



# Maldives Country Snapshot

The World Bank Group  
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## COUNTRY SNAPSHOT

**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 that 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. The country also has undergone significant political turmoil in the recent past. Elections involving multiple rounds ultimately yielded a new president in November 2013. Local elections were held in January 2014, followed by Parliamentary elections in March 2014 that resulted in the victory of a government majority coalition.

## RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

### Growth Performance and Prospects

**Until the Asian tsunami of 2004, 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 GDP per capita of over \$7,177.<sup>1</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. As measured by the international poverty line of \$2 per capita per day, poverty has declined from 31 percent in 2003 to 24 percent in 2010.<sup>2</sup> The sustained growth and rising prosperity of the last three decades was founded on a private sector-led tourism industry based on 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.

**Tourism picked up in 2013 and had a positive impact on the overall growth in the economy. It has, however, slowed down in 2014 and is likely to affect the performance of other related sectors.** After averaging almost seven percent for 2010-11, real GDP growth fell to 1.3 percent in 2012 before recovering partially to 3.7 percent in 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. While some of this demand has been picked up largely by tourists from China and the Middle East, the average length of stay and spending has been on a downward trajectory since 2008.

### Fiscal, financial and external developments

**Maldives' macroeconomic environment is significantly distressed, with high 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. Public (domestic and external) debt has escalated sharply in recent years, rising from 58 percent of GDP in 2009 to 78 percent in 2013, and the country is deemed at high risk of external debt distress.<sup>3</sup> The Maldives closed 2013 with an estimated 10 percent of GDP in fiscal deficit, which increases to around 13 percent of GDP when incorporating unpaid commitments through arrears. With an expected budget deficit of 4.7 percent of GDP, the government found itself in a tight cash position that led to the further accumulation of arrears.

**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 over 42

<sup>1</sup> GNI (Atlas) per capita, 2013, World Bank.

<sup>2</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>3</sup> Joint Bank-Fund Debt Sustainability Analysis (DSA), January 2013.

percent of GDP, while total revenue collection amounted to 33 percent of GDP. The increase in public spending has been driven by higher-than-budgeted expenditures on the wage bill, 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.

**Loose fiscal policy has made macroeconomic management difficult, putting pressure on the current account, exchange rate and external reserves.** While the impact of high public spending and deficit monetization on prices has been contained – inflation moderated to four percent at the end of 2013 as commodity prices eased and the effects of previous tax increases elapsed – pressures on the current account and the exchange rate have increased. The current account deficit reached 20 percent of GDP in 2013.<sup>4</sup> 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 to the exchange rate peg of MVR 15.4 per U.S. dollar.<sup>5</sup> At the end of 2013, gross reserves stood at \$368 million, or around 2.6 months of imports. Usable reserves, however, are deemed to be substantially lower,<sup>6</sup> leaving the central bank with limited room to maneuver. Furthermore, pressures on the exchange rate could be exacerbated if the government is ordered by the arbitration tribunal and pays significant compensation in connection with the settlement over the 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 are also 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 elevated 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 could exceed 90 percent of GDP in a few years.<sup>8</sup>

**The main macroeconomic challenge, therefore, is the public and external imbalances driven by public spending.** Unsustainable public spending, escalating debt and substantial external vulnerabilities pose a risk to the country's macroeconomic outlook. These factors are negatively affecting growth prospects. The serious cash flow constraint faced by the government has also severely compromised development expenditures.

<sup>4</sup> The central bank recently revised the current account down to a still-high 10 percent of GDP.

<sup>5</sup> IMF Article IV 2013.

<sup>6</sup> IMF Article IV 2012.

<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 announced its opposition to the project and in December 2012 declared the agreement with GMR-MAHB void from its outset. Arbitration proceedings were held in Singapore between GMR-MAHB and the GoM, which deemed the contract termination to be wrongful and the Maldivian government and Maldives Airports Company Pvt Ltd liable for compensation to GMR for losses, the amount of which has yet to be determined. To date, GoM has paid promptly about \$4 million for GMR's legal fees as ordered by the arbitration tribunal.

<sup>8</sup> Joint Bank-Fund DSA, January 2013.

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 has been providing technical assistance in support of efforts to increase efficiency in public spending and bolster fiscal prudence.** Technical assistance has aimed at building capacity in public expenditure analysis in the Ministry of Finance and Treasury as well as in government budget preparation. Additional technical assistance has informed government efforts to reform its two major assistance schemes—the universal health insurance scheme, and electricity subsidies. In particular, it examined 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 support fiscal consolidation efforts and address macroeconomic vulnerabilities. Emphasis will be placed on the need to contain and rationalize public spending, improve the efficiency and equity of social spending and service delivery, and address issues pertaining to the commercial banking sector. Close coordination with the International Monetary Fund and other partners will continue to be sought. A joint Debt Sustainability Analysis with the IMF is currently underway. An in-depth public expenditure review also will be conducted as a core building block of this year's Systematic Country Diagnostic to inform policy dialogue and decision-making.

**The World Bank Group will seek to inform the government's policy choices as it designs its strategy and programs for accelerated and diversified economic growth.** Analytical work is planned to be carried out in FY15 to propose policy options for creating a conducive business environment and alleviating key constraints to growth in an inclusive and fiscally sustainable way. An important objective will be to shed light on the constraints to growth associated with the challenging macroeconomic situation and weaknesses in the investment climate. The country's growth is not diversified and, as noted above, is dependent on tourism, while links to the tourism-led growth are limited. Building stronger linkages to the domestic economy by developing the local hospitality industry through support for the SMEs and targeted vocational training would be an important contributor to more jobs for Maldivians. Analytical work is planned to examine backward-forward linkages to the tourism industry to strengthen the SME sector and create revenues and jobs, while also examining trade and competitiveness issues. Agriculture, mining and fisheries employ the largest share of Maldivians, particularly in the outer islands, but these sectors currently have a minor contribution to GDP. Given the potential importance of the fisheries sector for growth and economic diversification, non-lending technical assistance in the area of sustainable fisheries is also planned for FY15.

## 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 early 2014 underscores 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 control in budget execution, accounting and reporting. A comprehensive legislative framework and robust organizational structures for public financial management institutions also are lacking in the country. State oversight of state-owned enterprises is particularly problematic insofar as there is no systematic financial reporting, auditing or accounting for *de facto* transfers made under several budget categories.

**The government requested World Bank support to strengthen its public financial management systems.** Building on the recently completed PEFA assessment, a project was prepared and approved in June 2014 designed to enhance budget credibility, transparency and financial reporting of central government

finances. The project also will be supporting 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 in addition to supporting the National Tender Division by benchmarking and strengthening procurement functions. The external audit function is being supported under a parallel Institutional Development Fund grant to build the capacity of the Auditor Generals' Office with a view to enhancing the scope and impact of audit services it provides.

## Poverty and Shared Prosperity

**Poverty in Maldives has declined over time, but with varying experiences between Male and the atolls.** Poverty rates, as measured by the headcount ratio and government statistics, fell steeply from 40 percent in 1997 to 28 percent in 2004.<sup>9</sup> Based on a poverty line of \$1.25 per person per day, the overall incidence of poverty further declined from nine percent to eight percent between 2003 and 2010. This poverty reduction was mainly driven by improvements in living conditions in the atolls, where the poverty rates fell from 12 percent in 2003 to eight percent in 2010. However, in Male, the capital city, the poverty rate rose from two percent in 2003 to seven percent in 2010 over the same period. Using the higher poverty line of \$2 per day, the overall incidence of poverty fell from 31 percent in 2003 to 24 percent in 2010. In the atolls, the poverty rates declined steeply from 39 percent in 2003 to 27 percent in 2010, but the incidence of poverty increased significantly in Male, from nine percent to 19 percent over the same period. The poverty decline in the atolls thus appears to be caused mainly by an increase in internal migration, with relatively poorer people from the atolls moving to Male to seek employment opportunities and better access to services. Further work is required to understand the determinants of poverty.

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>10</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.

<sup>9</sup> The Government of Maldives reports these poverty rates based on a poverty line of MVR 15 per day, which is equivalent to \$1.17 using the nominal exchange rate, or \$3.45 in purchasing power parity terms.

<sup>10</sup> Millennium Development Goals – Maldives Country Report 2007, government of Maldives.

**While Maldives' global ranking on gender equality has improved, gender gaps persist.**<sup>11</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 seven 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 people 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.

**Analytical work supported by the World Bank aims to shed light on constraints to eliminating poverty and enhancing shared prosperity in the Maldives, including issues and opportunities affecting the participation of youth and women in the economy.** Poverty analysis planned to underpin the Systematic Country Diagnostic to be undertaken this fiscal year will be instrumental in deepening knowledge in these areas and would inform the government's development strategy and plans as well as the World Bank Group's future engagement in the Maldives. A study of youth in the Maldives was recently completed and further analytical work on gender is planned to be carried out in FY15.

## Social Protection

Notwithstanding the significant achievement in reducing poverty, it remains a concern in some atolls and vulnerability continues to be 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* that outlined major strategic directions for reform. A World Bank project has since been trying to help establish a fiscally sustainable pension system that also provides income support for the elderly. The new contributory pension program has covered the majority of the formal sector labor force and is being rolled out to self-employed workers as of August 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 a significant 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

<sup>11</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).

**Environmental sustainability is the fundamental development challenge in the country.** Biodiversity based sectors contribute more than 70 percent of national employment, over half of public revenues, almost the entirety of exports and close to 80 percent of GDP. Indeed, the new constitution mandates the protection of the environment as a key citizen's right, demonstrating its importance to the future development and prosperity of the country. From an economic growth and development standpoint, the management of the country's natural resources and complex ecosystems will continue to determine the Maldives' 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 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 also is 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, more than 100 islands have requested shipments of "emergency water" to be delivered from Male during the annual dry season since 2005. 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 about 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 undertook 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 are expected 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 multi-donor Climate Change Trust Fund in 2010 to support adaptation and mitigation measures to combat climate change. With funding from the European Union and the Australian government, 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. A second phase of the Climate Change Trust Fund is being planned for FY15.

**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>12</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 more than 20 percent of its GDP each year. Furthermore, due to the high costs of domestic electricity production and distribution – the highest in the South Asia region – the country has a long history of subsidized energy prices. These universal subsidies represent a fiscally significant burden, and improving their equity and financial sustainability is high on the government's agenda. Greater independence from carbon-based fuels, if achieved through energy efficiency improvements and use of indigenous renewable energy resources, would 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.

<sup>12</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>.

**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 also has used various trust fund resources to support efforts by the Maldives Energy Authority to develop 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 as from the World Bank Group, the Asian Development Bank (ADB), and other bilateral financiers and donors. A strong partnership between The World Bank Group and the ADB has facilitated a transformation in the sector and its economics, and developed innovative financing schemes through the scale-up of renewable energy technologies in the country. The government 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 requested World Bank support for Accelerating Sustainable Private Investments in Renewable Energy (ASPIRE).** The ASPIRE program, approved in June 2014, has been designed to leverage International Development Association (IDA) and SREP funds to attract other donors and private sector investments for the development of renewable energy projects. It combines technical assistance, concessional financing and innovative risk mitigation instruments to provide confidence to private sector investors in a nascent market. The project was 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 ASPIRE initiative seeks to move the sector towards increasing financial sustainability in a phased manner. Building on its support for this area, such as through promoting resource efficiency in the resorts, the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) will consider investing in or guaranteeing projects under ASPIRE to catalyze private sector interests in renewable energy.

## Health

**Sustained investment in the health sector has enabled Maldives to make remarkable progress in its health indicators.** Immunization coverage for BCG<sup>13</sup> for tuberculosis and DPT<sup>14</sup> for diphtheria, pertussis and tetanus, as well as 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 compared to 20 deaths in 1999.<sup>15</sup> Maternal mortality decreased to 57 deaths per 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 nations with equal levels of income or with the same levels of per capita health expenditure.

**In recent years, Maldives has witnessed major changes in the way health services are financed.** One of the most significant changes was the introduction of Aasandha, a universal health insurance program, on January 1, 2012. Aasandha benefits are comprehensive, covering most inpatient and outpatient treatment

<sup>13</sup> Bacilles Calmette Guerin (BCG) vaccine is provided for the prevention of tuberculosis.

<sup>14</sup> This is the vaccine for three infectious diseases of diphtheria, pertussis (whooping cough) and tetanus.

<sup>15</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.

including drugs and diagnostics. Its main challenge, however, is fiscal sustainability. Analysis of expenditure data from the Household Income and Expenditure Survey reveals a 42 percent increase in the real health per capita expenditure over the period 2003/04 to 2009/10. This increase occurred before the introduction of *Aasandha* and right at the onset of its predecessor, *Madhana*. More recently, the announcement of unlimited health insurance will further escalate health costs, while cost effective primary care investments are on the decline. Measures to contain the total health expenditure and to improve financial protection of households against health episodes are the twin policy objectives that face the Maldives' policymakers. This also creates a strong case for system-wide reform in the health sector, rather than piecemeal, short-term solutions. The recent history of a runaway rise in the country's total health expenditure — both government and household — continues to face the risk of further exacerbation by a health insurance program that does not make adequate efforts toward cost containment. Focus on adequate financial protection for households, especially in the atolls (where health expenditure has risen steeply as a share of total household spending) needs to be coupled with innovative purchasing of health services and improving the cost efficiency of the health 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 ongoing reforms to the country's universal health insurance scheme, *Aasandha*, and its predecessor, *Madhana*. As discussed in a recent World Bank Policy Note<sup>16</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, although these still await formal adoption and implementation. All these measures, while improving the scheme's long-run fiscal sustainability, will also have positive distributional implications. In particular, the decrease in the cost of drugs would help the poorest segments of the population. The government has requested continued World Bank technical assistance with the ongoing reform process.

## Education

**Maldives has performed well in providing access to primary and lower secondary education, but lags sharply behind in education attainment at the upper secondary level.** While the gross primary and lower secondary enrollment rates have reached 106 percent and 117 percent respectively, net rates are much lower, indicating considerable grade repetition. Furthermore, higher secondary gross enrollment is only about 21 percent, which is very low by international standards. The average higher secondary gross enrollment rate for middle income countries is 61 percent, and for upper middle-income countries 84 percent. The main reason for the low enrollment in higher secondary education in Maldives has been the limited number of schools offering grades 11-12. Until recently, only four schools in the country provided higher secondary education. The government has now expanded this number to 37 schools: three in the capital, Male, and 34 in the atolls. Many of these schools, however, are over-crowded and require more facilities and equipment, stronger leadership and management, as well as teacher development. Higher education participation is also low for a middle-income country. The gross higher education enrollment rate is only six percent. The main reasons for the low enrollment in higher education are the small flow of students completing higher secondary education and moving onto higher education, and the limited provision of higher education in the country. There is one public university, the Maldives' National University, and about seven private education institutions. However, over 95 percent of enrollment in these private education institutions is in pre-degree level diploma and certificate programs.

**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 four and eight have identified unsatisfactory levels of learning. At grade four, the average score of students in the English

<sup>16</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.

language is 32 percent and in mathematics 38 percent. In grade eight, student scores in English and mathematics average 29 percent and 30 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 education and improve the quality of primary and secondary education. 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 Interim Strategy Note (ISN) for FY14-FY16, presented to the Board in June 2014, proposes a selective program to support Maldives during this period of transition and uncertainty and lays the foundations for the resumption of a full country program.** In light of the macroeconomic challenges facing Maldives and drawing on lessons learned from the FY08-FY12 Country Assistance Strategy (CAS)<sup>17</sup>, the World Bank Group engagement during this transitional period aims primarily to deepen dialogue and support on macro-fiscal issues while strengthening the analytical foundations that would underpin a future program. Given the uncertainty of the environment, the World Bank Group engagement will be managed flexibly to respond to evolving government needs and priorities. While the Interim Strategy Note is planned to span over a 24-month period, the preparation of the next Country Partnership Framework could be brought forward if opportunities emerge to support a full-fledged medium-term government program for macroeconomic stability and sustainable growth.

**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, given the country's debt dynamics. At the end of August 2014, the portfolio comprised four IDA projects and one guarantee operation with a combined net commitment value of \$61 million supporting education, environmental management, renewable energy, public financial management, social protection and pension administration. 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. Responding to the government's interest in targeted and timely advisory support, the World Bank's non-lending program will continue to extend both "just in time" support and programmatic analytic and advisory activities offering focused intermediate outputs.

**Given the size of the lending envelope, trust fund resources continue to serve as a vital complement to the World Bank Group's program, supporting lending activities, technical assistance and analytical work.** As of end-August 2014, trust-funded activities totaled more than \$21 million, benefiting energy and climate change activities in particular. The Maldives Climate Change Trust Fund (CCTF) is supplementing the World Bank's Environmental Management Project, addressing clean energy, solid waste management, wetland conservation and coral reef monitoring. Trust funds have also been supporting analytical efforts on a host of critical issues, from youth development to fiscal sustainability, and also are currently affording support for the Auditor General's Office as well as for statistical capacity building.

**Limited local implementation capacity and a distant and dispersed population increase the challenge of delivering timely and quality support, especially when the program is small.** Distance increases

<sup>17</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.

delivery costs and weak implementation capacity often means limited progress between missions, as local implementing agencies may lack expertise and support to address the challenges that emerge. These factors become even more constraining when authorities face a serious fiscal crisis or a difficult political environment. 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 \$22 million at the end of August 2014, supporting tourism and housing finance. IFC has recently completed an 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 two pillars:** (i) Inclusive growth, including increasing access to finance for micro, small and medium enterprises and improving infrastructure; and (ii) sustainable growth, including promoting energy efficiency and renewable energy.

**IFC's operations have focused on four areas: tourism, the financial sector, infrastructure, and climate change mitigation.** IFC has invested in a number of businesses, including a leading hotel operator in Maldives and a Maldivian sponsor's South-South investment in Seychelles. IFC's advisory projects have included support for the Maldives Monetary Authority on a credit bureau, and drafting the Non-Banking Financial Institutions Act. IFC also has completed projects promoting green growth, such as advising on resort island energy efficiency and on solid waste management for Male.

### **Multilateral Investment Guarantee Agency (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 August 22, 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, to extend the project's original closing date of December 31, 2012 to 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), and 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.
- 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:**

While project implementation has not progressed as anticipated since November 2013, the following results have been achieved:

- The MPAO was established and has more than 30 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 about 85,000 active individual accounts being maintained under the retirement pension scheme and about 17,000 eligible beneficiaries receiving benefits under the Old Age Basic Pension. Both figures exceed project targets.
- The project has conducted 347 targeted information sessions attended by more than 20,000 people. More than 100 television and radio talk shows have communicated information on the pension systems, with 17 media briefing sessions organized to date. In addition, MPAO has used billboards, banners, event sponsorships, print media and the web, and also conducted door-to-door visits to disseminate information about the pension system.
- The Human Resources/Payroll module of the public accounting system has been rolled out to all agencies in Male and is expected to also go to agencies in other atolls.
- A proxy means-tested targeting method of beneficiary selection is being piloted.

**Key Development Partners:** The Maldives Pension Administration Office, the 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			
<b>Total Project Cost</b>	<b>13.88</b>		

\*As of August 22, 2014

### Background and Objectives:

Environmental pressures in the Maldives stem from its fragile geography, coupled with rising population densities, increased tourism, and changing consumption patterns. 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. In addition, habitat degradation threatens marine assets such as coral reefs, while terrestrial threats include timber harvesting and destruction of mangroves. These environmental challenges could hamper the country's economic growth especially if they undermine tourism.

This project aims to establish a solid waste management system to reduce the risks of contamination associated with accumulated wastes and sea dumping. It also seeks to build human and technical capacity for environmental management. 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\*:

Components 2 and 3 were completed in 2013, including the creation of a cadre of trained civil servants, enhanced access to information from environmental monitoring and research to support planning processes, and community participation in environmental management in 75 percent of the targeted islands to exceed the project target.

A waste incinerator for island communities is expected to be ready by October 2014, and completion of the residual waste transfer vessel is expected by December. 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.

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.

**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 (between World Bank, and donors) signed: December 2009 (European Union); June 2010 (Australia)  
End Disbursement Date: March 31, 2015.

Financier	Pledge Amount (US\$ million equivalent)
EU	8.4
Australian DFAT	1.9
Total	10.3

A total of \$1.94 million is committed; and \$7.04 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 Department of Foreign Affairs and Trade (formerly known as AusAID), and the World Bank (as administrator).

There are three CCTF projects under the leadership of the Ministry of Environment and Energy:

- 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)

All the three projects are planned to be closed on November 30, 2014. The EU expressed its intention to support a second phase of the CCTF (referred to as CCTF-II) with a supplemental contribution of 3.85 million euros. With support from CCTF-II, the Maldives government has proposed a project in the southern most atolls (Addu and Gnaviyani) to further implement the activities being done under the Wetlands Conservation and Ari Atoll projects.

### Key Results Achieved and Expected:

An integrated Projects Management Unit in the Ministry of Environment and Energy has been fully staffed to implement the trust fund projects.

#### Results include:

1. Developing community based wetlands management plans in Hithdhoo and Fuahmulah Islands. A community water harvesting system is also now functional in AA Ukulhas Island.
2. Piloting a public private partnership on coral reef monitoring with five tourist resorts and a web-enabled coral reef monitoring and management system
3. Improved access to renewable energy and energy efficiency interventions in Thinadhoo Island.
4. Piloting a public private partnership for solid waste management in five islands in the Ari Atoll.

**Key Partners:** The Ministry of Environment and Energy, the Ministry of Fisheries and Agriculture, the Environmental Protection Agency, the Marine Research Center, the FENEKA Corporation, and 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	1.99	8.36
Govt. of the Maldives	1		
Other			
Total Project Cost	11		

\*As of August 22, 2014

**Background and Objectives:**

The project supports the government of Maldives to develop the education sector, with special focus on primary and secondary education.

It 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 project includes three components: (a) national-level education development; (b) school-level education development; and (c) project management, monitoring and evaluation, and program development.

It will assist the government in developing a system of national assessments of learning outcomes to inform education policy, and also conduct regular school level quality assurance reviews to feed into school improvement activities. In addition, the project will support government efforts to develop a network of good quality secondary and higher secondary schools, and strengthen the human resource capabilities of education officials in the country's atolls and the capital, Male'. The project also will help the Ministry of Education prepare a master plan for the development of higher education.

**Key Results Achieved and Expected:**

The survival rate through higher secondary education has slightly exceeded the target for the present stage of the project, and 61 Ministry of Education staff members have been trained in school-based management.

Schools in 10 atolls have been trained in quality assurance, school self-evaluations and school-based professional development programs. So far, 175 schools have received quality assurance and teacher development awards, while 13 schools have received information and communications technology equipment and associated furniture.

**Key Partners:**

The Ministry of Education, UNESCO, UNICEF

## Maldives: Public Financial Management (PFM) Systems Strengthening Project

**Key Dates:**

Approved: June 26, 2014

Effective: -

Closing: July 31, 2019

Financing in million US Dollars\*:

Financier	Financing	Disbursed	Undisbursed
IBRD			
IDA	6.5	0	6.5
Government of Maldives			
Other			
<b>Total Project Cost</b>	<b>6.5</b>		

\*As of August 31, 2014

**Background and Objectives:**

The project aims to enhance budget credibility, transparency, and financial reporting of central government finances. It will support three activities: (a) strengthening the public financial management environment through strengthening the legislative and institutional framework; enhancing the fiscal framework and strengthening debt and cash management; (b) strengthening the public accounting system to improve financial reporting practices and decision-making, as well as internal financial controls, internal auditing and procurement management practices; and (c) providing support for project management within the Ministry of Finance and Treasury.

**Key Results Achieved and Expected:**

The expected outcomes of the project are: (a) reduced deviation between actual expenditures and the original budget; (b) increased and timely public access to key fiscal information; (c) improved quality of debt data recording and reporting; and (d) enhanced coverage and quality of the internal audit function.

**Key Partners:**

Ministry of Finance and Treasury

## Maldives: Accelerating Sustainable Private Investments In Renewable Energy (Aspire) Program

**Key Dates:**

Approved: June 26, 2014

Effective: -

Closing: July 31, 2019

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

Financier	Financing	Disbursed	Undisbursed
IBRD			
IDA Guarantee**	16.00		16.00
SREP Grant	11.68		11.68
Other			
<b>Total Project Cost</b>	<b>27.68</b>		<b>27.68</b>

\*As of August 31, 2014

\*\*\$4 million of IDA funds are being leveraged to provide \$16 million of risk exposure in the form of a guarantee

**Background and Objectives:**

The ASPIRE program aims to increase solar photovoltaic (PV) generation in the Maldives through private sector investment. The program will use a combination of grant funds from the Scaling-Up Renewable Energy Program (SREP) and a series of IDA guarantees to attract private sector investments and build capacity within the country to receive such investments.

Its components are: (i) Technical assistance to the government to enable private investing and strengthen institutional capacity building and knowledge sharing; (ii) a series of IDA guarantees to provide confidence to private investors, and (iii) tariff buy-down to ensure that tariffs obtained are within an acceptable range for utility and customer acceptance..

**Expected Results:**

About 20 MW of new power generation over the life of the program, beginning with four MW bid out for rooftop solar energy in the greater Male' area.

Results to be monitored will include the cumulative MW capacity installed as well as private capital mobilized in the country's PV sector.

**Key Partners:**

Ministry of Energy and Environment, Ministry of Finance, state-owned utilities STELCO and FENEKA, Asian Development Bank.