

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

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

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