

## 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
<b>Pillar I: Economic governance &amp; investment</b> <ul style="list-style-type: none"> <li>Goal 1, 7NDP: Create an environment conducive for growth and generating employment</li> <li>Goal 2, 7NDP: Enhance trade, support businesses, and build competitive industries</li> </ul>				
<b>Public Finance Policy 1:</b> Reform the budget preparation process to improve fiscal management  <b>Strategy 1.1:</b> 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"> <li>Improved budgeting &amp; planning capacity in the Ministry of Finance &amp; Treasury</li> <li>Fiscal consolidation</li> </ul>	<ul style="list-style-type: none"> <li>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>)</li> <li>Expenditures / GDP are reduced to sustainable levels equivalent to 45 percent of GDP by 2010 (<i>baseline: 92% in the 2007 budget</i>).</li> </ul>	NLTA in support of the medium-term fiscal framework (ongoing & to be continued)  <u>Partners:</u> ADB, IMF
<b>Public Finance Policy 3:</b> Improve public financial administration to promote fiscal transparency and accountability.  <b>Strategy 3.1:</b> 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"> <li>Improve transparency of all public expenditures</li> </ul>	<ul style="list-style-type: none"> <li>PAS is operational in most important spending agencies and Ministries</li> <li>Public Finance Act fully implemented (<i>baseline: Act was passed but cannot be implemented with the PAS</i>)</li> <li>Independent Auditor</li> </ul>	Public accounting system activity (ongoing & financed through Bank-administered EC Trust Fund)  NLTA for budget management, procurement, and audit (ongoing IDF to be replenished).

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<p><b>Selected targets</b></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"> <li>Public procurement function is strengthened</li> </ul>	<p>Public Expenditure &amp; Financial Accountability (PEFA) assessment (FY10).</p> <p><u>Partners:</u> EC, ADB, IMF</p>
<p><b>Monetary Policy, Banking &amp; Finance Policy 3:</b> Strengthen the capacity of financial institutions and broaden and deepen the financial sector</p> <p><b>Strategy 3.1:</b> Facilitate the introduction of new financial institutions</p> <p><b>Strategy 3.2:</b> Encourage existing financial institutions to introduce and promote new financial products.</p> <p><b>Strategy 3.5:</b> Introduce intra-operability for electronic payments between financial institutions.</p> <p><b>Strategy 3.6:</b> 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"> <li>Increased investments &amp; savings and reduced levels of cash in the economy</li> <li>Greater access to formal financial services especially in the outer atolls</li> <li>Strengthened system capacity to assess client creditworthiness</li> </ul>	<ul style="list-style-type: none"> <li>Mobile phone banking introduced throughout the country.</li> <li>Inter-bank payment system (MIPS) developed &amp; introduced</li> <li>Credit Information Bureau established</li> <li>Increase in the rank and increase in the scores for the Doing Business Indicator for access to finance (score &amp; rank) (<i>baseline: rank = 135</i>)</li> <li>Reduced # of firms putting access to finance as #1 constraint in new ICA</li> </ul>	<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><b>Trade &amp; Investment Policy 2:</b> 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"> <li>Improved governance framework for the private sector.</li> </ul>	<ul style="list-style-type: none"> <li>Establishment of Maldives Association of Accountants (7NDP target)</li> </ul>	<p>WB/IMF Report on Standards &amp; Codes (ROSC) assessment.</p> <p><u>Partners:</u> ADB</p>

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<b>Strategy 2.6:</b> Establish a Maldives Association of Accountants to regulate the accounting profession and to establish private sector accounting standards.				
<p><b>Tourism Policy 1:</b> Facilitate sustainable growth and increase investment in the industry, while enhancing public share of economic benefits from tourism.</p> <p><b>Strategy 1.3:</b> Retain economic benefits through improved linkages with economic activities of island communities.</p> <p><b>Tourism Policy 2:</b> Increase employment opportunities and open opportunities for gainful public and community participation in the tourism industry.</p> <p><b>Strategy 2.6:</b> Establish greater backward linkages with fishing &amp; agriculture.</p>	<p>Dispersed population &amp; markets.</p> <p>Few linkages between tourism &amp; local industry.</p>	<ul style="list-style-type: none"> <li>Sustained investment in core economic sectors &amp; increased linkages with local industries.</li> </ul>	<ul style="list-style-type: none"> <li>Increased local sourcing of resort inputs</li> </ul>	<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 &amp; growth poles.</p>
<p><b>Pillar II: Human development and social protection</b></p> <ul style="list-style-type: none"> <li>Goal 6, 7NDP: Invest in people through providing equal opportunity for education, life long learning, skills training and talent management</li> <li>Goal 8, 7NDP: Empower women and advance protection for children, elderly, people with disabilities, poor and other vulnerable groups.</li> </ul>				
<b>Education Policy 1:</b> 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"> <li>Secondary school curriculum more relevant and improved quality</li> </ul>	<ul style="list-style-type: none"> <li>Increased number of students taking O level and A level (baseline:</li> </ul>	Ongoing IHDP & Post-tsunami reconstruction activities for access &

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<p><b>Strategy 1.3:</b> Establish residential learning centres in development focus islands or alternatively provide financial support to ensure access.</p> <p><b>Education Policy 2:</b> increase quality and effectiveness in the provision of basic education.</p> <p><b>Strategy 2.2:</b> increase the number of trained local teachers for all levels of schools.</p> <p><b>Education Policy 12:</b> Increase trained manpower through education and training for sector development.</p> <p><b>Strategy 12.1:</b> 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"> <li>Increased access to basic education</li> <li>Improved quality of the education labor force</li> </ul>	<p>7,666 and 833 in 2007)</p> <ul style="list-style-type: none"> <li>Improved grades at O and A level (baseline: 1,598 and 328 in 2007)</li> <li>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"> <li>Measurement of quality</li> </ul> </li> </ul>	<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><b>Social Security Policy 1:</b> Establish an effective retirement income system</p> <p><b>Strategy 1.1:</b> Develop legislation on establishing a Defined Contribution (DC) pension scheme.</p> <p><b>Strategy 1.2:</b> 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"> <li>Implementation of pension reform</li> </ul>	<ul style="list-style-type: none"> <li>Pension plan introduced for civil servants</li> </ul>	<p>IDA Pension administration project (FY09)</p> <p><u>Partners:</u> UNDP, UNICEF</p>

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<ul style="list-style-type: none"> <li>Selected targets</li> </ul> <p><b>Strategy 1.3:</b> Ensure the participation of the private sector in the pension scheme</p>				
<p><b>Pillar III: Environmental management and climate adaptation</b></p> <ul style="list-style-type: none"> <li>Goal 5, 7NDP: Protect the natural environment and make people &amp; property safer</li> </ul>				
<p><b>Environment Policy 3:</b> Position Maldives to adapt to the impacts of climate change and sea level rise.</p> <p><b>Strategy 3.4:</b> Establish a strong information base on climate change in the Maldives</p> <p><b>Environment Policy 5:</b> Enable management of solid waste to prevent impact on human health and environment.</p> <p><b>Fisheries Policy 8:</b> 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"> <li>Strengthen capacity of the Ministry of Environment to better protect the natural environment of the Maldives</li> <li>Increase access to solid waste management services in selected atolls</li> </ul>	<ul style="list-style-type: none"> <li>Training of key staff and strengthening of institutional capacity to manage the natural environment</li> <li>Collection of basic data</li> <li>Introduction of sustainable solid waste collection and disposal practices in at least two regions in the Maldives.</li> </ul>	<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

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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

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#### 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.<sup>1</sup>

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.

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<sup>1</sup> 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,<sup>2</sup> 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.<sup>3</sup>

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%
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### 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

<sup>2</sup> 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.

<sup>3</sup> 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,<sup>4</sup> 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.

<sup>4</sup> 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.<sup>5</sup> 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.*

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<sup>5</sup> 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,<sup>6</sup> 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.

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<sup>6</sup> 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.<sup>7</sup> 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

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<sup>7</sup> 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
<b>Education.</b> 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 project<sup>8</sup> and in the OED report for the two earlier education and training projects.<sup>9</sup> 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
<b>Health, Nutrition and Population.</b> 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	

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

<sup>9</sup> 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"> <li>▪ Secondary schools now located on 138 islands compared to 74 in 2000.</li> <li>▪ Secondary school enrolment in atolls increased from 9236 (2000) to 17135 (2005).</li> <li>▪ The total number of atoll hospitals, health centers and health posts has more than doubled since 2000.</li> </ul> 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,<sup>10</sup> *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.

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<sup>10</sup> 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**

<b>CAS PROGRAM</b>	<b>ACTUAL SUPPORT PROVIDED</b>	<b>Investment US\$ million</b>
<b>WB Lending</b>		
Multi-sectoral Human Development Project	FY05 Integrated Human Development Project	15.60
	FY05 Tsunami Emergency Reconstruction Project	14.00
	<b>Total</b>	<b>29.60</b>
<b>WB Technical Assistance</b>		
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	
<b>WB Advisory and Analytical Activities</b>		
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 <sup>th</sup> 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	
<b>IFC Lending</b>		
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
	<b>Total</b>	<b>68.00</b>
<b>IFC Equity Investment</b>		
	FY 00 Maldives Leasing Company	
<b>IFC Technical Assistance</b>		
	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
<b>Long Term Development Goals of the Maldives (as highlighted in the 2000 CAS)</b>			
Economic growth	Sound and consistent growth since 1978. Average growth rate 7.6% p.a.	<ul style="list-style-type: none"> <li>▪ Growth declined in 2005 following the tsunami by 5% but grew in 2006 by 18%. Average 2000-2006 = 6.3 % p.a.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sound administration and fiscal management allowed for the steady development of both the tourism and fisheries sectors—the two backbones of the economy</li> </ul>
Poverty alleviation	Poverty levels declined steadily since early 1980s	<ul style="list-style-type: none"> <li>▪ Poverty levels continued to decline throughout the period and even after the tsunami.</li> <li>▪ 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.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Poverty has declined over a long period.</li> <li>▪ Long-term development policies have supported this trend, and in particular encouraged the gradual introduction of improved education and health services.</li> </ul>
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"> <li>▪ Economic disparities persist. Wage levels said to be three times higher in Male’.</li> <li>▪ However, access to social services has improved significantly. Secondary schools on 138 islands compared to 74 in 2000.</li> </ul>	<ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ The government (and the donors assisting it) will have to be more creative, including building strong links to its population consolidation policy</li> </ul>
Improve health and education services	Major focus of government for last 30 years. Primary school attendance was already universal.	<p><b>Education.</b> Secondary school attendance increased from 18,800 to 30,000.</p> <ul style="list-style-type: none"> <li>▪ Transition rates from primary to secondary school increased from 30% to 88%</li> <li>▪ Up to end lower secondary school no significant gender gap</li> <li>▪ However, fewer girls attend higher secondary schools for social reasons. Parents do not like daughters living away from home.</li> </ul>	<ul style="list-style-type: none"> <li>▪ 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.</li> </ul>

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

	Status in 2000	Status in 2006	Lessons Learned
		<p>political commitment to the concept.</p> <ul style="list-style-type: none"> <li>▪ However, following the tsunami, political commitment is very low. Budget deficits growing very fast. Budget deficit for 2007 = 93% of GDP.</li> <li>▪ Passage of the Public Finance Act and a new Audit Act.</li> </ul>	<p>powerful incentive to over-spend.</p> <ul style="list-style-type: none"> <li>▪ All IFIs and a private rating agency have indicated their concerns</li> <li>▪ 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.</li> </ul>
Improving business environment	<ul style="list-style-type: none"> <li>▪ Tourism already dominated by the private sector.</li> <li>▪ State monopolies still dominated many sectors.</li> <li>▪ Inadequate access to finance.</li> </ul>	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ Maldives Leasing Company established in 2002 with support from IFC.</li> <li>▪ Housing Finance Development Corporation established in 2004 with some TA from the Bank. On-going assistance from IFC to allow privatization.</li> <li>▪ 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.</li> </ul>	<ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ This is an area requiring continued support from the donors, including the Bank and IFC.</li> <li>▪ This part of the reform agenda is very broad and includes the development of an appropriate framework of commercial law.</li> </ul>
<b>Performance of Portfolio and the Bank</b>			
Lending--preparation	Third Education and Training Project approved in early 2000.	<ul style="list-style-type: none"> <li>▪ Two projects prepared during the CAS period: <ul style="list-style-type: none"> <li>○ Integrated Human Development Project</li> <li>○ The Tsunami Emergency</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Weak capacity in most ministries creates problems when implementing all types of activity.</li> <li>▪ High levels of Bank staff input and supervision required—more than</li> </ul>

	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"> <li>▪ Generally satisfactory performance.</li> <li>▪ Performance of past education projects rated as satisfactory by IEG, in report of 2002.</li> </ul>	<ul style="list-style-type: none"> <li>▪ All projects currently rated satisfactory.</li> <li>▪ IEG recently rated Third Education and Training Project as satisfactory</li> <li>▪ However, all recent projects have been rated unsatisfactory for short periods because of capacity deficiencies in the implementing agencies.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Small middle-income countries demand extensive advisory assistance. Many more AAA activities were provided than included in the original CAS program.</li> <li>▪ For the new CAS, objectives need to be more closely defined and more directly measurable, with an affordable monitoring framework.</li> </ul>
AAA activities		<ul style="list-style-type: none"> <li>▪ Sector studies have been most successful when Bank staff have been closely involved and strong client ownership.</li> <li>▪ IDF grants have been very slow to disburse without close attention from Bank staff.</li> <li>▪ Bank provided more support than provided for the CAS.</li> </ul>	
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"> <li>▪ Consultation with civil society improved with local representative in post.</li> <li>▪ Supervision activities strengthened in part because of geographic proximity of staff.</li> </ul>
Donor Coordination		Government taking the lead, in association with resident donors, including the World Bank.	<ul style="list-style-type: none"> <li>▪ Communications with both government and donors improved following the opening of the local office.</li> </ul>

## 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
<b>Cost Sharing.</b> 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.
<b>Recurrent Cost Financing.</b> 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.
<b>Local Cost financing.</b> 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.
<b>Taxes and duties.</b> 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**

<b>Donor</b>	<b>WB</b>	<b>IFC</b>	<b>UNDP</b>	<b>UNICEF</b>	<b>WHO</b>	<b>EU</b>	<b>Common-wealth</b>	<b>ISB</b>	<b>ADB</b>	<b>IMF</b>	<b>Bilaterals</b>
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,<sup>6</sup> 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

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<sup>6</sup> 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

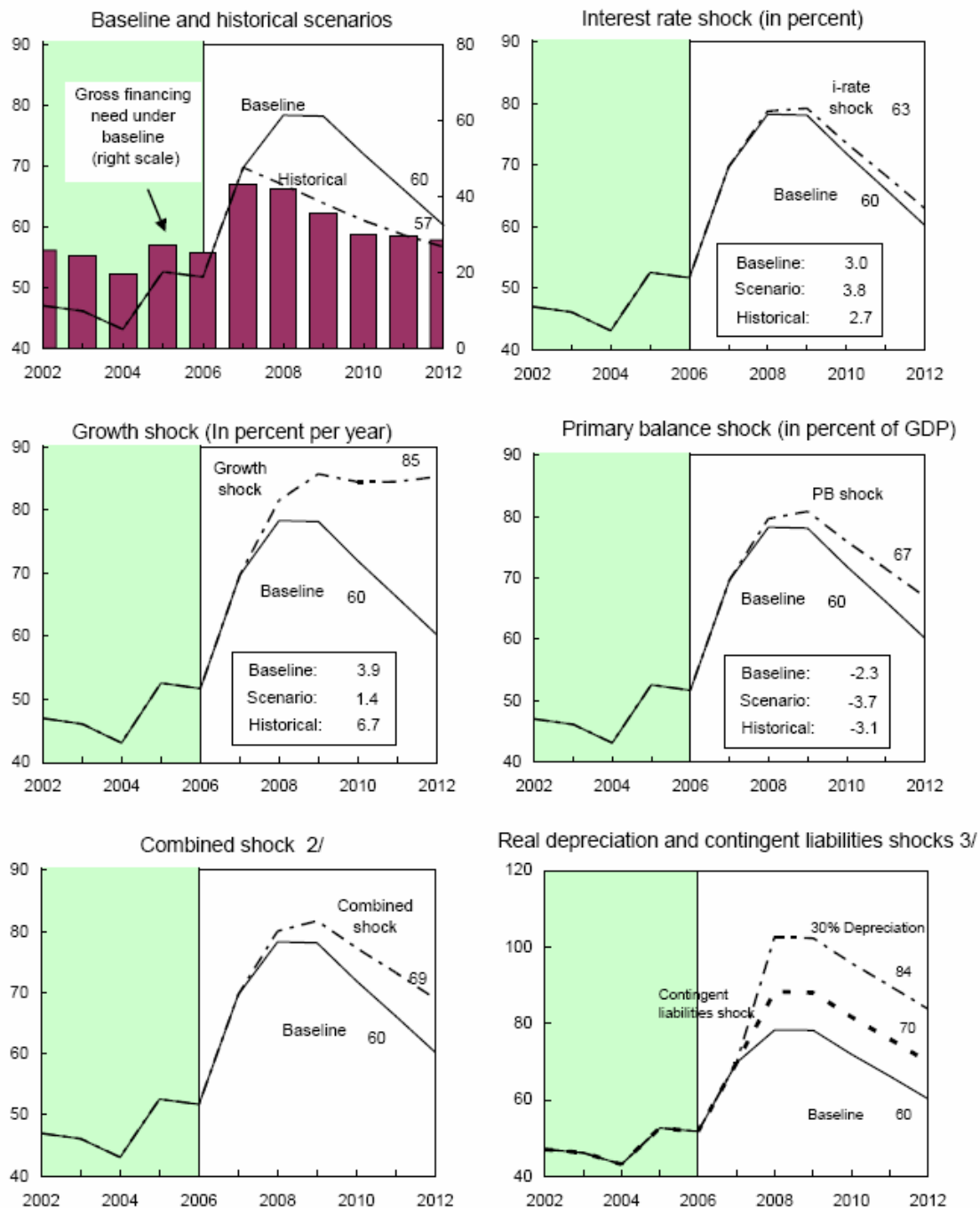
\* Source: Annex II of the *Maldives-Staff Report for the 2007 Article IV Consultation*, SM/07/207, IMF, which was concluded on July 30, 2007.

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)

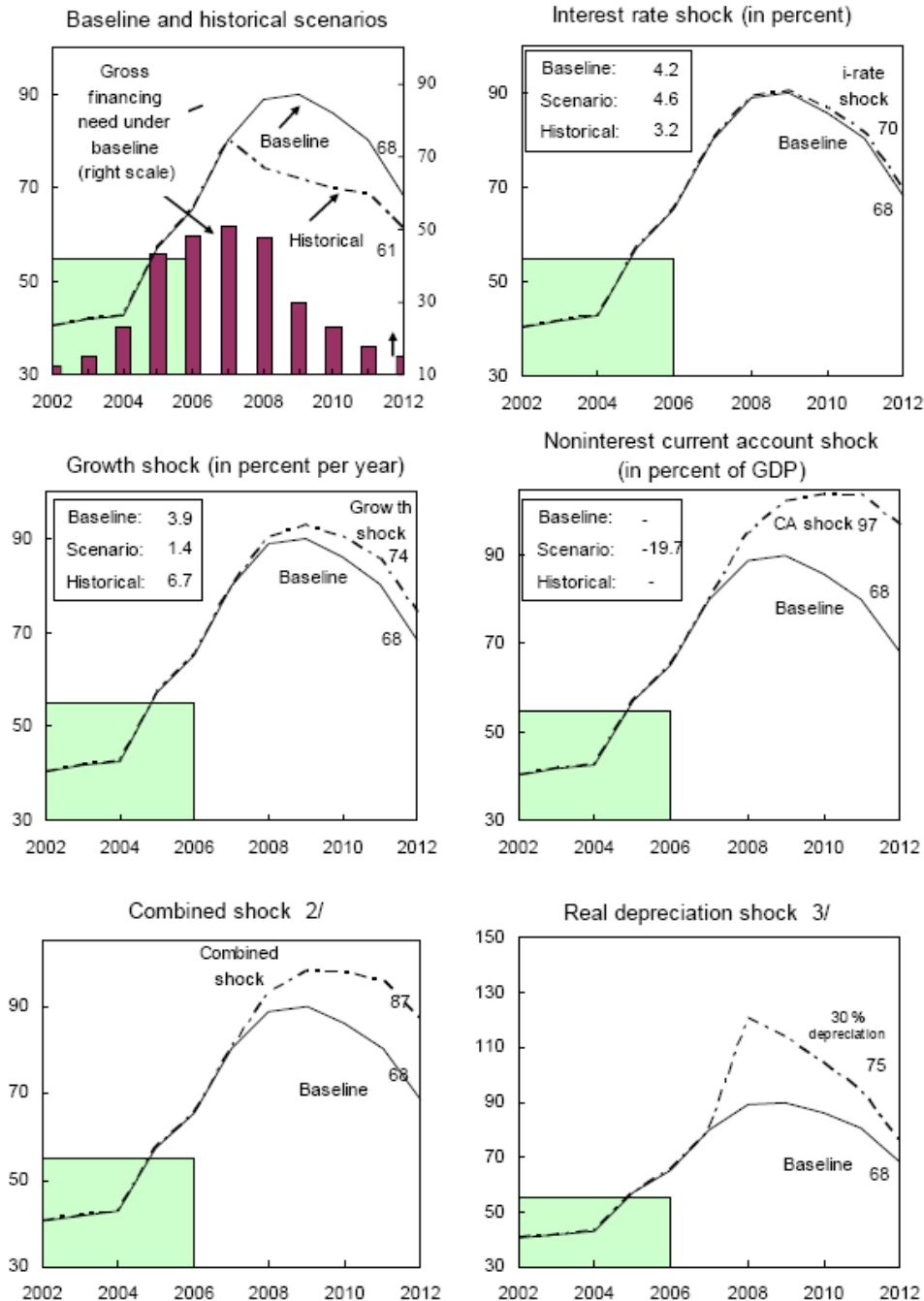
	Actual			Projections							Debt-stabilizing primary balance 9/	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		2012
<b>1 Baseline: Public sector debt 1/</b>	47.0	46.1	43.1	52.6	51.7	69.7	78.3	78.1	71.9	66.1	60.2	
<i>Of which: foreign-currency denominated</i>	26.9	29.6	30.5	33.9	33.5	44.5	51.1	50.3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

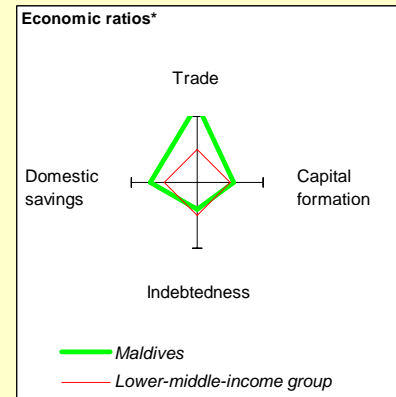
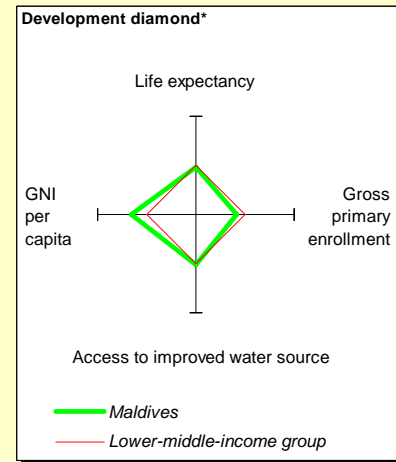
Table II-2. Maldives: External Debt Sustainability Framework, 2002-12  
(In percent of GDP, unless otherwise indicated)

	Actual										Projections			Debt-stabilizing noninterest current account 6/ -9.0
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012			
<b>1 Baseline: External debt</b>	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			

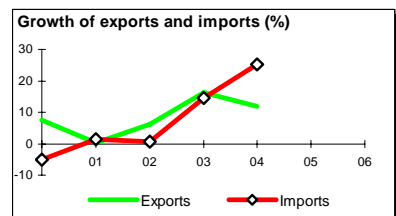
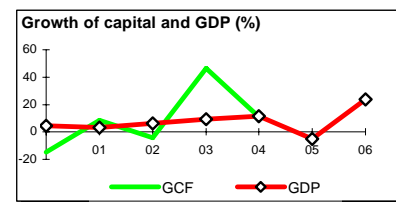
1/ Derived as  $[r - g - \rho(1+g) + \alpha x(1+r)] / (1+g+\rho+g\rho)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt,  $\rho$  = change in domestic GDP deflator in US dollar terms,  $g$  = real GDP growth rate,  $\alpha$  = nominal appreciation (increase 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,  $\rho$  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		
<b>2006</b>					
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		
<b>Average annual growth, 2000-06</b>					
Population (%)	2.5	1.7	0.9		
Labor force (%)	5.2	2.1	1.4		
<b>Most recent estimate (latest year available, 2000-06)</b>					
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		
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
	<b>1986</b>	<b>1996</b>	<b>2005</b>	<b>2006</b>	
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	..	
	<b>1986-96</b>	<b>1996-06</b>	<b>2005</b>	<b>2006</b>	<b>2006-10</b>
(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	..	..
	<b>1986-96</b>	<b>1996-06</b>	<b>2005</b>	<b>2006</b>
(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.

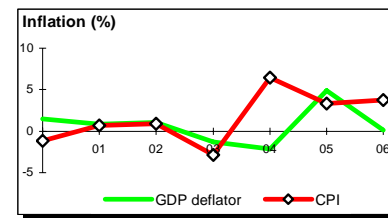
This table was produced from the Development Economics LDB database.

\* 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

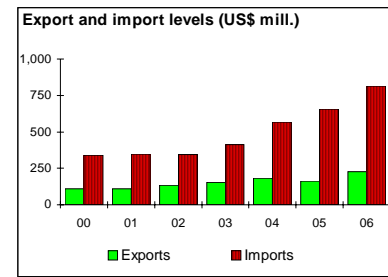
PRICES and GOVERNMENT FINANCE

	1986	1996	2005	2006
<b>Domestic prices</b> (% change)				
Consumer prices	..	6.2	3.3	3.7
Implicit GDP deflator	..	3.7	4.9	0.1
<b>Government finance</b> (% 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



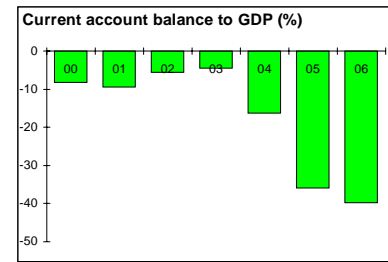
TRADE

	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	..	..



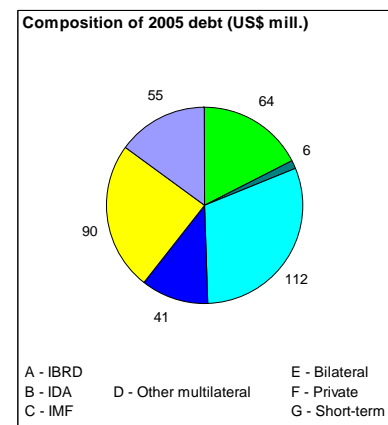
BALANCE of PAYMENTS

	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
<b>Memo:</b>				
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**

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

<b>Memorandum Item</b>	<b>Since FY</b>	
	<b>80</b>	<b>Last Five FYs</b>
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

<sup>a</sup>. As shown in the Annual Report on Portfolio Performance (except for current FY).

<sup>b</sup>. Average age of projects in the Bank's country portfolio.

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

<sup>d</sup>. As defined under the Portfolio Improvement Program

<sup>e</sup>. 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>
<b><i>Actual</i></b>		
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
<b><i>Planned</i></b>		
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
<b>Total for CAS Period</b>		<b>43.8</b>

### ANNEX B4: Summary of Non-Lending Services

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience<sup>a</sup></i>	<i>Objective<sup>b</sup></i>
<b>Recent completions (Actual cost)</b>				
<b>Major Reports</b>				
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
<b>NLTA Underway</b>				
<b>Non-Lending TA</b>				
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
<b>NLTA/AAA Planned</b>				
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
<b>National accounts (as % of GDP)</b>									
Gross domestic product <sup>a</sup>	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) <sup>b</sup>	88	95	..	..	..	..	..	..	..
Imports (GNFS)	66	83	..	..	..	..	..	..	..
Gross domestic savings	49	48	..	..	..	..	..	..	..
Gross national savings <sup>c</sup>	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	..	..	..	..	..	..	..
<b>Balance of Payments (US\$ millions)</b>									
Exports (GNFS) <sup>b</sup>	584	689	485	698	675	729	787	854	920
Merchandise FOB	152	181	162	225	246	266	287	310	335
Imports (GNFS) <sup>b</sup>	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 <sup>d</sup>	-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
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>									
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
<b>Monetary indicators</b>									
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	..	..	..	..	..
<b>Price indices( YR85 =100)</b>									
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) <sup>f</sup>	..	..	..	..	..	..	..	..	..
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) <sup>a</sup>	284	353	368	459	820	1008	1124	1184	1214
Net disbursements (US\$m) <sup>a</sup>	..	69	15	91	360	188	116	60	30
Total debt service (TDS) (US\$m) <sup>a</sup>	21	32	34	34	51	57	56	49	43
Debt and debt service indicators (%)									
TDO/XGS <sup>b</sup>	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 (%) <sup>c</sup>	..	..	..	..	..	..	..	..	..
IBRD DS/XGS	..	..	..	..	..	..	..	..	..
IBRD TDO (US\$m) <sup>d</sup>	..	..	..	..	..	..	..	..	..
Of which present value of guarantees (US\$m)	..	..	..	..	..	..	..	..	..
Share of IBRD portfolio (%)	..	..	..	..	..	..	..	..	..
IDA TDO (US\$m) <sup>d</sup>	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	-	-	-	-
<b>Total Portfolio:</b>		<b>62.40</b>	<b>1.12</b>	<b>2.00</b>	<b>0.00</b>	<b>6.07</b>	<b>61.40</b>	<b>1.12</b>	<b>2.00</b>	<b>0.00</b>	<b>6.07</b>

\* Denotes Guarantee and Risk Management Products.

\*\* Quasi Equity includes both loan and equity types.

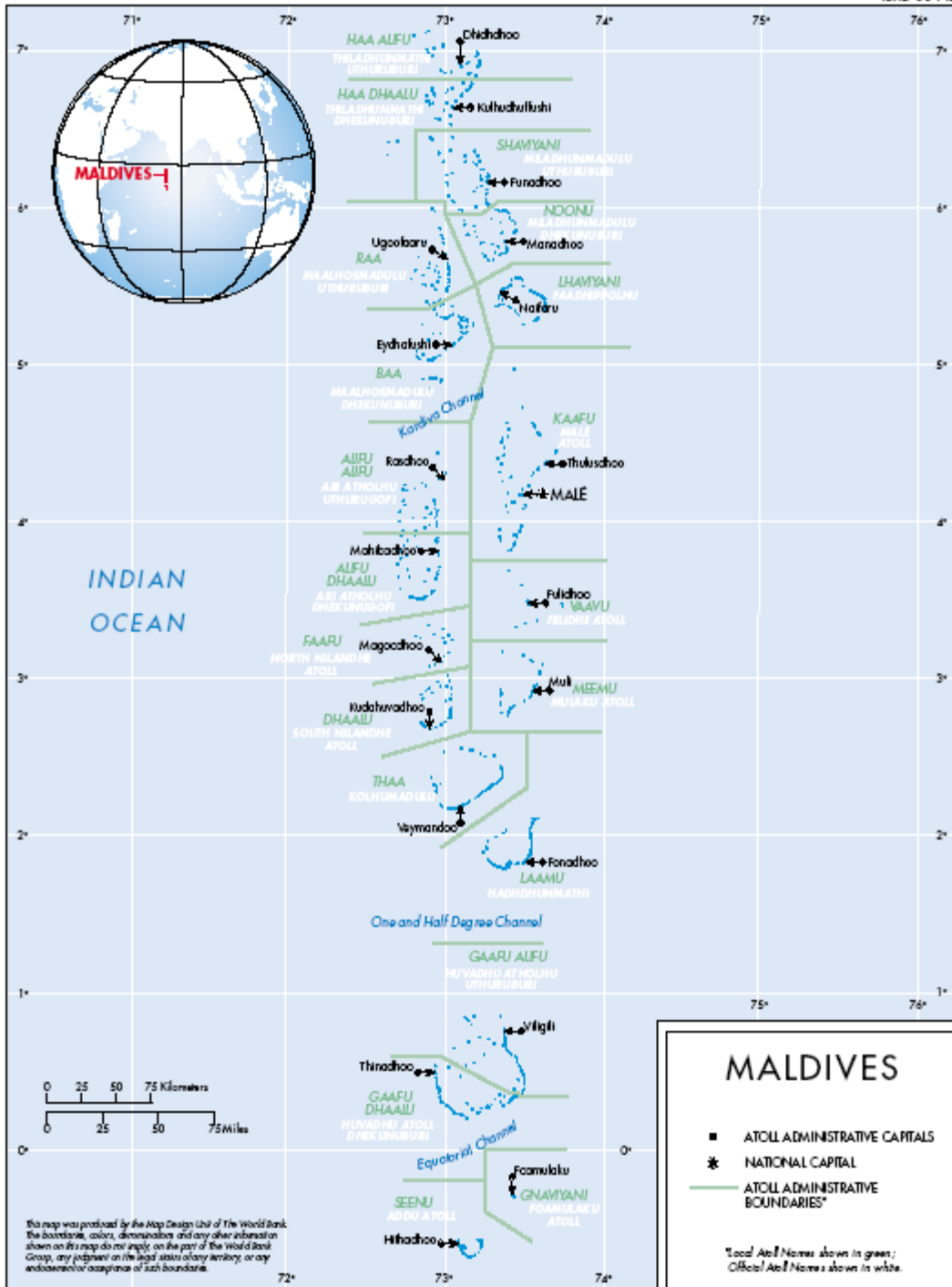
**CAS Annex B8 - Maldives**  
**Operations Portfolio (IBRD/IDA and Grants)**  
As Of Date 10/2/2007

Closed Projects 7

<b>IBRD/IDA *</b>	
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	Supervision Rating		Fiscal Year	IDA	Cancel.	Undisb.	Difference Between Expected and Actual Disbursements <sup>a/</sup>	
		Development Objectives	Implementation Progress					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.