Statement by Khalid Al-Saad
Date of Meeting: December 12, 2000

MALDIVES: Country Assistance Strategy

I wish to convey the appreciation of my Maldives authorities for this excellent CAS and for the attention and dedication that the South Asia management and staff have allotted to this small island country. During the past year, commendable efforts have been undertaken to better understand the country's needs and evaluate the Bank's future role, starting with the visit that Mieko Nishimizu paid to the country earlier in the year and the extensive work of Fakhruddin Ahmed, Tercan Baysan and their colleagues during the subsequent discussions and wide-ranging consultations. I also wish to commend the thorough analysis conducted by the OED in its Country Assistance Evaluation which has provided a valuable input for the proposed Bank strategy. I wish to highlight the following three points:

1. The Maldives has achieved impressive progress, but remains highly vulnerable and needs continued concessional donor assistance: Over the past two decades the country maintained a high growth rate and significant improvement on both macroeconomic stability and social indicators due to sound policies and steady donor assistance. Noteworthy is the three-fold increase in real per capita income while sharply cutting budget and current account deficits and maintaining modest inflation rate. On the social front, substantial improvements were achieved in life expectancy, infant mortality, population growth control, literacy rate (at 96%), enrollment rate (at 98%) as well as maintaining gender equality in education, health and employment.

The country, however, encounters the same structural constraints that face many small island states and can put these achievements at considerable risk and impede further progress. In the case of the Maldives, these constraints are compounded by the wide dispersion of the country along a stretch of 1200 islands, thus substantially raising the cost of infrastructure and the provision of social services. Opportunities are further narrowed as the country has no mineral resources and only a tenth of the land can be used for subsistence agriculture, which has meant that practically everything has to be imported except fish. As a result, and despite a $1200 per capita income, poverty remains a major challenge, especially in the atolls outside the capital.
where 75% of the population lives. The poverty incidence there is 50% and malnutrition is a serious problem.

The chronic vulnerabilities of the Maldives have been well recognized by the international donor community. As indicated in the paper, there was a unanimous agreement among partners at the Round Table Meeting for the Maldives in Geneva last year to accord the country "special consideration" as a special case and expressed strong commitment to continue supporting the Maldives development agenda. In large part this is a tribute to the Maldives remarkable performance and sound economic policies.

2. **The track record of good economic management should provide solid basis for tackling future challenges**: The Government recognizes that daunting challenges lie ahead if they were to achieve the objective of improving living standards, especially in the outer atolls, and maintain the impressive economic and social achievements. The agenda is fairly large, extending from the unfinished business of protecting the fragile environment, ensuring broad based growth, improving the particularly weak institutional capacity, promoting the private sector, and further enhancing the two engines of growth of tourism and fisheries. The government has been addressing these issues by standing ready to take difficult decisions to counter macroeconomic instability, embarking on gradual reforms to liberalize the economy, putting in place targeted programs for the atolls, starting work on the PRSP, adopting an Environmental Action Plan, establishing an Anti-Corruption Board (despite lack of evidence of corruption), and enacting commercial laws and preparing a labor law.

   It is interesting to note in this respect that the CAS paper acknowledges that "by following sound economic management, pursuing an open, export-oriented growth strategy, and a liberal labor market access policy that allows expatriate workers to fill impotent skill gaps, the Maldives has performed better than most island economies in exploiting its marine resource base, and using foreign aid effectively." Another manifestation of good performance is the latest annual report on IDA Country Performance Rating Process which puts the Maldives in the top quintile on all the criteria used, including overall rating, portfolio performance, country performance, economic management, structural policies, social inclusion and public sector management.

3. **The new Bank's assistance strategy appropriately seeks to broaden Bank Group involvement and activity**: As indicated in the paper, the present CAS has originated in the Government's request for expansion of IDA assistance and for strengthening the policy dialogue. In fact the authorities have for long been urging a broadening of the Bank's involvement beyond the one project every 3-4 years. As the OED report indicates, the Bank's role has hitherto been positive but limited. The new strategy agreed with the Government, intends to focus on enhancing capacity through more non-lending services and then gradually move towards programmatic approach following one more investment in about two years time. Obviously adequate time is needed to prepare for the shift to the new concept of a programmatic approach. This is recognized in the CAS and plans are expected to provide help to enhance institutional capacity in public expenditure management. In fact work on the first public expenditure review is expected to start early in the new year.