheets at risk. Foreign exchange rationing is also exposing banks to dollar liquidity shocks. These stresses are compounded by the banks' high exposure to the tourism sector, a concentration of loans on a few borrowers, and limited financing options, such as lines of credit or parent financing. Financial sector risks have, consequently, been rising.

**Loose fiscal policy will continue to pose a substantial risk to macro-stability and to increase risks of debt distress.** Recent measures to increase pensions and health benefits will add further to fiscal pressures in 2014. In this context, the overall fiscal deficit is projected to remain in double-digits levels over the next two to three years. Financing is expected to become more challenging going forward. Continued reliance on costly short-term commercial borrowing from the banking and private sector, monetization of the deficit, and build-up of payment arrears will fuel further fiscal pressures and weigh on the financial and real sectors. Public debt is expected to escalate further to 96 percent of GDP in 2015. Much stronger and concerted (albeit painful) fiscal consolidation measures would be needed to bring the fiscal and debt situation back to sustainability.

**The balance of payments and the external financing gap remain of particular concern and threaten exchange rate and price stability.** In the absence of decisive fiscal consolidation efforts, balance of payment pressures emanating from high fiscal deficits and recourse to monetary financing are expected to increase. Maldives' external current account deficit is projected to remain high over the next couple of years, at around 25 percent of GDP, particularly given the economy's strong dependence on imports. In the absence of viable external financing flows, large current account deficits are likely to translate into a high overall balance of payments deficit. High public spending and heavy reliance on imports will continue to pressure the Maldivian currency. With low gross reserves, Maldives' central bank, the Maldives Monetary Authority, has limited room for maneuver. Furthermore, pressures on the exchange rate could be exacerbated if the government is forced to pay compensation in connection with the reversal of the GMR airport concession<sup>7</sup>. Given the country's high dependence on fuel and food imports, a sharp devaluation would likely impact domestic prices and would have an adverse impact on poverty.

**Macroeconomic imbalances represent an immediate and significant development challenge for Maldives.** Unsustainable public spending, escalating debt and substantial external vulnerabilities pose a risk to the country's macroeconomic outlook. Compounded with the general level of policy uncertainty, these factors are negatively affecting private sector investment and growth prospects. The serious cash flow constraint faced by the government has also severely compromised development expenditures. Furthermore, despite its vulnerability to external shocks, Maldives lacks adequate buffers in a context of high debt, limited fiscal space and depleted reserves.

**The path towards fiscal and debt sustainability in Maldives will require short-term measures to address the current cash crunch, as well as long-term structural measures** that are important but will entail political and social costs. An array of measures could be combined in a policy package accompanied with a communication strategy to sensitize the public on the need to adopt and implement these reforms. The timing of these measures is important. If expenditure cuts are delayed, resources will become even scarcer and the type of adjustment required later would be even more costly.

**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. Policy dialogue will focus on shedding light on policy options to ease fiscal consolidation efforts.

## 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 and updated in 2014 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 of 2010 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

<sup>7</sup> The airport concession was awarded to a consortium of GMR Infrastructure Limited (GMR, India) and Malaysia Airports Holdings Berhad (MAHB, Malaysia), however after the change in presidency in February 2012, the new government raised concerns over the modality of the concession agreement. In December 2012, the government of Maldives took over the airport, and the contract with GMR-MAHB was cancelled. Arbitration proceedings are ongoing in Singapore between GMR-MAHB and the government of Maldives.

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.

### 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.

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>8</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>9</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 unemployment is high.** An estimated 32 percent of youth aged 20-24 years are neither participating in education nor working. Labor market programs are not effectively promoting the employability of the youth, who constitute over 60 percent of Maldives' population. Rising youth unemployment is contributing to other social ills such as drug abuse and gang-related violence. Lack of employable skills and quality technical/vocational training opportunities pose constraints on some youth to lead a productive life. Analysis of skills, youth and jobs is due to be completed in FY14, designed to shed light on issues and opportunities affecting the participation of the youth and women in the economy.

<sup>8</sup> Millennium Development Goals – Maldives Country Report 2007, government of Maldives.

<sup>9</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).

## 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 being rolled out to self-employed workers as of January 2014. In addition, a regulation on participation and disbursement of benefits to foreign employees under the Maldives retirement pension scheme was introduced with mandatory registration of employees to be completed by 1 April 2014. 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 in light of the electricity subsidy program, removal of the upper limit for the universal health insurance scheme and increase in the old age pension benefit. 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 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 have 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 \$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>10</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 (SREP) 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 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.

<sup>10</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>.

**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 program, currently under preparation (for FY14), aims to leverage IDA and SREP funds to attract private sector investments for the development of renewable energy projects. The program seeks to combine technical assistance, concessional financing, and innovative risk mitigation instruments to provide confidence to private sector investors in a nascent market. The project is being designed as a partial risk guarantee supporting standardized project contracts in the photovoltaic sector. The government will draw on support from the World Bank and SREP to address several key barriers in the renewable energy sector, including the challenges of a small market size, lack of track record for private investments in this sector, currency and payment risks, and still evolving regulatory frameworks. The program seeks to move the sector towards increasing financial sustainability in a phased manner over the program life. The team is coordinating across the World Bank Group to achieve these program goals.

## Health

**Sustained investment in the health sector has enabled Maldives to make remarkable progress in its health indicators.** Immunization coverage for BCG<sup>11</sup>, DPT<sup>12</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>13</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 2011, about half of which came from the government exchequer and the rest from household sources. 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, despite its relatively high public 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>14</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. The World Bank recently supported the government in developing standard treatment guidelines for the care of diabetes and hypertension in primary care settings, which are now awaiting implementation. 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 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 enrollment 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>15</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 higher secondary education. Enrollment in tertiary education is also low at just three 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

<sup>11</sup> Bacilles Calmette Guerin (BCG) vaccine is provided for the prevention of tuberculosis.

<sup>12</sup> This is the vaccine for three infectious diseases of diphtheria, pertussis (whooping cough) and tetanus.

<sup>13</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>14</sup> Nagpal, Somil; Redaelli, Silvia. 2013. *Utilization Trends and Cost Containment Options for Aasandha*. Maldives Health Policy Note #1, May 2013, Washington D.C., World Bank.

<sup>15</sup> Boys net enrollment at 81 percent and girls net enrollment at 87 percent.

percent, respectively. The performance of students at national examinations is also inadequate. Only 40 percent of students passed the General Certificate of Examination Ordinary Level in 2012.

**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 operations in the education sector, the Enhancing Education Development project approved in April 2013 is focusing on education access and quality, particularly for primary and secondary education. The project covers 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 and volatile political environment surrounding the presidential elections in 2013. The Interim Strategy is now expected to go to the Board at the end of May 2014 and is anticipated to cover a 25-month period.

**The World Bank Group Interim Strategy Note (ISN) for FY14 - FY16 proposes a selective program to support Maldives during this period of uncertainty and transition and lays the foundations for the resumption of a full country program.** Building on the World Bank Group's ongoing program of support and drawing on lessons learned from the FY08-FY12 Country Assistance Strategy (CAS)<sup>16</sup>, the Interim Strategy is anchored within a broad framework articulated around four main areas deemed central to Maldives to support the transition and set the stage for longer-term sustainability: fiscal, public financial management and debt management; sustainable growth; social inclusion and service delivery; and environment and natural resource management. The strategy would remain flexible, to respond to evolving government needs and priorities.

**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 February 2014, the portfolio comprises three IDA projects with a net commitment value of \$39 million, supporting education (26 percent of the portfolio), environmental management (34 percent of the portfolio), as well as social protection and pension administration (40 percent of the portfolio). Maldives has a highly-rated project portfolio. 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 June 30, 2013.

**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-February 2014, trust-funded activities totaled over \$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 clean energy, solid waste management, wetland conservation and coral reef monitoring. Trust funds have been supporting analytical efforts on a host of critical issues, from youth development to fiscal sustainability. Trust funds have also been supporting the development of the investment plan for scaling up the renewably energy program.

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 \$157 million, including \$8.5 million mobilized from other institutions. IFC's committed and outstanding investment portfolio stood at \$31 million and \$29 million respectively as of end February 2014, supporting tourism, housing finance and lease. IFC has an ongoing advisory project that assists with the development of a new Act to regulate non-bank financial institutions. IFC's operations in the Maldives are overseen by its Colombo office in Sri Lanka.

**IFC's support in Maldives has centered 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.

<sup>16</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.

**IFC's operations have focused on four areas: tourism, the financial sector, infrastructure, and climate change mitigation.** In 2010, IFC committed an investment in a leading hotel operator in Maldives and a Maldivian sponsor's South-South investment in Seychelles. 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. 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

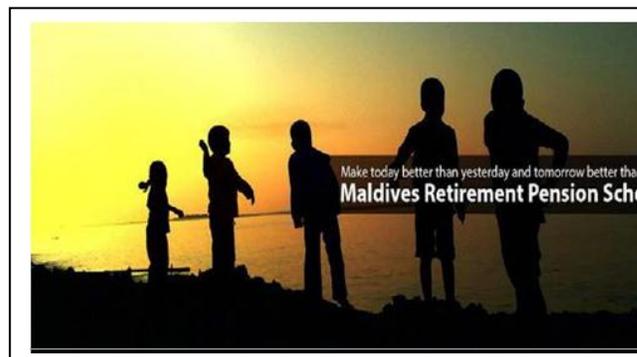
Effective: 22-Oct-2009

Closing: 30-Jun-2015

### Financing in million US Dollars\*:

Financier	Financing	Disbursed	Undisbursed
IDA	15.8	10.3	5.5
Govt. of Maldives			
<b>Total Project Cost</b>	<b>15.8</b>	<b>10.3</b>	<b>5.5</b>

\*As of March 10, 2014



### Background and Objectives:

The Pension and Social Protection Administration Project set out to support the implementation of the Maldives Pension Act, to strengthen institutional capacity of key agencies responsible for implementing the Maldives Pension Act, and to develop the processes and platforms required for the delivery of social protection programs. The project, including a credit of \$3.8 million, was approved on May 12, 2009. An Additional Financing Grant, in the amount of \$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, appointed by the president of Maldives. Both the Maldives Retirement Pension Scheme and the Old Age Basic Pension are fully operational, with over 80,000 active individual accounts being maintained under the former and over 16,000 eligible beneficiaries receiving benefits under Old Age Basic Pension as of March 2014. Both numbers exceed project targets. MPAO is also administrating 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. MPAO has introduced regulation on participation and disbursement of benefits to foreign employees under the Maldives Retirement Pension Scheme and has made it mandatory to register before 1 April 2014.
- The project has conducted 347 targeted information sessions since project inception, with over 20,000 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 the 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 98 out of a total 118 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.
- In addition, a proxy-means tested targeting method of beneficiary selection is being piloted. The procurement process to develop the management information system is also in progress.

\* As of March 2014

**Key Development Partners:** The project has three implementing agencies: the Maldives Pension Administration Office, Ministry of Finance; and the National Social Protection Agency.

## MALDIVES: ENVIRONMENTAL MANAGEMENT PROJECT

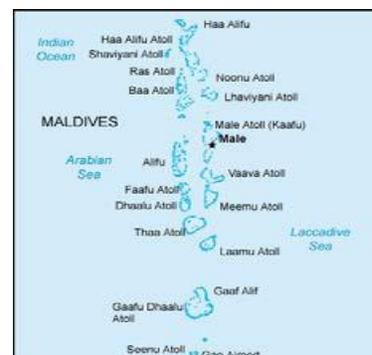
### Key Dates:

Approved: June 10, 2008  
 Effective: December 5, 2008  
 Closing: June 30, 2015

### Financing in million US Dollars\*:

Financier	Financing	Disbursed	Undisbursed
IBRD			
IDA	13.15	11.8	0.5
Govt. of Maldives	0.73		
Other			
Total Project Cost	13.88		

\*As of February 28, 2014



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\*:

In February 2014, the Bank approved the government's request for a one-year extension of the project closing date to end-June 2015, a reallocation of project funds among existing disbursement categories and related revisions to certain project aspects. Disbursements to date amount to 96 percent of the IDA credit.

With regard to the first component, the construction of the regional waste management facility is proceeding ahead of schedule and is likely to finish by May 2014. The waste incinerator is expected to be ready by October 2014. The completion of the island waste management centers and of the residual waste transfer vessel is expected by June 2014 and December 2014, respectively. 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. The project's final phase, namely operationalizing the system as the much needed model for regional solid waste management, will be the project's most critical challenge.

Implementation of Components 2 and 3 generally proceeded as planned and were completed in 2013. Considerable progress was 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 of March 6, 2014)

**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 (Australia)  
End Disbursement Date: Mar 31, 2015. Amounts in millions of Euro, A\$ and US\$.

Financier	Pledge Amount
EU	E6. 5
AusAID	A\$ 2
Total	

A total of US\$9.126 million is committed; and US\$5.3 million has been disbursed from CCTF.

### Background and Objectives:

The Maldives Climate Change Trust Fund (CCTF) was established in 2010 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), and is one of the main WBG engagements on climate change in the Maldives. 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: (1): 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 Program Director. The expected results are as follows:

- 1) Two community based wetlands management plans in Hithdhoo and Fuahmulah Islands are developed, and a community water harvesting system is functional in AA Ukulhas Island
- 2) A public private partnership on coral reef monitoring is piloted with five tourist resorts and a web-enabled coral reef monitoring and management system is functional
- 3) Access to renewable energy and energy efficiency interventions is improved in Thinadhoo Island

A public private partnership for solid waste management is piloted in five islands in the Ari Atoll

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

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

A total of \$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. The EU has officially conveyed to the World Bank and the Maldives Government that it would provide supplemental funds of US\$5 million for the second phase of CCTF planned for FY15. This support will aim to contribute to improved management of environmental risks to fragile coral reefs and other wetland habitats, greater capacity for rain water harvesting and improved solid waste management based on lessons from Phase 1.

**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	1 0	1.68	8.32
Govt. of the Maldives	1		
Other			
Total Project Cost	1 1		

\*As of February 2014



### 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.