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**INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL FINANCE CORPORATION**

**COUNTRY ASSISTANCE STRATEGY
FOR
THE REPUBLIC OF MALDIVES**

FY08 – FY12

December 04, 2007

**World Bank Group
South Asia Region**

CURRENCY AND EQUIVALENTS

The external value of Maldives rufiyaa (Rf.) is fixed at Rf.12.80 per U.S. dollar since July 25, 2001 under a *de facto* fixed exchange rate policy vis-à-vis the U.S. dollar.

Republic of Maldives' Fiscal Year: January 1 - December 31

The last Country Assistance Strategy for the Maldives was approved by the Board in November 2000.

ACRONYMS AND ABBREVIATIONS

AAA	Analytical & Advisory Activities	MIPS	Maldives Inter-Bank Payment System
ADB	Asian Development Bank	MMA	Maldives Monetary Authority
BOM	Bank of Maldives	MTFF	Medium-Term Fiscal Framework
CEM	Country Economic Memorandum	NLTA	Non-lending Technical Assistance
CFAA	Country Financial Accountability Assessment	NGO	Non-Governmental Organization
CGAP	Consultative Group to Assist the Poor	PAS	Public Accounts System
DC	Defined contribution (pension scheme)	PDC	Population and Development Consolidation
DIR	Department of Inland Revenue	PEFA	Public Expenditure & Financial Accountability
GDP	Gross Domestic Product	PEM	Public Expenditure Management
EC	European Commission	PER	Public Expenditure Review
EEZ	Extended Economic Zone	PRSP	Poverty Reduction Strategy Paper
EU	European Union	PSIP	Public Sector Investment Program
GoM	Government of Maldives	ROSC	Report on Standards & Codes
GST	Goods and Services Tax	7NDP	Seventh National Development Plan
HDFC	Housing Development Finance Corporation	SEDF	South Asia Enterprise Development Facility
HIES	Household Income and Expenditure Survey	SME	Small and Medium Sized Enterprise
HSBC	Hong Kong Shanghai Bank Corporation	SOE	State Owned Enterprise
ICA	Investment Climate Assessment	STELCO	State Electricity Company Limited
IDA	International Development Association	STO	State Trading Organization
IDF	Institutional Development Fund	TA	Technical Assistance
IFC	International Finance Corporation	TEB	Tender Evaluation Board
IHDP	Integrated Human Development Project	UNDP	United Nations Development Program
ILO	International Labor Organization	UNEP	United Nations Environment Program
IMF	International Monetary Fund	VPA-1	1997/1998 Vulnerability and Poverty Assessment
M&E	Monitoring and Evaluation	VPA-2	2004 Vulnerability and Poverty Assessment
MFLC	Maldives Finance Leasing Corporation		
MoFT	Ministry of Finance and Treasury		
MIFCO	Maldives Industrial Fisheries Company Ltd.		

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Map of Maldives: IBRD 33442

EXECUTIVE SUMMARY

i. ***This World Bank Group Country Assistance Strategy (CAS) aligns a joint IDA/IFC assistance program behind the Government of Maldives' development strategy for the next five years through FY12.*** The Bank Group's overarching objective is to contribute to policy and institutional reforms that help maintain the country's successful development trajectory of the last two decades.

ii. ***The country context has changed considerably since the last CAS was discussed by the Board in 2000.*** While the economy has continued to grow, the Maldives experienced very real economic and social rupture in the wake of the Indian Ocean tsunami of December 2004, which caused damage worth 60 percent of GDP. The GoM has also initiated a wide-ranging reform program to modernize its governance in line with its middle-income status.¹ Furthermore, demands upon government for better services are rising rapidly with income levels.

iii. ***While the context may have changed, the Maldives remains a strong performer.*** In 1978, the Bank Group's first year of engagement, it was one of the world's twenty poorest countries with a population of 156,000. In 2006, with a population of just under 300,000, it is on its way towards achieving upper middle-income status with a per capita GDP of about US\$2,800. Furthermore, this economic upsurge has been achieved alongside progress in human development. The past decade has seen increased literacy, reduced maternal and child mortality, declining poverty levels, and improvements in access to basic services.

iv. ***Nevertheless, at this time of change, the country faces three serious challenges: (a) the sustainability of its fiscal policies, (b) the completion of ambitious governance reforms, and (c) adaptation to global climate change.*** Sustaining the Maldives' remarkable development progress hinges on the government's ability to address these key challenges in the short-term, and to prioritize policies and programs that maintain the country's successful development trajectory over the medium to long-term.

v. ***Applying the principle of selectivity and taking into account the changing country context and challenges facing the Maldives, the proposed World Bank Group assistance program seeks to further three strategic development outcomes: (a) a well-managed economy attracting increased investment; (b) increased quality of education in support of a better skilled workforce; and (c) improved capacity to manage the country's pristine, but fragile, natural environment.*** These strategic outcomes will be supported through IDA credits (mobile phone banking, education and environmental management), strategic IFC investments and TA, and a flexible program of AAA. In addition, two cross-cutting development themes have emerged as essential ingredients to the country's overall development program. These are: building stronger institutions and capacity to levels commensurate with the socio-economic development of the Maldives; and encouraging population and development consolidation (PDC) on larger islands.

vi. ***The IFC is today a key partner of the Maldives and in this CAS is playing a strategic role as part of a Bank Group strategy.*** During the last CAS period the IFC committed a total of US\$47.8

¹ On December 20, 2004, days before the tsunami struck, the UN General Assembly endorsed a recommendation that the Maldives graduate from Least Developed Country (LDC) status at the end of 2007. Given the impact of the disaster, the transition process was subsequently deferred and the Maldives will now formally graduate on 1 January 2011. The main implication for the Maldives is the loss of duty exemptions on tuna exports to Europe. Graduation from IDA and IBRD eligibility are not linked to this process.

million (US\$46.5 million in debt and the remainder in equity), consisting of four projects in the financial, tourism, logistics and telecommunications sectors. In addition, the IFC has expanded its South Asia Enterprise Development Facility (IFC-SEDF) with a dedicated advisory services program to cover Sri Lanka and the Maldives, and has established a framework to provide support to Small and Medium Sized Enterprise (SMEs) within an enhanced investment climate. The IFC is considering further investments in the Maldives in the areas of infrastructure, access to finance and tourism.

vii. ***The proposed program has built-in flexibility.*** Because the CAS period straddles the end of the Seventh National Development Plan (7NDP) and the first half of the next five-year government strategy, the mid-term review of the CAS scheduled for FY10 will coincide with the start of the government's next strategy. This will be an opportunity to review CAS progress against the indicators of the CAS Results Matrix as well as fine-tune the program in line with the government's priorities in the next plan. Pending fiscal adjustment, the strategy proposes a programmatic, policy-based investment model for the second half of the CAS period. The eligibility for the Maldives for IBRD funds will also be reviewed at that time.

viii. ***The CAS is designed to mitigate the risks that could reduce the effectiveness of the World Bank Group's operations and to further develop the ability to monitor the impact of interventions.*** These include the immediate fiscal risks as well as the political risks due to the country's upcoming first multi-party elections. To mitigate these risks, the Bank Group will maintain close dialogue with the authorities and with other donor partners in Male'. In addition, the Bank Group is in close dialogue with the authorities and staff of the IMF with regard to the country's fiscal situation which has worsened significantly in recent years. Flexibility has been built into the proposed program to adjust the mix and level of Bank instruments in response to emerging fiscal and political risks. Finally, given shallow capacity in many of the implementing agencies, there are some implementation risks. Hence operations will be designed simply and in close coordination with the government. Where possible, government M&E systems will be upgraded as part of the Bank Group's interventions so as to avoid the expense of developing project-specific monitoring systems.

I. COUNTRY CONTEXT

1. ***The Maldives has made impressive development gains over the last three decades.*** In 1978, the World Bank Group's first year of engagement, it was one of the world's twenty poorest countries with a population of 156,000. Today, with a population of just over 300,000, it is on its way towards achieving middle-income status with a per capita GDP approaching \$2,800. Furthermore, economic upsurge has been achieved without compromising human development. On the contrary, the past decade has seen increased literacy, reduced maternal and child mortality, declining poverty levels, and improvements in access to basic services.

2. ***The sustained growth and rising prosperity of the last three decades was founded on sound fiscal policies, political stability and a highly successful tourist industry, based upon the country's extraordinary natural assets.*** The Maldives is endowed with 1,192 small tropical islands that cross strategic shipping routes and has a marine environment rich in diversity. The coral reefs are the seventh largest in the world and cover an area of 8,920 square kilometers. There are now 89 tourist resorts in operation, up from 64 in 1990 and with another 45-50 planned; over the last ten years tourist arrivals have increased at an average annual rate of 8 percent. Fish catch, the other main economic activity, has increased around 5 percent per year during the same period. The revenues achieved through these core economic activities are ploughed effectively into infrastructure and human development investments.

3. ***Nevertheless, like other small states, the Maldives faces high unit costs of infrastructure and other public service provision.*** Sovereignty imposes high indivisible fixed costs on small island economies including policy formulation, regulatory activities, education, social services, justice, security, and foreign affairs. The Maldives' economic base is narrow, and diversification is limited by the small size of the domestic market and distance to markets. The economy is therefore vulnerable to exogenous shocks in international markets as well as to natural disasters. Openness and international investment has brought development to the Maldives, but it also brings new challenges such as increased environmental susceptibilities, and rising concerns with respect to youth unemployment, security and crime.

4. ***The context has changed considerably since the last CAS was discussed by the Board in 2000.*** During this period the Maldives experienced economic and social rupture in the wake of the Indian Ocean tsunami of December 2004 which caused damage worth 62 percent of GDP. The government also initiated a wide-ranging reform program that is still ongoing, to modernize its governance institutions in line with its middle income status.² Demands on the government for better services are also rising with income levels.

5. ***This CAS comes at a time when the country faces new issues that could offset— or potentially roll back— some of the important development gains to date.*** Three key challenges are (a) the sustainability of fiscal policy; (b) the passage of ambitious governance reforms; and (c) adaptation to global climate change. In different ways, these challenges relate to the tsunami. The tsunami was a major natural disaster with national, large-scale impacts. Furthermore, the tsunami complicated and pressurized ongoing political reforms, ushered in successive expansionary budgets, and underlined institutional gaps in the country's response systems.

² Formally, within the UN system, the Maldives will lose its Least Developed Country status only in 2011 although its per capita GDP is already high enough for it to be classified as a middle income country, and is approaching upper-middle income status.

A. POLITICAL CONTEXT

6. *The current Head of State, President Maumoon Abdul Gayoom, has dominated politics in the Maldives since 1978, presiding over a period of sustained economic growth and stability.* In late 2003, President Gayoom embarked on wide-ranging reforms to the country's political and institutional framework. In March 2006 the government unveiled the "Roadmap for the Reform Agenda" which, among other things, envisaged the revision of the Constitution ahead of the country's first multi-party elections planned for June 2008.

7. *Constitutional reform has proved difficult and slow.* Despite extensive meetings of the special *Majlis* to prepare the new Constitution, progress has been slow and pressures are growing to ensure that the expectations for competitive and pluralistic politics are met. In August 2007, a referendum was held on the country's political system. Billed as a referendum on the president's own performance (in light of his announced intention to run again, for the last time, in the 2008 presidential elections), the vote resulted in strong support for the presidential, rather than parliamentary system.

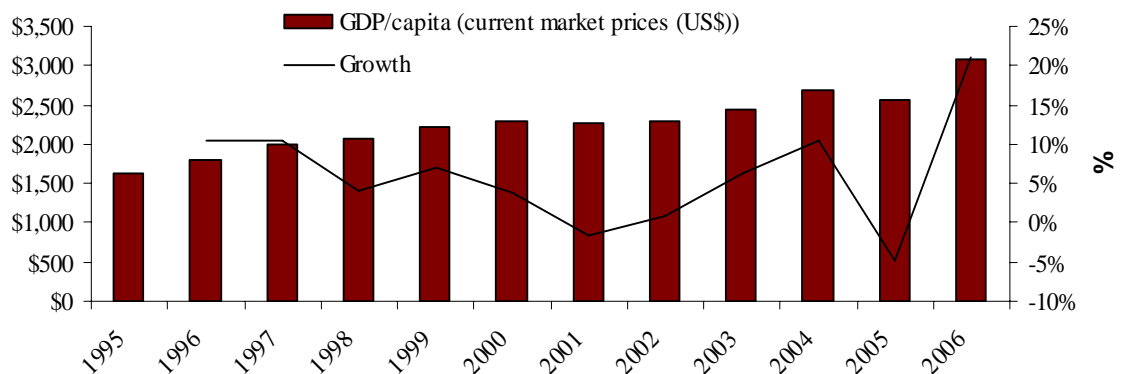
8. *An ambitious program of constitutional change is currently making its way through the Special Majlis.* In the political sphere, this includes a wider choice for electing a president; a limit on the number of times one person may be elected to the office of president; removing the gender bar on standing for the presidency; greater decentralization of executive authority by separating the functions of the head of state from those of the head of government, including the creation of the office of prime minister; abolition of the category of appointed members to the *Majlis* (the parliament); proportionate representation in the *Majlis*; independence of the *Majlis* from the executive, with the speaker and the deputy speaker becoming elected positions.

9. *The reforms reflect rising expectations amongst a polity that has new economic power.* Expectations of government among the people of the Maldives remain high. These span the range of public services, including health and education, as well as addressing felt needs for protected harbors and adequate fish processing capacity. There continue to be protests on the atolls related to the post-tsunami reconstruction efforts which have neither moved quickly nor met community expectations. The government faces the difficult task of managing expectations, and meeting core needs, while returning to a sound macroeconomic and fiscal path.

B. RECENT ECONOMIC AND SOCIAL DEVELOPMENTS

10. *The Maldivian economy has performed strongly over the last 25 years, with real GDP growth averaging over 7 percent a year.* Following the tsunami, the economy contracted by 4.5 percent, but rebounded by 19.1 percent in 2006, and has remained strong in 2007. Rapid growth in the last two years stems from the recovery in tourism and the high fish catch, boosted by accelerating

Figure 1: GDP/ capita 1995 - 2006



Source: Government of Maldives

tsunami reconstruction activity and the development of new resorts.

11. ***The tsunami highlighted vulnerability, but also resilience.*** The tsunami hit during the peak tourist season, closing 21 of the country's 87 resorts and totally destroying six. It displaced 29,000 people from their homes and caused damage equivalent to 62 percent of GDP. Nevertheless, by mid 2005 many of the closed resorts had re-opened and tourist flows were on their way to pre-tsunami levels, reflecting the attractive tourism product and the strengthening of the euro against the rufiyaa. In addition, the fish catch in 2005 reached record levels and off-set some of the weakening in other sectors.

12. ***The mainstay of the economy – the tourism sector – has continued to perform well.*** Tourist arrivals so far in 2007 have exceeded the levels reached before the tsunami, and the government expects arrivals growth of around 6-9 percent this year, as the sector looks to increase capacity in line with rising demand. Leases for 11 new resorts were awarded in 2004, and a further 35 were awarded in 2006. Although there have been delays in bringing the new resorts online (mainly due to implementation and financing constraints), strong investor interest attests to the bright prospects of the sector.

13. ***At the same time, the tsunami ushered in a period of expansionary budgets.*** The fiscal deficit, which was at 10.9 percent of GDP in 2005 and narrowed to 7.3 percent in 2006, was budgeted to widen to 28.3 percent in 2007. While partial year data suggest that the outturns for 2007 are likely to be much less expansionary than budgeted, this is largely the result of implementation capacity constraints, rather than a reflection of explicit policy. A key challenge for the government over the next 1-2 years is to constrain spending from the high levels that followed the 2004 tsunami and coincided with gathering political reforms, in order to ensure that the impressive socioeconomic gains of the past two decades are not undermined. This will be especially difficult in 2008, when the first multi-party elections are planned. Much of the initial spike in expenditures in 2005 was driven by the tsunami, but subsequent elevated spending has been mainly unrelated to the tsunami. In addition, most of the tsunami-related spending has been externally financed. Hence, rising domestic financing needs since 2005 are mostly unrelated to the tsunami, as well as being a key source of macroeconomic risk.

14. ***The current account deficit widened to US\$369 million in 2006, equivalent to 41 percent of GDP, and is expected to widen further in 2007.*** This is largely the result of the decline in the trade account, where strong receipts from tourism are outweighed by faster increases in merchandise imports. With the rufiyaa tied to the weakening US dollar, the exchange rate has depreciated substantially over the past two years in relation to the main European and East Asian tourist markets, helping maintain competitiveness. Import demand is fueled by the building of resorts and other construction activities. The deficit is being financed by large private capital inflows, as well as official creditors. As a result, reserves have remained resilient at US\$248 million at the end of September 2007, covering around three months of imports of goods and non-factor services.

Debt Sustainability

15. ***Debt sustainability analysis (DSA) suggests that debt service burdens are manageable if new borrowing slows, but points to elevated vulnerability.***³ Total external debt rose to US\$592 million in 2006, including US\$362 million in public debt and US\$230 million in borrowing by commercial

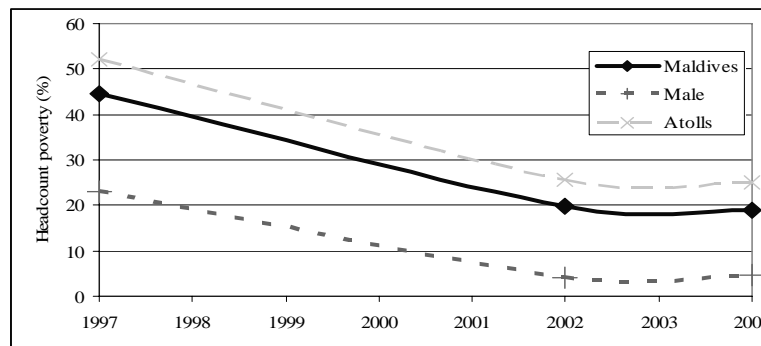
³ The DSA undertaken by the IMF as part of the Article IV consultations concluded in mid-2007 is attached as Annex VI. A more detailed joint IMF-World Bank DSA is planned in the first half of 2008, when more information on the fiscal outturns for 2007, as well as the budget for 2008, will be available.

banks. This raises public external debt to the equivalent of over 34 percent of GDP, which is expected to rise further to about 45 percent by the end of 2007. Domestic borrowing adds about 18 percent of GDP, and debt service is absorbing an increasing, though as yet manageable, share of the budget. The public sector external debt service ratio has doubled in recent years, increasing from around 5 percent to over 10 percent of domestic exports of goods and non-factor services. Commercial banks have borrowed heavily to finance resort construction, and official creditors have also made substantial disbursements, especially the European Investment Bank financing for the reconstruction of tsunami damaged resorts. Debt sustainability analyses suggest that the debt burden is manageable if new borrowing moderates. The current fiscal path points to a continued increase in public sector borrowing, however, raising risks and increasing vulnerability to external shocks and fiscal slippages.⁴

Poverty Assessment and Human Development Trends

16. **Poverty in the Maldives fell by more than half from 1997 to 2004.** Based on a poverty line of Rf.15 (US\$1.17) per person per day, the headcount index of poverty (the share of the population consuming below the poverty line) declined from about 45 percent to less than 19 percent before the tsunami (see Figure 2). Poverty fell most in Male': from 23 percent to less than 5 percent, and less sharply, but still significantly, in the atolls: from 52 percent to 25 percent. As a result, even more than before, income poverty is now concentrated in the atolls. The northern region appears to have seen only a modest decrease in poverty and has now emerged as Maldives' poorest region, followed by the north-central region.⁵

Figure 2: Headcount poverty, 1997-2004



Source: Preliminary Staff estimates based on VPA-1 and VPA-2.

17. **Poverty has continued to fall following the tsunami – but sections of the population are still vulnerable.** According to the government's impact assessment⁶ the tsunami had limited impact on social indicators such as poverty, health and education. While the people of the Maldives suffered serious loss of property and income as a result of the disaster, generous assistance from foreign and domestic sources, along with good economic performance, has helped lessen its effects on the economy in the short term and on average poverty decreased. Income levels only declined in Male (30 percent) and for islanders relocated to other islands (2 percent). Indeed, between June 2004 and June

⁴Debt indicators are approaching the indicative thresholds for classification as moderate or high risk of debt distress, which would affect the terms and volumes of IDA's assistance, as long as the Maldives remains IDA only.

⁵ Vulnerability and Poverty Assessments (VPA) were undertaken in 1997, 2004 (pre-tsunami) and 2005 (post-tsunami). All were prepared by consultants for the Ministry of Planning and National Development, the second was partially supported by the World Bank. The third in the series is known as the Tsunami Impact Assessment Study (TIAS)

⁶ "Tsunami Impact Assessment 2005: A socio-economic countrywide assessment at household level, six months after the tsunami", Republic of Maldives, June 2005.

2005, the proportion of the island population with income less than Rf.15 per day fell from over 30 percent to around 20 percent. Nevertheless, the same analysis reveals that of the 21 percent living in poverty in the atolls in 2005, only 7 percent has been consistently poor, while the rest are newly poor.

Table 1: Cross-country comparison of poverty and inequality in South Asia

	Gini index of inequality of expenditures	Poverty headcount ratio at national poverty line (% of population)	Year
India	33	29	2000
Pakistan	33	33	1999
Nepal	37	42	1996
Bangladesh	32	50	2000
Sri Lanka	47	23	2002
Maldives	43	19	2004

Source: World Development Indicators (except for Maldives, where Bank staff estimates are used)

18. ***Maldives has lower poverty but high inequality relative to South Asia.*** Unlike other countries in the region, Maldives experienced a spectacular growth performance and was therefore able to reduce poverty despite increasing inequality. Nonetheless, high inequality in the atolls remains a source of concern.

19. ***Finally, with two exceptions, Maldives has achieved all of its MDG target indicators.*** The gender gap in school enrollment and literacy among those aged 15 years to 24 years is virtually non-existent.⁷ The proportion of births not attended by skilled health personnel has been reduced by three-quarters.⁸ The two exceptions are for gender equality and management of the environment. Given the nation's social, economic and cultural traditions, women are at a disadvantage to men, even if as a group they are more equal than in other countries in the region. Current efforts to achieve the environmental goal are inadequate and under-funded, as discussed in a later section of this strategy.

II. KEY DEVELOPMENT CHALLENGES AND MEDIUM TERM PROSPECTS

20. The recently finalized 7NDP covers a broad range of the development needs and goals through 2010. This section attempts to highlight a critical subset that targets the strategic challenges facing the country over the short to medium-term, in particular: restoring macroeconomic and fiscal balance, improving the investment climate, consolidating human and social development, building institutional capacity, and sustaining the natural resource base.

A. RESTORING MACROECONOMIC AND FISCAL BALANCE

21. ***Overshadowing the strong economic performance is the substantial weakening of fiscal policy over the past three years, which is the main policy lever for affecting outcomes in the Maldives.*** This is the key source of risk facing the Maldives in the short-term. The fiscal outturns for 2006 showed an overall deficit exceeding 7 percent of GDP, mostly for non-tsunami related spending (Table 2). Although the 2007 budget anticipated a deficit equivalent to 28 percent of GDP, driven by

⁷ VPA-2

⁸ Annual Reports of Ministry of Health.

substantially increased spending from the already high levels of 2006, the overall deficit is likely to be less than half the budgeted level. Fiscal data for the 10 months through October 2007 suggest that domestic revenue and expenditure are both below budget, resulting in a domestic deficit running at about 2.6 percent of GDP. Much of the foreign loan financed investment also was not realized. The less expansionary results so far in 2007 reflect implementation capacity constraints rather than a strengthening of the fiscal policy stance, and the envisaged path of deficit financing over the medium-term in the PRSP remains a concern for macroeconomic stability. The main challenge is to ensure that highly expansionary fiscal policy does not undermine otherwise favorable growth prospects. It is worth noting that the sustainability of elevated revenues depends in large part on a rapid schedule of resort development that may be difficult to achieve. Spending needs to be kept within a realistic resource envelope, lest deficits pose major challenges for the country, with repercussions for inflation, private investment, growth, and external vulnerabilities.

Table 2: Summary of Central Government Finances

	2001	2002	2003	2004	2005	2006	2007
						Prov.	Budget
	<i>(Percent of GDP)</i>						
Total revenue and grants	33.0	33.1	34.8	34.2	48.0	62.9	61.8
Expenditure and net lending	37.7	38.0	38.2	36.0	58.9	70.2	90.1
Overall balance including grants	-4.7	-4.9	-3.4	-1.9	-10.9	-7.3	-28.3
<u>Memo: Nominal GDP (millions of rufiyaa)</u>	7650.8	8201.0	8863.2	9939.2	9607.7	11608.3	13104.1

Source: Government of Maldives. Note: presentation is Government of Maldives budget format.

22. *While expenditures as a share of GDP were comparable to other small island economies in previous years, they have reached very high levels since 2005, and appear to have risen still further in 2007 (despite being below budget).* A period of some increase is to be expected following a natural disaster, but expenditure trends in the Maldives have become far out of line with the experience of other similar countries, with allocations unrelated to the tsunami, as noted above.

Table 3: Expenditure as share of GDP – international comparison

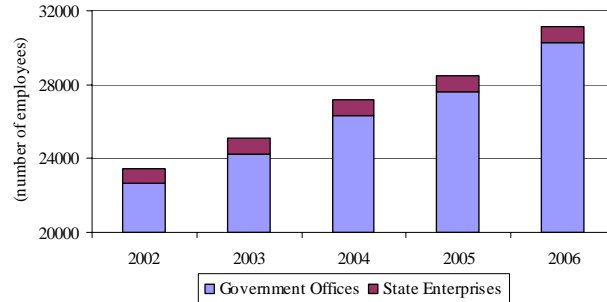
	2000	2002	2004	2005	2006 ^{1/}
Barbados	34.5	40.5	35.6	35.7	35.3
Fiji	26.3	28.6	28.4	27.5	27.5
Maldives	36.7	38.0	36.0	58.9	70.2
Mauritius	22.5	23.1	23.8	23.1	24.5
Samoa	34.3	33.4	47.6	33.4	38.3
Tonga	27.1	27.8	25.0	25.1	25.1
Vanuatu	29.0	25.6	20.2	19.8	23.1

Source: 1/ IMF staff estimates

23. *Recurrent costs are also rising.* While much of the growth in expenditures is projected to come from elevated capital spending, line ministries may be facing greater capacity constraints implementing the capital part of their budgets. With budget allocations increasingly dictated by implementation capacity, rather than strategic direction, allocative efficiency appears to be weakening, potentially introducing structural shifts in spending that will be felt for some time. For example, the civil service expanded by about 9 percent in 2006 (Figure 3), which, given the general difficulty associated with civil service retrenchment, may be having a ratcheting effect that will be felt over the medium-term. Combined with promotions and an announced pay increase to be implemented starting

January 1, 2008, a growing share of the budget is likely to be absorbed by pay and allowances, straining public finances.

Figure 3: Government employees



Source: Government of Maldives

24. ***There is a continuing need to limit recourse to domestic financing.*** Although the fiscal outturns for the first ten months of 2007 suggest that the domestic budget will be close to balance for the year as a whole, this follows two years, 2005 and 2006, when domestic financing amounted to 11.5 percent of GDP, and the 7NDP points to substantial further recourse to domestic financing over the plan period to 2010. In order to mitigate vulnerability and reduce risk, the Bank and other partners have encouraged the GoM to pursue explicitly strengthened fiscal policy, link its development programs with more realistic estimates of available financial resources, and restore the usefulness of the budget as a tool for setting strategic fiscal policy.

25. The IMF Article IV consultations, concluded in April 2007, presented two medium-term scenarios:⁹

- **Base case:** spending remains high with continued large overall fiscal deficits crowding out the private sector, lowering growth over the medium-term, increasing inflation, widening the current account deficit, raising debt to almost 80 percent of GDP, and inducing a fall in reserves to about 1.5 months of imports of goods and non-factor services (a level that induced a devaluation of the rufiyaa in 2001).
- **Alternative policy:** spending is controlled, raising growth, containing inflationary pressures, lowering external imbalances, and inducing a build in reserves to about three months of imports of goods and non-factor services.

⁹ The medium-term scenarios of the IMF Article IV for overall balance including grants in 2007 is different than the budget figures presented in Table 2 above, as the scenarios foresaw implementation capacity constraints limiting the envisaged spending to below budget, while the alternative policy scenario reflects renewed fiscal restraint. Partial year data confirm that spending is indeed running substantially below the levels envisaged in the budget, but the information available is presently insufficient to revise the macroeconomic framework.

Table 4: Macroeconomic outlook

	2005	2006	Proj.					
			2007	2008	2009	2010	2011	2012
			<i>Base Case</i>					
Real GDP growth (% change)	-4.5	19.1	5.5	4.5	4.0	4.0	3.5	3.5
Consumer prices (% change)	3.3	3.7	7.0	6.0	6.0	6.0	6.0	6.0
Overall balance, incl. grants (% of GDP)	-10.9	-7.3	-23.9	-15.4	-7.1	-1.0	-0.6	0.0
Total public sector debt (% of GDP)	52.6	51.7	69.7	78.3	78.1	71.9	66.1	60.2
Current account balance (% of GDP)	-35.8	-40.7	-40.5	-36.3	-19.5	-12.5	-8.3	-6.4
Gross official reserves (months of imports of GNFS)	2.1	2.4	2.1	1.8	1.7	1.5	1.5	1.5
			<i>Alternative Policy</i>					
Real GDP growth (% change)	-4.5	19.1	7.5	7.0	7.0	7.0	6.5	6.5
Consumer prices (% change)	3.3	3.7	3.0	3.0	2.5	2.5	2.5	2.5
Overall balance, incl. grants (% of GDP)	-10.9	-7.3	-15.2	-11.2	-4.0	1.8	1.8	1.6
Total public sector debt (% of GDP)	52.6	51.7	61.9	67.3	65.4	57.8	51.2	45.3
Current account balance (% of GDP)	-35.8	-40.7	-45.0	-40.6	-22.3	-11.8	-4.0	-1.9
Gross official reserves (months of imports of GNFS)	2.1	2.3	2.5	2.5	2.7	2.6	2.6	3.0

Source: IMF staff estimates.

26. *This exercise underlines the need for sound budgeting and explicit fiscal restraint over the next few years, including through the planned democratic transition in 2008 and 2009, in order to ensure sustainability and mitigate risks.* Indeed, generating fiscal surpluses and limiting borrowing is also an important mechanism for mitigating vulnerability to external shocks (including environmental shocks). Addressing the short-term fiscal issues and restoring the role of the budget as one of the strongest policy levers available to the government will be central to the government’s ability to meeting the medium- to long-term development challenges faced by the Maldives.

Medium-term outlook

27. *Provided the GoM is able to strengthen its fiscal policy stance and adverse macroeconomic possibilities are not realized, the medium-term outlook in the Maldives is favorable, underpinned by the vibrant tourism sector and continued investment in human development.* Improving economic management and other arrangements that underpin growth hinge on renewed political will to constrain expenditures. In addition, it will require strengthening institutions, and capacity, such as the recent moves towards greater central bank independence or training activities in Public Expenditure Management (PEM). Increasing value added in diverse activities will also depend on generating economies of scale through greater connectivity and population consolidation. In addition to these cross cutting strategies, ensuring an appropriate skills mix in the labor force and improving the investment climate will be important to deepen links between tourism and the rest of the economy, and increasing domestic value added in sectors such as fisheries. Finally, safeguarding the environment is essential for the continued success of both the tourism and fisheries industries, as well as mitigating risks associated with global warming and other natural disasters, such as tidal surges.

B. IMPROVING THE INVESTMENT CLIMATE

28. *Achieving the government’s goal of diversifying the economy—and diversifying the ownership of the economy—requires continued improvements to the investment climate.* The World Bank’s Doing Business surveys¹⁰ find that the Maldives is a relatively good place to start a business, pay taxes and employ workers, but a difficult place to get credit, export goods, enforce contracts, and close a business. The recently completed Investment Climate Assessment¹¹ (ICA) highlights access to

¹⁰ www.doingbusiness.org

¹¹ “The Maldives: Sustaining Growth and Improving the Investment Climate”, the World Bank, April 2006 (ICA)

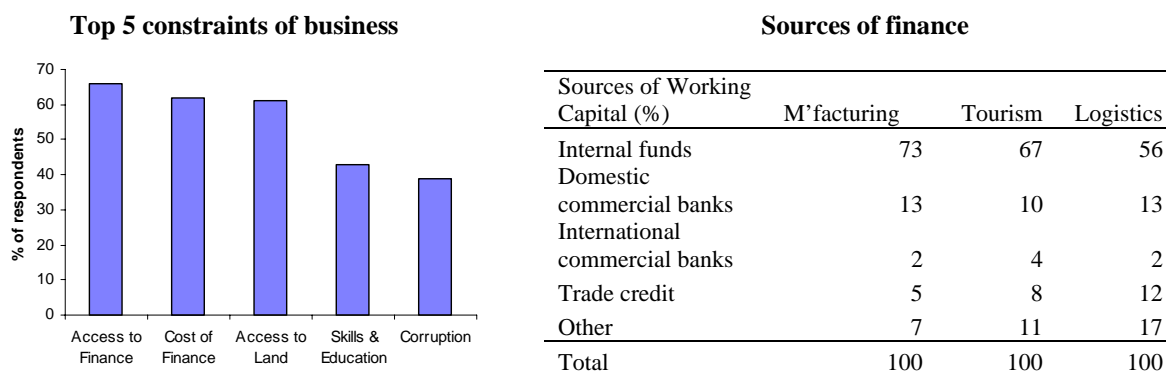
finance, the cost of finance, access to land, and corruption as being the most important obstacles to investment (Figure 4).

29. **Tourism and fishing will remain the mainstays of the economy but will exert increasingly demanding standards for environmental management.** The tourism industry draws directly on the maintenance of a pristine environment, giving the resorts an incentive to maintain very high environmental standards, as required by the government. As surrounding inhabited islands become more populous and exert greater pressure on the environment, it will be necessary to strengthen environmental practices (for example, ensuring more careful treatment of solid waste to keep the reefs free from debris). Sustaining economic activity in higher value added fishery products will also depend on sound environmental management practices, continuing with the sustainable tuna fishing practices, while improving the capacity to monitor the extended economic zone (EEZ) and limit overall yields to sustainable levels. Finally, careful management of the coastal environment also helps mitigate the negative effects of periodic tidal surges and flooding.

30. **The Government is exploring other growth avenues such as transport and logistic centers.** The government is actively promoting the possibility of creating a container transshipment port in the north of the county, adjacent to the major shipping lane between Europe and South and East Asia. In order to broaden the ownership base which is currently concentrated narrowly on a small number of families, the 7NDP emphasizes the need to encourage more SMEs, and with this same objective, has recently created a publicly owned company—the Maldives Tourist Development Corporation—the shares of which it is proposing to sell to small investors.

31. **Connectivity is improving.** The provision of good international and internal transport services is critical for the development of the Maldives. The country’s major port is in Male’ but this is nearing capacity. There is currently a single international airport in Male’ which is beginning to show signs of strain, and capacity enhancements are required. However, a second airport in the southern Addu atoll has recently been opened, which will spur tourism in the south. Telecommunications in the Maldives have improved dramatically in the last decade. Mobile phones are already ubiquitous with more than 260,000 mobile subscribers (compared to a total population of 300,000 plus 50,000 immigrant workers). There is still a need to increase access to the internet, and broadband systems are rapidly spreading out into the atolls.

Figure 4: Finance emerges as the key constraint to business



Source: World Bank ICA

32. ***Encouraging linkages between the domestic SME sector and resorts is critical.*** Helping to facilitate the financing of SMEs, as well as addressing other constraints of the vibrant SME sector will also be important to deepening the links between the resorts and the local economy. At present tourist firms source only about 30 percent of their material inputs and supplies from the domestic sector. Manufacturing is slightly higher at 37 percent and logistics and transport is at 41 percent. There is concern that outside Male', few jobs are being created beyond the new resorts. The agglomeration of economic activity in regional growth centers is crucial to move away from the quasi-subsistence activities of artisanal fishing and farming, towards more productive activities connected with modern service industries or tourism.

33. ***Education and vocational training will contribute to preparing new school leavers.*** The government must continue to use revenue generated in tourism to maintain large investments in education and vocational training, in order to ensure that the labor force possesses an appropriate skills mix to sustain robust development in a middle income economy. This is central to employment generation, especially for growing cohorts of school leavers, expanding employment opportunities for Maldivians in higher level positions in resorts, for example, and also playing an important role in deepening the linkages between the resorts and the local economy.

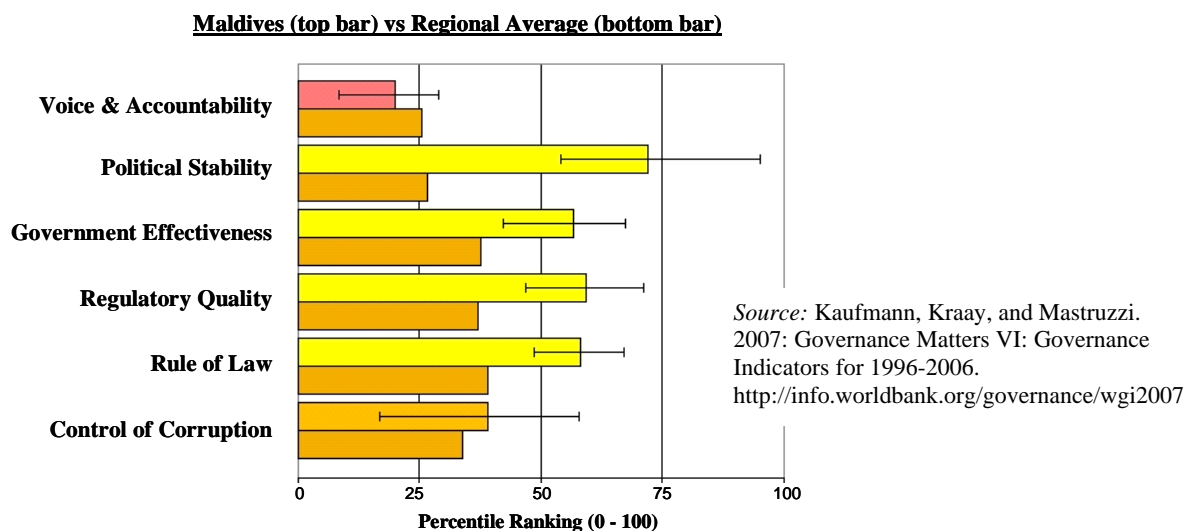
C. BUILDING INSTITUTIONAL CAPACITY

34. ***The Maldives is currently undergoing a rapid—although largely peaceful—governance transition.***¹² As highlighted in the 7NDP, impressive socio-economic gains over the last three decades have outpaced the development of accountable, transparent and effective governance institutions. The program of reforms described above aim to correct this imbalance. In particular they are targeting overhaul of the country's oversight and justice sector institutions. However, in parallel the government is seeking to strengthen the capacity, effectiveness and transparency of executive branch agencies. These reforms will be the critical underpinning for sustained growth, macro-economic stability and improved human development.

35. ***The 2004 tsunami underlined the need to strengthen the country's institutional base in line with the needs of an increasingly sophisticated economy.*** The economic gains to date have been facilitated by a far-sighted domestic elite that has relied on informal rules and cohesive networks to implement a set of pragmatic private-sector oriented policies, while abiding to a measure of self discipline in terms of sound macro-economic management, as well as consistency and stability in policies. The sophistication and maturity of the Maldivian economy, however, depend increasingly on establishing a more formal rule-based environment based on accountable and effective institutions. An educated middle class has grown in size, become more globally integrated, and is demanding greater accountability and transparency. The domestic private sector and foreign investors also require transparent and efficient regulatory institutions that create a level playing field as well as a judicial system that ensures the rule of law and the enforcement of contracts.

¹² Two recent incidents have threatened this record. On September 29, 2007 a small homemade bomb was detonated in Male', injuring 12 tourists. This is the first instance of such violence since a coup attempt in the late 1980s. In early October 2007, 90 armed members of a radical congregation held a Maldives security service officer hostage inside a mosque in a remote island for three days before a resolution was found. Government ministers had previously expressed concern about radical religious/political influences in a country with a long tradition of religious moderation.

Figure 5: Maldives Governance Indicators and the South Asia region



36. *The Maldives outperforms the region and its income category peer group on most governance indicators, but underperforms in the area of voice and accountability* (see Figure 5).¹³ This is consistent with rising political and social tension: an increasingly vocal opposition has formed; the ruling party faces internal splits (several important cabinet members left the party during 2007 to establish alternative political bases); and there have been several large demonstrations, as Maldivians seek effective channels of representation.

37. *Strengthening the capacity of the civil service will be critical if the country is to provide public services at a level consistent with its upper-middle income aspirations.* Despite a gradual improvement in the education and skills of senior civil servants, the civil service still lacks policy, implementation, and administrative capability. Over half of the civil service is concentrated in three ministries: education, health and defense services. The remaining employees are spread over 18 other ministries and 12 presidential authorities. There is a need to strengthen transparency, effective performance management, career structure, and human resources in the system. Ad hoc allowances have become increasingly significant, often amounting to as much as one half of total take home pay. Average salaries are low relative to the private sector; although civil servants need work only a six hour day, and secondary employment to supplement incomes is legal and common.

38. *Public expenditure management, public financial management and public financial accountability are emerging as increasingly important issues where institutional arrangements and capacity are significant constraints.* The Majlis passed the Public Finance Act in 2005, establishing ‘the principles and procedures for control and management of the finances and property of the state.’ This is an important step but its implementation will face considerable challenges.¹⁴ The law is proposing to make substantial changes to the public financial management architecture. It lays down the framework for preparation of the annual state budget including its passage by the parliament, consolidation of public moneys in a single public treasury account, and requires the government to maintain proper accounts including preparation of annual financial statements. To complete the accountability chain, the law also requires a timely audit (within five months of the end of the fiscal

¹³ Transparency International has begun to include the Maldives in their Perceptions of Corruption index. The country scored 3.3, below India’s score of 3.5 but above Sri Lanka (3.2), Nepal (2.5) and Pakistan (2.4).

¹⁴ The law has not yet been notified, and therefore has yet to come into force. The law allows the President to defer any of its provisions coming into effect for up to three years after the Act has come into force.

year) from the auditor general and the tabling of the report in the parliament through the office of the president.

39. ***Initiatives to control corruption should be strongly supported.*** As in other small island economies the risk of patronage, corruption or conflicts of interest is high. The Maldives scores better than other South Asian countries on control of corruption indicators. However, corruption emerged from the ICA as a significant obstacle to investment. The government has committed itself to several promising initiatives. A new Public Accounting System (PAS) will be fully implemented over the next three years. The Audit Act was passed in April 2007, which allows the Audit Office to act independently with direct interactions with parliament. Until this point there was no legal framework to ensure the independence of the auditor general and to allow for audit findings being made public. Although the Audit Office is required to audit the government's accounts, its staff capacity has, to date, been limited, resulting in inadequate coverage. There is also a need to strengthen the Anti Corruption Board, which was established in 1991 but has had limited resources at its disposal.

40. ***Reform of the government's public procurement system is necessary.*** Currently the system lacks a legal framework as there are no consolidated national public procurement instructions, resulting in the various agencies adopting ad-hoc approaches to this function. Government is aware of the need for these reforms and is giving their introduction priority, including the provision of capacity development to enable institutions and its civil servants to understand and properly apply such instructions. The system also lacks an effective independent procurement grievance mechanism, which can act as an oversight function to proper implementation of procurement rules and, hence, a deterrent to corruption practices.

41. ***In general, the direction of governance reforms is positive, yet the scope and pace are ambitious for a small country.*** New institutions such as an independent Supreme Court and Judicial Services Commission are being created that will require staffing and financing. Reforms of such a fundamental nature require due deliberation and adequate country wide public consultations before they are enacted into law. Yet the timetable established is extremely tight, driven as it is by a June 2008 deadline. A heavy responsibility will fall on the first set of elected officials in 2008. Much will also depend on how effectively the media and civil society use their newly won freedoms to enhance public voice and accountability, while at the same time not provoking a backlash from interest groups who may lose out from political liberalization.

D. CONSOLIDATING HUMAN AND SOCIAL DEVELOPMENT

42. ***The Maldives is seeking to consolidate human development gains while also responding to new challenges.*** Rapid economic growth and broad access to basic services have enabled the Maldives to rapidly reduce poverty, improve health care and education standards, and meet most of the MDGs. At this stage in its development path, the country is consolidating these gains and seeking to increase the quality of its service provision to a standard commensurate with the country's income levels. In addition, the country faces new challenges such as vulnerability, malnutrition, fertility, and youth unemployment which represent significant implications for other aspects of social and human development, including education and economic productivity.

43. ***Common to all sectors in the Maldives is the additional challenge of scale.*** Supporting the government's population consolidation policy and developing capacity in the government agencies are two essential cross-cutting areas for all donors in the country.

Table 5: Progress in basic social indicators: 1995-2006

Basic Social Indicators	1995	1999	2002	2004	2006
Male Life Expectancy	70	72	70	71	72
Infant Mortality Rate (per '000 live births)	32	20	18	15	16
Student Teacher Ratio	31	23	19	20	15
GDP per capita	\$1,630	\$2,214	\$2,284	\$2,682	\$3,090

Source: Government of Maldives

Education

44. ***Maldives needs a population with good quality education, including higher education, to provide the managerial and technical skills necessary to sustain economic growth and to be globally competitive.*** The school system is not producing enough quality people and the private sector is heavily reliant on foreign workers for all types of work. The public education and health systems are also heavily staffed by foreign workers outside of Greater Male'. The challenge for Maldives is to provide quality education, particularly higher secondary and tertiary, in a cost-effective manner.

45. ***Access to education has risen but quality remains uneven.*** Maldives has successfully addressed the basic challenges of school access particularly at the primary level. However, while literacy is almost total, the quality of education is uneven and learning achievements are mixed. Only a small proportion of the children leave school with a qualification, and "O level" pass rates are low even for the minority who enter for the examination.

46. ***Achieving quality improvements will inevitably increase costs.*** Both rising expectations and the recent declines in fertility (meaning that smaller numbers will need to be enrolled at the lower level but more at the higher levels) will put pressure on costs. The government may not be able to offer quality education without consolidating the population. Today, primary school education (Grades 1 to 7) is universal, lower secondary schools (up to grade 10) are located on 138 islands and it is the government's intention to make 10 years of education available to all before 2010. But the cost of doing these on 138 islands is prohibitive and the government is seeking ways to tackle the issue, with help from the World Bank Group through the Integrated Human Development Project (IHDP).

47. ***Access to higher secondary schools (Grades 11 and 12) is more limited and schools are located on a much smaller number of islands: 14 in July 2007.*** An even smaller proportion of young people have access to tertiary education. Whereas for primary and lower secondary schools there is not gender bias in admissions, for upper secondary and tertiary education there is a bias in favor of boys. This is thought to be due to the social pressures not to leave home to continue their studies. Increasing access to upper secondary schools will be much easier when a larger proportion of the population live on a small number of larger islands.

Health Care

48. ***In one generation, the public health landscape of Maldives has transitioned from that of a poor country to that of a typical middle income country.*** The health MDGs were reached - communicable diseases were brought under control, and infant mortality fell to just 12 per thousand births, a decline of two-thirds from 1990 to 2005. Longevity grew, and a Maldivian born today can expect to live to age 72, a gain of 24 years since 1978. These results have been made possible by a major expansion in public investment and an influx of expatriate doctors – both of which have increased access to healthcare. This expansion continues: the total number of atoll hospitals, health centers and health posts has more than doubled since 2001. As with other basic services, it will not be

possible to provide a consistent level of quality care on all islands in a fiscally sustainable manner without some population consolidation.

49. *While infectious diseases are generally under control new diseases including dengue, influenza, scrub typhus, and thalassaemia, have recently emerged as significant problems.* Up to one in six Maldivians are said to be carriers of thalassaemia, which gives the country one of the highest incidences in the world.¹⁵ Looking ahead, the biggest long-run challenge to the Maldives health system is the rise of degenerative non-communicable diseases such as diabetes, heart disease and cancer which will place a great burden on the health system and on both public and private finances. The health system needs to address this by developing treatment protocols and operating procedures which can address these new challenges in a cost-effective manner. The World Bank's IHDP and WHO are working with the government to develop these systems.

Social Protection

50. *Vulnerability is outpacing the country's ability to provide safety nets.* Two particularly vulnerable groups are women and unemployed youth. Women are at risk because their rights are not fully protected by law or society. This issue is also highlighted in the 7NDP. While their position in society may be stronger than in most other South Asian countries, as a group, women still do not have the same rights as men. Worryingly, a recent survey undertaken by the government recorded high rates of gender based violence and sexual molestation. Drug abuse is a growing problem, particularly among young men. Reported cases of drug abuse have more than trebled, from around 200 every year in the late 1990s to 600-700 in 2004-05. Most drug users are young: 95 percent are 16-39 years, and 53 percent are age 16-24.

51. *Safety net programs are ad hoc and overlapping.* The government would like to develop an effective social protection system for its country that is consistent with its level of income and implementation capacity. Economic growth has been, and will continue to be, the dominant factor in the reduction of poverty in Maldives, but the concentration of poverty in the Northern atolls and among particular population groups is of considerable concern. Seeking to address these issues, the government is interested in reforming its pension system, and meeting the constitutional mandate to provide income support to the elderly. It is also interested in developing an effective safety net for the very poor, and those who may suffer poverty from catastrophic health shocks or from natural disasters. The government's priority is to establish a pension plan first for government employees, but to extend it quickly to the private sector, as the first step in developing a financially sustainable social security and safety net system. The Bank Group has supported this effort through analytical work and is considering an investment in the future.¹⁶

E. SUSTAINING THE COUNTRY'S NATURAL RESOURCE BASE

52. *The country's considerable environmental assets have been and will remain the key source of growth for the economy.*¹⁷ Nature based tourism remains the country's primary industry accounting for almost 70 percent of GDP, with fish and fish processing contributing to about 10 percent of GDP. Recognizing the economic significance of its fragile environment, sustainability has remained an important development priority in the Maldives. Indeed, the Maldives stands as a rare success story of

¹⁵ An inherited form of anemia whereby the blood cells are unable to carry a sufficient supply of oxygen for the body's needs.

¹⁶ "Social Protection in the Maldives: Options for Reforming Pensions and Safety Nets", World Bank, April 2006.

¹⁷ There is for example immense marine biodiversity: the reefs host over 1,900 species of fish, 187 coral species, and 400 crustaceans.

a resource rich country that has judiciously managed its natural capital to fuel prosperity and graduate to middle income status. But much of this is changing with rising population densities and growing aspirations.

53. ***Economic prosperity has been accompanied by a litany of pressures on the natural resource base that could jeopardize economic prospects.*** Between the resort and inhabited islands, there is a marked difference in both the quality of the environment and the interest shown in protecting it. With high population densities and affluence, the inhabited islands confront growing problems of solid waste management, sewage disposal and other effluents emanating from settlements, fish processing plants and other sources. There is inadequate treatment of waste water on most inhabited islands, including the capital Male'. Simultaneously, the amount of waste generated (estimated at about 400 tons a day) far exceeds the processing capacity of available land fills. Sewage and solid waste can foul pristine beaches, degrade sea water and damage the corals that are a magnet for tourists. This calls for a considerable improvement in environmental management with policy principles being translated into observable outcomes and an environmental infrastructure that matches the country's needs.

54. ***Over the long-term, climate change will be the most perilous environmental risk facing the country.*** Geography has rendered the Maldives especially vulnerable to climate change. Being land scarce, low lying (over 80 percent of the country is less than 1 meter above sea level) and affected by storm surges arising from cyclones from the Indian Ocean, it is exposed to the risks of intensifying weather events including damage caused by inundation, wind and flooding from storms. With the melting of polar ice caps, the country faces additional risk of sea level rise. With future sea level projected to rise within the range of 10 centimeters (cm) to 1 meter (m) by the year 2100, without investments to adapt, much of the country could be submerged in the worst-case scenario.¹⁸ Tourist resorts on low lying coral islands or located over lagoons are among the most vulnerable to sea level rise. The loss of these assets would have a devastating impact on economic prospects.

55. ***Degradation of the reefs has increased vulnerability to climate change risks.*** Ever increasing damage to the reefs has impaired their protective functions and increased exposure to risks from storm and cyclones. One of the major stresses to reef ecology is sea surface warming, resulting in coral bleaching. Bleaching events have been recorded seven times since 1997, with the impacts being most severe in areas that are stressed by pollutants, or damaged by physical disturbance. In addition, coastal erosion poses another perennial problem for the Maldives. In their natural state the islands are highly dynamic and continually changing shape. However, there is little experience on how to manage these changes and there have been no systematic assessment of the economic consequences of erosion and cost effective remedies.¹⁹

56. ***Adapting to climate change will call for multiple approaches, guided by scientific risk management.*** It would require costly investments in protective barriers such as sea-walls and land reclamation, integrating climate risks in the planning, design and location of new assets and more aggressive stewardship of the natural protective barriers formed by coral reefs. Considerable strategic planning is necessary, to determine both the risks facing the various atolls and appropriate responses to these long term risks.

¹⁸ As an example, in Hulehule an hourly sea level of 70 cm is currently a once in 100-year event. Under "moderate" climate change scenarios it could become a once in 10-year event. However, scientists are still discussing the impact of global climate change on the Maldives with some arguing against the theory that the Maldives faces inevitable and major flooding in the near future. See N.A Mörner et al: "New Perspectives for the Future of the Maldives", *Global & Planetary Change* 2004 (177-182).

¹⁹ An expensive sea wall has been built around Male' but it is unlikely that this is an affordable solution for all islands, or a desirable solution for resorts. The issue is also closely linked to population consolidation.

57. ***Population consolidation and the creation of safer islands are part of the solution to climate change, as discussed in the 7NDP.*** The need for such a policy is widely promoted and accepted within the government, and was supported during discussions with the Bank by three out of the five registered political parties. There is a consensus that, in the long-term and as the sea level rises, it will be impossible to protect widely dispersed populations. In addition, the provision of increasingly sophisticated social services is becoming prohibitively expensive on a large number of islands with small populations. Population consolidation therefore produces benefits from lower costs of service delivery, as well as being part of a strategy for adaptation to climate change. The location of these safe islands needs to be based on detailed scientific assessments of climate risks. In the absence of scientific data, current decisions do not appear to have been guided by risk assessments.

58. ***The capacity to manage growing environmental pressures does not match the needs of a vulnerable, resource dependent economy that is transiting to middle income status.*** There is insufficient technical, financial and human capacity to either deliver the required environmental infrastructure or monitor and control environmental impacts.²⁰ There is also inadequate baseline information on the status of habitats and limited experience in scientific management methods, despite the importance of marine assets in fueling economic growth. Monitoring and enforcement of the myriad environmental regulations is uneven, particularly in remote islands where financial resources are limited. All of this suggests an urgent need to strengthen the information base of environmental management and the mechanism for implementing and enforcing environmental policies to assure sustained growth and prosperity. It is in this context that environmental sustainability has been identified as a key pillar of the Bank's assistance to Maldives.

III. THE GOVERNMENT'S DEVELOPMENT PLAN

59. ***The government has set out its vision and strategy in the 7NDP for the period 2006-2010: "Creating New Opportunities".*** This is also the strategic policy framework for achieving the objectives of Vision 2020. The national vision is to achieve upper-middle income status, ensure more equitable access to services and opportunities through urbanization and improved service delivery, facilitate economic diversification, promote gender equality, and support better environmental practices to sustain growth and adapt to global climate change.

60. ***The 7NDP was compiled through a consultative process involving the government, NGOs, and various private sector organizations and individuals.*** The broad objectives and key development opportunities and challenges outlined in the 7NDP are presented in Box 1. In short, the eight key principles underpinning the 7NDP are: (1) national ownership, (2) enhanced trust and confidence, (3) economic opportunity for all, (4) gender equality, (5) environmental sustainability, (6) human rights, (7) civil society participation, and (8) results focus. The 7NDP elaborates specific goals with performance targets across four key areas: economic, spatial, social and governance.

²⁰ As an example the Ministry of Energy, Environment and Water receive between 60-70 Environmental Impact Assessment reports each year, that need to be reviewed and cleared within a month. But with only four graduates in the Ministry, there is little capacity to evaluate and assess the reports in the desired depth and detail.

Box 1: The Government's 7NDP

- The 7NDP sets out the development agenda for the Maldives for the five year timeframe 2006-2010. The strategy was based on a national consultation process involving government ministries, Atoll and island communities and the private sector.
- There are eight key principles underpinning the strategy: (1) national ownership, (2) enhanced trust and confidence, (3) economic opportunity for all, (4) gender equality, (5) environmental sustainability, (6) human rights, (7) civil society participation and (8) results focus.

The document presents a frank assessment of the country's opportunities and challenges:

Opportunities

- Unique natural capital
- Strategic location
- Robust growth and macro-stability
- Young population
- Quality capital & infrastructure
- Cohesive society
- Stronger institutions for democratic governance

Challenges

- Devastation of the tsunami
 - Environmental vulnerability
 - Small island economies
 - Over-reliance on tourism
 - Dependency on imported fuel
 - Income & access inequalities
 - Female & youth vulnerability
 - Drugs
 - Weak financial markets
 - Weak legal framework for development
 - Erosion of moral values
- As with the Sixth NDP, the 7NDP lays out the strategies to achieve the Vision 2020, elaborated by the President in July 1999. According to Vision 2020, the Maldives will achieve upper-middle income status within the two decades of the vision period. Other broad outcome indicators include more equitable access to services and opportunities through urbanization and improved service delivery; economic diversification, gender equality and better environmental practices to sustain growth and adapt to global climate change.
 - In order to achieve these broad goals the 7NDP elaborates specific goals with performance targets across four key areas: economic, spatial, social and governance.

61. ***Prioritization of the budgeting process will be key.*** In order to achieve the broad goals outlined in the 7NDP, it will be important for the government to prioritize and link specific initiatives to the budget. The 7NDP, for example, contains many policies, each with their own strategies. For example, the section on construction has eight policies and 34 strategies. Implementing these strategies will be a major task for the relevant institutions – as will monitoring the results. Still, the overall framework underpins the government's commitment to sustaining robust development in the Maldives.

62. ***The CAS Results Matrix (Annex I) is closely linked to the goals, policies and indicators used in the 7NDP.*** The staff of the Bank Group and IMF are submitting a Joint Staff Advisory Note (JSAN) to the Board in concurrence with this CAS. While broadly supporting the strategies noted in the 7NDP, including the emphasis on helping the poor and vulnerable, and fostering 'population and development consolidation' for greater economies of scale, the JSAN re-emphasizes the need for strengthened fiscal policy and a sound macroeconomic framework, without which many of the hard-won development gains are at risk. Effective implementation will also hinge on prioritizing institution and capacity building efforts in the areas of public expenditure and environmental management, as well as deepening the dialogue on population and development consolidation.

IV. THE WORLD BANK GROUP'S ASSISTANCE STRATEGY

A. PAST IDA SUPPORT – ACTIVITIES AND LESSONS LEARNED

63. *Much has changed in the seven years of the CAS period, and the World Bank Group has had to be flexible.* The World Bank's last CAS was approved in November 2000 and was originally intended to cover the period up to the end of 2004. However, following the tsunami of December 2004, the Bank agreed to extend its agreed assistance program, to include emergency reconstruction activities, and to delay the preparation of a new assistance strategy until 2007. The overarching goal of the CAS was "the reduction of poverty and regional disparities in access to social and infrastructure services." To advance this objective, the strategy, in partnership with other donors, aimed to support: (i) sustainable economic growth; (ii) improvements in public sector management, including institutional capacity; and (iii) human development.

64. *The Bank Group's financial contribution was modest compared to the size of the Maldives' economy, amounting to less than 3 percent of government expenditures.* During the CAS period the Board has approved two IDA credits with total commitments of US\$29.6 million and four IFC transactions totaling US\$47.8 million. These operations included the Third Education and Training project, the Integrated Human Development Project, and the Emergency Tsunami Reconstruction Project as well as IFC investments in the tourism, telecommunications and financial services sectors. In addition, the Bank undertook a range of non-lending activities (a) to help the government manage its public expenditures and develop medium term fiscal forecasts and plans; (b) to strengthen the fiduciary management activities within the government, and (c) to help government develop land and housing policies. Towards the end of the CAS period three additional and significant reports were published, including an ICA and a study of the system of social security.²¹

65. *The country achieved impressive results during this time.* With respect to the primary CAS objective of poverty alleviation, the country's performance has been very positive. Human development outcomes have also been strong, but public sector management and reducing regional disparities have been mixed. The outcomes achieved towards the specific targets of the 2000 CAS are summarized in table 6 below.

Table 6: Country Progress against 2000 CAS Benchmarks (from Annex III)

Country Performance	2000 baseline	Benchmark for 2004/5	Actual Outcome (2006)
Economic Growth Rate	7.6%	7.0 % p.a.	6.3% p.a. (average 2000-2006)
Transition Rate from primary to secondary school	30%	50%	88%
Girl gross enrollment ratio in lower secondary schools	51%	71%	100%
General Malnutrition (weight for age)	45% (1997/98)	30% (by 2006)	25%

²¹ "Maldives: Sustaining Growth & Improving the Investment Climate" World Bank April 2006; "Social Protection in the Maldives: Options for Reforming Pensions and Safety Nets", World Bank April 25, 2006

66. The following discussion attempts to unpack the impact of the Bank Group on these outcomes:

67. *Sustainable economic growth.* The Bank has helped strengthen the government's capacity to develop medium term fiscal forecasts and to manage the economy. Delivery of this work relied more on regular contacts and dialogue than on formal sector work or the provision of consultant based technical assistance. The IFC's direct support for the creation of the now successful Maldives Leasing Company has contributed significantly to the financial sector in the Maldives, as well as ongoing technical assistance to the Bank of the Maldives (BoM) and the Housing Development Finance Company (HDFC), in advance of its possible privatization. AAA activities around the business environment, the fisheries sector and land registration have been welcomed by government and remain influential.

68. *Public sector management.* As noted above, the activities directly supported by the Bank were limited to strengthening the government's ability to manage public expenditures, its public accounts, audit and its procurement functions. Progress in these areas has been slow and more work will need to be done with additional commitment given to these important areas. The overall performance of many government departments is generally not strong compared to countries of a similar income level.

69. *Human development* was an area of major focus and outcomes were generally positive in this sector and the Bank's work can be more closely attributed to results. Access to social services has increased significantly. The three most recent investment projects were all directly focused on the development and refinement of social services, including most of the Bank funded activities within the emergency reconstruction project.

70. **Portfolio performance.** The design and execution of the three projects approved by the Board between 2000 and 2005 was satisfactory. All projects were well received by the government with solid ownership during both preparation and implementation. However, the quality of overall implementation has been only marginally satisfactory. During implementation all projects have been rated as unsatisfactory or marginally unsatisfactory for short periods. These ratings reflect the lack of technical and policy making capacity in almost all ministries. While in most ministries the upper levels are staffed by experienced and competent staff, competent mid-level staff with experience and technical knowledge are lacking, as is the case in many small island economies.

71. **Lessons learned:** Over the course of the CAS period the Bank Group's assistance has become more integrated, programmatic and responsive. Opening an office in Male' has given the Bank Group the ability to respond with flexibility to the government's changing needs and circumstances. Given the limited pool of capacity in the government, there is a premium on selectivity and on close client consultation during project preparation. The objectives of the new strategy should be tightly focused with a monitoring and evaluation framework that is both realistic and cost effective. Finally, donor coordination is now more important for effectiveness in the Maldives, given the larger number of donors that are working in the country since the tsunami. These lessons have been taken into account during the preparation of this strategy.

B. PRINCIPLES OF THE BANK GROUP'S NEW COUNTRY STRATEGY

An integrated World Bank Group program

72. *An integrated Bank Group program will be more effective in supporting the government's needs.* This CAS has been prepared jointly by the World Bank and the IFC and as such it presents a common view of development objectives in the Maldives, together with a commitment to a shared strategy. Going forward, it will be critical to maintain close dialogue between the two institutions both in Male' and in Washington, given the synergies within the economic governance pillar of the joint program between public financial management, transparency and an attractive business environment.

73. *The IFC has been very active in the Maldives since 2000.* A total of US\$47.8 million was committed (US\$46.5 million in debt and the remainder in equity). This consisted of in four projects in the finance, tourism, logistics and telecommunications sectors. In addition, the IFC expanded its South Asia Enterprise Development Facility (IFC-SEDF) with a dedicated advisory services program to cover Sri Lanka and the Maldives and has established a framework to provide support to SMEs within an enhanced investment climate. The IFC is also providing important support to strengthen the operations of the Maldives Leasing Company, and the Housing Development Finance Corporation. The IFC is considering further investments in the Maldives in the areas of infrastructure, access to finance and tourism.

74. *The IMF has been actively engaged in the Maldives, fielding technical assistance missions and staff visits in addition to the regular cycle of Article IV consultations.* The teams of IMF and other IFIs have been working closely with the World Bank's macro and fiscal team. This collaboration will continue to be of critical importance in the short run considering the risks posed by the expansionary fiscal policy and also recognizing the limited leverage that the Bank Group may bring to bear on its own on this matter.

A focus on coordinating activities with other donors

75. *Following the tsunami, the Bank Group developed stronger links with many other donors, including through its office-sharing arrangement with the ADB.* The World Bank representative's participation in the UN Country Team and donor coordination meetings has proved beneficial, particularly in the period following the tsunami. The government has recently established the Maldives Partnership Forum, with a view to developing stronger longer-term relationships between all active donors and the government. These meetings were designed as a vehicle for exchanging information and discussion and not as venues for providing pledges. It has met twice in 2006 and 2007. Partly as a result of these interactions, this CAS is the product of close coordination with the UN system and the ADB.

76. *Over the last two decades a number of donors have made significant contributions to the Maldives.* Prior to the tsunami, the Kuwait Fund was the single largest donor, followed by ADB, IsDB and the World Bank. The Maldives has also been a recipient of grants, including from Japan. In addition, the many parts of the UN system have been active over the years, contributing in total around US\$6 million per annum. The tsunami brought with it a large number of new donors including six Red Cross societies that contributed more than US\$120 million to the overall reconstruction program, and collectively are the largest single contributor to the program. In the post tsunami era, the key donors are likely to revert to those active prior to the tsunami.

77. *The donor assistance matrix included as Annex V, shows patterns of donor specialization.* Macro-economic and fiscal advice is provided mainly by the ADB, the IMF and the World Bank;

ADB and the World Bank support fiduciary management. The political dimensions of democratic reform, social development and disaster management are generally the core focus of the UN system (outside of their reconstruction activities). Infrastructure is largely the focus of the ADB and the IsDB and other donors from Gulf Cooperation Council countries, notably the Kuwait Fund. Looking ahead there are some gaps in the proposed future assistance, such as support for civil service reform and environmental management. The latter is particularly striking given the importance of preserving the country's natural environment.

C. PROPOSED STRATEGY AND ASSISTANCE PROGRAM

78. *The overarching objective of the World Bank Group program is to support the strategy and goals of the 7NDP with a view to contributing towards continued improvements in standard of living for all Maldivians.* The integrated Bank Group will deploy both lending and non-lending instruments, as well as private sector investments, in selective interventions. The interventions seek to contribute to specific development outcomes, including: (a) a well-managed economy attracting increased investment; (b) improved quality of education in support of a better skilled workforce and (c) an enhanced capacity to manage the country's pristine, but fragile, natural environment. Across each of the three pillars, special focus will be given to strengthening institutions such as fiduciary management and supporting the government's plan to incentivize scale economies through population consolidation.

Pillar I: Economic and fiscal governance

79. *This pillar aims to support government's efforts to manage its economy and finances better, while strengthening the investment climate.* Following a request from the government, the Bank Group will continue to work with the government on *the development of a Medium Term Fiscal Framework*. This activity has been a major plank of the Bank's assistance program during the last CAS period. While at the technical level it has been successful at transferring knowledge, it is not yet integrated into government's decision processes.²² The activity seeks to bolster overall fiscal discipline, better align public resources with the country's development objectives, and enhance the effectiveness of public expenditure. In the near term, this activity will also provide support to technical cadres in the ministry who are working to manage the fiscal adjustment.

80. *The management of public finances has become a much more prominent issue following the passage of the Public Finance Act in 2005.* The government now places a high priority on further strengthening of the fiscal governance in light of the pressures the tsunami placed on public finances. To this end it is working to upgrade and modernize the accounting and financial management infrastructure in order to ensure the effective utilization of public resources across service sectors. The Bank Group has in recent years prioritized this area of work and has built good working relationships with key ministries and donor partners.

81. In June 2007, the Bank published a 'Gap Analysis' on public financial management²³ which lays out a comprehensive agenda for bringing accounting and auditing standards in line with international best practice. Following up this analysis with ongoing technical assistance to the Office of Auditor General and to the Bank Group has also contributed towards public finance transparency by **strengthening the capacity in government for procurement, audit, and commercial adjudication**. Along with the EU-funded activity to upgrade the country's Public Accounting System, this activity is

²² A large technical assistance loan has just been agreed between the ADB and the government, part of which will support activities geared towards strengthening the management of government's finances. Tentatively it is anticipated the Bank will provide high-level support to complement the consultant teams provided by ADB.

²³ "Public Sector Accounting & Auditing: A Comparison to International Standards", World Bank, June 2007.

ongoing and will be critical to whole-of-government public finance management capacity. As such, they contribute both to the target development outcomes of the CAS, but also to the cross-cutting agenda of institutional capacity development. Two Institutional Development Fund grants supporting technical assistance cooperation are ongoing in the Ministry of Finance & Treasury and in the office of the Auditor General. In addition, the Bank proposes to undertake in FY09 a Public Expenditure and Financial Accountability (PEFA) assessment to establish a baseline against which progress can be measured.

82. The Bank Group is also proposing to undertake both lending and non-lending activities in support of the government's 7NDP strategy to enhance private sector development. In particular, **access to finance** and the cost of finance emerged as the two main obstacles to business in the 2005 ICA.²⁴ The financial sector of the Maldives is shallow and is dominated by the banking sector. In recent years competition has been encouraged with the establishment of a Male' branch of HSBC, the rapid expansion of the Bank of the Maldives (BoM) branch network, and, with assistance from the IFC, the establishment of a successful leasing company. The IFC will continue to support on-going activities through collaborative investment and advisory services to a variety of financial institutions in the country, with an initial focus on leasing and housing finance. In particular, the Maldives Monetary Authority's recent initiative with IFC to establish a private Credit Information Bureau should reduce lending costs and expand access to credit, and is a step in the right direction.

83. The country's unusual (for the region) lack of a culture of savings and geo-spatial obstacles act as constraints on the access to finance and the depth of the banking sector. The ICA noted that in other countries such as Brazil and the Philippines the innovation of mobile phone banking has helped overcome these constraints. In collaboration with CGAP, the Bank Group is currently preparing with the Maldives Monetary Authority a **mobile phone banking** project. The project will aim to reduce the levels of cash in the economy through the provision of universal access to formal financial services including in the outer atolls. It will involve shaping an appropriate regulatory framework for branchless banking, developing an interoperable retail payment system with sufficient volume to be viable, and strengthening retail banking competition and greater access to banking through mobile phones and a network of banking agents on the islands. The project is also a valuable opportunity to collaborate across the Bank Group with IFC. It is helping the MMA develop a national credit bureau.

84. *Diversification of the economy is a critical component of the government's 7NDP.* The CAS proposes analytical work to support the government's efforts to increase the value added across a broader range of economic activities. This work will likely link closely with any analytical work that is done on generating economies of scale through greater connectivity and population consolidation. It will also link to work of the IFC. The IFC will work with its major tourism clients on building bridges between the tourism sector and small scale local industries. The IFC will consider further investments in line with this strategy (including tourism and infrastructure) which can be demonstrated to help diversify the economy. Finally, the Bank and IMF will discuss with the government the option of undertaking a Report on Standards & Codes assessment (ROSC). The ROSC tool would be an effective means of initiating the corporate governance reforms that the government has outlined in the 7NDP.

Pillar II: Human development and social protection

85. *While access to education has improved markedly, quality remains uneven.* Teacher training is a critical need – the country still relies heavily on expatriate teachers – as well as upgrading of the curriculum and materials. Beyond the improvement in human development indicators, education is

²⁴ The other main constraints were access to land, skilled labor and corruption.

necessary to expand the currently very limited pool of skilled business employees and administrators. The World Bank has had extensive prior involvement in education, secondary and tertiary, and has financed three education and training projects, plus additional activities through the IHDP and Tsunami reconstruction project.

86. *The objective of pillar II is to strengthen the quality of public services for human development and social protection.* During the CAS period, the World Bank Group will support this objective by providing additional finance to the **education sector**. This would extend activities financed by the Third Education and Training project and those being financed under the IHDP. IEG's recently completed Implementation Completion Report for the Third Education and Training project provides a road map for the new activities, in particular emphasizing quality of education rather than quantity as a core objective.

87. *Achieving this objective will require better trained teachers in the secondary schools and the development of capacity for higher education in the country.* Through the proposed additional financing of the IHDP project the Bank will finance overseas scholarships for teachers to improve the quality of higher secondary education on the focus islands. The additional financing will also finance scholarships for higher level training to develop higher education teachers. Previous World Bank projects have done this successfully in the past and the Maldives has a good record of those studying overseas returning to the country. The additional financing needs for this would be about \$4 million to \$7 million depending on the number and level of higher education teachers trained.

88. *Social protection is also a key theme of the Government's reform program, critical for both human development and long-term fiscal sustainability.* In its efforts to engage in a more programmatic way in the human development sector, the World Bank has worked with the Government on a **social protection strategy** since 2003. The report "Social Protection in the Maldives: Options for Reforming Social Assistance and Pensions" was prepared by the World Bank in collaboration with the Government and outlined major strategic directions for reform. One of the main gaps identified by this report was in pensions. Following further reforms to the pensions legal framework the World Bank has discussed the outlines of a pension reform project that would support the implementation of the framework with the objective of providing a fiscally sustainable pension system as well as providing social protection for the old. Pension system reform would also deepen the financial sector and support reforms in public administration.

Pillar III: Environmental Management

89. *The natural resource base of the country is unique and fragile.* Furthermore, its protection and proper management are central to the continued ability of the country to attract valuable tourism revenues. The objective of pillar III is to *improve environmental management practices and build greater climate resilience to protect the pristine environment.* During the CAS period the Bank Group will work to support this objective through a proposed investment and analytical work. Unlike pillars one and two, this pillar is new for the Bank Group and builds on the recommendation of the CAS Completion Report and a stronger prioritization of the Government's own investment towards environmental protection.

90. The Bank Group will support the Government's priorities in this sector in three ways: (i) strengthen environmental management capacity and skills in the government and of other stakeholders, (ii) build a sound knowledge base to better address the environmental risks facing the country; (iii) mitigate the threats to nature based tourism by improving environmental infrastructure; (iv) implement a strategy to build climate resilience and adapt to the impending risks of climate change.

91. These would be achieved through targeted interventions that build upon the Government's priorities and policies. Including support for a project aimed at building environmental management capacity and technical assistance for adaptation to climate change. The latter would be based on a risk assessment at the atoll and island level and would identify cost effective adaptation strategies, including the identification of safe islands. To be effective, the Bank will forge a closer partnership with United Nations Environmental Agency (UNEP) and maintain the close working relationship with the United Nations Development Program (UNDP).

Cross-cutting Issues

92. Two themes cut across the program and underpin the country's future development progress: institutional capacity and population consolidation. **Institutional capacity** in the Maldives remains lower than that of an average upper middle income country. The population now expects public service delivery at a level that the administration is currently not able to provide.

93. Institutional weakness is partly a result of a weak legal framework. For example, the lack of modern legal frameworks governing the public sector, including its independence, the quality of its performance and the competence of civil servants is underlined by the 7NDP as a core challenge for the Maldives. Going forward, the Government is attempting to address many of these issues through the wide-ranging reform effort of the public services. Institutional weakness is also a question of capacity and training. For example, the Ministry of Energy, Environment and Water must assess an average of 60-70 Environmental Impact Assessments a year with only four trained graduates in total in the ministry.

94. The World Bank Group program is addressing institutional weakness across its portfolio because it will impact the degree to which the objectives of the pillars can be achieved. The IDF grants for public financial management and budgeting & planning aim to support strengthening of core functions of the state that will impact across government sectors. Equally, the long-running support to the education sector is aiming to improve the standard of skills available in the education sector. The proposed environmental project also seeks to upgrade the capacity of the relevant agencies.

95. **Population consolidation** is a long-running theme in government discussions but still lacks the direction of a clear policy that is understood commonly across government agencies and by the population. According to the 7NDP, the cost of providing and maintaining socio-economic services in the Maldives is 4-5 times higher than in other small-island developing economies. The Population and Development Consolidation (PDC) program that seeks to address the issue through incentives is currently weakened by the populist tendency of politicians seeking to curry favor through the provision of increasingly expensive services to small communities. The World Bank Group should aim to support the 7NDP's stated policy by ensuring its own program design continues to promote genuine incentives for consolidation. To date, the World Bank has and will continue to support PDC through the IHDP project which supported service delivery on the focus islands.²⁵ In addition, the proposed program includes a future AAA activity to support government's implementation of this policy. Currently, it is envisage that this would examine the linkages between PDC and economic diversification. Meanwhile, IFC have initiated a TA designed to help strengthen the economic links between the islands and the resorts.

²⁵ The term 'focus island' is no longer used in official Government documents.

CAS Program

96. *The proposed CAS program is laid out in Table 7 below.* The program for FY10, FY11 & FY12 will be further elaborated during the CAS period and reviewed as part of the CAS Progress Report. The content and product mix will depend on progress on the reform agenda.

97. *Given the relatively small IDA allocation, making an effective contribution will mean that the Bank Group's work must be selective, catalytic and well-coordinated with other donors.* The CAS spans the last year of IDA14, 3 years of IDA15, and the first year of IDA16. The overall size of the IDA envelope during the 5-year CAS period is assumed to be about SDR 30 million (about US\$45 million), including about SDR13.2 million (US\$20 million) in FY08 of resources remaining from IDA14, and annual resources of about SDR 4 million during each of the subsequent years (US\$6 million per year).^{26 27}

98. *Interventions are proposed that build on progress and relationships established by previous operations.* They also aim to establish a three pillar platform for a more long-term or programmatic approach to Bank Group assistance, as proposed by the previous CAS, that will sustain its relevance over the next five years. Despite the short-term risks posed by an expansionary fiscal policy, World Bank Group management is committed to stay engaged with the authorities through a program that supports the long-term growth path.

99. *The proposed program has built-in flexibility.* Because the CAS period straddles the end of the 7NDP program and the first half of the next five year government strategy the mid-term review of the CAS, scheduled for FY10, will coincide with the start of the Government's next strategy. This will be an opportunity, therefore, to review CAS progress against the indicators of the CAS Results Matrix as well as fine-tune a program in line with the Government's priorities in the next plan. For this reason, this program is more detailed on the first two years of the CAS program.

Table 7: Proposed CAS Program

Pillar	I: Economic governance	II: Human development	III: Environmental management
IDA Credits (TA & Investment) (New projects - Ongoing projects)			
FY08	<ul style="list-style-type: none"> • <u>Mobile phone banking (CGAP/IDA)</u> • Public accounting system (EC Trust Fund) • NLTA: Public Financial Management • NLTA: MTFF & macro-fiscal 	<ul style="list-style-type: none"> • <u>IHDP & Post-tsunami Reconstruction activities</u> 	<ul style="list-style-type: none"> • <u>Environmental management</u>
FY09	<ul style="list-style-type: none"> • <u>Follow-up NLTA on PFM & MTFF</u> 	<ul style="list-style-type: none"> • <u>Additional financing for Human Development</u> • <u>Pension Administration Project</u> 	

²⁶ Under the small island exception, in recognition of exceptional vulnerability of small island states, the Maldives has access to IDA despite having per capita income in excess of the IDA cut-off.

²⁷ Estimates for IDA15 are based on performance in FY08 and assumptions about the size of the IDA15 replenishments. Actual allocations during the CAS period will be determined on an annual basis and will depend on: (i) total IDA resources available in IDA15 and IDA16, (ii) the country's performance rating; (iii) the performance and assistance terms of other IDA borrowers; (iv) the terms of IDA's assistance to the Maldives (credits or grants), and (v) the number of IDA-eligible countries.

Pillar	I: Economic governance	II: Human development	III: Environmental management
FY10	<u>Possible DPL</u>		
FY11		• <u>Possible follow-on financing</u>	• <u>Possible follow-on financing</u>
FY12	<i>tbd</i>	<i>tbd</i>	<i>Tbd</i>
AAA (TA & ESW)			
FY08			
FY09	• Cross-cutting AAA on economic diversification & population consolidation		
FY10	• PEFA		
FY11	• ROSC		
FY12	<i>tbd</i>	<i>tbd</i>	• Fisheries Strategy follow-up
IFC Investment & Advisory Services			
FY08	<ul style="list-style-type: none"> • Investment and advisory services to the leasing sector. • Possible advisory work with the Bank of Maldives to enhance SME financing. • Advisory services to HDFC and possible investment in case of privatization. • SME linkage program with existing investments. • Possible advisory and/or investments in infrastructure and tourism 	<ul style="list-style-type: none"> • Training programs as part of advisory work in: access to finance and SME linkages 	<ul style="list-style-type: none"> • Environmental & Social due diligence on any future investments. • Advisory work as necessary to help clients meet IFC Environmental Performance Standards
FY09	▪ As above	▪ As above	▪ As above
FY10	▪ As above	▪ As above	▪ As above

Product mix

100. *While the IDA allocation is fixed the mix of products is not.* The World Bank Group will ensure that the instruments used are consistent with the country's development context. In particular, a responsive program of analytical work has proved constructive in the Maldives in the past and is consistent with the World Bank Group's strategy for middle income countries. In addition, the proposed sector lending program assumes that authorities manage the current risks and avert a crisis. However, it is also possible that expenditures may continue to rise, further endangering economic conditions. If this occurs the World Bank Group would have to adjust its program accordingly in partnership with other donors and the IMF to support resolution of the structural issues where possible.

101. *Development policy lending is preferable – but will be contingent on demonstrated reforms.* If the authorities are able to re-establish fiscal balance within a sustainable macro-economic framework that is satisfactory to the World Bank, then a development policy lending operation (DPL) would be considered. To this end, a DPL operation is under consideration for FY10, and is reflected in the program table above. The sector focus under the DPL would be consistent with the overall assistance framework set out in this document. If a DPL is not feasible, IDA resources will be channeled towards additional financing for sector operations.

102. *In the future, the Maldives should aim for IBRD creditworthiness.* Maldives eligibility for IBRD lending could also be considered as part of the CAS Progress Report at mid-term. The uncertainties posed by recent expansionary policies and the political transition make it inopportune to consider an IBRD envelope at present. However, with fiscal correction, the conditions might be right to assess the creditworthiness of the country.

V. RESULTS MONITORING AND EVALUATION

103. *In recent years, the government has sought to strengthen its monitoring and evaluation (M&E) systems.* The databases it maintains provide an increasingly satisfactory set of statistics, with some variations in relative quality. The economic and fiscal data sets maintained by government are generally adequate for the government and donors to monitor performance at a national level. There is room for improvement, especially with regard to (a) the preparation and timely availability of budget implementation data, (b) GDP from the expenditure side, and (c) the composition of private capital flows in the balance of payments. Working with government, the Bank's economic team will seek to update the statistical tables at least twice a year. A simple fiscal model has been developed jointly by the Government and the Bank's economic team, using a nested set of spreadsheets. This will be used for this purpose.

104. To monitor improvements in the performance of institutions responsible for managing and monitoring public expenditures, a simple institutional audit will be undertaken in mid-2009 and compared against current performance.

105. To monitor performance of financial institutions and access to finance, a limited survey will be undertaken in mid-2009, and compared against the results of the ICA, completed in 2005.

106. Data collected on poverty trends and on key social sectors, like education and health, is in general adequate. The recently completed ICR for the Third Education and Training project provides a useful set of baseline data for the education sector. When complimented by data collected for the M&E component of the IHDP project, a useful data set is available. These data sets will be updated at regular intervals should an additional lending operation be prepared for the sector.

107. More generally, the household level data from the government's household expenditure surveys and Poverty and Vulnerability Surveys, provides a fairly complete picture of social indicators and trends. A Maldivian version of InfoDev has also recently been launched, with the help of UNICEF.

108. Some environmental data is available but there is much room for improvement. This will be a focus for the proposed environment project that is currently being prepared.

109. Monitoring will take place primarily through intensive project-level supervision, mid-term project reviews, and other specific studies listed above. In addition, government's policy performance will be rated through the regular CPIA exercise and through regular assessments of the IMF. A review of progress and lessons-learned under this CAS will be carried out at the mid-term review at the end of FY10.

VI. RISKS AND MITIGATION

110. While potential country risks have been highlighted throughout this document, three predominate: political instability, fiscal uncertainties, and potential issues associated with project implementation.

Political Instability

111. *The past four years have seen increasing political unrest and growing tensions between government and opposition.* However, the track record of the Maldives in containing major unrest is encouraging. Its people are pragmatic, most seem to understand the importance of stability if economic growth is to be maintained, and a steady improvement in the quality of life for the majority provides an incentive for evolutionary rather than revolutionary change.

112. *There is little that the Bank can do to alleviate this risk directly.* Other actors including the EU, the Commonwealth, and the UN are better positioned to act as “honest brokers” between the government and the opposition. These efforts have the potential for facilitating a national consensus on political reforms. The Bank will continue to ensure that the projects and activities it supports are likely to have broad based support from within the community. The participation of a range of stakeholders will be sought when preparing projects. In addition, the South Asia Region has recently held internal ‘Brainstorming sessions’ amongst Bank Group staff to stay abreast of developing political situations and to discuss adjustments in the program if necessary.

Fiscal Uncertainty

113. *In the absence of a fiscal crisis, it seems unlikely that the government will change course before the elections scheduled for next year.* To alleviate the risk that unsustainable fiscal deficits derail implementation of the proposed program, in close cooperation with other development partners, the Bank Group will continue to try and persuade the Government to adopt more realistic fiscal policies. As noted above, the Bank Group, including IFC, would adjust its program accordingly, particularly to support government actions to reduce its deficit. For new investment projects, fiscal risks will be assessed and project design adapted to ensure sustainability even if short term fiscal problems emerge.

Project Implementation

114. *Based on past experience, capacity limitations constrain effective project implementation.* To alleviate this risk, all projects will include an institutional development focus, be kept simple and will be tightly focused outputs and outcomes. The Bank will seek to coordinate mutual activities with other donors, avoid creating new implementing entities, strengthen the capacity of core implementation groups in existing ministries, and continue to help the government develop country systems acceptable to the Bank and other donors.

115. *There are no significant concerns about managing fiduciary risks in the Maldives portfolio.* At project level, Financial Management (FM) arrangements have been simplified by placing greater reliance on country systems,²⁸ enhanced report based disbursements,²⁹ ensuring harmonization with

²⁸ Investment projects in Maldives are now adopting key elements of country financial management systems such as budget preparation and implementation procedures, accounting and internal control, except for auditing arrangements.

²⁹ All projects in Maldives currently disburse on the basis of reports enhancing accountability.

other donors and partners³⁰ and focusing on preparing capacity building components for improving FM performance for improving the quality of the portfolio and enhancing developmental impact. Investment projects in the Maldives portfolio are adopting key elements of country FM systems, except for External Audits which are conducted by acceptable and independent private firms, due to capacity issues in the Audit office.

116. *In terms of procurement, while there is currently limited capacity in the country, the portfolio is safeguarded through ensuring that staff are trained upfront in procurement.* However, staff turnover – through transfers or on overseas training - can result in a higher fiduciary risk during project implementation. While the Tender Evaluation Board (TEB) is mandated to process all large value public procurement, donor-financed projects are generally permitted to process all procurement, with TEB approval, and following donor guidelines. It is envisaged to continue with the same arrangements for the operations planned under the CAS period, while supporting the broader reform agenda which will focus on improving country systems and developing capacity. In relation to improving governance and accountability, focus has increased on strengthening operational controls,³¹ rather than just financial controls.

³⁰Post Tsunami Relief and Reconstruction project, where all donors aligned around Government's desire to set up a single unified arrangement by delineating all Tsunami related flows into a Fund ("Tsunami Relief and Reconstruction Fund") as a part of the budget (overall government systems to ensure efficiency and efficacy).

³¹ Like controls for identification and selection of beneficiaries for a community driven scheme; controls of flow of funds for R&R activities which may be small amounts but have large reputation risks.

ANNEX I: Maldives FY08-FY12 CAS

Results Matrix

Maldives 7NDP		Results influenced by the CAS Program over the five year period FY08-FY12		Inputs
Objective	Constraints	Expected CAS Results – development outcomes	Milestones	Bank Group and partner intervention
Pillar I: Economic governance & investment <ul style="list-style-type: none"> Goal 1, 7NDP: Create an environment conducive for growth and generating employment Goal 2, 7NDP: Enhance trade, support businesses, and build competitive industries 				
Public Finance Policy 1: Reform the budget preparation process to improve fiscal management Strategy 1.1: Integrate investment plans and medium-term expenditure framework to the budgeting process in line with National Development Plan Goals and targets.	Pressure to maintain a high level of expenditures ahead of the 2008 elections.	<ul style="list-style-type: none"> Improved budgeting & planning capacity in the Ministry of Finance & Treasury Fiscal consolidation 	<ul style="list-style-type: none"> Commitment to multi-year budgetary planning entrenched (<i>baseline: annual budgets continue to be prepared, but since the tsunami there has not been a clear commitment to implement an MTFF</i>) Expenditures / GDP are reduced to sustainable levels equivalent to 45 percent of GDP by 2010 (<i>baseline: 92% in the 2007 budget</i>). 	NLTA in support of the medium-term fiscal framework (ongoing & to be continued) <u>Partners:</u> ADB, IMF
Public Finance Policy 3: Improve public financial administration to promote fiscal transparency and accountability. Strategy 3.1: Commission a modern, computerized Public Accounts System (PAS) for improved monitoring of expenditure and revenue	Lack of transparency & accountability on government expenditures.	<ul style="list-style-type: none"> Improve transparency of all public expenditures 	<ul style="list-style-type: none"> PAS is operational in most important spending agencies and Ministries Public Finance Act fully implemented (<i>baseline: Act was passed but cannot be implemented with the PAS</i>) Independent Auditor 	Public accounting system activity (ongoing & financed through Bank-administered EC Trust Fund) NLTA for budget management, procurement, and audit (ongoing IDF to be replenished).

Maldives 7NDP		Results influenced by the CAS Program over the five year period FY08-FY12		Inputs
Objective	Constraints	Expected CAS Results – development outcomes	Milestones	Bank Group and partner intervention
<p>Selected targets</p> <p>collections, efficient cash management and facilitate the auditing.</p>			<p>General's office is established and operating effectively (<i>baseline: Audit Act is passed but not implemented</i>)</p> <ul style="list-style-type: none"> Public procurement function is strengthened 	<p>Public Expenditure & Financial Accountability (PEFA) assessment (FY10).</p> <p><u>Partners:</u> EC, ADB, IMF</p>
<p>Monetary Policy, Banking & Finance Policy 3: Strengthen the capacity of financial institutions and broaden and deepen the financial sector</p> <p>Strategy 3.1: Facilitate the introduction of new financial institutions</p> <p>Strategy 3.2: Encourage existing financial institutions to introduce and promote new financial products.</p> <p>Strategy 3.5: Introduce intra-operability for electronic payments between financial institutions.</p> <p>Strategy 3.6: Improve the legal system and contract enforcement.</p>	<p>Access to finance remains a constraint for the development of SMEs.</p> <p>Lack of access to housing finance for households.</p>	<ul style="list-style-type: none"> Increased investments & savings and reduced levels of cash in the economy Greater access to formal financial services especially in the outer atolls Strengthened system capacity to assess client creditworthiness 	<ul style="list-style-type: none"> Mobile phone banking introduced throughout the country. Inter-bank payment system (MIPS) developed & introduced Credit Information Bureau established Increase in the rank and increase in the scores for the Doing Business Indicator for access to finance (score & rank) (<i>baseline: rank = 135</i>) Reduced # of firms putting access to finance as #1 constraint in new ICA 	<p>IDA/CGAP Mobile Phone Banking project (FY08)</p> <p>IFC TA (Bank of Maldives, HDFC, MMA -credit information bureau)</p> <p><u>Partners:</u> CGAP ADB, UNDP</p>
<p>Trade & Investment Policy 2: Provide a stable, transparent and attractive investment environment</p>	<p>Need to strengthen corporate governance and avoid potential conflicts of interest.</p>	<ul style="list-style-type: none"> Improved governance framework for the private sector. 	<ul style="list-style-type: none"> Establishment of Maldives Association of Accountants (7NDP target) 	<p>WB/IMF Report on Standards & Codes (ROSC) assessment.</p> <p><u>Partners:</u> ADB</p>

Maldives 7NDP		Results influenced by the CAS Program over the five year period FY08-FY12		Inputs
Objective • Selected targets	Constraints	Expected CAS Results – development outcomes	Milestones	Bank Group and partner intervention
Strategy 2.6: Establish a Maldives Association of Accountants to regulate the accounting profession and to establish private sector accounting standards.				
<p>Tourism Policy 1: Facilitate sustainable growth and increase investment in the industry, while enhancing public share of economic benefits from tourism.</p> <p>Strategy 1.3: Retain economic benefits through improved linkages with economic activities of island communities.</p> <p>Tourism Policy 2: Increase employment opportunities and open opportunities for gainful public and community participation in the tourism industry.</p> <p>Strategy 2.6: Establish greater backward linkages with fishing & agriculture.</p>	<p>Dispersed population & markets.</p> <p>Few linkages between tourism & local industry.</p>	<ul style="list-style-type: none"> Sustained investment in core economic sectors & increased linkages with local industries. 	<ul style="list-style-type: none"> Increased local sourcing of resort inputs 	<p>Possible IFC investments and advisory work through IFC-SEDF.</p> <p>IFC equity investments and ongoing work with major clients (inc. tourism and infrastructure).</p> <p>IFC TA to strengthen links between selected resorts and local (SME) suppliers.</p> <p>AAA: linkages between economic diversification, population consolidation & growth poles.</p>
<p>Pillar II: Human development and social protection</p> <ul style="list-style-type: none"> Goal 6, 7NDP: Invest in people through providing equal opportunity for education, life long learning, skills training and talent management Goal 8, 7NDP: Empower women and advance protection for children, elderly, people with disabilities, poor and other vulnerable groups. 				
Education Policy 1: Ensure that all children have access to 10 years of basic education.	High unit costs to service delivery because of dispersed population.	<ul style="list-style-type: none"> Secondary school curriculum more relevant and improved quality 	<ul style="list-style-type: none"> Increased number of students taking O level and A level (baseline: 	Ongoing IHDP & Post-tsunami reconstruction activities for access &

Maldives 7NDP		Results influenced by the CAS Program over the five year period FY08-FY12		Inputs
Objective • Selected targets	Constraints	Expected CAS Results – development outcomes	Milestones	Bank Group and partner intervention
<p>Strategy 1.3: Establish residential learning centres in development focus islands or alternatively provide financial support to ensure access.</p> <p>Education Policy 2: increase quality and effectiveness in the provision of basic education.</p> <p>Strategy 2.2: increase the number of trained local teachers for all levels of schools.</p> <p>Education Policy 12: Increase trained manpower through education and training for sector development.</p> <p>Strategy 12.1: Maximize utilization of overseas fellowships for education and training.</p>	<p>Access to upper secondary and tertiary education is restricted.</p> <p>Supply of technical skills still a constraint.</p>	<ul style="list-style-type: none"> Increased access to basic education Improved quality of the education labor force 	<p>7,666 and 833 in 2007)</p> <ul style="list-style-type: none"> Improved grades at O and A level (baseline: 1,598 and 328 in 2007) Trained Maldivian teachers in the system continue to rise (<i>baseline: total trained teachers = 3,326 in 1999 to 3,528 in 2005</i>) <ul style="list-style-type: none"> Measurement of quality 	<p>infrastructure.</p> <p>Additional IDA financing for human development (FY09/10)</p> <p>AAA to build links between economic diversification and population consolidation</p> <p><u>Partners:</u> ADB, UNDP, UNICEF, ILO</p>
<p>Social Security Policy 1: Establish an effective retirement income system</p> <p>Strategy 1.1: Develop legislation on establishing a Defined Contribution (DC) pension scheme.</p> <p>Strategy 1.2: Reform the existing civil service pension scheme to a DC scheme</p>	<p>Existing social security system is limited to basic services.</p> <p>Current pension system is fiscally unsustainable (7NDP).</p>	<ul style="list-style-type: none"> Implementation of pension reform 	<ul style="list-style-type: none"> Pension plan introduced for civil servants 	<p>IDA Pension administration project (FY09)</p> <p><u>Partners:</u> UNDP, UNICEF</p>

Maldives 7NDP		Results influenced by the CAS Program over the five year period FY08-FY12		Inputs
Objective	Constraints	Expected CAS Results – development outcomes	Milestones	Bank Group and partner intervention
<ul style="list-style-type: none"> Selected targets <p>Strategy 1.3: Ensure the participation of the private sector in the pension scheme</p>				
<p>Pillar III: Environmental management and climate adaptation</p> <ul style="list-style-type: none"> Goal 5, 7NDP: Protect the natural environment and make people & property safer 				
<p>Environment Policy 3: Position Maldives to adapt to the impacts of climate change and sea level rise.</p> <p>Strategy 3.4: Establish a strong information base on climate change in the Maldives</p> <p>Environment Policy 5: Enable management of solid waste to prevent impact on human health and environment.</p> <p>Fisheries Policy 8: Ensure sustainable management of marine resources for the benefit of present and future generations.</p>	<p>Supply of qualified technical staff</p> <p>Insufficient data to inform analysis and decisions</p> <p>Insufficient solid waste collection and disposal facilities</p>	<ul style="list-style-type: none"> Strengthen capacity of the Ministry of Environment to better protect the natural environment of the Maldives Increase access to solid waste management services in selected atolls 	<ul style="list-style-type: none"> Training of key staff and strengthening of institutional capacity to manage the natural environment Collection of basic data Introduction of sustainable solid waste collection and disposal practices in at least two regions in the Maldives. 	<p>IDA Environment Project (FY08)</p> <p>AAA on economics of adaptation to global climate change</p> <p>TA for fisheries sector.</p> <p>IFC Performance Standards with future investments.</p> <p><u>Partners:</u> ADB, UNDP, UNEP</p>

ANNEX II: Stakeholder Consultation

1. To determine development priorities Bank Group staff have, during the course of the last year, had the opportunity to hold discussions with a variety of stakeholders (members of the public, business people, and leaders of political parties) in Male', and in the atolls. The preparation and supervision of post-tsunami reconstruction activities gave Bank staff the opportunity to travel relatively widely in many parts of the country. Staff were also fortunate to be involved in the preparation of the UN's Common Country Assessment during 2006 and 2007 and participated in UN consultations both in Male' and on selected islands.

2. **The economy:** For those outside Male', job opportunities remains the critical issue of concern among the population. Fishermen also complained about the price of the catch, the absence of local fish markets, difficulty of accessing the nearest processing plant or collection vessels, and the lack of harbor facilities. Similarly, on islands where farming is a more prominent occupation, the lack of suitable land was a common complaint. Farmers are also seeking greater government support with marketing. Across the board, access to finance, particularly for small businesses, was a key constraint. Only 20 islands out of the 198 inhabited islands have a Bank of the Maldives branch. Even where there is a branch, accessing loans was not guaranteed.

3. **Public services:** In the Atolls, the quality of the local school and health facilities, the lack of sanitation, and solid waste disposal systems, were all common complaints. Furthermore, there was only limited support for community contributions, or direct support of the provision of such services: on most islands, the communities expect the government to provide and pay for the services.

4. **Population consolidation:** In the atolls most people had heard about the policy but complained that there had been little discussion or consultation, even on so-called safe or focus islands. In Male', the policy of population consolidation generally had the support of most of the elite and of the political parties with which it was discussed.

5. **Governance:** There was much interest in and discussion of current political reforms. Given these are proving to be difficult, and even contentious in some areas, discussion about the role of government often took a political slant. However, amongst those with more knowledge of the Bank Group's interest, discussions generally turned to concerns about the size and dangers of the current budget. Also, it is clear that the conflict of interest and corruption are well recognized as important concerns which will need to be addressed

ANNEX III: CAS Completion Report

Country:	Maldives
Date of CAS:	November 22, 2000
Period covered by the CAS Completion Report:	2000 - 2007
CAS Completion Report completed by:	Richard Scurfield, Resident Representative in Male'
Date:	7 November, 2007

Summary

1. This assessment evaluates the World Bank Group's contribution to the development of the Maldives between 2000 and 2006, focusing on the program of activities outlined in the CAS discussed and approved by the Board on November 22, 2000. This CAS was intended to cover the period up to the end of 2004; however, on December 26, 2004 the country was struck by a devastating tsunami which caused damage equivalent to more than 60 percent of the country's GDP, thereby requiring an urgent extension of the CAS period.
2. Despite the shocks created by this disaster, the country's economy and social indicators have continued to improve, as measured against the core benchmarks provided in the 2000 CAS.

Country Performance	2000 baseline	Benchmark for 2004/5	Actual Outcome (2006)
Economic Growth Rate	7.6%	7.0 % p.a.	6.3% p.a. (average 2000-2006)
Transition Rate from primary to secondary school	30%	50%	88%
Girl's gross enrollment ratio in lower secondary schools	51%	71%	100%
General malnutrition (weight for age)	45% (1997/98)	30% (by 2006)	25%

3. It is more difficult to assess the precise impact of the Bank's interventions. The CAS objectives were to strengthen human development, expenditure management, and the business environment. Against the first objective, project evaluation reports clearly demonstrate that the Bank has had a significant impact in supporting the government's efforts to improve both the quality and quantity of secondary and tertiary education in the country, particularly in the atolls. Against the second objective, while the political buy-in for sound fiscal management is still limited, with the support of the Bank, the government is actively strengthening fiduciary management functions—accounting, procurement and audit. Against the third objective, the Bank Group has provided timely

support to help the government strengthen the investment climate for private investors and in particular has had some success in helping government increase access to credit.

4. Overall, the Bank Group's performance was satisfactory.

5. The lessons for the new CAS include the following:

- Be selective: The Bank made a difference because it was selective, with a program designed in close consultation with government.
- Retain flexibility: Particularly in a middle-income country, the Bank Group's program needs to retain some flexibility. Circumstances change as do the government's interests and priorities.
- Focus objectives and monitor: The objectives of the new assistance strategy should be tightly focused with a monitoring and evaluation framework that is both realistic and cost effective.
- Keep it simple: The capacity of the Maldives government to deliver an increasingly sophisticated range of services is an issue, as the country approaches upper middle-income status.
- Maintain field presence: Opening a local office has improved communications with our clients and allowed the Bank Group to be fully responsive to the government's demands and interests.

I. INTRODUCTION

1. This assessment evaluates the Bank Group's contribution to the development of the Maldives between 2000 and 2006, focusing on the program of activities outlined in the Country Assistance Strategy (CAS), discussed and approved by the Board on November 22, 2000.¹

2. The CAS was intended to cover the period up to the end of 2004. However, on December 26, 2004 the country was struck by a devastating tsunami which caused damage equivalent to more than 60 percent of the country's GDP. Consequently, the Bank agreed to extend its existing assistance program to include emergency reconstruction activities, and to delay the preparation of a new assistance strategy until 2007. Implementation of the tsunami reconstruction activities continues to test the Government's management and administrative abilities.

3. Between 2000 and 2006, the Bank Group's financial contribution was modest compared to the size of the Maldives' economy. It amounted to less than 3 percent of government expenditures, which equaled \$211 million in 2000 and \$662 million in 2006, and totaled almost \$2.4 billion over the period. Since the approval of the CAS in 2000, the Board has approved two IDA credits with total commitments of \$29.6 million and four IFC transactions totaling \$48 million. A full list of the Bank Group's activities is included as Attachment A.

¹ In parallel OED prepared a Country Assistance Evaluation of the Bank's program from 1978 to 1999. It concluded that the Bank's involvement had been satisfactory, but expressed concern that the fishing industry was still dominated by a single government SOE, MIFCO, even though the Bank had financed three fisheries projects. This led to concerns about the institutional development impact (rated as moderate) and the sustainability of the three fishing projects (rated as uncertain). The report summarized the challenges for the Maldives as broadening its economic base, expanding access to social services in the Atolls, developing a sustainable social safety net and protecting the country's natural environment. A summary is provided in Attachment E.

4. This report begins with an outline of the country's performance and continues with a discussion of the outcomes from the Bank Group's assistance program,² before briefly reviewing a small number of program issues. It concludes with a list of lessons for the new CAS.

II. PROGRESS OF THE COUNTRY SINCE 2000

5. The 2000 CAS was prepared immediately prior to the beginning of the Sixth National Development Plan (2001 to 2005) (6NDP) period and just at the end of the Fifth Plan period (1996 to 2000) (5NDP). It covered a period of continued growth in the Maldives, which pushed it rapidly towards upper middle-income status.

6. As summarized in the CAS, the overall development objective of the government was *improving living standards, especially in outer atolls, by sustaining its impressive economic and social advances well into the future*, with a vision for the county rooted in:

- improved living standards and reduced disparities between Male' and the outer islands;
- a robust economy based on the sustainable use of marine resources for tourism and fishing;
- the planned south and north growth poles being well established;
- high quality education and health services; and
- a decentralized administration and well developed legal and judicial systems.

7. Following the tsunami of December 26, 2004, the government was faced with the huge and additional challenge of reconstructing its heavily damaged country. However, despite the shocks created by this disaster, the country's economy and social indicators have continued to improve, as measured against the core benchmarks provided in the 2000 CAS.³

Country Performance	2000 baseline	Benchmark for 2004/5	Actual Outcome (2006) (average 2000-2006)
Economic growth rate	7.6%	7.0 % p.a.	6.3% p.a.
Transition rate from primary to secondary school	30%	50%	88%
Girl's gross enrollment ratio in lower secondary schools	51%	71%	100%
General malnutrition (weight for age)	45% (1997/98)	30% (by 2006)	25%

Recovering from the Tsunami

8. *The government did an outstanding job in organizing and managing the implementation of the relief activities.* Most civil servants worked very long hours for many months to ensure that relief was delivered to the affected people as quickly and as effectively as possible. The reconstruction activities have proved more difficult to manage. While substantial parts of the program have already

² The 2000 CAS was not a results-based strategy but it does include a number of progress indicators, which are used in this document as measures of performance.

³ See Annex 3 for a fuller set of indicators, developed using the World Bank Development Indicators

been delivered, much still remains to be done. The politics surrounding its implementation have proved difficult for the government to manage, given the high expectations generated by the initial and very effective recovery activities. While reconstruction has taken longer than expected, almost all activities are still expected to be completed by end-2008.

Economic performance since 2000

9. *Following the tsunami, the sharp drop in tourist arrivals caused the economy to contract by 5 percent in 2005 but it rebounded by 18 percent in 2006 (compared to 2005) with the return of the tourists.* Even so, growth averaged 6.3 percent between 2000 and 2006, compared to a CAS target of 7.0 percent per annum. Growth in 2007 is also expected to be on the order of 7 percent. However, the current risks for the economy are not insignificant. The most immediate one is created by the highly expansionary budgets of 2006 and 2007. These have eroded the Government's reputation for sound fiscal management, and almost certainly undermined its ability to weather even small perturbations in the economy. The national budget for 2007 is equivalent to 93 percent of GDP.

Poverty alleviation

10. *Since 2000, the number of people living in poverty in the Maldives has continued to decline.* The third of a series of Vulnerability and Poverty Assessments, conducted in 2005,⁴ showed that poverty has declined rapidly since 1997. It concluded that by mid-2005 absolute poverty had effectively been eliminated, using a poverty line of US\$1 per day (purchasing power parity), or Rf4.34 per day. However, if the poverty line is set at Rf15 per day (approximately US\$3 per day if adjusted for purchasing power parity), then 19 percent of the population still lives in poverty.

Regional Disparities.

11. *Economic disparities persist.* Few jobs are being created outside the resorts. There is also a significant wage differential between the capital and the other inhabited islands, reported to be as high as 3:1. The attempts to create economic poles in the north and south have also met with limited success. However, as will be demonstrated later in this report, the quality of social services in the atolls has improved significantly.

Box 1. Maldives and the MDGs

The MDGs were being discussed and agreed by the international community at the time the 2000 CAS was being prepared. The goals are not referred to in its text. However, an MDG progress report was published in 2005 and was recently updated. These two reports conclude that five out of the seven core MDGs have already been achieved by the Maldives. The two exceptions were those for gender equality and environment. With respect to the former, the reports highlighted three issues—the need to address the gender imbalance in the labor force, the need to provide greater protection for women who are subject to domestic violence, and the need to increase the participation of women in the country so as to ensure that the legal, economic and political rights of women are preserved. With respect to the environment, the country is not doing enough to protect its unique environment. Furthermore, while it has formally met the relevant MDG, child malnutrition remains a serious issue for the country with 25 percent of children still considered to be under-weight.

⁴ Vulnerability and Poverty Assessments (VPA) were undertaken in 1997, 2004 (pre-tsunami) and 2005 (post-tsunami). The assessments were each prepared by consultants, for the Ministry of Planning and National Development. The second was partially supported by the World Bank. The third in the series is known as the Tsunami Impact Assessment Study (TIAS).

Public Sector Management and Administration

12. *The quality of public administration remains a concern.* However, this deficiency is recognized by government and is now being actively addressed, following the recent passage of the Civil Service Act. Despite a large increase in the number of civil servants (from 26,790 in 2000 to 34,033 in 2005), there is a shortage of essential skills in almost all departments. Furthermore, because of a weak civil service structure, staff are too often poorly motivated. Even before the tsunami, the lack of implementation capacity was apparent for externally funded projects and activities.

13. *Corruption is an issue for the country*, as found by the 2005 Investment Climate Assessment, and confirmed by the modest corruption perception rating assigned to the Maldives by Transparency International in a recent report.⁵ A related issue is the web of “conflict of interests” within the country—a common problem in many small nations. There is a requirement for greater transparency and clearer definition of roles, including the development of a fully professional civil service.

Strengthening Human Development

14. *Strengthening social services has been a primary objective of government for more than a quarter of a century, during which time their quality has dramatically improved, particularly in the atolls.*

15. Even before 2000, access to primary education was universal, however, a much smaller proportion had access to secondary schools. Today, lower secondary schools (up to grade 10) are located on 138 islands, compared to only 74 in 2000), and higher secondary schools are located on 15 islands compared to 5 in 2000. As a result, the transition rate from primary to secondary school was 66 percent in 2004 compared to a CAS target of 50 percent, and girls’ enrolment in lower secondary schools was in excess of 100 percent compared to a CAS target of 71 percent. However, the quality of education remains an issue and learning achievements are mixed. For example, the “O” level pass rate is only 20 percent, with the schools in the atolls faring much worse.

16. A similar picture can be drawn for the health sector—improved access with residual quality issues. The total number of atoll hospitals, health centers and health posts has more than doubled since 2001. Statistics show that all health indicators are moving in the right direction, for example, child mortality has dropped from 21 per 1000 births in 2000 to 12 in 2005. However, new challenges are emerging, such as dengue, influenza, and scrub typhus. Also, while there have been improvements, child malnutrition is proving to be an enduring problem within the country. Almost a quarter of children were underweight in 2005 compared to more than 30 percent in 2000, 45 percent in 1997/1998, and a CAS target of 30 percent for 2006. Stunting and wasting statistics are equally striking.

17. Two additional challenges are addressed in the CAS, *improving the business environment and protection of the environment.*

⁵ The Maldives’ rating was 3.3. Of the other countries in region, Bhutan is rated the least corrupt country with a rating of 3.8, India earned a rating of 3.5, while all other countries in the region were rated lower than the Maldives.

Improving the business environment

18. *Despite shortcomings in the investment framework,⁶ the role of the private sector has continued to expand with most government monopolies now facing direct competition.* Over the last six years, the government has also taken steps to strengthen the financial sector (including creating the Maldives Leasing Company and the Housing Development Finance Corporation) while the Bank of the Maldives has greatly expanded its network of branches and services, and HSBC established a branch in Male' in 2002. However, constraints remain. The recently completed Investment Climate Assessment found that access to land was a major issue. Also, there is no sound framework of commercial law while state-owned enterprises continue to dominate important sectors.

19. *Tourism and fisheries continue to provide the backbone of the economy.* The government has recently published a new master plan for the development of the tourism sector. It foresees a gradual expansion on the number of beds available over the coming five years, and since 2003 has awarded 46 new resort leases. In addition, the second most important industry in the Maldives, fisheries, is to be fully privatized. This industry was transformed in 2000 by the decision to award operating licenses to four private fish processing companies, with the state-owned company, MIFCO, retaining an important but no-longer dominant role.

20. *It is striking that the ICA did not highlight infrastructure bottlenecks as a major concern for existing businesses.* Since 2000, mobile phones have become ubiquitous and are readily available to almost all, with 262,000 active accounts at the end of March 2007—compared to only 8,000 in 2000. In contrast, transport and electricity provision is not as satisfactory. There are still relatively few scheduled internal transport services, and while the availability of electricity has also improved in recent years, service provision remains an issue. Not all islands yet have a 24 hour supply.

Protecting the environment

21. *Rather surprisingly, not enough attention has or is being given to the protection of the natural environment, by either government or donors.* The natural environment of the Maldives is unique and fragile and will likely suffer from the impacts of global warming, in particular the rise in sea level. The tsunami emphasized the vulnerability of the country and has provided a strong incentive for it to manage its fragile environment more effectively. Protecting the environment remains a major challenge for the government and citizens. All islands are small and vulnerable, with no island being more than 3 meters above seal level. The country's coral reefs are also extensive and vital resources for the countries two primary industries—fishing and tourism. They required better stewardship. However, there is lack of both government and donor leadership in the sector.

22. *While there are residual concerns about environmental standards and practices of the resorts, these are dwarfed by the environmental concerns on inhabited islands.* The resort operators have a major incentive to protect the environment on their islands—no tourist wants to come to an island surrounded by raw sewerage and waste. On the inhabited islands, there have been some improvements in the provision of basic environmental services, particularly since the tsunami, as a direct result of much greater donor interest. Even so, the provision of reliable supplies of safe drinking water still remains a challenge on some islands, and most still lack appropriate sanitation and solid waste collection systems.

⁶ According to the recently completed Investment Climate Assessment (ICA), published in 2005, the top five obstacles to private sector investment were access to finance, access to land, cost of finance, the shortage potential employees with appropriate skills and education, and corruption.

III. WHAT HAS THE WORLD BANK GROUP CONTRIBUTED SINCE 2000?

23. The overarching objective of the CAS was to assist the country with:

“the reduction of poverty and regional disparities in access to social and infrastructure services. To advance this objective, the strategy, in partnership with other donors, aims at supporting: (i) sustainable economic growth; (ii) improvements in public sector management, including institutional capacity; and (iii) human development.”

24. The CAS also identifies four core challenges that had to be addressed if the objective was to be advanced.⁷ It also included indicators to assess the progress against each of these challenges. These were: protection of the environment, strengthening the macroeconomic framework and public expenditure management, strengthening human development, and improving the business environment.

25. To further the objectives and address the challenges, the World Bank funded a single operation, an Integrated Human Development Project (IHDP), while a second project funded part of the government’s tsunami reconstruction program. The Bank also supported a number major AAA activities, including a public expenditure review, a country economic update, a review of tobacco use in the Maldives, a report on social protection, an investment climate assessment and a review of the fisheries industry. In addition, the Bank provided technical assistance to strengthen expenditure planning, as well as the public audit and procurement functions.

26. Meanwhile IFC provided finance for a shipping company, a mobile telecoms operator, and two resort companies. It also provided finance, equity and technical assistance for the Maldives Leasing Company. In addition, it is providing technical assistance to the Maldives central bank to support the establishment of a credit bureau and for the privatization of the Maldives Housing Development Housing Corporation. A full list of the Bank Group activities is provided in Attachment A. The impacts of the assistance program are summarized in the CAS Completion Matrix, (Attachment B).

27. This section assesses the impact of the Bank’s program using the indicators listed in the CAS for each of the core challenges. However, it first looks at the interim outcomes of the ongoing tsunami reconstruction activities, funded by the Bank Group.

The World Bank Group response to the tsunami disaster

28. *Within days of the tsunami, the Asian Development Bank (ADB), the United Nations system, and the Bank were working with the government to prepare a damage assessment report.* This report was finished at the end of February 2005 and provided the government with a timely and important point of reference for all subsequent reconstruction activities.

29. *In parallel, the Bank prepared and appraised the Post Tsunami Emergency Relief and Reconstruction Project, which was approved by the Board on March 15, 2005 and signed two days later, for a loan amount of \$14.1 million.* This loan helped finance cash grants to affected persons, the reconstruction of schools, and some technical assistance. A year later, the European Union (EU) added additional funds equivalent to \$17 million to the project to finance an improved public

⁷ A fifth challenge was listed--addressing key issues for tourism, fisheries and land, housing and urban development. In this document these issues are discussed as issues related to the improvement of the business environment.

accounting system (to be used initially to manage the tsunami reconstruction funds), school reconstruction activities, health facilities, and a solid waste management component. The implementation of all components is proceeding satisfactorily, with the original Bank-funded components close to completion. In consultation with the government, the Bank chose to finance activities which could be implemented by agencies with which it had an established working relationship and who were familiar with our procedures. This greatly facilitated project implementation and the quick and effective application of the funds.

30. Following the Tsunami in 2004, IFC also provided funds for reconstruction and TA activities. In 2005, the IFC Board approved a Tsunami Tourism Loan Facility to provide long-term financing to tourism companies affected by the 2004 tsunami in Asia. This was available for the reconstruction and refurbishment of properties and to allow for the restructuring of existing loans so to ensure that they could be serviced. One Maldives resort developer took advantage of this facility.

31. **Commentary.** *The Bank Group’s response to the tsunami reconstruction was timely and effective.* It provided the country with prompt assistance to prepare and fund the tsunami reconstruction program. In contrast with most other donors, the Bank also proved flexible with respect to the application of its funds. For example, the Bank was one of a very few donors prepared to fund immediate cash grants for the affected communities. It also provided a particularly flexible source of technical assistance funds that could be used to reinforce the capacity of any agency involved in implementing reconstruction activities. The Bank Group’s flexibility was appreciated by government.

Strengthening Human Development

32. A specific recommendation of the CAS was to “gradually switch to a programmatic approach” to lending, increasing the breadth of activities support within the human development (HD) sector. In response, the actual deliveries were a multi-sectoral human development project and a major sector report on the social security system. Each is briefly described in Attachment C to this report. Outcomes are assessed below for education; health, (and nutrition), social protection; and reduction in regional disparities.

33. **Education.** The following table summarizes the country’s performance against the indicators provided in the CAS for education, and lists the Bank Group’s inputs for the sector.

Development Objective	CAS Indicators	Actual Outcome— 2006/7	Bank Group’s Inputs
Education. Improve the quality and access to education particularly in the outer atolls; enhance skill levels of Maldivians.	by 2005 increase transition from primary to secondary school from 30% to 45%;	88% (2006)—see note below	Support provided through the Third Education and Training project to improve the quality of teaching, strengthen the curriculum and increase access to both secondary and tertiary education. The ICR rates the project and outcomes as satisfactory and probably sustainable IHDP and emergency reconstruction project are financing school and health care infrastructure on selected focus islands, where population is likely to be
	provide access to secondary school in 4 additional atolls;	Secondary schools now located on 138 islands compared to 74 in 2000	
	girls gross enrolment ratio in lower secondary schools raised to 71%	100%	
	increase supply of trained skilled manpower through in country and international programs	No indicators available	

Development Objective	CAS Indicators	Actual Outcome— 2006/7	Bank Group's Inputs
			concentrated in the future. The impacts of these investments cannot yet be assessed

Note. Following a policy change in 2005 students are promoted automatically from Grade 7 to 8 (first year of secondary school). Hence this outcome overstates the benefits achieved. Data of the last year before this policy change, 2004, recorded a transition rate of 66%.

34. **Commentary.** *As demonstrated by the information provided above, the outcomes for the education sector are very positive.* In this sector, the Bank has had an important impact, as is well documented in the Implementation Completion and Results Report (ICR) for the recently completed education and training project⁸ and in the OED report for the two earlier education and training projects.⁹ It is also clear that the Bank's activities of the last six years, benefited from the foundations created by the previous 12 years of work in the education sector. Over a period of two decades, the Bank Group has developed a strong rapport with the Ministry of Education and has been influential in helping the government develop appropriate policies, expand access and begin to monitor more closely the quality of its schools.

35. **Health.** The table below assesses the country's performance against the indicators provided in the CAS. However, it is noted that the Bank Group's input were limited to the preparation activities for the IHDP. This project is currently being implemented. Outcomes are not yet measurable.

Development Objective	CAS Indicators	Actual Outcome—2006/7	Bank Group Inputs
Health, Nutrition and Population. Improve the coverage, quality, effectiveness, efficiency, and sustain ability of health nutrition and population services.	By 2006 reduce under 5 mortality rates to 25 per 1000.	12 per 1000 births	The World Bank is funding health activities only in IHDP. These are under implementation and their impact cannot yet be assessed.
	Access and knowledge of modern contraceptive methods becomes universal.	91% of the overall population had knowledge of modern contraceptive methods (RH Survey 2004-UNFPA).	
	Increase modern contraception rates to 40%;	60% of the total Maldives population has access to modern-contraceptives. (RH Survey-UNFPA) The unmet need Contraceptive Prevalence Rate is 34% (RH Survey 2004- UNFPA).	
	Reduce severe malnutrition rate (weight for age) from 45% to 30%	25%	
	Increase immunization and pre-natal care coverage to 90% overall, and at least 85% in the Atollss.	Pre- natal care and delivery care coverage is 85% (Overall) and 79% (Atolls) in year 2004-2005 (RH Survey- UNFPA). Statistics on Pre-natal immunization such as Tetanus—not available. Child immunization coverage is	

⁸ Implementation Completion and Results Report (IDA-33250, IDA 33251), Maldives, Third Education Project, July 2007

⁹ Maldives. The First and Second Education and Training Projects. Project Performance Assessment Report, OED, November 2002.

Development Objective	CAS Indicators	Actual Outcome—2006/7	Bank Group Inputs
		98% (BCG, DPT1, DPT3, Hepatitis B, MCV and Polio, Immunization Survey 2007, UNICEF).	
	Introduce new vaccines and ensure that 80% of children live with active nutrition programs.	Data for new vaccines--not available. Active nutrition programs are carried out in Haa Alif, Noonu, Laamu, Gaafu Alif and Seenu Atoll covering a population of 24% for children under age of 5 (Calculated (6169/26171), source UNICEF Project Team).	

36. **Commentary.** *These encouraging performance indicators show that the government is making good progress in the health sector*, working closely with other donors, especially the WHO and UNICEF, with whom the Ministry of Health has had long-term relationships. In contrast, the Bank Group only recently became involved in this sector, as it prepared the IHDP. This project is currently under implementation and it is too early to make an assessment of its impact.

37. **Social Protection.** The CAS did not explicitly anticipate the Bank's preparation of a report on the strengthening of the country's framework for social protection. However, this addition to the program was in line with the recommendation that more programmatic approaches should be adopted for lending in the sector. While no firm decisions have yet been made to follow-up on the recommendations of the completed study, government ownership is high. The expected implementation of the recommended pension scheme would be a significant outcome, and obviously justify the Bank broadening its interests within the HD sector.

38. **Reducing Regional Disparities.** *The CAS emphasized on the improvement of social services in the atolls*, while in addition to proposing indicators for strengthening micro-credit and the collection of basic poverty data. With respect to the latter, the Bank Group has been able to impact outcomes through the Third Education Project and IHDP.

39. **Assessment of Outcomes.** The following table summarizes the outcomes for this sub-objective.

Development Objective	CAS Indicators	Actual Outcomes	Bank Group Inputs
Promote broadly shared growth: reduce income poverty and regional disparities in access to social and physical infrastructure by pursuing broad based growth through intensified efforts aimed at atoll/island development.	Increased emphasis on atolls and islands development to reduce poverty and disparities in access to social services and infrastructure in the outer atolls.	Access to services much improved. <ul style="list-style-type: none"> ▪ Secondary schools now located on 138 islands compared to 74 in 2000. ▪ Secondary school enrolment in atolls increased from 9236 (2000) to 17135 (2005). ▪ The total number of atoll hospitals, health centers and health posts has more than doubled since 2000. Recent 7NDP continues to give priority to the development of	TETP support provided support for expanding schools, and training teachers and head-teachers for atoll schools. IHDP funds schools and hospitals on selected focus islands where population is expected to be concentrated. IHDP is funding a small component for the selected focus islands to increase access to information about job vacancies throughout the country.

Development Objective	CAS Indicators	Actual Outcomes	Bank Group Inputs
		the islands	IFC have proposed a TA activity to help strengthen the ties between agricultural islands and resorts.
	Improvements in social/economic indicators.	Poverty and Vulnerability surveys were undertaken before and after the tsunami. Maldives version of DevInfo introduced with assistance from UNICEF.	Bank helped fund the second Poverty and Vulnerability Project.

40. **Commentary.** *As discussed above, access to social services in the atolls has improved significantly since 2000. The Bank can claim some credit for this outcome,* given the focus on these issues of the Third Education and Training Project, and more recently in the IHDP. With full implementation of the IHDP, the Bank’s contribution will be even stronger—its primary objective is to strengthen social services on four islands, identified as future population centers.

41. With respect to the collection of poverty data, the Bank provided modest support to the Ministry of Planning to finance the implementation of the second Poverty and Vulnerability Survey. More importantly, the Ministry is continuing to focus on the collection of basic poverty and human development statistics, with help from the UNDP and UNICEF.

Management of Public Expenditures

42. The CAS set very high expectations for budgetary reform, with a major focus on medium-term planning and expenditure management. To address, these issues, the Bank’s program of technical assistance had two major foci:

- **Firstly**, the Bank provided advice and assistance to help the government manage its budget preparation processes better, and to develop medium-term fiscal forecasts and plans. This included a public expenditure review, a country economic update, an IDF grant to strengthen the Ministry of Finance’s ability to develop a medium-term fiscal plan, and Bank staff provided direct technical assistance to the ministry to further the same objective.
- **Secondly**, the Bank provided extensive assistance to strengthen fiduciary management functions within government, so as to ensure that public funds are spent correctly. This part of the program was much larger than originally anticipated in the CAS, reflecting changing priorities within both the Bank and the country. The Bank has provided IDF grants to strengthen the Government’s audit and procurement functions. In addition, the Bank supported a comparative study between best practice public sector accounting standards and those in use in the Maldives. Finally, the Bank is also supporting the implementation of a public accounting system, financed by the EU through a trust fund managed by the Bank.

43. **Assessment of Outcomes.** For these activities, the following table compares the CAS indicators with actual outcomes.

Development Objective	CAS Indicators	Actual Outcomes	Bank Group Inputs
Strengthen public sector management and governance to enhance development impact of public sector expenditure programs and facilitate further private sector development.	Introduce three year rolling program within the context of a medium term budgetary framework preferably formulated as well prioritized and <i>fully funded core expenditure</i> program.	Limited progress against the listed indicators except that a much larger group of staff in the Ministry of Finance, the Ministry of Planning and the central bank are familiar with the technical aspects of medium term budgeting.	Bank funded a public expenditure review and a country economic report. Bank's economic team provided extensive technical assistance.
	Develop medium and long term strategies for the key sectors and formulate consistent, high impact sectoral public expenditure programs.	Prior to tsunami, the political commitment to multi-year budgetary planning was strong.	Bank provided an IDF grant to strengthen medium term fiscal planning in Ministry of Finance.
	Develop well prioritized public expenditure programs that are consistent with sectoral strategies and with the objective of reducing poverty and regional disparities.	Post tsunami, the political commitment to multi-year budgetary planning is weak. (2007 budget = 92% of GDP).	
	Reverse the upward trend in the general services outlays to restrain the growth of low priority current expenditure and allocate sufficient resources for social sector and infrastructure recurrent expenditures.		

44. **Commentary.** *With respect to the first set of activities designed to strengthen expenditure planning, the impact of the Bank has been limited.* It might be more evident if a “before and after survey” had been undertaken to assess the abilities of the technical staff in the key economic agencies. However, in terms of policy outcomes, the Bank’s efforts to improve medium-term fiscal planning and budgeting seem to have had little impact upon the decisions of the politicians.

45. *The second set of activities was designed to improve fiduciary management functions within government. This line of assistance has been more successful.* No indicators were provided in the CAS to measure the impact or effectiveness of these activities. However, the passage of the Public Finance Act in 2005, and the Audit Act in 2007, are both positive signs of the government’s commitments to manage public expenditures more actively. While both Acts have yet to be fully implemented, there is every indication that the Bank’s efforts in this area will lead to very positive outcomes.

Strengthening the Business Environment

46. To address this challenge, the World Bank engaged in a series of AAA activities that directly or indirectly support the refinement of the framework for private sector development in the Maldives. These were the investment climate assessment, the continuing reform of the fisheries sector, and studies of land and housing policy. In addition, the IFC supported a number of advisory activities to strengthen the financial sector, as well as making a number of investments in a variety of sectors, including tourism, shipping, and the country’s second mobile phone operator.

47. **Assessment of outcomes.** The list of indicators included in the CAS, and summarized in the attached table, was rather restrictive and does not fully reflect the breadth of the Bank Group’s activities to support this line of activity.

Development Objective	CAS Indicators	Actual Outcome	Bank Group Inputs
<p>Improve environment for private sector development; promote the development of small and medium sized enterprises.</p>	<p>Attract internationally reputable banks.</p>	<p>HSBC opened branch in Male' in 2002.</p> <p>Maldives Leasing Company established in 2002.</p> <p>Housing Development Finance Corporation (HDFC) founded in 2004.</p>	<p>No Bank Group involvement.</p> <p>IFC directly provided support for the creation of the Leasing Company and took an equity interest in the enterprise.</p> <p>WB provided technical assistance prior to the creation of HDFC.</p>
	<p>Promote good accounting practices.</p>	<p>No change to private accounting practices.</p>	<p>Bank is providing support to strengthen public accounting practices and introduce a public accounting system.</p> <p>Bank provided an IDF grant to strengthen public audit functions.</p>
	<p>Remove monopoly privileges</p>	<p>Most markets for goods and services, open to private sector but SOEs still dominate markets for some goods.</p>	<p>Investment climate assessment was completed with support from the World Bank.</p> <p>N.B. ADB have a stronger a more direct interest in the reform and privatization of the remaining State Owned Enterprises.</p>
	<p>Strengthen micro-finance schemes</p>	<p>Unsatisfactory government managed program is still in operation.</p> <p>World Bank withdrew the limited support being provided through IHDP.</p>	<p>Joint UNDP/WB review concluded that there was no market for micro credit services given the increased banking activities of BML development.</p>
	<p>Increase private sector activity in fisheries.</p> <p>Elimination of MIFCO's monopoly over the processing and export of canned and frozen tuna.</p> <p>Gradual introduction of a broad FRMR and of a community based reef fisheries management plan.</p>	<p>Licenses awarded to four private sector companies in 2000. Industry has been transformed with extensive additional investment by both the private sector and MIFCO (government owned fish processor).</p> <p>MIFCO is to be fully privatized shortly.</p> <p>Fish Management Plans are under preparation.</p>	<p>Pre-2000 fisheries TA activities may have influenced the privatization activities initiated in 2000.</p> <p>Recent WB support to ministry of fisheries was designed to help it adapt to its role as a regulator of the fisheries sector and the natural resources upon which it depends.</p>

48. **Commentary.** Even though constraints remain,¹⁰ *the business environment has improved since 2000*. Some of the most concrete outcomes for this line of business were directly supported by the IFC. In particular, its support for the creation of the Maldives Leasing Company, established in 2002, added another dimension to the financial services sector in the country. In addition, potential benefits from the IFC supported privatization of the Maldives Housing Finance Development Corporation would be substantial—removing, at least in part, one obstacle to the development of land and housing markets.

49. *During the last six years the fisheries business has changed dramatically.* The earlier unpublished technical assistance report and projects certainly influenced the initial reforms of 2000. As a result, the private sector already has a very substantial role in this critical industry. However, the recommendations of the recently completed Bank-supported study will certainly guide future government actions and could prove even more influential as the government adapts to its new role as a regulator of one of its most important natural resources.

50. With respect to micro-credit, the joint UNDP/World Bank evaluation of the government managed *micro-credit program* concluded that it was not well managed and that the World Bank's support for the program should cease. The market is being relatively well served by the Bank of the Maldives' development banking operations. The evaluation also concluded that the market for micro-credit services was very small, highly dispersed and unviable.

Protecting the Environment

51. *There were no Bank supported programs for protection of the environment.* With the exception of a solid waste management component currently being implemented through the emergency project, no substantial activities were listed in the CAS against this challenge and none were provided.

Overall Assessment of the Bank Group Program

52. *The country has made real progress since 2000.* The economy has continued to expand. Also, with respect to the primary CAS objective of poverty alleviation the country's performance has been very positive. Human development outcomes also have been strong.

53. *It is more difficult to assess the precise impact of the Bank's interventions.* The CAS objectives were to strengthen human development, expenditure management, and the business environment. Against the first objective, project evaluation reports clearly demonstrate that the Bank has had a significant impact in supporting the government's efforts to improve both the quality and quantity of secondary and tertiary education in the country, particularly in the Atolls. Against the second objective, while the political buy-in for sound fiscal management is still limited, the government is actively taking steps to manage its actual expenditures more effectively and to strengthen the fiduciary management functions of government, supported by the Bank. Against the third objective, the Bank Group has provided timely support to help the government strengthen the investment climate for private investors, and in particular, has had some success in increasing access to credit.

¹⁰ For more details see, Investment Climate Assessment for the Maldives, *Sustaining Growth and Improving the Investment Climate*, World Bank, April 2006.

PROGRAM DESIGN AND IMPLEMENTATION ISSUES

54. **Overall, the CAS provided a satisfactory and durable framework for our regular assistance program.** It focused on three key development issues—human development, expenditure management, and the environment for business. However, it was also sufficiently broadly drawn to allow some flexibility with respect to what was actually delivered, in response to demands from government. Both the Bank Group and the government were further tested by the tsunami. It was an exceptional event that demanded an exceptional response, obviously outside the framework provided by the CAS.

55. **Quality and appropriateness of lending operations.** The design and execution of the three projects approved by the Board between 2000 and 2005, has generally been satisfactory. The quick response of the Bank following the tsunami, and its early approval of the reconstruction project, were also much appreciated by government.

56. **All projects were well received by government, with demonstrated ownership during both preparation and implementation.** However, the quality of implementation has not always been satisfactory. All projects were rated as unsatisfactory or marginally unsatisfactory for short periods. These ratings reflect of the lack of technical and policy-making capacity in almost all ministries. Specifically, while in most ministries the upper levels are staffed by experienced and competent staff, there is a relative dearth of competent mid-level staff with enough experience and technical knowledge.

57. **The “jury is still out” on whether the complexities of a multi-sector project are justified by a wider array of benefits, that is to say whether the higher costs of preparing and implementing a cross-sectoral project will be justified by the outcomes.** The prospective outcomes for the health and labor market components of the IHDP are certainly less sure than those for education. It has proved more difficult to maintain the interest and attention of ministries with relatively small components in the project, such as for health and employment. Policy dialogue with these two ministries is still limited.

58. **The Bank’s influence is most apparent in sectors where it has been working for many years.** Education is the most obvious success story. It is also significant that the government of the Maldives returned to the Bank, after the tsunami, asking for additional advice with respect to the development of a rapidly changing fisheries industry. This is another sector with which the Bank has a long history. It was the subject of the Bank’s first lending operation in 1979.

59. **Quality and appropriateness of non-lending activities.** The implemented program was fully consistent with the 2000 CAS, as well as addressing some of the concerns raised by the OED’s previous evaluation of the country program, such as the criticism that the Bank had not done enough to foster private sector development, particularly in the fishing industry.

60. **The Bank was flexible while implementing its program of assistance.** It adjusted its program of AAA activities so as to respond to the needs of government, within the overall framework of the 2000 CAS. The investment climate study, the social security study and additional fisheries studies were all “add-ons”, but all served to reinforce the objectives of the CAS. The activities of IFC within the financial sector were also important additional and influential activities.

61. ***The technical assistance provided has had strong government ownership and as a result completed activities have generally been influential.*** The most successful activities have been implemented with a high level of direct involvement on the part of key government counterparts as well as strong and direct involvement by Bank Group staff. However, the implementation of government-managed TA activities has always been much slower than expected due to the lack of mid-level capacity in all agencies.

62. ***Linkages with other donors. Following the tsunami, the bank Group's developed stronger links with many other donors in part because it had a representative in Male'.*** In particular, sharing an office with the ADB in Male' made a significant difference. In addition, the Bank's Special Representative's attendance at meetings of the UN Country Team also proved very beneficial. As a result, it has been possible to more closely dovetail our activities so as to avoid overlaps and misunderstandings. Also, the government has recently established the Maldives Partnership Forum, with a view to developing stronger long-term relationships between all active donors and the government. These meetings were designed as a vehicle for exchanging information and discussion and not as venues for providing funding pledges. It has met twice in 2006 and 2007.

63. ***Overall Assessment of Operational Performance. IDA's performance is judged to have been satisfactory.*** The CAS was well conceived, focused on areas of great importance for the government, which resulted in high government ownership of the program. The Maldives country team delivered more than promised by the CAS. For example, at the request of the government, it added several important advisory activities, including the recently completed fisheries study and the pensions and social security study. These studies were very well managed with extensive inputs from Bank staff and consultants, even as government remained in the "driver's seat" for both. Also, the Bank's response to the tsunami disaster was prompt and effective, while seeking to augment and not diminish the role of government as the coordinator of reconstruction efforts.

64. Greater attention during supervision would have been useful, particularly when the capacity deficiencies in the implementing agencies were too often apparent. The implementation of some activities was delayed beyond what might have been acceptable before additional pressure was applied by Bank staff to jump-start or restart the activity. Additionally, while the delivered CAS program was very appropriate, the CAS program matrix suggested an area of interest that was too expansive in its coverage. The matrix included areas of possible involvement for which no significant activities were proposed; including health and the environment. This made the preparation of this assessment document more difficult than it should have been. Greater focus would have been desirable. A quality at entry review by QAG resulted in a similar criticism about the IHDP project, suggesting that it was not adequately focused. Subsequently, small adjustments were made to the project design to address this concern.

65. With respect to outcomes, our client's overall ***performance has been satisfactory.*** Education outcomes have exceeded expectations, while there have been important improvements in the investment climate for private businesses. Also, government is currently much more serious about its fiduciary management functions. The area of sub-standard performance has been its inability to plan and restrain spending.

66. With respect to the implementation of Bank Group activities, ***the client's performance was also judged to be fully satisfactory*** in two OED/IEG reports.

- a. OED undertook a project performance assessment report of the first two education and training projects and rated them as follows: Outcome—highly satisfactory, institutional

development—substantial, sustainability—likely, and borrower performance—highly satisfactory.

- b. IEG recently rated the Third Education and Training project as satisfactory against all dimensions, with only moderate risks to the development outcome.

67. However, capacity deficiencies are currently very common in most agencies. This has led to significant delays in the implementation of both projects and AAA activities. These problems are threatening the satisfactory rating. Furthermore, the government's current inability to prioritize the use of its funds is worrying and likely to add to this problem. Too many projects and activities being implemented at the same time are also generating budgetary overhangs, which are likely to overshadow budget planning process for years to come.

V. LESSONS FOR THE NEW CAS

68. The Maldives has continued to develop rapidly, despite the shock of the tsunami. However, many development challenges remain that can usefully be addressed in the new CAS. As the Bank considers and debates how it can help the country in the next four years, it should consider the following lessons from the past:

69. ***The Bank made a difference because it was selective, with a program designed in close consultation with government.*** The Bank Group's program is small compared with the size of the economy. However, the chosen areas of focus identified in the CAS were appropriate and had strong government ownership. The Bank has continued to work with the government on macroeconomic and fiscal management issues, and it was and is the only donor putting substantial resources into the improvement of secondary and tertiary education services. The Bank has also taken the lead with efforts to help the government strengthen procurement, financial management and audit services. Meanwhile, IFC has been providing important assistance to strengthen and develop new financial institutions, including the Maldives Leasing Company and the Housing Development and Finance Corporation.

70. ***The Bank Group needs to remain flexible in a small middle-income country.*** The tsunami was an exceptional example of how important it is to remain flexible. However, even at a more routine level, over the last six years the Bank Group has also demonstrated considerable flexibility with respect to the design and implementation of activities, particular advisory services. For example, the influential reports on the investment climate, social security reform, fisheries, and IFC's activities in the financial sector all demonstrate our willingness to work with Government on emerging issues of importance to the country. Demonstrated willingness to add to the core program, within the overall framework defined by the CAS, has allowed the Bank Group to remain more relevant.

71. ***The objectives of the new strategy should be tightly focused, with a monitoring and evaluation framework that is both realistic and cost-effective.*** As is evident when reading this report, it has often been difficult to assess the impact of the Bank's interventions. This underlines the importance and challenge of defining realistic CAS objectives, that the Bank Group can influence, and sets of indicators that the clients can afford to collect. Given the high cost of collecting data, it is highly desirable to define realistic sets of indicators that measure both project and sector or country performance. Asking clients to collect special data sets for every donor intervention is certainly unaffordable and uneconomic.

72. ***The capacity of government to deliver an increasingly sophisticated range of services remains a major issue.*** As the Maldives continues to develop rapidly and approaches middle-income status, the expectations of its citizens can only increase. The public is demanding ever more sophisticated services, and the government is expected to deliver them. However, even though close to a third of all employees work for the government, all ministries are short of skilled mid-level personnel. Furthermore, there is a long list of overdue administrative and legal reforms. Over the next few years, donors must support the government's efforts to create a stronger and more professional civil service. Institutional and governance reforms will remain a central focus for the Bank Group and all other donors for the foreseeable future.

73. ***Opening a local office has improved communications with our clients,*** allowed the Bank Group to be more responsive to the government's demands, reinforced our dialogue with key agencies, facilitated project implementation, and promoted stronger donor cooperation.

Attachment A: Comparison of CAS Program with Actual Bank Group Supported Program

CAS PROGRAM	ACTUAL SUPPORT PROVIDED	Investment US\$ million
WB Lending		
Multi-sectoral Human Development Project	FY05 Integrated Human Development Project	15.60
	FY05 Tsunami Emergency Reconstruction Project	14.00
	Total	29.60
WB Technical Assistance		
TA for Housing and Urban Development (committed prior to completion of the CAS)	FY00 Maldives Capacity Building for Land Management, Housing and Urban Development FY04 Maldives Public Expenditure Management TA- IDF FY04. Maldives Housing Finance FY05 Maldives Strengthening of Procurement Regulatory Framework-IDF FY05 Maldives Institutional Development and Capacity Building of the Office of Auditor General of the Republic of Maldives	
WB Advisory and Analytical Activities		
Public Expenditure Review	FY02 Maldives Public Expenditure Review FY03 Economics of Tobacco Use	
Country Economic Report	FY04 Maldives Country Economic Update: Sustaining Robust Development FY06 Maldives Social Protection: Options for reforming pensions and safety nets	
Country Procurement Assessment	FY05 Replaced by IDF grant provided for instructional strengthening for procurement FY 06 Investment Climate Assessment	
Poverty Reduction Strategy	FY08 7 th National Development Plan to serve as PRSP. No separate PRSP was produced.	
Fisheries Report	FY07 New fisheries report finalized (previous report under-preparation in 2000 was not finalized/ FY08 Maldives. Public Sector Accounting and Auditing. A comparison to international standards	
IFC Lending		
IFC 's activities were not included in the 2000 CAS	FY00 Maldives Leasing Company	3.00
	FY02 Maldives Villa Shipping 3	15.00
	FY03 Taj Maldives Private Limited	8.50
	FY05 Wataniya Telecom Maldives	17.00
	FY05 Universal Enterprises Maldives	25.00
	Total	68.00
IFC Equity Investment		
	FY 00 Maldives Leasing Company	
IFC Technical Assistance		
	HR Skill Gap Analysis and HR Framework for Maldives Finance and Leasing Company HR Manual of Policies and Procedures and Develop Performance Appraisal Scheme for Leasing Company Maldives Monetary Authority (MMA). To set up a Credit Bureau for Maldives (Phase I) Housing Development and Finance Corporation. To Develop a Business Plan for Privatization	

Attachment B : Maldives. 2000 CAS Completion Matrix

	Status in 2000	Status in 2006	Lessons Learned
Long Term Development Goals of the Maldives (as highlighted in the 2000 CAS)			
Economic growth	Sound and consistent growth since 1978. Average growth rate 7.6% p.a.	<ul style="list-style-type: none"> ▪ Growth declined in 2005 following the tsunami by 5% but grew in 2006 by 18%. Average 2000-2006 = 6.3 % p.a. 	<ul style="list-style-type: none"> ▪ Sound administration and fiscal management allowed for the steady development of both the tourism and fisheries sectors—the two backbones of the economy
Poverty alleviation	Poverty levels declined steadily since early 1980s	<ul style="list-style-type: none"> ▪ Poverty levels continued to decline throughout the period and even after the tsunami. ▪ Number of persons living on less than \$1 per day (PPP) around 1%; number living on less than \$3.50 per day 19% in 2005. 	<ul style="list-style-type: none"> ▪ Poverty has declined over a long period. ▪ Long-term development policies have supported this trend, and in particular encouraged the gradual introduction of improved education and health services.
Reduce regional disparities	Concern of government of many years but with limited improvements, even as average incomes have risen across the country	<ul style="list-style-type: none"> ▪ Economic disparities persist. Wage levels said to be three times higher in Male’. ▪ However, access to social services has improved significantly. Secondary schools on 138 islands compared to 74 in 2000. 	<ul style="list-style-type: none"> ▪ It has proved extra-ordinarily difficult to create alternative poles of growth in a small country. This was recommendation of the Bank’s first economic report of 1980. ▪ The government (and the donors assisting it) will have to be more creative, including building strong links to its population consolidation policy
Improve health and education services	Major focus of government for last 30 years. Primary school attendance was already universal.	<p>Education. Secondary school attendance increased from 18,800 to 30,000.</p> <ul style="list-style-type: none"> ▪ Transition rates from primary to secondary school increased from 30% to 88% ▪ Up to end lower secondary school no significant gender gap ▪ However, fewer girls attend higher secondary schools for social reasons. Parents do not like daughters living away from home. 	<ul style="list-style-type: none"> ▪ Government’s continued focus on education and health is highly commendable. However, the cost of provision of these services is not being adequately controlled, with limited attempts to set long term priorities.

	Status in 2000	Status in 2006	Lessons Learned
		<p>Health. Services have continued to expand in the Atolls.</p> <ul style="list-style-type: none"> ▪ All indicators moving the right direction. ▪ However, 25% of children still malnourished. 	
Governance and Administration	Basic government structures established 20 years ago with help of UNDP	<ul style="list-style-type: none"> ▪ Number of civil servants has rapidly increased in recent years from in 2000 to in 2006. ▪ Still capacity weaknesses in almost all ministries. ▪ Half civil servants work for the education, health ministries, or the national security and police services. 	<ul style="list-style-type: none"> ▪ No direct links or controls between civil service recruitment and permitted agency expenditures. ▪ Problems similar to many island nations which are trying to combine the functions of a nation with those of local government.
CAS Outcomes (directly influenced by the Bank Group)			
Tsunami recovery		<ul style="list-style-type: none"> ▪ Government and the donors responded quickly and effectively to the disaster. Damage was equivalent to 60% of GDP. ▪ Bank project approved within 3 months. ▪ Relief activities were very effectively handled. ▪ Reconstruction has been slower and a greater challenge than anticipated by either government or the donors. 	<ul style="list-style-type: none"> ▪ The damage assessment report prepared by the Bank, ADB and the UN provided an important framework for the reconstruction program. ▪ Relative flexibility of the Bank's reconstruction assistance was greatly appreciated by government.
Education	Bank has been working in this sector for almost 20 years Third Education and Training Project (TETP) approved in March 2000	<ul style="list-style-type: none"> ▪ TETP provided support to government to expand access to secondary education, improving quality, and expand access to tertiary education ▪ Additional support provided through the Integrated Human Development Project approved in 2004 to expand access and improve quality on selected focus islands. 	<ul style="list-style-type: none"> ▪ The Bank has had an important impact within the sector, over a period of almost 20 years. Building relationships with clients takes time. ▪ However, the quality of education remains an issue as are the costs that are rising rapidly.
Fiscal management	Sound fiscal management using simple systems and concepts	<ul style="list-style-type: none"> ▪ Extensive training and TA was provided to mid-level technical staff in Ministries of Finance, Planning and the Central Bank so as to encourage the development of a Medium Term Fiscal Plans. ▪ Prior to the tsunami there was also strong 	<ul style="list-style-type: none"> ▪ Bank's medium term impact on policy making has been limited. The first democratic elections for President are due to be held next year. Even in a traditionally well-managed economy this can be

	Status in 2000	Status in 2006	Lessons Learned
		<p>political commitment to the concept.</p> <ul style="list-style-type: none"> ▪ However, following the tsunami, political commitment is very low. Budget deficits growing very fast. Budget deficit for 2007 = 93% of GDP. ▪ Passage of the Public Finance Act and a new Audit Act. 	<p>powerful incentive to over-spend.</p> <ul style="list-style-type: none"> ▪ All IFIs and a private rating agency have indicated their concerns ▪ Bank has increased the awareness of government to the importance of strengthening the fiduciary management functions of government. That corruption is now more widely discussed is also encouraging.
Improving business environment	<ul style="list-style-type: none"> ▪ Tourism already dominated by the private sector. ▪ State monopolies still dominated many sectors. ▪ Inadequate access to finance. 	<ul style="list-style-type: none"> ▪ Although there are 21 SOEs still in existence most now operate with some competition from the private sector. Fisheries industry already transformed by partial privatization and mobile telecoms sector opened to competition. WB has recently assisted government with background studies for a Fisheries Master Plan ▪ Maldives Leasing Company established in 2002 with support from IFC. ▪ Housing Finance Development Corporation established in 2004 with some TA from the Bank. On-going assistance from IFC to allow privatization. ▪ Investment Climate Assessment completed in 2006, with assistance from WB--found access and cost of finance, access to land and corruption to be major constraints to investment. 	<ul style="list-style-type: none"> ▪ Impact of Bank and IFC has been very positive in promoting and facilitating a greater role for the private sector, particularly with respect to increasing access to finance. ▪ This is an area requiring continued support from the donors, including the Bank and IFC. ▪ This part of the reform agenda is very broad and includes the development of an appropriate framework of commercial law.
Performance of Portfolio and the Bank			
Lending--preparation	Third Education and Training Project approved in early 2000.	<ul style="list-style-type: none"> ▪ Two projects prepared during the CAS period: <ul style="list-style-type: none"> ○ Integrated Human Development Project ○ The Tsunami Emergency 	<ul style="list-style-type: none"> ▪ Weak capacity in most ministries creates problems when implementing all types of activity. ▪ High levels of Bank staff input and supervision required—more than

	Status in 2000	Status in 2006	Lessons Learned
		Reconstruction Project, signed within three months of the disaster.	usually expected in a middle income country.
Lending supervision	<ul style="list-style-type: none"> ▪ Generally satisfactory performance. ▪ Performance of past education projects rated as satisfactory by IEG, in report of 2002. 	<ul style="list-style-type: none"> ▪ All projects currently rated satisfactory. ▪ IEG recently rated Third Education and Training Project as satisfactory ▪ However, all recent projects have been rated unsatisfactory for short periods because of capacity deficiencies in the implementing agencies. 	<ul style="list-style-type: none"> ▪ Small middle-income countries demand extensive advisory assistance. Many more AAA activities were provided than included in the original CAS program. ▪ For the new CAS, objectives need to be more closely defined and more directly measurable, with an affordable monitoring framework.
AAA activities		<ul style="list-style-type: none"> ▪ Sector studies have been most successful when Bank staff have been closely involved and strong client ownership. ▪ IDF grants have been very slow to disburse without close attention from Bank staff. ▪ Bank provided more support than provided for the CAS. 	
Administration of the program	All operations managed from Washington	Local representative office opened in Male' after the tsunami, shared with ADB. Also much greater use of regionally based staff to support operations.	<ul style="list-style-type: none"> ▪ Consultation with civil society improved with local representative in post. ▪ Supervision activities strengthened in part because of geographic proximity of staff.
Donor Coordination		Government taking the lead, in association with resident donors, including the World Bank.	<ul style="list-style-type: none"> ▪ Communications with both government and donors improved following the opening of the local office.

Attachment C: Description of World Bank Supported Activities

World Bank Lending

1. The **Third Education and Training Project** was approved in March 2000 (under the umbrella of the earlier 1995 CAS) for a loan amount of \$17.6 million. It is described here because of its significance within the portfolio. The project recently closed and an ICR has been prepared. Overall, it was rated as a satisfactory project against all dimensions. This was the third in a series of similar and successful projects. Each provided assistance to improve the quality and coverage of secondary education, strengthen and expand teacher training, and provide overseas fellowships for well qualified school leavers who had acquired the necessary qualifications to enter overseas universities and colleges. Results from the recent ICR mission, and the IEG review of the ICR, confirm that access to secondary and tertiary education has improved significantly. However, some questions remain about the quality of education. Concern was also expressed about the sustainability of existing programs given their high cost. For example, government has continued to expand secondary education on many more islands than it had been intended when the project prepared and also assumed responsibility for all community primary schools.

2. The **Integrated Human Development Project** was approved immediately prior to the tsunami, in September 2004, for a loan amount of approximately \$16 million. It was provided for in the 2000 CAS. It is an ambitious multi-sectoral project covering education, health and social protection (access to labor markets), that was designed to strengthen social services on focus islands where the population is expected to increase in the future years. Soon after its approval, and following advice from QAG, the Bank and the government agreed some minor adjustments to simplify the project structure. Further, the understandable focus of government on reconstruction activities seriously impacted the early stages of implementation for this project, although implementation is now assessed to be fully satisfactory. A mid-term review will be undertaken early next year. However, it is the education component is likely to have a greatest impact, as it builds on the foundations created by past Bank funded projects.

3. The **Post Tsunami Emergency Relief and Reconstruction Project** was approved by the Board on March 15 2005 and signed two days later, for a loan amount of \$14.1 million. This loan helped finance cash grants to affected persons, the reconstruction of schools and some technical assistance. A year later, the EU added additional funds equivalent to \$17 million to the project to finance an improved public accounting system (to be used initially to manage the tsunami reconstruction funds) school reconstruction activities, health facilities and a solid waste management component.

AAA Activities

4. **Pension and Social Security report.** This report was completed in 2005. It was not listed as an output in the CAS. However, given the recommendation promoting programmatic interventions for the social sectors it was a logical additional output. The study had consistently strong government ownership and support. The government has immediate plans to implement its recommendation with respect to pensions. The Bank team continues to work very closely and collaboratively with government on the follow-up to this report and it is likely that there will be a Bank funded Pension project in FY09.

5. **Budget and expenditure planning.** In close consultation with the IMF and the ADB, the Bank has continued to play an important role as an advisor on management of the economy. The public expenditure report of 2002 and a County Economic Update (completed in 2004) were the only formal pieces of economic sector work completed during this six-year period. Much of the influence the Bank has had was largely due to the relatively frequent visits by members of our economic team, their willingness to “roll up their sleeves” and work directly with their counterparts in government.
6. At the technical level, there is now a much better understanding of what needs to be done to manage the economy more effectively, by a large group of mid-level professionals in the government. Unfortunately, the politicians and decision makers have been less willing to accept the advice of the Bank on these issues, as well as that of the IMF and the ADB. Since the tsunami, the government has adopted a highly risky fiscal strategy. This is in direct contrast to the conservative and responsible fiscal policies that were the norm before the tsunami and at the time the 2000 CAS was prepared.
7. The CAS envisaged that the government would prepare a separate PRSP. This did not happen. However, the government has recently completed its 7NDP which is written so that it can also be used as the country’s PRSP. Bank and IMF staff are currently preparing a Joint Staff Assessment Note for consideration by the Boards of both institutions.
8. **Strengthening fiduciary management systems.** Over the last six years, this has been a major focus for the World Bank, as envisaged by the CAS. Also, the approval, by the People’s Majlis of the Public Finance Act early in 2005, dramatically increased the government’s ownership of these issues. Specifically, the Bank is supporting the development of a Public Accounting System. This activity is financed through an EU trust funds managed by the Bank, as part of the tsunami reconstruction activities, with a view to initially using the new systems to manage the reconstruction funds. IDf funded activities for strengthening the audit and procurement functions are also under-implementation.
9. A Country Procurement Assessment was not prepared, as envisaged in the CAS. However, the need to strengthen public procurement is recognized by government and using an IDf grant it is currently considering how to strengthen this function.
10. **An Investment Climate Assessment** was completed in 2005. Its recommendations provide part of the agenda for the new CAS. The direct involvement of Bank staff and the active participation and support of government staff and other local counterparts were major factors contributing to the success of this activity.
11. **Fisheries.** Soon after the tsunami the Bank was asked to assist the government with studies to examine the future of the industry. The resulting studies recently completed (supported also by FAO). This activity effectively replace the fisheries sector report, under preparation in 2000, and referred to the 2000 CAS, that was never formally completed because of quality concerns. However, the Bank’s comparative advantage in the sector continued to be recognized by the government. The recent studies assisted government with the development of appropriate plans and policies for the industry following its gradual privatization, beginning in 2000. This activity had high government ownership and was designed and implemented in very close collaboration with the Ministry of Agriculture and Fisheries. The Bank/FAO funded inputs are being used to prepare a Master Plan for the sector.
12. **Land and housing policy.** This advisory activity addressed a major development need for the Maldives. The land and housing markets are poorly developed and the difficulty of accessing land was identified as an obstacle to investment by the ICA. It was provided for in the CAS. However, our efforts were appreciated and the government is currently building on the foundations created by the

Bank funded studies to refine the land law. Meanwhile, IFC is working with government to promote the privatization of the Housing Development Finance Corporation (HDFC), hopefully removing an additional obstacle to housing development.

13. **In addition, IFC expanded its South Asia Enterprise Development Facility (SEDF)** with a dedicated program to cover Sri Lanka and the Maldives and has established a framework to provide support to SMEs with improved access to financial services and an enhanced business enabling environment. Among other activities, it help established the Maldives Leasing Company, providing equity and technical assistance, and is working with HDFC with a view to it possible privatization.

Attachment D: Summary of Conclusions from the Country Assistance Evaluation. The contribution of the Bank prior to 2000

1. The Bank has been active in the country since 1978. Changes have been very rapid since then. In 1980 the Maldives was still one of the twenty poorest countries in the world. Today, it is well on its way to upper middle income status. The Bank's contribution, prior to 2000 provides the foundations for its post-2000 Bank program. This program included three fisheries projects, two education and training programs and an airport expansion project. Non-lending activities were mainly designed to strengthen macro economic management.
2. A **Country Assistance Evaluation** published in early 2001, after the 2000 CAS was approved by the Bank's Board, reviewed the Bank's earlier involvement in the Maldives. Many of its conclusions are still valid and relevant.
3. The report concludes that the Bank's program had been highly appropriate for the Maldives. However, it notes that we could have done more to promote the development of the private sector and to help the government protect its natural environment. It was also doubtful about the appropriateness of some of our later activities in fisheries. There was particular concern that fish processing and manufacturing was still dominated by the public sector and had not been opened up to the private sector. The ratings provided in the report are as follows:
4. **Overall impact.** Satisfactory, but the evaluators had some concerns about the future of the fisheries sector. Some of the evaluators' concerns have since been partly addressed with the partial privatization of MIFCO and the subsequent expansion of fish processing facilities in the country. However, the reforms are incomplete and the Bank is currently helping the government with the preparation of a Fisheries Master Plan.
5. **Institutional Development Impact.** Moderate, with concerns about the about the Bank's breadth of impact. The issue of institutional capacity is still a key issue for the new CAS to supplement the efforts of the last five years to strengthen all aspects of fiduciary management, and past efforts to strengthen the major implementation agencies.
6. **Sustainability.** Uncertain, the evaluators underlined their concerns about sustainable impact of the three previous fisheries projects. They also concerned about the narrow base of the economy. As noted about the concerns about fisheries have been partially addressed while the concerns about the narrow base of the economy remain.
7. The report summarized the challenges for the Maldives as broadening its economic base, expanding access to social services in the Atolls, developing a sustainable social safety net, and protecting the countries natural environment. It recommended that the Bank and other donors work with government to enhance the role of the private sector, establish a more efficient social safety net, prepare a public expenditure review, and increased focus on the development of stronger environmental policies.

ANNEX IV: Maldives Country Financing Parameters

Maldives: Country Financing Parameters

Date: June 19, 2006

The country financing parameters for the Maldives set out below have been approved by the Regional Vice President, South Asia Region, and are being posted on the Bank's internal website.

Items	Parameter	Remarks/Explanation
Cost Sharing. Limit on the proportion of individual project costs that the Bank may finance.	100%	In individual projects, funding from the Government of Maldives (GoM) or from other sources will be generally encouraged, in order to leverage Bank resources and take advantage of partnership opportunities. The Bank may finance 100 percent of all project / program costs where needed and appropriate. The Bank's financing share would be higher for community development and social sector projects; and lower for infrastructure and private sector development projects.
Recurrent Cost Financing. Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance.	No country-level limit	The Bank will continue to monitor the aggregate fiscal position and prospects and its implications for recurrent cost financing. In determining Bank financing of recurrent costs in individual projects, the Bank will take into account sustainability issues at the sector and project levels, including implied future budgetary outlays. Bank financing of recurrent costs is expected to remain within modest ranges.
Local Cost financing. Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects.	Yes	The two requirements are met. The Bank may finance local costs in the proportions needed in individual projects.
Taxes and duties. Are there any taxes and duties that the bank would not finance?	None	Taxes and duties are considered reasonable, and non-discriminatory. The Bank may finance taxes and duties associated with project expenditures. At the project-level, the Bank would consider whether taxes and duties constitute an excessively high share of projects costs.

ANNEX V: Maldives CAS (2007) Donor Assistance Matrix

Donor	WB	IFC	UNDP	UNICEF	WHO	EU	Common-wealth	ISB	ADB	IMF	Bilaterals
Governance			X			X	X				
Public Administration Reform			X			X					
Justice Reform			X			X					
Macro-economic Management	X								X	X	
Public Expenditure Management	X								X	X	
Fiduciary Management	X		X						X	X	
Private Sector Development	X	X	X						X		
Financial Sector Development		X									
Health				X	X						
Education	X			X							
Social Protection	X		X	X							
Energy								X	X		X
Transport								X	X		X
Environment			X			X					

Note. (i) Bilaterals include: Kuwait Fund, Saudi Fund, and Qatar Fund.

(ii) FAO, UNFPA, UNESCO, HABITAT, and ILO also have small programs in their respective areas of interest.

ANNEX VI: Maldives Public and External Debt Sustainability*

Debt sustainability analysis indicates a rise in external and public sector vulnerabilities—underlined by falling international reserves—in the absence of fiscal reforms. The baseline scenario assumes GDP growth of 3.5-5.5 percent per annum. The alternative scenario, predicated on fiscal and structural reforms leading to a better investment climate, assumes growth of 6.5-7.5 percent per annum. While the profile of public sector external debt is identical in nominal terms in the two scenarios,⁶ the unstable macroeconomic environment and lower export growth of the baseline scenario leads to international reserves falling to 1.5 months of imports in the baseline, while external vulnerabilities are tempered by a buildup of reserves in the alternative scenario.

Public debt sustainability

In the baseline scenario, the public debt-to-GDP ratio continues to accelerate until 2009, although it declines later into the projection period. Driven mainly by sharp increases in foreign public debt, overall public debt rises from 51.7 percent in 2006 to 78.3 percent of GDP by 2008. Domestic fiscal deficits, deriving from the deteriorating fiscal position in 2007 and beyond also contribute to the rising public debt-to-GDP ratio. While the share of foreign public debt in GDP reverts to pre-tsunami levels by 2012 in line with official repayment schedules for foreign public debt, the lingering fiscal deficits over the medium term maintain the level of domestic public debt relatively constant over the medium term, leading to a public debt-to-GDP ratio of 60 percent in 2012—lower than its peak in 2008-09, but substantially higher than its pre-tsunami levels.

As the stress tests illustrate, the profile of public debt deteriorates further in the face of shocks to the baseline. The worst public debt-to-GDP ratio of 85 percent is project under the growth shock scenario, which envisions a permanent one-half standard deviation shock to the assumed growth path in the baseline. The rest of the shock scenarios, which include shocks to the interest rate, contingent liabilities, exchange rate, and a combination of the above, also generate significant deterioration in the public debt-to-GDP ratio.

In the alternative scenario prepared by staff, prudent fiscal policy helps bring public debt-to-GDP ratio to pre-tsunami levels. The alternative scenario is built on the assumption that the domestic financing requirement is kept at zero over the medium term. This implies that domestic public debt is kept constant in nominal terms during 2006-12. While the profile of foreign public debt is still governed—as in the baseline scenario—by the official repayment schedules for foreign public debt, the level of domestic public debt is significantly lower than in the baseline. Consequently, by the end of the projection period, the public debt-to-GDP ratio declines to 45.3 percent—close to its pre-tsunami level of 43.1 percent.

External debt sustainability

With unchanged fiscal policies, international reserves fall to very low levels, and the external debt-to-GDP ratio is projected to climb until 2009. In 2007 and 2008, there is a substantial planned increase in government borrowing from multilateral and bilateral sources, mainly for infrastructure projects, including the development of atolls and harbors, electricity generation, airports and sewage and waste collection systems. In addition to government borrowing, the private sector is assumed to

⁶ Debt ratios differ across the two scenarios due to differences in nominal GDP. Note that nominal GDP is higher in the baseline scenario, due to higher inflation

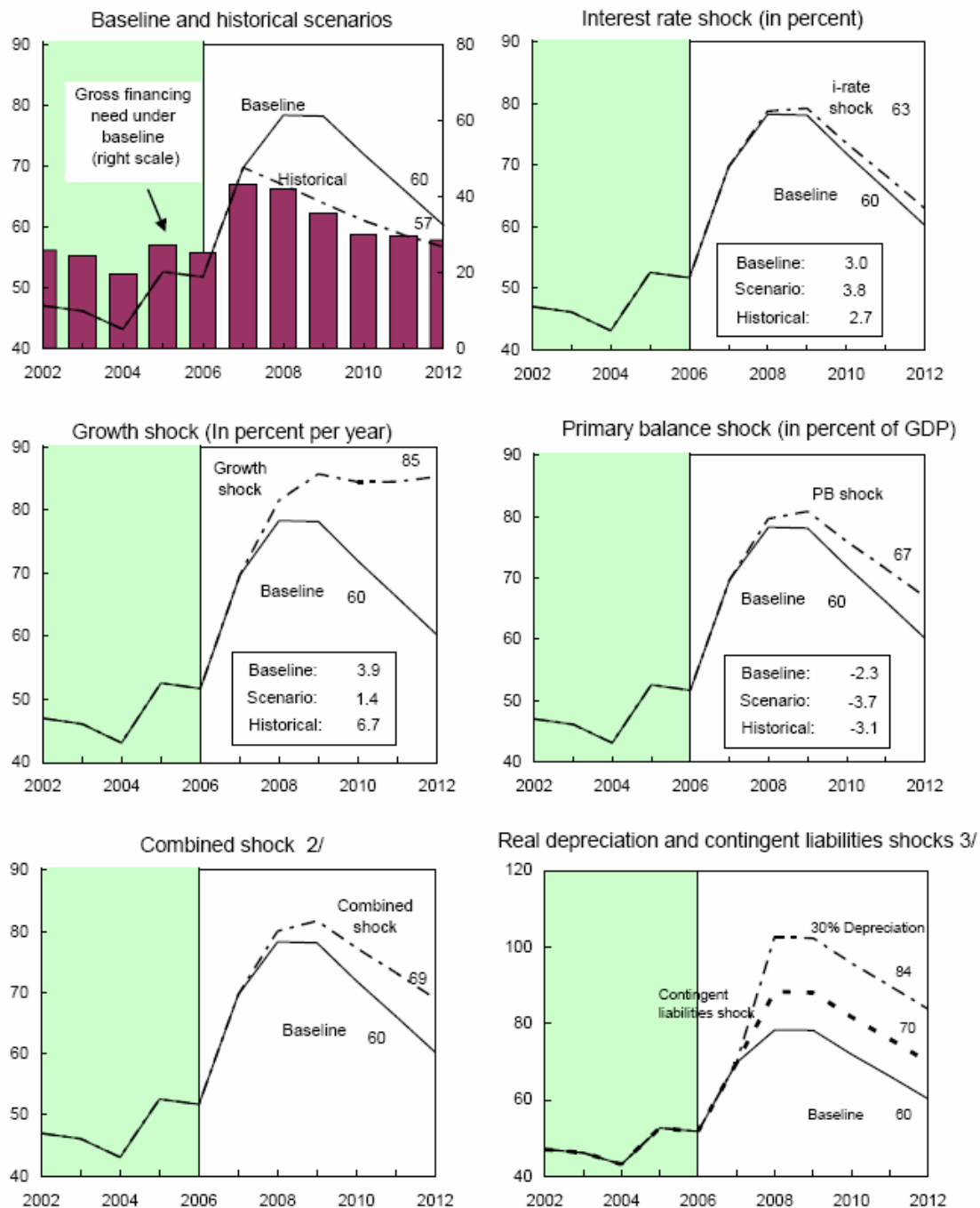
* Source: Annex II of the *Maldives-Staff Report for the 2007 Article IV Consultation*, SM/07/207, IMF, which was concluded on July 30, 2007.

borrow to finance ambitious resort-development plans. The external debt-to-GDP ratio accordingly peaks in 2009. After 2009, the pace of resort-building activity is assumed to slow, and with amortization and a planned reduction in government borrowing, the ratio falls to 68.3 percent in 2012, slightly above the end-2006 level. However, despite the fall in debt ratios by the end of the projection period, external vulnerability remain high, as evinced by the fall in international reserves to 1.5 months of imports.

The stress tests illustrate that the debt path is particularly vulnerable to shocks to the current account and the exchange rate. While in both shock scenarios the debt-to-GDP ratio eventually declines, a current account shock would cause the ratio to climb above 100 percent from 2008 through 2011, and a real depreciation of 30 percent would cause the ratio to rise sharply to 120 percent in the year that the depreciation occurred. While both scenarios are unlikely, neither can be ruled out entirely. A current account shock could occur due to Maldives' large exposure to tourism patterns and world commodity prices. A real depreciation could occur if further fiscal slippages and attendant deficit monetization led to high inflation or if a surge in import demand—generated by excessive public expenditure—put the peg under pressure.

In the alternative scenario, with domestic expenditures kept in line with a realistic revenue forecast, international reserves rise to three months of imports. The stable macroeconomic environment permits more rapid expansion of tourism and fisheries, the mainstay both of exports and of real GDP. Despite an identical profile for external public debt, the lower current account deficits permit a rise in international reserves, thereby limiting external vulnerabilities relative to the baseline.

Figure II-1. Maldives: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table II-1. Maldives: Public Sector Debt Sustainability Framework, 2002-12
(In percent of GDP, unless otherwise indicated)

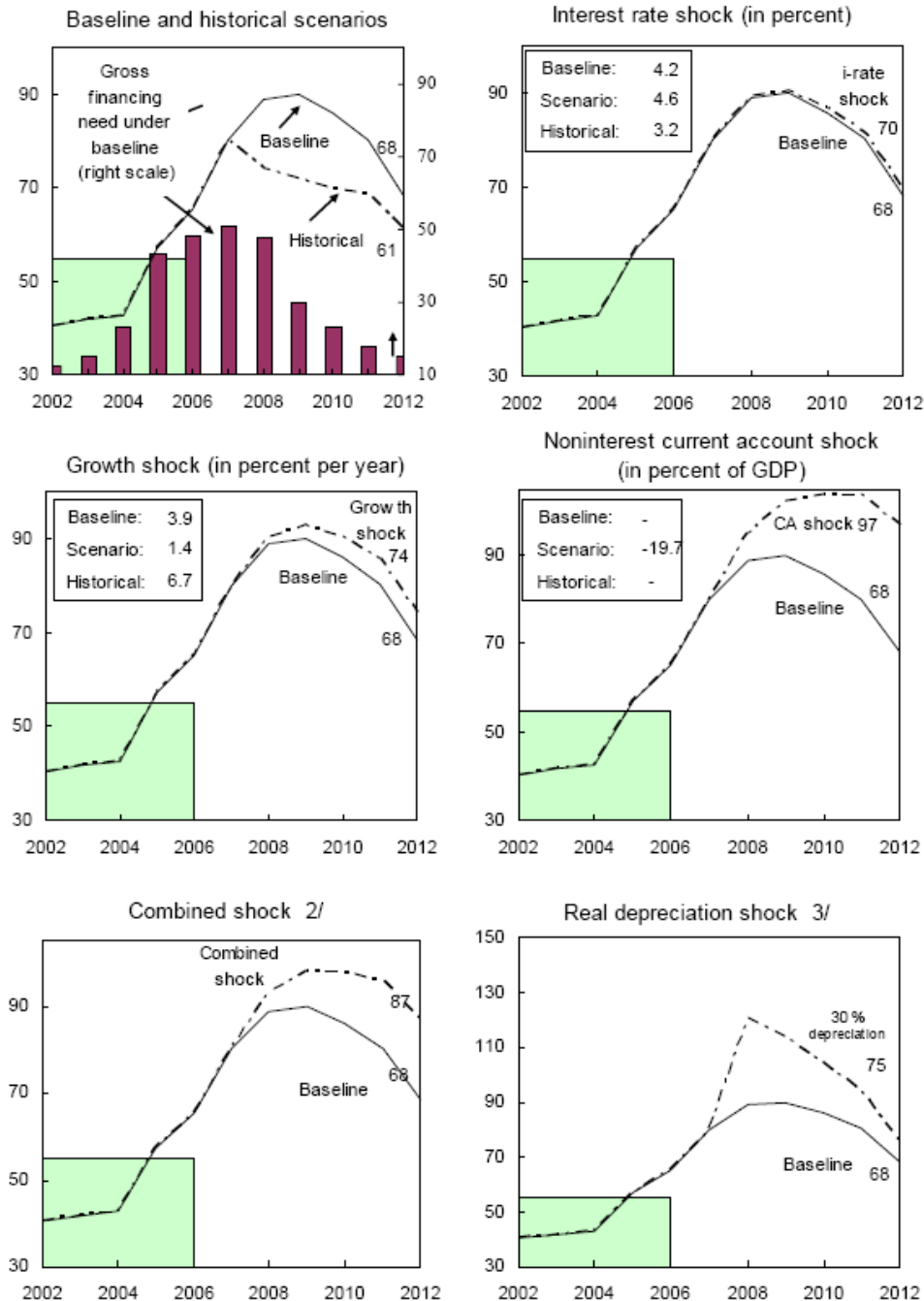
	Actual			Projections							Debt-stabilizing primary balance 9/	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		2012
1 Baseline: Public sector debt 1/	47.0	46.1	43.1	52.6	51.7	69.7	78.3	78.1	71.9	66.1	60.2	
<i>Of which: foreign-currency denominated</i>	26.9	29.6	30.5	33.9	33.5	44.5	51.1	50.3	43.8	38.3	33.4	-0.4
2 Change in public sector debt	3.6	-0.9	-3.0	9.5	-0.9	18.0	8.6	-0.2	-6.2	-5.8	-5.9	
3 Identified debt-creating flows (4+7+12)	2.0	-0.1	-3.1	12.4	-1.8	20.4	11.9	3.5	-2.5	-2.4	-2.8	
4 Primary deficit	3.2	1.9	0.5	9.4	5.6	22.2	13.0	4.4	-1.7	-1.9	-2.3	
5 Revenue and grants	33.1	34.8	34.2	48.0	62.9	55.8	52.7	47.5	44.5	43.0	41.7	
6 Primary (noninterest) expenditure	36.3	36.7	34.7	57.4	68.5	77.9	65.7	51.9	42.8	41.1	39.4	
7 Automatic debt dynamics 2/	-1.3	-2.0	-3.6	2.9	-7.4	-1.8	-1.1	-0.9	-0.9	-0.5	-0.4	
8 Contribution from interest rate/growth differential 3/	-1.3	-2.0	-3.6	2.9	-7.4	-1.8	-1.1	-0.9	-0.9	-0.5	-0.4	
9 Of which: contribution from real interest rate	0.4	1.7	0.3	0.9	-1.6	0.7	1.7	2.0	2.0	1.8	1.7	
10 Of which: contribution from real GDP growth	-1.7	-3.7	-3.9	2.0	-5.8	-2.5	-2.8	-2.8	-2.8	-2.3	-2.1	
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...
12 Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	1.6	-0.8	0.1	-2.9	0.9	-2.4	-3.3	-3.7	-3.7	-3.4	-3.1	
Public sector debt-to-revenue ratio 1/	142.1	132.4	126.1	109.5	82.2	125.0	148.7	164.5	161.5	153.8	144.3	
Gross financing need 6/	25.8	24.4	19.4	27.1	25.3	43.2	41.9	35.4	30.1	29.6	28.5	
In billions of U.S. dollars	165.0	169.3	150.6	203.6	229.4	442.3	475.2	442.3	414.6	447.3	472.1	
Scenario with key variables at their historical averages 7/						69.7	66.9	63.8	61.0	58.6	56.7	-2.2

Key macroeconomic and fiscal assumptions underlying baseline

- Real GDP growth (in percent) 4.1 8.5 9.5 -4.5 13.4 5.5 4.5 4.0 4.0 3.5 3.5
- Average nominal interest rate on public debt (in percent) 8/ 4.1 3.5 3.3 3.2 3.8 9.0 9.0 9.0 9.0 9.0 9.0
- Average real interest rate (nominal rate minus change in GDP deflator, in percent) 1.1 3.9 0.9 2.1 2.7 2.0 3.0 3.0 3.0 3.0 3.0
- Nominal appreciation (increase in U.S. dollar value of local currency, in percent) 0.0 0.0 0.0 0.0 0.0
- Inflation rate (GDP deflator, in percent) 3.0 -0.4 2.4 1.2 6.5 7.0 6.0 6.0 6.0 6.0 6.0
- Growth of real primary spending (deflated by GDP deflator, in percent) 4.5 9.6 3.5 58.2 35.2 20.0 -11.9 -17.8 -14.2 -0.8 -0.7
- Primary deficit 3.2 1.9 0.5 9.4 5.6 22.2 13.0 4.4 -1.7 -1.9 -2.3

1/ Includes central government debt.
 2/ Derived as $[(r - \pi(1+g) - g + \alpha(1+\pi)) / (1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ϵ = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
 3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.
 4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha(1+\pi)$.
 5/ For projections, this line includes exchange rate changes.
 6/ Defined as public sector deficit, plus amortization of medium- and long-term public sector debt, plus short-term debt at end of previous period.
 7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
 8/ Derived as nominal interest expenditure divided by previous period debt stock.
 9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure II-2. Maldives: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data; and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2008.

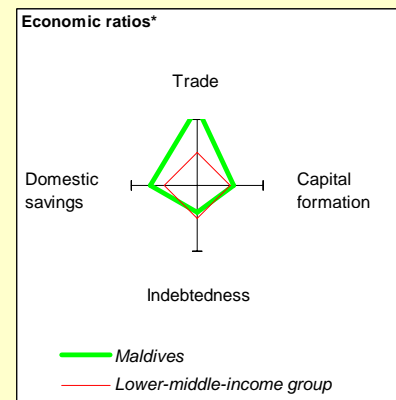
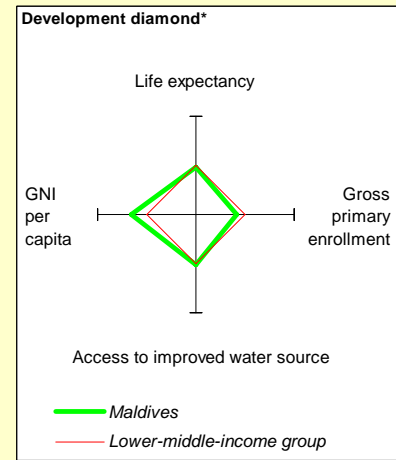
Table II-2. Maldives: External Debt Sustainability Framework, 2002-12
(In percent of GDP, unless otherwise indicated)

	Actual										Projections			Debt-stabilizing noninterest current account 6/ -9.0
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012			
1 Baseline: External debt	40.4	41.8	42.7	57.2	65.3	80.1	88.8	89.9	85.9	80.3	68.3			
2 Change in external debt	6.9	1.4	0.9	14.4	8.1	14.7	8.8	1.0	-4.0	-5.6	-11.9			
3 Identified external debt-creating flows (4+8+9)	-2.5	-8.6	-6.0	17.9	4.7	21.4	17.2	6.4	1.5	-1.1	-1.8			
4 Current account deficit, excluding interest payments	4.6	3.8	15.5	33.9	38.5	37.8	33.2	16.2	9.1	5.0	3.2			
5 Deficit in balance of goods and services	-6.1	-7.0	4.4	50.0	38.6	38.2	30.5	15.1	8.4	4.9	3.4			
6 Exports	77.3	84.3	88.4	64.6	77.0	74.6	73.1	71.4	69.8	68.5	67.3			
7 Imports	71.2	77.3	92.8	114.5	115.6	112.8	103.6	86.5	78.2	73.4	70.6			
8 Net nondebt creating capital inflows (negative)	-7.2	-10.2	-18.0	-19.4	-26.2	-16.0	-15.9	-9.9	-7.7	-6.6	-5.6			
9 Automatic debt dynamics 1/	0.1	-2.3	-3.5	3.4	-7.6	-0.4	-0.1	0.1	0.1	0.5	0.6			
10 Contribution from nominal interest rate	1.0	0.8	1.0	1.9	2.2	2.8	3.1	3.3	3.4	3.3	3.2			
11 Contribution from real GDP growth	-1.3	-3.2	-3.5	2.0	-6.3	-3.2	-3.3	-3.2	-3.3	-2.7	-2.6			
12 Contribution from price and exchange rate changes 2/	0.5	0.2	-1.0	-0.5	-3.5	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	9.3	10.0	7.0	-3.4	3.5	-6.6	-8.4	-5.4	-5.5	-4.5	-10.1			
External debt-to-exports ratio (in percent)	52.3	49.6	48.4	88.6	84.8	107.3	121.6	126.0	123.1	117.2	101.6			
Gross external financing need (in billions of U.S. dollars) 4/	79.2	105.2	177.5	326.5	436.0	519.0	537.4	373.1	316.3	268.6	249.0			
in percent of GDP	12.4	15.2	22.9	43.5	48.1	50.7	47.4	29.8	22.9	17.8	15.0			
Scenario with key variables at their historical averages 5/						80.1	74.1	72.0	69.9	68.7	60.9		-14.5	
Key macroeconomic assumptions underlying baseline														
Real GDP growth (in percent)	4.1	8.5	9.5	-4.5	13.4	5.5	4.5	4.0	4.0	3.5	3.5			
GDP deflator in U.S. dollars (change in percent)	-1.5	-0.4	2.4	1.2	6.5	7.0	6.0	6.0	6.0	6.0	6.0			
Nominal external interest rate (in percent)	2.9	2.1	2.7	4.3	4.7	4.8	4.3	4.2	4.2	4.2	4.3			
Growth of exports (U.S. dollar terms, in percent)	6.7	17.9	17.5	-29.4	44.1	9.3	8.5	7.7	7.8	7.7	7.8			
Growth of imports (U.S. dollar terms, in percent)	0.0	17.4	34.6	19.3	22.0	10.2	1.7	-8.0	-0.3	2.9	5.6			
Current account balance, excluding interest payments	-4.6	-3.8	-15.5	-33.9	-38.5	-37.8	-33.2	-16.2	-9.1	-5.0	-3.2			
Net nondebt creating capital inflows	7.2	10.2	18.0	19.4	26.2	16.0	15.9	9.9	7.7	6.6	5.6			

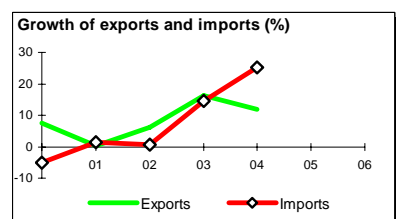
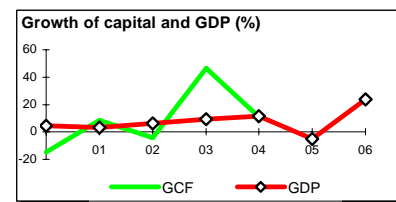
1/ Derived as $[r - g - \rho(1+g) + \alpha x(1+r)] / (1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt, ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, α = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
 2/ The contribution from price and exchange rate changes is defined as $[r(1+g) + \alpha x(1+r)] / (1+g+\rho+g\rho)$ times previous period debt stock, ρ increases with an appreciating domestic currency ($\alpha > 0$) and rising inflation (based on GDP deflator).
 3/ For projection, line includes the impact of price and exchange rate changes.
 4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
 5/ The key variables include real GDP growth, nominal interest rate, dollar deflator growth, and both noninterest current account and nondebt inflows in percent of GDP.
 6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and nondebt inflows in percent of GDP) remain at their levels of the last projection year.

ANNEX A2 Maldives at a Glance

POVERTY and SOCIAL	Maldives	South Asia	Lower-middle-income		
2006					
Population, mid-year (millions)	0.34	1,493	2,276		
GNI per capita (Atlas method, US\$)	2,680	766	2,037		
GNI (Atlas method, US\$ billions)	0.90	1,143	4,635		
Average annual growth, 2000-06					
Population (%)	2.5	1.7	0.9		
Labor force (%)	5.2	2.1	1.4		
Most recent estimate (latest year available, 2000-06)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	30	29	47		
Life expectancy at birth (years)	68	64	71		
Infant mortality (per 1,000 live births)	33	62	31		
Child malnutrition (% of children under 5)	30	..	13		
Access to an improved water source (% of population)	83	84	81		
Literacy (% of population age 15+)	96	58	89		
Gross primary enrollment (% of school-age population)	94	110	113		
Male	95	115	117		
Female	93	105	114		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1986	1996	2005	2006	
GDP (US\$ billions)	0.14	0.45	0.75	0.93	
Gross capital formation/GDP	..	30.5	
Exports of goods and services/GDP	68.1	91.7	
Gross domestic savings/GDP	..	49.2	
Gross national savings/GDP	..	44.1	
Current account balance/GDP	-0.2	-1.7	-36.0	-39.8	
Interest payments/GDP	1.5	0.8	1.2	..	
Total debt/GDP	48.4	37.3	49.1	..	
Total debt service/exports	12.1	3.1	6.9	..	
Present value of debt/GDP	41.1	..	
Present value of debt/exports	62.2	..	
	1986-96	1996-06	2005	2006	2006-10
(average annual growth)					
GDP	..	6.9	-5.1	23.5	..
GDP per capita	..	4.1	-7.4	20.7	..
Exports of goods and services	..	7.3



STRUCTURE of the ECONOMY	1986	1996	2005	2006
(% of GDP)				
Agriculture	..	..	..	..
Industry	..	..	..	..
Manufacturing	..	..	..	..
Services	..	..	..	..
Household final consumption expenditure	..	35.0	..	..
General gov't final consumption expenditure	..	15.9	..	..
Imports of goods and services	60.7	73.1	..	..
	1986-96	1996-06	2005	2006
(average annual growth)				
Agriculture	3.4	5.2	12.2	-0.7
Industry	9.4	9.3	3.0	10.6
Manufacturing	7.4	6.5	-9.9	7.3
Services	8.7	6.1	-8.3	24.0
Household final consumption expenditure	..	1.3	..	..
General gov't final consumption expenditure	..	10.7	..	..
Gross capital formation	..	7.4	..	..
Imports of goods and services	..	6.5	..	..



Note: 2006 data are preliminary estimates.

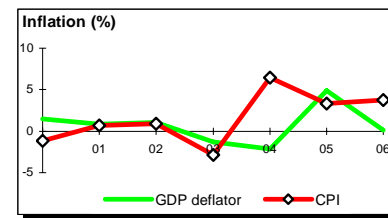
This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

ANNEX A2: Maldives at a Glance continued

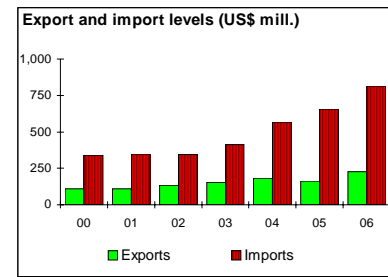
PRICES and GOVERNMENT FINANCE

	1986	1996	2005	2006
Domestic prices (% change)				
Consumer prices	..	6.2	3.3	3.7
Implicit GDP deflator	..	3.7	4.9	0.1
Government finance (% of GDP, includes current grants)				
Current revenue	..	29.6	48.1	61.5
Current budget balance	..	11.6	-0.3	6.0
Overall surplus/deficit	..	-2.5	-10.9	-7.1



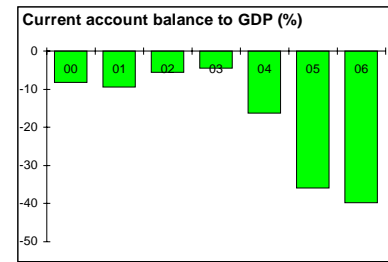
TRADE

	1986	1996	2005	2006
<i>(US\$ millions)</i>				
Total exports (fob)	..	80	162	225
Marine exports	..	49	102	133
Garments	..	10	1	..
Manufactures
Total imports (cif)	..	266	656	815
Food	110	141
Fuel and energy	..	27	115	181
Capital goods
Export price index (2000=100)	..	100	..	..
Import price index (2000=100)	..	100	..	..
Terms of trade (2000=100)	..	99	..	..



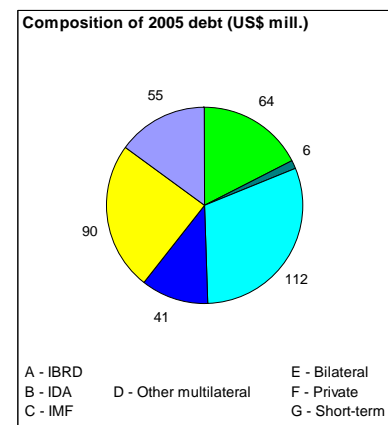
BALANCE of PAYMENTS

	1986	1996	2005	2006
<i>(US\$ millions)</i>				
Exports of goods and services	97	369	485	698
Imports of goods and services	86	353	860	1,048
Resource balance	10	16	-375	-350
Net income	-19	-22	-31	-41
Net current transfers	8	-1	136	22
Current account balance	0	-7	-270	-369
Financing items (net)	3	51	246	414
Changes in net reserves	-2	-44	24	-45
Memo:				
Reserves including gold (US\$ millions)	7	76	186	231
Conversion rate (DEC, local/US\$)	7.2	11.8	12.8	12.8



EXTERNAL DEBT and RESOURCE FLOWS

	1986	1996	2005	2006
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	69	168	368	..
IBRD	0	0	0	0
IDA	5	37	64	70
Total debt service	12	12	34	..
IBRD	0	0	0	0
IDA	0	0	1	2
Composition of net resource flows				
Official grants	10	10	51	..
Official creditors	7	13	20	..
Private creditors	2	2	5	..
Foreign direct investment (net inflows)	5	9	9	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	0	0	8	0
Disbursements	1	2	5	3
Principal repayments	0	0	1	1
Net flows	1	2	4	2
Interest payments	0	0	1	1
Net transfers	1	2	3	2



Note: This table was produced from the Development Economics LDB database.

9/28/07

ANNEX B2: Selected Indicators* of Bank Portfolio Performance and Management

Indicator	2005	2006	2007	2008
<i>Portfolio Assessment</i>				
Number of Projects Under Implementation ^a	2	3	2	2
Average Implementation Period (years) ^b	0.6	3.2	2.6	2.9
Percent of Problem Projects by Number ^{a, c}	0.0	0.0	0.0	0.0
Percent of Problem Projects by Amount ^{a, c}	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Number ^{a, d}	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Amount ^{a, d}	0.0	0.0	0.0	0.0
Disbursement Ratio (%) ^e	209.9	14.6	33.1	0.0
<i>Portfolio Management</i>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY	
	80	Last Five FYs
Proj Eval by OED by Number	5	0
Proj Eval by OED by Amt (US\$ millions)	44.2	0.0
% of OED Projects Rated U or HU by Number	0.0	0.0
% of OED Projects Rated U or HU by Amt	0.0	0.0

^a. As shown in the Annual Report on Portfolio Performance (except for current FY).

^b. Average age of projects in the Bank's country portfolio.

^c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP)

^d. As defined under the Portfolio Improvement Program

^e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

ANNEX B3: IBRD/IDA Program Summary

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>
<i>Actual</i>		
2005	Maldives Post Tsunami Emergency Project	8.4
	Integrated Human Development Project	15.6
	Sub-Total	24.0
2006	Integrated Human Development Project II	5.7
	Maldives Education and Training III	1.3
	Sub-Total	7.0
<i>Planned</i>		
2008	MV Mobile Banking Project	3.8
	Maldives Environment Management Project	12.0
	Sub-Total	15.8
2009	Maldives Pension Administration Project	12.0
	Additional financing for IHDP (education)	5.0
	Sub-Total	17.0
2010	Possible Development Policy Loan	6.0
	Sub-Total	6.0
2011	Possible follow-on financing	5.0
2012	NA	NA
Total for CAS Period		43.8

ANNEX B4: Summary of Non-Lending Services

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
Recent completions (Actual cost)				
Major Reports				
Investment Climate Assessment	FY05	158	G,D,B,PD	KG, PS
Social Protection in the Maldives	FY05	336	G,B	KG, PS
Gap Analysis of Public Sector Acct	FY06	40	G,B	KG, PS
E-Procurement Readiness Report	FY07	40	G,B	KG, PS
Maldives Fisheries Outlook Study	FY07	192	G,D,B	KG, PS
NLTA Underway				
Non-Lending TA				
Public Expenditure Management TA (IDF)	FY08	24	G	KG, PS
Capacity Building of Auditor General's Office	FY08	20	G	KG, PS
Strengthening of Procurement TA (IDF)	FY08	27	G	KG, PS
NLTA/AAA Planned				
Follow-on IDFs for PFM & PEM	FY09		G	KG, PS
Cross-cutting AAA on economic diversification/population consolidation	FY09		G	KG, PS
Public Expenditure & Financial Accountability	FY10		G	KG, PS
Report on Standards & Codes	FY11		G	KG, PS
Possible Fisheries Strategy TA	FY12		G	KG, PS

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

ANNEX B6: Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2003	2004	2005	2006	2007	2008	2009	2010	2011
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	..	..	..	..	..	..	..	..	..
Industry	..	..	..	..	..	..	..	..	..
Services	..	..	..	..	..	..	..	..	..
Total Consumption	51	52	..	..	..	..	..	..	..
Gross domestic fixed investment	27	36	..	..	..	..	..	..	..
Government investment	..	..	..	..	..	..	..	..	..
Private investment	..	..	..	..	..	..	..	..	..
Exports (GNFS) ^b	88	95	..	..	..	..	..	..	..
Imports (GNFS)	66	83	..	..	..	..	..	..	..
Gross domestic savings	49	48	..	..	..	..	..	..	..
Gross national savings ^c	38	36	..	..	..	..	..	..	..
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	691	753	750	927	1043	1152	1268	1394	1527
GNI per capita (US\$, Atlas method)	2170	2420	2300	2680	2810	2960	3230	3490	3750
Real annual growth rates (% , calculated from 85 prices)									
Gross domestic product at market price	9.2	11.5	-5.1	23.5	5.5	4.5	4.0	4.0	3.5
Gross Domestic Income	9.3	6.3	..	..	..	..	..	..	..
Real annual per capita growth rates (% , calculated from 85 prices)									
Gross domestic product at market price	6.5	8.7	-7.4	20.7	3.1	2.1	1.6	1.6	1.1
Total consumption	-19.2	34.5	..	..	..	..	..	..	..
Private consumption	-38.2	64.0	..	..	..	..	..	..	..
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	584	689	485	698	675	729	787	854	920
Merchandise FOB	152	181	162	225	246	266	287	310	335
Imports (GNFS) ^b	535	722	860	1048	1062	1139	1052	1041	1069
Merchandise FOB	414	565	656	815	826	885	818	809	831
Resource balance	49	-34	-375	-350	-387	-410	-265	-187	-149
Net current transfers	-42	-54	136	22	49	..	..	..	..
Current account balance	-31	-122	-270	-369	-415	-412	-244	-173	-125
Net private foreign direct investment	14	15	10	14	15	..	..	..	..
Long-term loans (net)	30	25	18	39	116	..	..	..	..
Official	12	8	20	37	0	..	..	..	..
Private	18	17	-2	1	116	..	..	..	..
Other capital (net, incl. errors & omissions)	14	127	219	362	308	..	..	..	..
Change in reserves ^d	-27	-44	24	-45	-24	43	12	10	1
<i>Memorandum items</i>									
Resource balance (% of GDP)	7.1	-4.5	-50.0	-37.8	-37.1	-35.6	-20.9	-13.4	-9.8
Real annual growth rates (YR85 prices)									
Merchandise exports (FOB)	22.1	13.0	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	27.7	23.4	..	..	..	..	..	..	..

(Continued)

ANNEX B6: Key Economic Indicators continued

Indicator	Actual			Estimate			Projected		
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public finance (as % of GDP at market prices)^e									
Current revenues	34.9	35.5	48.0	62.9	55.8	52.7	47.5	44.5	43.0
Current expenditures	26.5	28.9	48.3	56.7	51.9	47.3	41.1	38.0	36.0
Current account surplus (+) or deficit (-)	8.4	6.6	-0.3	6.2	3.9	5.4	6.4	6.5	7.0
Capital expenditure	11.8	8.2	10.6	13.5	27.8	20.8	13.5	7.5	7.6
Foreign financing	..	..	2.4	5.4	14.9	3.6	3.9	-1.7	-1.7
Monetary indicators									
M2/GDP	46.8	51.4	63.2	62.5	..	..	..	..	..
Growth of M2 (%)	11.5	19.7	22.5	22.2	..	..	..	..	..
Private sector credit growth / total credit growth (%)	-70.1	125.0	72.5	104.8	..	..	..	..	..
Price indices(YR85 =100)									
Merchandise export price index	93.6	98.6	..	..	..	..	..	..	..
Merchandise import price index	91.0	100.5	..	..	..	..	..	..	..
Merchandise terms of trade index	102.8	98.1	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	..	..	..	..	..	..	..	..	..
Real interest rates	..	..	..	..	..	..	..	..	..
Consumer price index (% change)	-2.9	6.4	3.3	3.5	7.0	6.0	6.0	6.0	6.0
GDP deflator (% change)	-1.3	-2.2	4.9	0.1	6.6	5.7	5.8	5.8	5.8

a. GDP at market prices

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

ANNEX B7: Key Exposure Indicators

Indicator	Actual			Estimate		Projected			
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total debt outstanding and disbursed (TDO) (US\$m) ^a	284	353	368	459	820	1008	1124	1184	1214
Net disbursements (US\$m) ^a	..	69	15	91	360	188	116	60	30
Total debt service (TDS) (US\$m) ^a	21	32	34	34	51	57	56	49	43
Debt and debt service indicators (%)									
TDO/XGS ^b	48.7	51.3	76.0	65.8	121.5	138.2	142.7	138.6	132.0
TDO/GDP	41.2	46.9	49.1	49.5	80.1	87.4	88.7	84.9	79.5
TDS/XGS	..	..	10.1	8.8	11.9	13.5	13.5	13.9	13.2
Concessional/TDO	64.6	60.8	56.9	49.5	..	..	..	..	..
IBRD exposure indicators (%)									
IBRD DS/public DS	..	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	..	..	..	..	..	..	..	..	..
IBRD DS/XGS	..	..	..	..	..	..	..	..	..
IBRD TDO (US\$m) ^d	..	..	..	..	..	..	..	..	..
Of which present value of guarantees (US\$m)	..	..	..	..	..	..	..	..	..
Share of IBRD portfolio (%)	..	..	..	..	..	..	..	..	..
IDA TDO (US\$m) ^d	58	66	64	70	..	..	..	..	..
IFC (US\$m)									
Loans	10.0	20.5	52.5	66.3	63.7	..	..	..	..
Equity and quasi-equity /c	1.25	1.25	1.25	1.25	1.12	..	..	..	..
MIGA									
MIGA guarantees (US\$m)	..	..	..	..	..	..	..	..	..

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

ANNEX B8: IFC Portfolio

Maldives
Committed and Disbursed Outstanding Investment Portfolio
As of 09/29/2007
(in USD Millions)

<u>FY</u> <u>Approval</u>	<u>Company</u>	<u>Committed</u>					<u>Disbursed Outstanding</u>				
		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Participant</u>	<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Participant</u>
2001	MFLC	2.33	1.12	-	-	-	1.33	1.12	-	-	-
2002	Universal Hotels	30.00	-	-	-	-	30.00	-	-	-	-
2002	Villa Shipping	4.00	-	2.00	-	-	4.00	-	2.00	-	-
2004	Taj Maldives Wataniya	6.07	-	-	-	6.07	6.07	-	-	-	6.07
2006	Maldives	20.00	-	-	-	-	20.00	-	-	-	-
Total Portfolio:		62.40	1.12	2.00	0.00	6.07	61.40	1.12	2.00	0.00	6.07

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

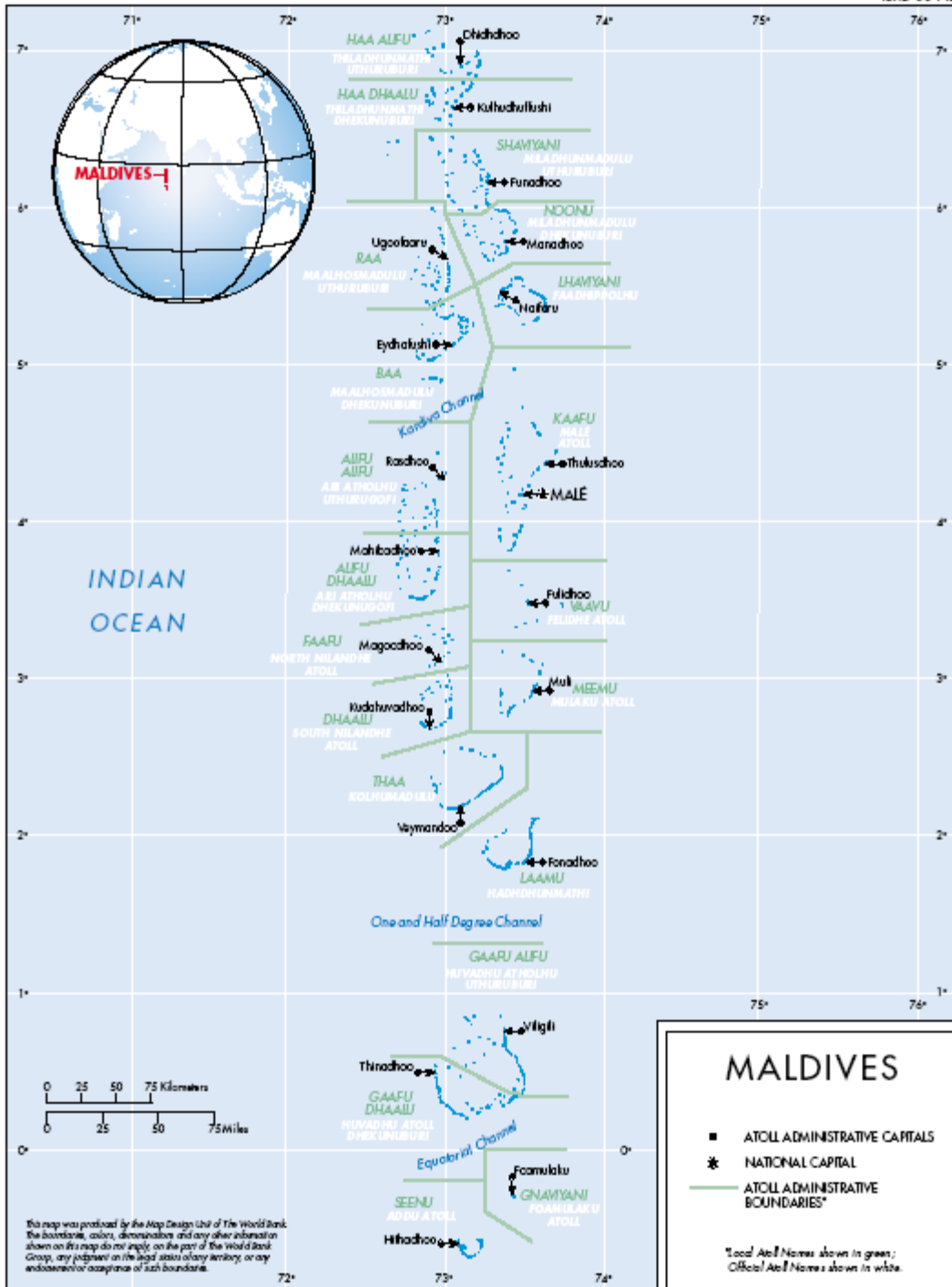
CAS Annex B8 - Maldives
Operations Portfolio (IBRD/IDA and Grants)
As Of Date 10/2/2007

Closed Projects 7

IBRD/IDA *	
Total Disbursed (Active)	15.06
of which has been repaid	0.00
Total Disbursed (Closed)	63.47
of which has been repaid	6.79
Total Disbursed (Active + Closed)	78.52
of which has been repaid	6.79
Total Undisbursed (Active)	11.41
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	11.41

Active Projects

Project ID	Project Name	Last PSR			Fiscal Year	IDA	Cancel.	Undisb.	Difference Between	
		Development Objectives	Implementation Progress	Supervision Rating					Expected and Actual Disbursements ^{a/}	Orig. Frm Rev'd
P078523	Integrated Human Development Project	MS	S	2005	21.3	10.01	8.47	7.96	2.80	
P094193	Maldives Post Tsunami Emergency Project	MS	S	2005	14		2.94	1.45		
Overall Result					35.3	10.01	11.41	9.41	2.80	



MALDIVES

- ATOLL ADMINISTRATIVE CAPITALS
- ★ NATIONAL CAPITAL
- ATOLL ADMINISTRATIVE BOUNDARIES*

*Local Atoll Names shown in green;
Official Atoll Names shown in white.