

The World Bank in Maldives

COUNTRY BRIEF

AUGUST 2006

Vision 20/20

Prepared by the government, the Vision 20/20 document spells out a series of long-term aspirations for the Maldives, such as:

- Becoming a top-ranking middle-income country
- Achieving gender equality
- Establishing a minimum of 10 years of formal schooling and good tertiary education
- Ensuring access to quality medical care and health insurance
- Promoting the conditions for rapid economic growth with the Maldives serving as a hub of regional free trade

2001, which had a negative impact on the economy by impacting the tourism industry, GDP rose 9 percent in 2003 and 10.8 percent in 2004. However, for the first time, it is estimated that the country recorded a negative growth rate of -5.5 percent in 2005.

The Maldives' social indicators have shown significant improvements over the past two decades, as reflected in a falling infant mortality rate (from 80 per 1,000 live births in 1990 to 35.4 in 2004), expanding school enrollments (from 86.7 percent net primary enrollment in 1990 to 89.7 percent in 2004), and rising literacy rates (96.3 percent in 2004).

The Government of Maldives remains committed to further reducing poverty. It is preparing the country's first Poverty Reduction Strategy Paper (PRSP), which will build on the government's Seventh National Development Plan and is expected to be completed in 2006.

The Maldives faces several key development challenges as it strives to sustain strong economic growth and improve living standards:

► **Mitigating social, economic, and environmental vulnerability.** Social vulnerability in the Maldives comes about because of the small size of the population and the way it is so widely dispersed. Economic vulnerability stems from the high dependence on tourism and fishing, industries which are subject to outside shocks, as was demonstrated by the adverse impact suffered by the economy following the tsunami. It is also reflected in the prevalence of poverty in some of the outer atolls. Environmental vulnerability is due to the fragile ecosystem and geography of the Maldives and to the potential effects of global warming.

► **Fostering private sector-led growth and employment.** Succeeding in this area hinges on creating a sound investment climate. The Maldives has had favorable experience with private sector development with resorts and telecoms. However, the

The Republic of Maldives is made up of 1,190 islands in 20 atolls spread over 900 km in the Indian Ocean. The country's population of approximately 321,000 people lives in 198 of these islands, 70 percent of which are inhabited by less than 1,000 people. With an estimated per capita Gross National Income (GNI) of \$2,410 in 2004 (up from \$2,010 in 2000), the Maldives has the highest GNI in the South Asia region.

DEVELOPMENT PROGRESS

Prior to the tsunami, which devastated South and Southeast Asia in December 2004, the Maldives had achieved buoyant growth over the past two decades. The development of the tourism and fisheries sectors, favorable external conditions, large inflows of external aid, and good economic management contributed to a steady rise in the gross domestic product (GDP), averaging 7.5 percent in the past 15 years. After slowing following the terrorist attacks of September 11,

A Threat to Development: HIV/AIDS in Maldives

The Maldives took action against HIV/AIDS before the first domestic case was reported in 1987 and, as a result, has so far kept the threat to a minimum. The country has seen a decrease in new infections. With few resources currently required for treatment, the Maldives has the opportunity to focus on better understanding risk factors, such as sexual practices and drug use and accessibility to health services, and translating this knowledge into improved action in the ongoing HIV/AIDS program.



share of gross domestic product (GDP) spent by the government continues to grow. The government employs more than one third of the labor force, has a majority ownership of land, and owns the major utilities. Gaining a better understanding of the investment climate and implementing targeted policy reforms would help sustain robust development.

► **Developing “focus” islands to lower the marginal cost of service provision.** The consolidation of economic and human resources on larger “focus” islands will improve the economic base, diversify the economy away from fishing, address the vulnerability of a dispersed population, and adapt to global warming. One of the aims of the Bank-financed Integrated Human Development Project is to help the government strengthen public services on several of these “focus” islands, which will, in turn, lower the escalating unit costs of delivery.

► **Improving fiscal systems.** Strengthening fiscal systems can increase the effectiveness of public spending. Three key issues need to be addressed: (1) development of a multiyear budget, (2) creating improved means of financing deficits, and (3) strengthening public

expenditure management. One example of the Bank's assistance in this effort was the approval in June 2004 of an International Development Fund (IDF) grant for \$235,000 to strengthen the Government of Maldives' public expenditure management, focusing on improving the budget formulation process.

Women in the Maldives

Observers agree that Maldivian women are among the most emancipated in South Asia and the Islamic world. There is no institutional discrimination along gender lines in access to education and health services or for jobs in the public sector. School enrollment rates for girls and boys are almost the same and very high, as are the adult literacy rates. Women are employed in the government and in manufacturing, and they account for 70 percent of active persons in agriculture.

THE WORLD BANK GROUP IN THE MALDIVES

The Republic of Maldives became a member of the World Bank in 1978. Through the International Development Association (IDA), the World Bank's concessionary lending arm, the Bank has approved 11 credits with a total commitment value of \$101.5 million. The Bank's assistance program has focused on the main productive sectors (fisheries and tourism), their related infrastructure, human resource development (particularly education), building government capacity, and post-tsunami recovery and reconstruction.

The Bank is increasingly supporting the government's investment in human capital. Building on two previous education projects, the Third Education and Training Project (\$17.6 million) is helping expand access to lower and upper secondary education in the outer atolls. Additional

financing of \$1.3 million was approved in April 2006 to meet the financing gap created by a partial cancellation of the original credit to meet the emergency needs of post-tsunami reconstruction.

As part of a shift toward a more multisectoral and programmatic lending approach, the Bank approved in July 2004 the Integrated Human Development Project for \$15.6 million. The project supports improving service delivery of education, health and nutrition, employment, and community services, particularly to remote island regions. Additional financing of \$5.7 million was approved in March 2006. Part of the funds from the original project were cancelled and diverted to meet the emergency needs of post-tsunami reconstruction.

Following the tsunami and at the request of the government, the World Bank, in partnership with the Asian Development Bank

and the United Nations, conducted a damage and needs assessment. In March 2005, the Post Tsunami Emergency Relief and Reconstruction Project was approved by the Bank for \$14 million, with \$5.6 million in the form of an IDA grant and \$8.4 million as an IDA interest-free credit. The project is assisting the government in its efforts to provide social services, restore lost livelihoods, and continue to build capacity to implement the reconstruction and rehabilitation program.

The Bank is also assisting the government with non-lending technical assistance and analytical and advisory work. The Bank has supported the government in designing and implementing social protection reforms, in particular for pensions and safety nets. In 2006, a survey of the investment climate in the Maldives was also prepared.

The International Finance Corporation (IFC), the World Bank Groups private sector investment arm, has a small portfolio in the Maldives, consisting of five investments and a commitment of \$70.5 million. IFC has supported private investment in tourism, logistics, and the financial sector, accompanied by a strong program of technical assistance.

LOOKING TOWARDS THE FUTURE

In November 2000, the Bank developed a Country Assistance Strategy (CAS) that focuses on reducing poverty and regional disparities in access to social and infrastructure services. To achieve this objective, the strategy emphasizes shifting from sector-specific project lending to a more multisectoral and programmatic approach and increasing the frequency and scope of non-lending activities. The Bank has begun the process of preparing a new CAS to align Bank assistance to the country's PRSP. It is expected to be completed in 2007.

In other upcoming non-lending activities, the Bank will be assisting the government in developing a fisheries sector development strategy. Technical assistance in building capacity in public expenditure management will continue.

All dollar figures are in US dollar equivalents.

Total Lending for the Maldives

Project Name	Amount	Project Status	Approved
Additional Financing: Third Education Project	\$1.3 IDA	Active	4/6/06
Additional Financing: Integrated Human Development Project	\$5.7 IDA	Active	3/7/06
Integrated Human Development Project	\$15.8 IDA	Active	7/6/04
Third Education Project	\$17.6 IDA	Active	3/16/00
Second Education and Training Project	\$13.4 IDA	Closed	4/11/95
Third Fisheries Project	\$10.0 IDA	Closed	1/7/92
Male Airport Upgrading Project	\$7.5 IDA	Closed	5/29/90
Education and Training Project	\$8.2 IDA	Closed	1/26/89
Second Fisheries Project	\$5.0 IDA	Closed	1/25/83
Fisheries Project	\$3.2 IDA	Closed	5/15/79

Washington, DC
 Benjamin Crow
 ☎ (202) 473 - 5105
 ✉ bcrow@worldbank.org