



Maldives: Moving Towards Economic Stability

April 11, 2014



In the early 1980s the Maldives was one of the world's 20 poorest countries with a population of 156,000. Today, with a population of over 326,000, it is a middle-income country with an annual per capita income of US\$7,711. With more territorial sea than land, marine resources have played a vital role shaping the contours of economic development, with nature-based tourism being a key driver of economic growth. To secure and continue growth, the Maldives will need to diversify its economy and balance its public spending.

Challenge

The country needs to focus on fiscal, public financial management (PFM) and debt management; sustainable growth; social inclusion and service delivery; and environment and natural resource management. [Maldives](#) also needs to generate more skilled jobs while diversifying into other sustainable sectors from tourism.

Solution

The World Bank lending envelope in the Maldives has traditionally been limited. Nevertheless, the World Bank has remained engaged as an active development partner supporting the governments with technical expertise.

FY14 - FY16 World Bank Group Interim Strategy Note (ISN) sets out a selective program to support Maldives and lays the foundations for the resumption of a full country program. Building on the Bank Group's ongoing program of support and drawing on lessons learned from the [FY08-FY12 Country Assistance Strategy](#).

Environment

Environmental management is constrained by the lack of technical and managerial capacity to deliver the required environmental infrastructure to monitor and control environmental impacts. The World Bank-supported Maldives Environmental Management Project is addressing these constraints, developing an integrated solid waste management system in the North Province. The construction of the regional waste management facility is proceeding ahead of schedule and is likely to finish by May 2014. The waste incinerator is expected to be ready by October 2014. The completion of the island waste management centers and the residual waste transfer vessel is expected by June 2014 and December 2014, respectively. The project's final target for the user fee collection in 50 percent of the participating islands was achieved 1.5 years ahead of schedule. The project's final phase, namely operationalizing the system as the much needed model for regional solid waste management will be the project's most critical challenge.

Considerable progress was made in building human and technical capacity, including the creation of a cadre of trained civil servants, enhanced access to information from environmental monitoring and research to support planning processes as well as community participation in environmental management in 75 percent of the targeted islands.

Clean Energy

The World Bank is supporting the government's efforts to move to a carbon-neutral economy. Emphasis is being placed on shifting away from diesel as the primary fuel for electricity generation and on acquiring the necessary technical and institutional capacity in renewable energy technologies and operations. The Clean Energy for Climate Mitigation Project under the Maldives Climate Change Trust Fund (CCTF) program is designed to demonstrate the techno-economic viability of integrating renewable energy technologies into the power mix in island communities as a model for future interventions in energy mitigation in the Maldives. The project is currently under implementation. The World Bank has also been supporting the regulator, the Maldives Energy Authority, through various trust fund resources to support the development of a robust regulatory framework for the energy sector.

The CCTF's will support the development and implementation of the climate change strategy for Maldives, and build a climate -resilient economy and society through adaptation and mitigation activities.

Health

The government is proactively undertaking health sector reforms, particularly to the health insurance system. The World Bank has worked closely with the Ministry of Health and the National Social Protection Agency to compile and analyze the necessary evidence to inform the ongoing reforms to the country's universal health insurance scheme, *Aasandha*, and its predecessor, *Madhana*. The main challenge facing *Aasandha* relates to its fiscal sustainability. As discussed in a recent World Bank Policy Note, substantive savings for the scheme could be achieved by reducing the cost of medicines through the bulk procurement of essential and generic drugs and by reducing expenditure on overseas treatment through negotiation of close-ended package rates with providers. Yet another area for policy action is improved case management of patients with chronic illnesses at the primary care level. All these measures, while improving the scheme's long-run fiscal sustainability, will also have positive distributional implications, particularly with respect to the decrease in the cost of drugs, which would particularly help the poorest segments of the population. The Government has requested continued World Bank technical assistance with the ongoing reform process.

Education

Increasing the number of well-educated and qualified Maldivians is extremely important for the country's continued growth and to reduce the reliance on expensive expatriate labor. At present, the country depends heavily on expensive overseas labor for technical, administrative and managerial jobs, as there are insufficient Maldivians with higher secondary and tertiary level qualifications to take up these positions. The World Bank is supporting government efforts to expand higher secondary and tertiary education and improve the quality of education at all levels. Building on recent World Bank analytical work and earlier lending operation in the education sector, the Enhancing Education Development Project approved in April 2013 will be focusing on increasing the survival rate of students through secondary education, establishment of a system of national assessments of learning outcomes and development of a quality assurance system for schools. The project will cover the entire country, including the outer atolls, in an effort to promote equitable growth and development.

" Now we have the privilege of moving from state employment to private sector without forgoing the pensions. I have a strong feeling that today's youth will be much better off. "

Madulu Waheed

Retired Civil Servant

Bank Group Contribution

The World Bank lending envelope in the Maldives has traditionally been limited. [The International Development Association \(IDA\)](#) allocation for the Maldives is provided in grants, reflecting the country's debt distress risk rating. As of end February 2014, the portfolio comprises three IDA projects with a net commitment value of \$39 million, supporting education (26 percent of the portfolio), environmental management (34 percent of the portfolio), as well as social protection and pension administration (40 percent of the portfolio).

With a limited lending envelope, trust fund resources have served as a vital complement to the World Bank Group's program, supporting lending activities, technical assistance and analytical work. As of end-February 2014, trust-funded activities totaled over \$11 million, benefitting energy and climate change activities in particular. The Maldives Climate Change Trust Fund is supplementing the World Bank's Environmental Management Project, for instance, addressing clean energy, solid waste management, wetland conservation and coral reef monitoring. Trust funds have been supporting analytical efforts on a host of critical issues, from youth development to fiscal sustainability. Trust funds have also been supporting the development of the investment plan for scaling up the renewable energy program.

Partners

Going forward, partnerships will play a critical role. This will be particularly important in view of the need to leverage additional resources to increase development impact. The partnership with IFC will continue in the area of solid waste management and renewable energy, and may be expanded to include MIGA support. In the area of solid waste management, increased collaboration through a public private partnership (PPP) for investment and operational support for regional solid waste management is being explored. In the area of renewable energy, the joint IDA, IFC and ADB support for the preparation of the investment plan (IP) for the Scaling up

Renewable Energy Program (SREP), will be continued. In the implementation phase, IFC and MIGA are considering investment support to leverage the proposed guarantee program for renewable energy, subject to the usual due diligence, and ADB is also considering to invest more for additional leverage. The World Bank Group has had a strong partnership with the ADB to facilitate a transformation in the sector and its economics and to develop innovative financing schemes through the scale-up of renewable energy technologies in the country. The partnership with the EU will also continue, with the second phase of the Climate Change Trust Fund (CCTF II) expected to deepen and scale up the wetlands conservation and coral reef monitoring efforts during FY15.

Moving Forward

Building on both the World Bank Group's ongoing program and the lessons learned under the [FY08-12 Country Assistance Strategy](#), the Interim Strategy Note will propose a selective program of engagement and a realistic framework of results. The Bank Group program in this interim period will remain closely aligned with the development challenges identified above. While near-term in focus, it aims to contribute to the fundamental building blocks of medium and long-term growth and development which would underpin a future program of engagement. The Interim Strategy is anticipated to focus on a few areas deemed central to the Maldives during this transition period: environment and natural resource management; human capital development, and; public financial management, and institutional capacity building. The strategy would remain flexible, to respond to evolving government needs and priorities. Consistent with the lessons learned, program and project designs will be simple, innovative and contain an element of capacity building so as to minimize implementation risks.

Bank Group Contribution

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the environment and renewable energy with 45 percent. A significant body of analytical work and non-lending technical assistance has underpinned the World Bank program over the past few years, including on human capital development, water security, tourism, the national health insurance scheme, and targeting the poor.

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