

Report No. 24238-MV

# Maldives Public Expenditure Review

December 6, 2002

**The Government of the Republic of Maldives**  
**The World Bank**

Poverty Reduction and Economic Management Unit  
South Asia Region

**The Asian Development Bank**



## CURRENCY EQUIVALENTS

The external value of Maldives rufiyaa (Rf) is fixed at Rf12.80 per U.S. dollar since July 25, 2001 under a *de facto* fixed exchange rate policy vis-à-vis the U.S. dollar. Accordingly:

### Annual Averages

1992	US\$1.00	=	Rf 10.57
1993	US\$1.00	=	Rf 10.96
1994	US\$1.00	=	Rf 11.59
1995	US\$1.00	=	Rf 11.77
1996	US\$1.00	=	Rf 11.77
1997	US\$1.00	=	Rf 11.77
1998	US\$1.00	=	Rf 11.77
1999	US\$1.00	=	Rf 11.77
2000	US\$1.00	=	Rf 11.77
2001	US\$1.00	=	Rf 12.24

## FISCAL YEAR

January 1 - December 31

### The Government of The Republic of Maldives

Minister of State for Finance and Treasury	:	Mohamed Jaleel
Executive Director (MOFT)	:	Riluwan Shareef
Task Coordinator (MOFT)	:	Ismail Ali Manik

### The World Bank

Vice President	:	Mieko Nishimizu
Country Director	:	Marilou Jane D. Uy
Sector Director	:	Sadiq Ahmed
Task Leader	:	Tercan Baysan

### The Asian Development Bank

Task Coordinator	:	Hideaki Imamura
------------------	---	-----------------

## ABBREVIATIONS AND ACRONYMS

<b>ADB</b>	Asian Development Bank	<b>MMA</b>	Maldives Monetary Authority
<b>AG</b>	Auditor General	<b>MNSL</b>	Maldives National Shipping Limited
<b>AMCC</b>	Aid Management and Coordination Committee	<b>MOWASS</b>	Ministry of Women's Affairs and Social Security
<b>BOM</b>	Bank of Maldives	<b>MPA</b>	Maldives Port Authority
<b>CEM</b>	Country Economic Memorandum	<b>MPND</b>	Ministry of Planning and National Development
<b>CFAA</b>	Country Financial Accountability Assessment	<b>MTCA</b>	Ministry of Transport and Civil Aviation
<b>DIR</b>	Department of Inland Revenue	<b>MTCC</b>	Maldives Transport and Contacting Company
<b>EMIS</b>	Educational Monitoring and Information System	<b>MTEP</b>	Medium-Term Expenditure Program
<b>FMIS</b>	Financial Management Information System	<b>NDP</b>	National Development Plan
<b>FNDP</b>	Fifth National Development Plan	<b>NDR</b>	Northern Development Region
<b>FRMR</b>	Fisheries Resources Management Regime	<b>NGO</b>	Non-Governmental Organization
<b>GDP</b>	Gross Domestic Product	<b>NHFS</b>	National Housing Finance Scheme
<b>GEF</b>	Global Environment Facility	<b>O&amp;M</b>	Operations and Maintenance
<b>GST</b>	Goods and Service Tax	<b>PEM</b>	Public Expenditure Management
<b>HNP</b>	Health, Nutrition, and Population	<b>PER</b>	Public Expenditure Review
<b>IDA</b>	International Development Association	<b>PRS</b>	Poverty Reduction Strategy
<b>IDC</b>	Island Development Committees	<b>PSIP</b>	Public Sector Investment Program
<b>IGMH</b>	Indira Gandhi Memorial Hospital	<b>R&amp;M</b>	Repairs and Maintenance
<b>IMF</b>	International Monetary Fund	<b>RDP</b>	Regional Development Project
<b>JFPR</b>	Japan Fund for Poverty Reduction	<b>RER</b>	Real Exchange Rate
<b>KFED</b>	Kuwait Fund for Economic Development	<b>SAFTA</b>	South Asia Free Trade Area
<b>MAA</b>	Ministry of Atolls Administration	<b>SDR</b>	Southern Development Region
<b>MCH</b>	Maternal and Child Health	<b>SHE</b>	Society for Health Education
<b>MCPW</b>	Ministry of Construction and Public Works	<b>SNDP</b>	Sixth National Development Plan
<b>MEB</b>	Maldives Electricity Board	<b>SOE</b>	State Owned Enterprise
<b>MFT</b>	Ministry of Finance and Treasury	<b>STELCO</b>	State Electricity Company Limited
<b>MHAHE</b>	Ministry of Home Affairs, Housing and Environment	<b>STO</b>	State Trading Organization
<b>MHUBB</b>	Maldives Housing and Urban Development Board	<b>TA</b>	Technical Assistance
<b>MIFCO</b>	Maldives Industrial Fisheries Company	<b>TGE</b>	Total Government Expenditure
		<b>TRE</b>	Total Government Recurrent Expenditure
		<b>UNICEF</b>	United Nations Children's Fund
		<b>VPA</b>	Vulnerability and Poverty Assessment
		<b>W&amp;MA</b>	Ways and Means Account



# Maldives at a glance

## POVERTY and SOCIAL

### 2001

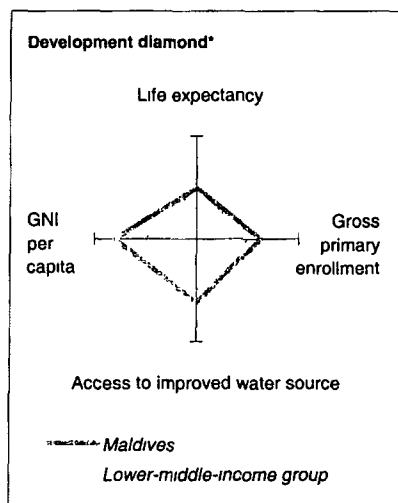
	Maldives	South Asia	Lower-middle-income
Population, mid-year (millions)	0.28	1,380	2,164
GNI per capita (Atlas method, US\$)	1,990	450	1,240
GNI (Atlas method, US\$ billions)	0.56	616	2,677

### Average annual growth, 1995-01

	Maldives	South Asia	Lower-middle-income
Population (%)	2.5	1.9	1.0
Labor force (%)	2.5	2.4	1.2

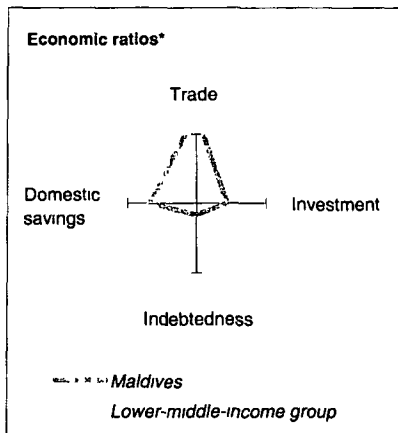
### Most recent estimate (latest year available, 1995-01)

	Maldives	South Asia	Lower-middle-income
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	28	28	46
Life expectancy at birth (years)	68	62	69
Infant mortality (per 1,000 live births)	28	73	33
Child malnutrition (% of children under 5)	45	49	11
Access to an improved water source (% of population)	100	87	80
Illiteracy (% of population age 15+)	3	44	15
Gross primary enrollment (% of school-age population)	134	101	107
Male	133	109	107
Female	134	93	107



## KEY ECONOMIC RATIOS and LONG-TERM TRENDS

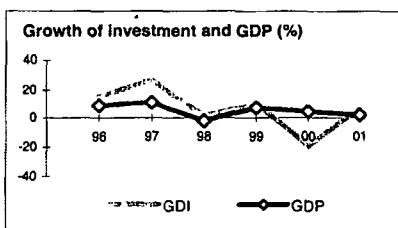
	1981	1991	2000	2001
GDP (US\$ billions)	0.04	0.24	0.60	0.58
Gross domestic investment/GDP	..	..	22.2	23.3
Exports of goods and services/GDP	19.1	..	94.2	93.4
Gross domestic savings/GDP	..	..	41.8	40.9
Gross national savings/GDP	..	..	32.0	29.9
Current account balance/GDP	-45.1	-3.7	-8.9	-9.8
Interest payments/GDP	1.1	0.5	0.8	0.8
Total debt/GDP	86.9	33.2	34.5	40.2
Total debt service/exports	3.4	3.7	4.2	4.6
Present value of debt/GDP	..	..	24.2	..
Present value of debt/exports	..	..	31.0	..



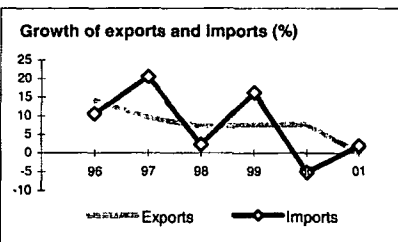
	1981-91	1991-01	2000	2001	2001-05
(average annual growth)	..	5.0	4.6	2.1	..
GDP	..	2.4	2.0	-0.4	..
Exports of goods and services	7.7	7.7	0.0	..	..

## STRUCTURE of the ECONOMY

	1981	1991	2000	2001
(% of GDP)				
Agriculture	..	..	..	..
Industry	..	..	..	..
Manufacturing	..	..	..	..
Services	..	..	..	..
Private consumption	..	..	34.3	33.7
General government consumption	..	..	23.9	25.4
Imports of goods and services	57.6	..	74.5	75.8



	1981-91	1991-01	2000	2001
(average annual growth)				
Agriculture	6.8	1.9	-0.2	1.6
Industry	10.3	9.4	-0.9	4.7
Manufacturing	10.0	5.8	4.4	3.1
Services	10.7	9.0	6.3	1.6
Private consumption	..	-2.4	-13.1	-0.8
General government consumption	..	13.3	14.1	7.7
Gross domestic investment	..	5.2	-19.3	6.7
Imports of goods and services	..	7.6	-5.2	1.9

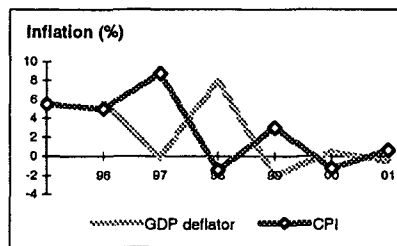


Note: 2001 data are preliminary estimates

\* 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.

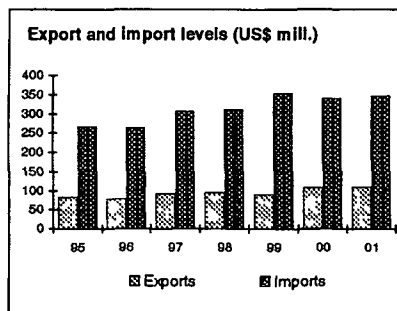
PRICES and GOVERNMENT FINANCE

	1981	1991	2000	2001
<b>Domestic prices</b>				
<i>(% change)</i>				
Consumer prices	23.7	14.7	-1.2	0.7
Implicit GDP deflator	.		0.5	-0.5
<b>Government finance</b>				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	31.7	33.7	35.2
Current budget balance	..	14.5	7.1	6.9
Overall surplus/deficit	..	-9.5	-4.6	-5.2



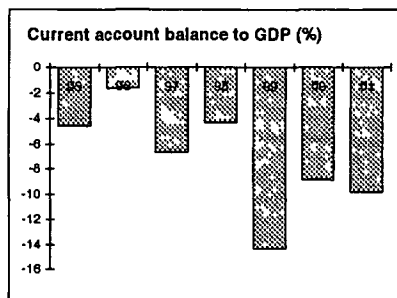
TRADE

	1981	1991	2000	2001
<i>(US\$ millions)</i>				
Total exports (fob)	..	76	109	110
Marine exports	..	37	41	44
Garments	..	16	35	32
Manufactures	..	..	..	..
Total imports (cif)	..	161	342	348
Food	..	..	87	85
Fuel and energy	..	24	45	48
Capital goods	..	..	..	..
Export price index (1995=100)	..	87	122	123
Import price index (1995=100)	..	90	78	79
Terms of trade (1995=100)	..	96	156	156



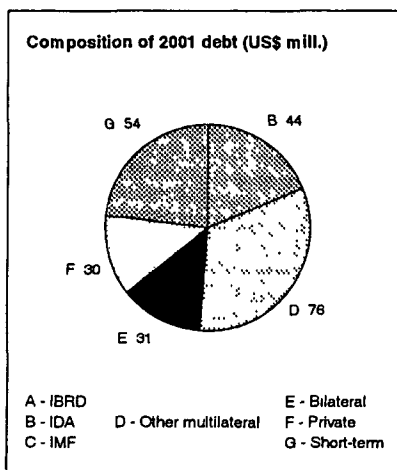
BALANCE of PAYMENTS

	1981	1991	2000	2001
<i>(US\$ millions)</i>				
Exports of goods and services	75	184	457	464
Imports of goods and services	94	184	452	457
Resource balance	-19	0	6	7
Net income	-4	-15	-30	-35
Net current transfers	2	6	-29	-30
Current account balance	-20	-9	-53	-57
Financing items (net)	20	10	45	36
Changes in net reserves	0	-1	8	21
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	18	124	94
Conversion rate (DEC, local/US\$)	7.6	10.3	11.8	12.2



EXTERNAL DEBT and RESOURCE FLOWS

	1981	1991	2000	2001
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	39	81	206	235
IBRD	0	0	0	0
IDA	2	15	46	44
Total debt service	3	7	20	22
IBRD	0	0	0	0
IDA	0	0	1	1
<b>Composition of net resource flows</b>				
Official grants	3	11	10	..
Official creditors	10	11	0	4
Private creditors	3	-1	0	1
Foreign direct investment	0	7	13	..
Portfolio equity	0	0	0	0
<b>World Bank program</b>				
Commitments	0	0	0	0
Disbursements	1	4	3	0
Principal repayments	0	0	0	0
Net flows	1	4	3	0
Interest payments	0	0	0	0
Net transfers	1	4	3	-1



# CONTENTS

<b>EXECUTIVE SUMMARY</b> .....	i
<b>CHAPTER 1: INTRODUCTION</b> .....	1
A. Rationale and Objectives of the Public Expenditure Review .....	1
B. The Unifying Theme and Focus of the Other Chapters .....	3
<b>CHAPTER 2: BUDGETARY REVENUES, EXPENDITURES, AND FISCAL SUSTAINABILITY</b> .....	5
A. Macroeconomic Context.....	5
a. Recent Economic Developments.....	5
B. Issues in Budgetary Revenues, Expenditures, and Financing .....	8
a. Budgetary Revenues.....	8
b. Expenditures: Aggregate Level and Allocations to Major Economic Categories.....	10
c. Deficit Financing.....	14
d. Contingent Liabilities .....	15
C. Sustainable Budget Deficit .....	17
<b>CHAPTER 3: STRENGTHENING PUBLIC EXPENDITURE MANAGEMENT</b> .....	19
A. Evaluating Budgetary Processes.....	20
a. Maintaining Fiscal Discipline.....	21
b. Strategic Priority Setting .....	22
c. Efficient Public Service Delivery .....	29
B. Reform Options .....	31
<b>CHAPTER 4: AN EVALUATION OF SECTORAL PUBLIC EXPENDITURES</b> .....	33
<b>I. EDUCATION</b> .....	33
A. Introduction .....	33
a. The Nature of the Review.....	33
b. Why Expenditure in Education?.....	34
B. The Status of Education in the Maldives .....	34
a. Structure and Evolution.....	34
C. Levels and Distributions of Government Education Expenditure.....	36
a. Public Expenditure on Education .....	36
b. Composition of Education Expenditures .....	37
c. Education and the Public Sector Investment Program.....	38
d. Distributions of Educational Expenditure .....	38
e. By Educational Level .....	38
f. By Geographical Distribution.....	40
D. Evaluation of Current Expenditures.....	43
a. Efficiency .....	43
b. Equity .....	43
E. The Future .....	44
F. Recommendations.....	45

<b>II. HEALTH</b> .....	47
A. Introduction .....	47
a. Structure of the Sector.....	47
b. Strategic Objectives and Policy Direction.....	47
B. Health, Nutrition and Population Outcomes and Challenges.....	48
C. Public Expenditures in Health, Nutrition and Population.....	51
a. Overall HNP Sector Spending.....	51
b. Details of Intra-Sectoral Allocations .....	53
D. Summary of Findings and Recommendations.....	58
<b>III. INFRASTRUCTURE</b> .....	61
A. Introduction .....	61
a. The Rational for Public Sector Involvement .....	61
b. The Existing Situation .....	62
B. Sectoral Allocation of Public Expenditures.....	64
a. Land Reclamation and Development, Housing, and the North-South Growth Centers .....	65
b. Transport.....	66
c. Rural Electrification .....	67
C. Evaluation and Recommendations.....	67
a. Fiscal Sustainability and Timing of Large Development Projects and Programs.....	67
b. Allocative Efficiency and Equity/Poverty-Focus of Public Expenditure in Infrastructure ...	69
<b>CHAPTER 5: SUMMARY AND CONCLUSIONS</b> .....	73
A. A Short-to Medium-Term Public Expenditure Reform Program.....	73
B. Next Steps .....	76
<b>ANNEXES</b> .....	77
<b>STATISTICAL APPENDIX</b> .....	95
<b>REFERENCES</b> .....	107

## List of Tables

Table 2.1	Summary of Government Finances .....	6
Table 2.2	Differences in the Budgeted and Actual Figures .....	7
Table 2.3	Inter-Sectoral Allocation of Total Government Expenditures: 1995-2000 .....	13
Table 4.1	Government Expenditure on Education 1994-2001 .....	37
Table 4.2	Shares of Capital and Recurrent Education Expenditure 1996 to 2001 .....	37
Table 4.3	Government and Donor Expenditure on Education by Major Categories: 1998-2001..	39
Table 4.4	Enrolments by Educational Level: Malé and the Atolls 1997 and 2000 .....	40
Table 4.5	Pupil/Teacher and Pupil/Trained Teacher Ratios by Level and Location 2000 .....	41
Table 4.6	HNP Outcomes in Malé and The Atolls, 1997/98.....	49
Table 4.7	Mortality Rates, Malé and Atolls .....	50
Table 4.8	Shares of Public Sector Recurrent and Capital Expenditures in Health .....	55
Table 4.9	Components of Capital Expenditure .....	65
Table 5.1	Maldives: Key Elements of a Reform Program to Strengthen Public Resource Management for Stronger Development Outcomes .....	74

## List of Boxes

Box 3.1	Malaysia's Public Budget System .....	20
Box 3.2	Country Financial Accountability Assessment (CFAA).....	23
Box 3.3	Medium-Term Planning and Budgeting .....	24
Box 3.4	Formulation, Compilation, and Monitoring of the Public Sector Investment Program (PSIP) in the Maldives ....	25
Box 3.5	Justification of Government Spending .....	27

## List of Figures

Figure 4.1	Organization of the Public Sector for Health, Nutrition, Population and Water and Sanitation .....	48
Figure 4.2	Public Sector Commitment to Health.....	51
Figure 4.3	Per Capita Public Sector Spending on Health .....	52
Figure 4.4	Sources and Uses (Public Sector Flow of Funds).....	53
Figure 4.5	Gross Allocations of Ministry of Health Budget, by Level of Care .....	54
Figure 4.6	Net Allocations of Ministry of Health Budget, by Level of Care.....	54
Figure 4.7	The Wage Bill Relative to Other Expenditures .....	56
Figure 4.8	Primary Care Expenditure and Atoll Vulnerability .....	57
Figure 4.9	Primary Care Expenditure and Atoll IMR Rates.....	57

## List of Charts

Chart 2.1	Budgetary Revenues and Official Bilateral Grants.....	8
Chart 2.2	Government Expenditures .....	12
Chart 2.3	Pattern of Deficit Financing .....	14



## ACKNOWLEDGMENTS

This report was prepared by a joint team consisting of members from the Government of Maldives, the World Bank, the Asian Development Bank, and the International Monetary Fund. The team was led by Tercan Baysan (Lead Economist, South Asia Region, World Bank). The report is based on the findings of the task team during the April/May 2001 visit to the Maldives. Other members of the core team include: Ismail Ali Manik and Fathimath Ali (GOML); James Keith Hinchliffe (Education), Abdo Yazbeck (Health, Nutrition, and Population), Vinaya Swaroop (Public Expenditure Management) (all from The World Bank); Hideaki Imamura (Task Coordinator), Bill Murray (Consultant; Infrastructure) (The Asian Development Bank); Thanin Cheunsomchit, who assisted on the Macroeconomic aspects (intern at The International Monetary Fund). The report benefited from the comments of the peer reviewers Michael L. O. Stevens and Philippe Le Houerou (The World Bank), and Raj R. Nallari (The World Bank/The International Monetary Fund). Oxana Bricha (The World Bank) processed the report and assisted with the communications. Madhu Raghunath (consultant) provided research assistance. The report was prepared under the general guidance of Sadiq Ahmed (Chief Economist and PREM Sector Director, South Asia, The World Bank). The excellent cooperation of various Ministries and Departments of the Government of Maldives and the support provided by the Ministry of Finance and Treasury are gratefully acknowledged.

Prior to preparing the Concept Paper for this joint and collaborative work, close consultations took place with the Central Ministries as well as with the line Ministries to discuss the various aspects of the public expenditure review (PER) and to identify the priority issues and topics that should be included in the exercise. These preparatory interactions were instrumental in determining the scope and principal focus areas of the PER. From the outset, it was emphasized that the PER process itself would serve as a learning and capacity building exercise. As the work proceeded, the draft chapters were regularly shared with all the key Ministries to facilitate discussion and exchange of views on the assessments and to ensure constant flow of information. These exchanges have also facilitated the use of PER assessments as background information in the preparation of the 2002 Budget, the 2003 Budget, and Maldives' poverty reduction strategy. This joint exercise, which has also included dissemination activities, will be followed by donor technical assistance to support the Government's efforts in strengthening public expenditure management and in further enhancing the development impact of public expenditures.



## EXECUTIVE SUMMARY

*Under sound economic management, the Maldives has made significant economic and social progress during the last two decades. Sustaining this impressive performance in the future and improving the living standards, especially in the outer atolls, is a key development objective pursued by the Government of Maldives. In this effort, further strengthening of public expenditure management and enhancing the economic growth and poverty alleviation impact of public expenditures have a key role.*

### A. Enhancing the Development Impact of Public Expenditures

1. ***The country and development context.*** Helped by sound economic management and strong donor support, Maldives' annual real GDP growth has averaged over 9 percent and real per capita income has grown well over threefold since the late 1970s. During the two decades to 1997/98, life expectancy at birth increased by 16 years, reaching 62 years; infant mortality was halved to around 62 and the crude death rate fell from 38 to 5 per thousand; the net primary school enrollment rate increased from 38 to 93 percent of the age group, and the adult literacy rate reached 98 percent. Over the same period, the country has also experienced a significant fall in its very high population growth rate, which fell from over 3 percent per annum in the 1980s to 1.9 percent in the second half of the 1990s.
2. Notwithstanding the economic and social progress achieved so far and the current per capita income of around \$2,000, there is still substantial incidence of income poverty in the Maldives, particularly in the outer atolls. The findings of a recent, comprehensive vulnerability and poverty assessment study indicate that the incidence of income poverty was over 40 percent of the entire population in the late 1990s. It was 50 percent in the outer atolls, where three quarters of the population live on 199 highly dispersed, small, and sparsely populated islands, some of which have less than 150 people. These unique geographic and population density features pose major structural challenges for the Maldives. Transportation costs are naturally high and constrain the mobility of people and goods; there is limited room to benefit from scale economies, which also hinder efforts aimed at creating employment and income opportunities in the outer atolls. As a result, the Government faces relatively higher unit costs in providing social and infrastructure services in the outer atolls. Not surprisingly, as in other small island economies with dispersed populations, public expenditures are sizable, averaging around 40 percent of GDP recently.
3. The Government has long recognized the disparities in incomes, in access to social and infrastructure services, and in the standards of living between Malé, the capital island and the financial and economic center of the country, and the outer atolls. Efforts are made by the Government to reduce these regional disparities and improve economic opportunities in the outer atolls through the implementation of development programs targeting the atolls. Indeed, the increased focus on the atolls' development has been a factor in increasing the size of public expenditures in social sectors, whose share in total government expenditures rose by 10 percentage points in the second half of the 1990s. There are also more and more infrastructure programs benefiting the outer atolls, such as rural electrification, water and sanitation, and harbor development. The positive impacts of these efforts in the atolls are reflected in the improving social indicators, such as the infant mortality rates and life expectancy, in parallel with the national trends. However, there are still significant remaining regional disparities in the living standards, and the incidence of income poverty is much higher in the outer atolls. The Government's forward looking development agenda intends to tackle these challenges.

4. As highlighted in the country's National Vision 2020 document and noted in the Draft *Sixth National Development Plan (SNDP)*, ***improving the living standards, especially in the outer atolls, by sustaining its impressive economic and social advances well into the future remains Maldives' key development objective***. To achieve this objective, Maldives' growth and poverty reduction strategy, as articulated in the SNDP covering 2001-2005, emphasizes several policy challenges to be pursued, which include: (i) strengthening macroeconomic framework and governance in the public sector; (ii) protecting the country's precious and fragile marine environment; (iii) strengthening human development; and (iv) continuing improvements in the policy environment pertaining to tourism, fisheries, land-use and urban development, thus also fostering private activity. Within the context of the first challenge--i.e., item (i) above--***strengthening public expenditure management and enhancing the development impact of public expenditures*** take a particularly important role. This is what this report--jointly prepared by the Government, the World Bank, and the Asian Development Bank (ADB), with some support from the International Monetary Fund (IMF)--focuses on.

5. ***Enhancing the development effectiveness of public expenditures***. Public expenditures can serve as a powerful instrument in advancing national development objectives. To the extent that public expenditure programs are focused on providing core "public" services, create strong externalities and crowding-in impacts on private activity, and enable the poor to participate in the growth process, they could play a significant role in overall development and in raising the living standards of the poor. To this end, they need to be selected on the basis of a sound rationale for the public sector intervention, and be carefully designed and prioritized for development effectiveness.

6. Given the substantial size of the budget (42 percent of GDP in 2001), public expenditure management takes even a more pivotal role in the Maldives in pursuit of the country's key development objectives. The purpose here is: to evaluate the growth and poverty-focus of government expenditure programs in the Maldives; to discuss how much room there is to rationalize and re-orient public expenditures to create more benefit for the poor; and to identify a menu of options such that the Government could explore ways of enhancing the development effectiveness and poverty-orientation of public expenditures. To these ends, below, first, the key issues and solutions pertaining to the aggregate levels of public expenditures and public resource envelope are taken up within the context of maintaining macroeconomic stability and the sustainability of the budget deficit. Second, some of the institutional changes that are needed to strengthen public expenditure management (PEM) and enhance transparency/accountability in the use of public resources are identified and prioritized. Finally, the current pattern of sectoral public expenditure programs are assessed within the context of their rationale for public sector intervention, prioritization, and efficiency in their provision/delivery. And various measures are recommended to improve development effectiveness of sectoral expenditure programs.

## **B. Moving Towards a Stronger Fiscal Framework**

7. Sound economic management and generally prudent macroeconomic policies have been a key factor in underpinning Maldives' strong economic performance and improvements in social indicators. Another important factor that has contributed to Maldives' strong economic and social development has been its access to concessional donor assistance. Bilateral grants and concessional loans supported a significant portion of public expenditures in the priority areas, with the coverage ranging from 34 percent to 14 percent of total expenditures since 1995. Against this background, ***there are several fiscal issues that require attention and action, including in the area of: Maldives' tax system; the recent rising trend in current expenditures; the weakening pattern of deficit financing; and the budgetary burden of "contingent liabilities" associated with the operations of some SOEs.***

8. ***Broadening the budgetary revenue base***. Import duties and tourism taxes make up the bulk of Maldives' tax system, while dividends from the state-owned-enterprises and resort lease rents are the principal sources of non-tax revenues. Revenues from the two taxes, because of their very nature, are vulnerable to external shocks that affect Maldives' imports and tourist arrivals. There is no income tax

system in the Maldives, except for the 25 percent bank profit tax. Similarly, there is no goods and services tax (GST). While this simple tax system has served the budgetary needs of the country well, it has also become clear that it is time to broaden Maldives' tax base beyond these two taxes to reduce its vulnerability and improve its robustness and equity aspects. Also, there is a possibility that revenues from customs duties may be adversely affected if and when the South Asia Free Trade Area (SAFTA) is established, since this would mean imports originating from SAFTA countries (now over 20 percent of Maldives' total merchandise imports) would come in duty free. Also, the likely downward trend in bilateral grants with the imminent graduation of the Maldives from the LDC status would further exacerbate the vulnerability of the budgetary balances further.

9. There are several recommended tax and tax administration measures--all familiar to the Government--deserving a serious consideration for implementation in the short-term (next 12-24 months) and beyond. These include:

- Strengthening the Department of Inland Revenue (DIR) through training, hiring of qualified new professionals, including long-term resident advisors, such that it could effectively manage the consolidation of the existing taxes and the implementation of the new ones.
- Converting the fixed *tourism tax*, which has remained at \$6 since 1988, to an ad valorem rate, while ensuring also that its real value is at least restored; (once the planned corporate profit tax is introduced, then the tourism tax could be abolished).
- Completing the necessary reviews/revisions of the draft *Business Profit Tax*, the draft *Property Rental Value Tax*, and of the draft *Tax Administration Bill*; and enacting them as soon as possible. Introduction of a corporate profit tax will also enable the Government to stop relying on SOE dividends as a source of revenue and pave the way for their privatization.
- Preparing a (low rate) GST, initially to be levied at the wholesale/import level, and introducing it as soon as the DIR strengthens its capacity and gains more experience.
- It is important to note that if SAFTA becomes a reality, a GST could provide the needed revenue cushion even when import tariffs are reduced to zero on imports from other SAFTA countries. Related to this, with the introduction of a GST, the customs duty structure could be simplified further towards a low and uniform rate. Such a tariff rationalization would also reduce SAFTA's potential "trade diversion" effects. And it is also advisable that the existing tariff exemptions be removed as part of a tariff rationalization drive; this would help also towards revenue effort.

(For a detailed prioritization of these and other recommendations within a time frame, see the policy matrix presented in Table 5.1 in Chapter 5.)

10. **Strengthening expenditure control.** While generally pursuing prudent macroeconomic management, the Government has occasionally followed expansionary fiscal stance, as, e.g., experienced in the early 1990s, and more recently in 1999 and 2001. Perhaps more importantly, total government expenditures have been on a rising trend since 1996, showing an 11 percentage point increase to 42 percent of GDP by 2001. A major portion of this increase has come from the rapid expansion of current expenditures due to significant expansion in government employment, general administration and public order/internal security expenditures. Such a rising current expenditure trend is not sustainable and, unless contained, it could crowd out resources for the priority development programs and/or crowd out private credit, and also lead to inflationary and balance of payments pressures.

11. Aside from the issues of low priority expenditures and overstaffing, there is also an underlying fundamental weakness in Government's hitherto practice of managing public expenditures, and that is *the disconnect between capital and current expenditures*. As discussed in the next section below, the latter

issue is related to a lack of a medium-term fiscal framework that would help link and/or integrate the current and capital budgets. Currently expenditure decisions are made within the context of an annual budget cycle, with the current and capital account budgets being determined separately. To restrain the growth of current expenditures and strengthen expenditure discipline, some of the recommended measures include:

- Expenditure restraint needs to be a permanent feature of fiscal strengthening efforts by the Government and:
  - Focus should be on curtailing low priority/unproductive spending. A serious effort appears warranted to contain the growth of expenditures on “general public services”, which account for more than 40 percent of public expenditures, covering “general administration” and “public order/internal security”.
  - By developing country ( and South Asia) standards, the Maldives has a very high per capita government employment rate (about one employee for every 13 Maldivians). In view of the substantial size of the civil service--even after netting out the increased employment associated with the expansion of education and health networks--and the ever rising share of budgetary resources absorbed by salary/non-salary personnel costs, a serious consideration needs to be given to a civil service reform. The latter should be an integral part of a medium-term public administration reform program.
  - Given the urgency and importance of the needed civil service reform, a major review of the civil service is a key priority.
- It will be crucial to consider recurrent cost implications of all capital expenditure programs. This would require the adoption of an appropriate medium-term fiscal framework that would facilitate the integration of recurrent costs and capital expenditures; (details of a rolling, medium-term budgetary planning mechanism are presented below in the next section).

12. ***Improving the pattern of deficit financing.*** In recent years, with the expansionary fiscal policy and slowdown in concessional loan disbursements, the Government has increasingly relied on the monetization of the budget deficit. This has meant that net financing from the Maldives Monetary Authority (MMA) through the automatic Ways and Means (W&M) borrowing picked up significantly. Indeed, from a situation of being able to reduce the size of domestic debt through net repayments to the MMA during 1996-1998, the Government increased its yearly net borrowing from the MMA significantly to a range of 2.2 –4.8 percent of GDP in 1999-2001. This has weakened the macroeconomic framework by increasing pressure on the balance of payments (due to not so insignificant import incidence of government spending) and the exchange rate, crowding out private credit, and generally undermining the role of the monetary policy in supporting the *de facto* fixed exchange rate regime. To avoid the recurrence of such sustained monetization episodes, the following actions are recommended:

- The budget deficit needs to be contained within sustainable levels to ensure that destabilizing monetization of the deficit is avoided and ever increasing (expensive) debt accumulation does not happen.
- It would be advisable to accelerate the drafting of the *Finance Act* with a view to enacting it soon so that the Government could introduce long-term debt instruments (bonds) for domestic borrowing and treasury bills for cash management. With the introduction of government bonds, automatic central bank borrowing through the Ways and Means account should be discontinued.
- In the meantime, it would be prudent to introduce, as in other countries, a ceiling on the W&M borrowing (e.g., fixed at a ceiling of a certain percent of tax revenues). The Government should also

pay an interest rate that is in line with the observed domestic commercial rates (adjusted for the risk differential) on W&M borrowings instead of the fixed 6 percent.

13. **Contingent liabilities and the sustainability of the budget deficit.** Maldives' 20 SOEs operate in most of the key sectors and dominate some activities, including public utilities, processing and exporting fish, import/wholesale/retail of many merchandise, and social services. Various Government policies have been instrumental in making most of the SOEs profitable. For example: they do not pay rent for the state land they occupy; many benefit from government guaranteed loans; some are granted monopoly privileges; and the Government remains a major buyer of the SOEs. Thus, having strong financial positions, many of Maldives' SOEs have been able to service their government guaranteed debt over the years, without creating any burden on the budget on account of these contingent liabilities. And the Bank of Maldives, which is a state-owned bank, has been profitably operating, with very low non-performing loan portfolio. However, several SOEs have been incurring sustained losses due to inefficiencies, non-commercial mandates, and mismanagement, and have been unable to repay their debt to the Government. Consequently, the Government has been servicing some of their guaranteed debt, though these liabilities are not large and not expected to create a fiscal sustainability problem, as explained in the main text. Among these SOEs, Maldives Industrial Fisheries Company (MIFCO) and the recently closed Air Maldives are the important ones. Maldives National Shipping Limited (MNSL) has also been making losses, though it has reduced its losses by reducing the number of its ships from 18 in 1988 to 5 in 2001.

14. Air Maldives, which was a joint venture with a Malaysian company, incurred large losses from its international and inter-island operations and went bankrupt in 2000. The Government does not expect a major impact on the budget from servicing ex-Air Maldives' outstanding loans. With respect to the SOE sector in general, and MIFCO in particular, the following options are recommended:

- Regardless of the potential contingent liability burden created by the SOE sector, it is important to prepare, as an integral part of a medium/long-term public sector reform strategy, for the privatization of at least some SOEs that have no natural monopoly features. In the meantime, while the preparations for an early introduction of a domestic tax system are accelerated and broader privatization strategy is prepared, efforts could be made to create more room for the private sector and improve the performance of the existing SOEs by: ending the existing monopoly privileges of some SOEs in commercial activities (as being done in the case of MIFCO); hiving off some activities that could be left to the private sector without much delay; discontinuing government interference in the economic/financial decisions of SOEs; and ensuring that SOEs regularly service their debts to the Government and pay rent for the use of state land.
- MIFCO's situation requires urgent attention. MIFCO's non-commercial mandates, such as supporting employment and incomes of the fishermen, need to be met through more direct and less costly policies. As noted above, while conditions are prepared for wider privatization, some strategic decisions need to be taken to cut MIFCO's losses and reduce its burden on the budget. Specific measures may include, for example: the closure of any major loss making activities; hiving off and privatizing the boat building operation; significant manpower rationalization; dropping any contemplated expansion plan; and a serious consideration could be given to early privatization of the fish processing activities. The same applies to MNSL.

15. The findings of a quantitative analysis carried out on the sustainability of Maldives' budget deficit have some policy implications:

- The calculations indicate that Maldives' primary budget deficit--i.e., the budget deficit minus interest payments--has remained well within sustainable limits (3.7 percent of GDP in 2001) and likely to remain so in the near-term. For policy preparedness, however, it will be strategically prudent to

assume that bilateral grants will continue falling. It would therefore be advisable to reduce the size of primary deficit in line with the falling trend in official grants.

The findings also show that the size of sustainable primary deficits (SPD) will fall further as ‘real’ interest rate on foreign debt (and on domestic debt) rises. This possibility is around the corner as the date for Maldives’ graduation from its LDC status nears. These potential developments further highlight the critical importance of structural measures to strengthen fiscal balances.

### C. Strengthening Public Expenditure Management

16. Maldives’ Constitution gives broad powers to the executive branch in performing most of the core functions relating to public expenditure and budget management—in planning, formulation, budgeting, execution, monitoring, and evaluation. The power of budget approval rests with the legislative branch, the People’s Majlis. Currently, the President is also the Minister of Finance. And the Auditor General, who is appointed by and reports to the President, is responsible for auditing public accounts. The Government structure is based on a unitary-state model. The Ministry of Atoll Administration functions as an extension of the central government in the atolls through its offices in the atolls that are headed by the Atoll Chief, who is appointed by the President.

17. In the 1990s, selective actions were taken by the Government to improve governance and resource management in the public sector. In 1991, an *Anti-Corruption Board* was established with a mandate to investigate any complaint about corrupt practices in the public sector. In 1994, a *Public Enterprise Monitoring and Evaluation Board (PEMEB)* was established with a mandate to provide oversight of the operations of state-owned enterprises (SOEs) and develop reform strategies for them. More recently, the Government has launched, with donor support, programs to strengthen capacity at the Audit Office. These steps notwithstanding, it is well recognized that the existing weaknesses and issues faced in public expenditure management are still significant and a continuous effort is needed to establish an effective and accountable public sector resource management capacity.

18. The findings of World Bank’s recent *Country Financial Accountability Assessment (CFAA)* study indicate that:

- The public sector financial management and accountability is at a nascent stage in the Maldives. *Staff capacity is a major constraint*, which limits effectiveness in all Government Departments, including the effectiveness of the Audit Office and the Anti-Corruption Board.
- Until now, capacity constraint has been an important factor behind the postponement of introducing a rolling *medium-term budgetary framework*, which would help integrate the recurrent and capital budgets and facilitate better expenditure prioritization.
- Maldives’ existing, manually entered, single-entry *public accounts system* is rather inadequate for providing timely and relevant financial information. This, in turn, hinders effective *expenditure monitoring, control, and evaluation*. Also, the budget coding system does not allow the accumulation of expenditure information beyond broad functional categories--e.g., ready expenditure aggregation by approved specific programs/projects is not possible.
- While a system of government auditing, which meets international standards, has been established, its use remains limited due to staff capacity limits. The internal audit function is also housed in the Office of Auditor General and is not distinguishable from the external audit function.
- Full financial statements of the Government are not yet prepared and published.

19. The Government recognizes the importance of modernizing the public sector in order to continue improving public service delivery to the citizens, and is aware of the recent reform initiatives and improvements achieved in public administration and public resource management in developed and developing countries. To this end, a “Public Service Division” was created in 1999 in the President’s Office to facilitate and coordinate public sector modernization process.

20. Looking forward, the Government believes that a program of simple and sequenced reforms -- consistent with the existing administrative capacity and political considerations--of its budgetary processes is necessary. In the medium-term, the Government may consider undertaking some **reforms** that would help enhance development effectiveness of public expenditures by improving public sector performance in several key areas. These include:

### *Maintaining Budgetary Discipline*

- The first important step in the budget process is to get an analytically sound estimate of total budgetary resources. To be able to discharge this function effectively, a professionally staffed *economic unit* needs to be established within the Ministry of Finance and Treasury (MFT).
- It is particularly important to accelerate the preparation of a modern “public accounts” system, which provides timely spending information for expenditure tracking/control and aggregation. An efficient public accounts system also provides capacity for mid-course fiscal adjustments, thus facilitating fiscal discipline at both sectoral and macro levels.
- The elimination in 2001 of the practice of enforcing “unspent balances” as a way of establishing fiscal discipline was a step in the right direction. The latter should be supported by an effective cash management system. In addition, to improve fiscal discipline further, setting and enforcing *binding expenditure limits for each of the spending units* could be considered. Also, given the external vulnerabilities facing the Maldives, it might also be prudent to maintain a small “contingency fund” item in the budget as a cushion.
- Having a comprehensive budget, which reports all public sector expenditures and revenues, is important for transparency and to understand the likely macroeconomic implications of fiscal balances. Currently, several budget related activities (particularly, lending to individuals and public enterprises) are not included in the budget. The proposed reform of the public accounting system should rectify this error.

### *Strategic Priority Setting*

- The Government’s Draft *Sixth National Development Plan* underscores the need for using “economically and financially” sound criteria for the evaluation of capital investments. To this end, the Government may want to consider the following options for improving the Public Sector Investment Programme (PSIP) process:
  - A simple economic principle could be introduced to require that all new projects submitted for consideration should include a section that describes the rationalization of using public resources for the proposed activity. (In line with this recommendation, starting with the 2003 Budget, the line ministries are now asked to provide a justification for the public sector intervention for all the new project/program proposals).
  - All project proposals should provide an estimate of the **recurrent cost implications** of the proposed activity over the next five to eight years after the project is completed and comes on line. (In this regard, the Government’s very recent decision to require the line Ministries to give

estimates of the recurrent cost implications of all project proposals submitted for consideration under the PSIP is a move in the right direction. The latter decision is being implemented starting with the 2003 budget. The next step would be to address the issue of recurrent cost implications of the new projects within the context of a medium-term rolling expenditure framework--see below).

- In the existing PSIP process there is a system for line ministries to prioritize their project proposals in line with their sectoral strategy. There is, however, no good way of comparing projects across ministries. A possible option in this context is: after screening the projects for rationalization of public sector intervention and taking into account the future recurrent cost implications, the PSIP Committee could look at opportunity costs (in terms of “what is being given up”). This could be helpful in evaluating the difficult tradeoffs across ministries.
- The *number of spending units* submitting budget proposals to the MFT should be reduced from the current 176 to a more manageable number. This would force the Ministries and Departments to make the tough spending trade-offs within their respective units rather than asking the MFT to make those decisions.
- In view of the capacity constraints that exist in the government departments, in moving towards a medium-term budgeting framework, it would be prudent to introduce a *medium-term financial framework* (MTFF) first. Information on the capital and recurrent cost estimates of the approved new programs/projects would serve as input in the preparation of a MTFF. As the Government builds up staff capacity and undertakes other important budget related reforms (particularly the reform of its accounting system), adopting a full, rolling medium-term expenditure program (MTEP) could be considered as a medium-term objective--as has been contemplated by the Government for sometime. A good starting point in this context for the Government would be to study the experience of multi-year budgeting in other similar developing nations. To this end, a committee consisting of officials from the President’s Office, MFT, Ministry of Planning and National Development (MPND) and other line ministries could be formed to begin the exploratory work in this area. Assistance from donors could also be sought.

#### *Efficient Public Service Delivery: Accountability, Monitoring, and Evaluation*

- The process of budget *monitoring and evaluation* requires strengthening. Two reform options that need consideration in this context include:
  - The proposed *Audit Bill* has been in draft form for quite some time. It is a priority legislation, and its enactment at the earliest possible time is highly recommended. The Government may also want to consider how to enhance the limited role played by the People’s Majlis in the budget process. Also, given the increase in absolute size of the Government, it would be highly desirable to separate the internal and external audit functions now carried by the Audit Office. An internal audit unit that provides service to various government departments could be housed in the Ministry of Finance and Treasury. It might be a good option to consider changing the reporting relationship of the Auditor General from the President’s Office to the People’s Majlis.
  - A possible way to implement the strategic plan of the Government to improve service delivery is to conduct *user surveys* in a few key areas. This is a powerful instrument to facilitate greater transparency and accountability in public service delivery. Such surveys could be piloted in public schools or to gauge the effectiveness of infrastructure services (e.g., inter-island access, utilities). These surveys could also be helpful in improving service delivery in agencies providing services such as motor vehicle registration or passports. Disseminating the results of a well-designed and executed public service delivery survey can reveal if publicly controlled resources are generating (and taxpayers are getting) value for money in that activity.

## D. Improving Sectoral Composition of Public Expenditures

21. The Government has remained committed to human development, while continuing to invest in critical infrastructure with strong externalities since the early 1990s. The share in total government spending of expenditures in education and health/nutrition (including water and sanitation) has remained well above 20 percent since the early 1990s, and during 1995-2000 increased by 5 percentage points to 28 percent. The latter increase reflects a concerted effort on the part of the Government to expand the network of social services, particularly in the outer atolls. Similarly, public expenditures in transport (port/harbor development, airport development/upgrading, roads) and utility development programs have supported growing economic activity, particularly in tourism, with significant crowding-in impact on private investment. These programs, together with the increased private sector participation in the economy, have increased the island communities' access to electricity and transportation, thus contributing also to the mobility of people and goods and to the diversification of economic activities in the outer atolls. In addition, in recent years the Government has also initiated relatively sizable regional development programs and a major land-reclamation/development program near Malé. The former is intended to promote broad-based economic growth by facilitating economic opportunities in the South and the North of the country, as alternative economic growth nodes outside Malé and its surrounding areas. The Hulhumalé land reclamation and development project aims at gaining sizable land near Malé, which can then be developed as a new economic and residential settlement area. It is expected that the latter project will relieve the acute space/housing pressure faced in Malé and, at the same time, enhance the economic benefits of an already established physical and financial infrastructure nearby. Finally, the Government has also been involved in the provision of housing in several blocks in Malé at heavily subsidized rents.

22. In terms of their poverty-focus and effectiveness in facilitating economic growth, there are several challenges/issues faced with respect to public spending in these cited sectors, which now account for about 50 percent of public expenditures. In the case of *education* and *health*, the key issues pertain to quality, better prioritization, and the geographic allocation of expenditures. With respect to the *Hulhumalé land development* project and the North and South *regional growth centers*, the issues pertain to macroeconomic impacts, particularly budgetary implications, and prioritization. As for the *social housing* programs, the principal issue is that they are not designed as pro-poor activities. Below, the key assessments and recommendations associated with the above listed sectoral public expenditure programs are presented. Evaluations are based on a set of standard criteria, i.e.: what is the rationale for the public sector intervention--is there a market failure and/or a justified redistributive objective? what is the appropriate instrument for public sector intervention to achieve technical efficiency--direct public provision, subsidies, contracting out to the private sector/NGOs, decentralization?

### *Education*

23. Building on the society's strong desire for education, the Government has significantly aided community initiatives and developed an extensive public education sector. The attainment of universal primary schooling and the extensive coverage of middle schooling is an achievement which many countries with higher levels of national income cannot claim. Naturally, some challenges remain. The most important of these is to continue to expand opportunities for schooling in the remote islands, and at levels of quality comparable to those in the larger islands and Malé. Within this overall context, and the Government's planned intentions for the future, sets of findings and recommendations are presented below for consideration:

- On both *efficiency* and *equity* grounds, there is a strong case for further improving the **quality of primary education** in the atolls:

- This might be done by defining and deploying a package of necessary inputs and annually and publicly reporting on their implementation. As part of this, there is a need to ensure as quickly as possible that all islands provide classes 1-7 with trained teachers and to equalize pupil/teacher and pupil/trained teacher ratios in Malé and the atolls--and again to report publicly on this.
- More generally, a conscious effort may be required to ensure that elementary education does not suffer from the expansion of secondary education by, for instance, the transfer of trained teachers.
- Other ways to improve atoll schooling include a strengthening of the cluster system of teacher development and, perhaps, altering the cash grant and equipment formulas in favor of schools in the atolls. Overall, given the past and current allocations of investment and recurring expenditures in basic education, and the room for improvement in learning achievement, additional expenditures in the atolls to improve the quality of this level of education are likely to have the largest returns.
- The current target for universalizing lower secondary education by 2005 appears ambitious and, in view of the budgetary implications, might usefully be reconsidered; (apparently, Ministry of Education has very recently changed the latter target date to 2010). At the same time, all possible ways to strengthen island schools need to be considered (including transport and accommodation), and more community resources tapped for Malé schools. The efficient deployment of the available cadre of trained teachers is of great importance. Current deployment practices and the packages of incentives for teachers to live on more remote islands might be reconsidered.
  - The Government may want to consider reviving the plan, contemplated in 2001, to introduce some cost recovery in secondary education in Malé. Emphasis on promoting private sector participation in secondary education is also desirable.
- The direct costs of tertiary level education in the Maldives College are high relative to secondary education and to comparable courses in the Region. Currently, student/teacher ratios are low and scholarships are given to students in some of the important fields. The need for scholarships should be continually kept under review. In the near future, the demand for many courses may change rapidly. A doubling of the graduates from secondary education will increase the demand for further training and could increase the range of jobs which Maldivian youth are willing to take. Simultaneously, for skilled occupations, wages may increase as it becomes more difficult to hire expatriate labor from the regional labor market at the going rate. (A study of medium-term labor market needs is shortly to be sponsored by the Ministry of Human Resources). In addition, the College would benefit from ongoing monitoring of labor market needs and of the movement of wages to inform *both* the range of courses to be offered and the levels of fees and scholarships.
- The high costs of overseas *higher education* pose significant problems. Without public subsidy for this type of education, the public sector, in particular, will be inadequately staffed by Maldivians, unless wages increase significantly. Most of the overseas students who are fully supported by their parents are unlikely to opt for public sector employment. In the case of Government's ongoing scholarship program for overseas tertiary education, the current mix of bonding and partial repayment for public sector workers and a much higher level of repayment for employees in the private sector appears to be appropriate while the public-private wage differentials remain wide. However, in view of the falling donor support and ever present budgetary pressures, it is important to implement the repayment scheme effectively and to extend it to the scholarships funded by bilateral grants. In any event, the need for such a scholarship program should be evaluated regularly. A renewed effort to monitor privately funded overseas students would also be useful.

- As is the case across the whole of Government, planning and budgeting in the Education sector could be improved by:
  - Implementing the new “educational monitoring and information system” (EMIS), which has already been developed and being tested, will facilitate monitoring and effective decision making. For example, in both elementary and secondary education there are considerable inequalities in the distribution of public resources between students. The EMIS could highlight these and be used to develop and implement concrete and time-bound programs to reduce them. Similarly, it could also be helpful in critical decisions that will need to be made in the future regarding the modalities and scheduling for the expansion of secondary education.
  - In addition, the current presentation of budgetary data does not allow calculation of the *unit costs* of schooling by level on the islands, outside of the larger schools, and makes it difficult to compare, say, the costs of providing classes in grades 8, 9 and 10 in island schools offering all grades, in island secondary schools, and in Malé. In turn, this hampers analyses of equity, but also the planning of secondary school expansion. Steps need to be taken to gather and tabulate more disaggregated education expenditure data to allow for unit cost analysis and comparison.
  - For effective medium-term planning and budgeting, there is a need to decide the details of the strategies and the costs for improving the quality of elementary education and for the expansion of the secondary system. The dependence on the PSIP, which covers just one year and only the capital costs, for funding new activities (beyond the donor supported ones) provides no incentives for forward planning.
  - Finally, current budgetary reporting practices underestimate the public expenditures on tertiary education. A clearer picture would require aggregation of the training budgets of the Health and Education ministries in particular, and of the Government’s allocation for overseas scholarships.

## **Health**

24. As highlighted earlier, the Maldives has achieved impressive progress in health, nutrition, and population (HNP) outcomes since the late 1970s. There are, of course, remaining issues/challenges to address. One area where there is a need to follow up and further improve the hitherto excellent achievements concerns infant and child health, with a focus on the *unfinished agenda for maternal health, malnutrition, and still high population growth rate*. This can be achieved if the policy attention given to these issues is combined with a reorientation of public expenditures. Specifically:

- *Stronger financial commitment to nutrition programs, reproductive health programs (including population), and targeted water and sanitation programs is needed.*

25. A second area where more effort is needed to enhance achievements relates to observed disparities in HNP outcomes and inequity in public resource allocations between Malé and the atolls, especially the most vulnerable atolls. Needs-based planning and more equitable resource allocation mechanisms are critical if the gap is to be reduced substantially in the medium-term. Accordingly:

- *It is crucial to develop and strengthen the capacity for needs-based planning at the Ministry of Health in order to take advantage of the available atoll and island-based information. Once the specific needs are identified and mapped, increased and targeted resource reallocation to the atoll and island level facilities and programs will be essential to address the needs of the most*

vulnerable groups. Of course, the latter effort needs to pay attention to factors affecting costs, such as population concentration/scale economies, and transportation costs.

26. Also, there is a need for technical and operational refocus and renewal in the health sector to address the impact of the epidemiological transition of the population. Specifically:

- It is important to *reorient public health efforts to address risk factors for non-communicable diseases*. The epidemiological transition has shifted the curative care profile from health needs that could be addressed by low-cost and cost-effective interventions to chronic diseases which require high investigation and treatment costs. A difficult and important challenge for the health sector would then be to address the long-term financial consequences to the health sector and the well-being of the population.

27. Cost recovery policy is an area where considerable work is needed to improve the efficiency and equity of public spending. The review identified a number of important elements that need to be addressed to strengthen the existing systems. Specific recommendations include:

- *Increasing the levels of cost recovery in the hospital sector in order to reallocate resources to the lower levels of care delivery at the atoll and island levels and to ensure adequate expenditures for priority programs such as nutrition, reproductive health, and water and sanitation*. It is critical that changes in the cost recovery system include: (i) an effective and transparent exemption system for vulnerable groups; (ii) allow facilities to retain and recycle a share of the recovered resources; and (iii) have prices that accurately reflect the relative costs of services.

28. It is important for the Government to maintain a strong commitment to the health sector, but new processes and capacities need to be developed to improve the way allocation decisions are made. Specific recommendations include:

- *The improvement of the financial management information system (FMIS) at the Ministry of Health*. As it stands, the input and cost-center based orientation of the FMIS does not allow for program-based budgeting. It is critical for the Ministry of Health to match policy objectives with resource allocation decisions, but the current FMIS does not facilitate this. A strengthened FMIS will also be crucial in facilitating better expenditure decisions, particularly in addressing the apparent imbalance between the geographic H/N/P service needs and regional public expenditure allocations.
- *Ensuring expenditure balance and sustainability by always taking into account the recurrent cost implications of new capital investments*, and factoring these in the prioritization decisions. While the lack of a medium-term budgetary framework and the separate treatment of current and capital account budgets are system-wide issues, there is a role for the Ministry of Health in reviewing and prioritizing capital investments in order to protect non-wage recurrent expenditures.
- *Developing a national health accounts monitoring system*. The current health sector information system does not allow to trace the sources and uses of resources in the sector. It reflects a health sector with little information or coordination in terms of the various public sector entities involved in health related spending (Ministry of Health, Ministry of Women's Affairs and Social Security, the Presidential Palace, and Ministry of Defense and National Security). Moreover, little information is available on private sector spending on the health sector.

## Infrastructure

29. Infrastructure is another area where the public sector has been directly involved with sizable programs. *Land reclamation/development programs*, including the ongoing, major Hulhumalé project (in the lagoon of Hulhule, Airport island), are intended to address the critical issue of acute land scarcity. The *social housing program* in Malé is supposed to tackle the capital island's serious housing shortage problem. And the medium- and longer-term solution adopted for Malé's acute overcrowding problem is the cited Hulhumalé project. The ongoing *North and South regional development program*, involving two new economic growth centers, is to support broad-based and regionally more balanced economic growth. Aside from the national objective of achieving "equitable" growth and reduction of regional disparities in the living standards, several market imperfections appear to have motivated the Government in getting involved in these infrastructure activities. With the exception of few plots in Malé, all land is state-owned in the Maldives, and the hitherto absence of an appropriate legal/regulatory framework, which is necessary to clearly define and protect property rights such that land-use rights can become marketable and be used as collateral, has constituted a serious constraint to efficient use of the very scarce land. In turn, these factors create a barrier to commercial financing of housing and land development. These difficulties are compounded further by the existing deficiencies in contract and mortgage laws and the absence of strong debt recovery legislation.

30. In *transport*, the private sector is the principal service provider in sea transport, which is the most important mode of transportation for the Maldivians. Most transport operators are in the private sector with some involvement by public entities, none of which have monopolies. And, as in most other developing countries, the public sector is also involved in transportation, particularly in airport development and air transport as well as in major harbor development. Land-related property rights constraints, the existing weaknesses in the legal/regulatory system associated with contract enforcement and loan recovery, and the desire to benefit from scale economies appear to be the relevant explanations for the state's involvement in these activities. In the case of *rural electrification*, market imperfections, potential externalities, and equity considerations are the principal motivation in the public sector's intervention in favor of the disadvantaged outer atoll communities.

31. At present, these infrastructure programs do confront the Government with important fiscal sustainability and prioritization issues, as well as with some basic policy questions about the evolving role of the state in some of the infrastructure activities. And there is the obvious question of the poverty-focus of subsidized public sector programs, such as the "social housing" program. The relevant assessments and recommendations on these are summarized below.

### 32. *Fiscal Sustainability and Prioritization of Large Infrastructure Projects:*

- It is important to have a complete and reliable costing of all the ongoing and planned reclamation, infrastructure and superstructures for the medium-term phases/stages under various scenarios of public sector involvement. This will help improve decisions with respect to timing and prioritization of major public expenditure programs, and will also bring a reality check on the appropriate role of the state. In this regard, it will be particularly critical to take into account *recurrent cost implications* of these physical and social infrastructure programs.
- The Hulhumalé land reclamation/development project presents a major fiscal sustainability challenge in the near- to medium-term, in terms of the amounts of both capital expenditure and recurrent costs involved. The key decisions pertaining to the financing and use of the land to be gained and developed need to be formulated carefully-- who will pay for what part of the land and infrastructure? who will use it? how will it be distributed and paid for? what will be the legal/regulatory framework to facilitate efficient use of the Hulhumalé project land? These questions point to the need for great care in developing this project, in arranging for the financing of capital and recurrent costs, as well in addressing the key issue of establishing

property rights for the use of the land. It would be prudent to minimize the Government's involvement and exposure in the Hulhumalé project as much as possible.

- Very recently, the HDU has apparently developed the Hulhumalé Development Project strategy further, bringing some clarity to the roles of the Government and the private sector in the project. Accordingly, the project is now being developed as a "corporation", which has a business plan and has already been authorized to 'sell' land. Thus, the corporation will: (i) provide land for roads and public places--e.g., for parks and mosques--at no cost; and (ii) sell land at "full cost-recovery" for public buildings and utilities, and sell it at profit for other purposes. In the subsequent phases of the project, the private sector will be directly involved in the development of commercial areas as well as of housing. The Government will limit its involvement to social and physical infrastructure. (Nevertheless, in the initial phase, the HUD is going ahead with the construction of 280 housing units, which are more in the nature of social housing, not necessarily targeted to the poor only).
- It is strongly advisable that the key strategic policy formulations be developed with respect to the use of the land in the Maldives, including of course any new reclaimed/developed land. In this regard, the recent enactment of the **Land Law Act of the Maldives** constitutes an important positive step. Since the latter will become effective one year from the day it was enacted, it will be important to pass other crucial laws as well, including the draft new **mortgage law** and a **debt recovery** legislation. Also, it would be prudent to accelerate the ongoing efforts aimed at strengthening the judiciary. Such an enabling environment would allow the development of an efficient land use/tenure system with well-defined property rights that would be protected and be marketable. The latter legal framework for land-use/housing market should be strengthened by including a **landlord/tenant law**, a **condominium law**, and new **building/housing codes**. This framework would also encourage the development of housing finance.
- Under such a setting, the Government can limit its financial involvement and exposure in the development of the Hulhumalé project and that of the Regional Development Project (RDP). To this end, through competitive bidding, private developers could be invited to take over the development of Hulhumalé housing and business sites, while the Government limits its involvement to the financing of social and some basic physical infrastructure. Once an appropriate legal/judicial framework is in place to define and enforce property rights, then the private sector could handle the development, sale, and rental of housing and business units.

### 33. *Allocative Efficiency and Poverty-Focus of Public Expenditure in Infrastructure:*

- The **social housing** program that is being implemented in Malé and considered in the initial phase of the Hulhumalé project is difficult to justify, neither on allocative efficiency nor on equity grounds. The program is not targeted to the poor alone, and appears to be benefiting mostly well-off people. It is recommended that the cancellation of the plan to expand the "social housing" program in Hulhumalé be given a serious consideration. And in Malé, there appears to be a strong case for raising the rents at the Malé Housing Project blocks, gradually towards market levels. And once the legal framework for land use/housing market is established, the option of selling these flats by auctioning them off could be considered. Appropriate steps could be taken to prevent monopolistic tendencies and the concentration of ownership in the real estate market through suitably escalating real estate taxes.
- Wealthier and relatively better off people may migrate to the new growth centers regardless, if indeed they know that they can find better economic opportunities and schooling for their children--as in the case of in-migration to Malé. So, why should they be supported through subsidized housing? What may be critical for them is "access to credit" at market rates. The

group that will need help within the context of the new *National Population Consolidation Strategy and Program* is the poor. In this regard, it would be advisable that any subsidized housing program should target this group.

- The legal/regulatory framework cited above for efficient land use/housing market would provide the basis for radical changes in the land and property markets. New and alternative financing options could be explored and developed, including, but not restricted to, cross-subsidization for the poor, mortgage finance, and housing improvement loans. For example, opportunities may be opened up for well targeted cross-subsidies from the development at Hulhumalé to island housing, perhaps by auctioning development rights bundled with island housing construction for the poor. There is a significant stock of empty housing on the islands, usually belonging to families that have migrated to Malé, and the new Land Law may also encourage the owners to sell or let out their property.
- **Transport.** Indications are that the role of the private sector will continue growing, particularly in sea transport and in the establishment of simple ports and depot facilities throughout the country. This is a healthy development, and with increases in the number of private boats and competition, and with rising population densities, transportation costs should also become increasingly more affordable. This would mean that public expenditures would continue to be directed mainly to airports, air transport, and major harbors. At present, the inter-island regional flights are subsidized by some \$2,000 – \$3,000 per round trip by the Ministry of Transport and Civil Aviation (MTCA). Whilst there are plans for more domestic airports, this would, under current pricing policies, further exacerbate the already significant recurrent subsidies, which would generally be benefiting the relatively better off, not the poor.
  - The feasibility of further investments in regional airports would have to be carefully studied and be closely linked to the potential growth of effective demand for passenger and cargo flights as commercial agricultural activity picks up, the implementation of the RDP proceeds, and the location of the new tourism resort developments are decided.
- **Rural electrification.** A clear policy is required on the financing, ownership and operation of island electricity operations. Accordingly:
  - It would be appropriate and efficient to transfer the management of island electrification loans from the Treasury to the Bank of Maldives (BOM), which has branches in the outer atolls and already has experience in micro-credit activities supported by FAO. The Treasury should not be involved in such loan operations. Moreover, it is also advisable to eliminate sovereign guarantees given on electricity generator loans extended to the Island Development Committees (IDCs). The latter, while not yet legal entities, could provide “group guarantees” on behalf of the island communities, with the generator also serving as a collateral.
  - There is a need also for clearer agreements on the ownership and operation of island electricity operations before any work commences. This is particularly important for the planned *Outer Islands Electrification Project*. To foster community-based development and prioritization as well as to assure cost efficiency and sustainability, it might be preferable if systems are owned and operated by the IDCs on behalf of the island communities. However, this approach needs to be supported by appropriate institutional arrangements and assistance in establishing proper operation and maintenance practices.



## Chapter 1

### INTRODUCTION

#### A. Rationale and Objectives of the Public Expenditure Review

1.1 **The country context.** The Maldives consists of about 1200 low-lying, small coral islands dispersed over 500 miles from North to South in the Indian Ocean. There are 199 islands inhabited by about 275,000 people and another 84 islands developed as enclave resort islands. Population sizes of inhabited islands vary significantly, ranging from less than 150 people to about 75,000 in Malé, the capital island. With its small size and highly dispersed population and land mass, the Maldives is unable to benefit from scale economies to the same extent that other countries do. Naturally, transportation costs are high and there are other barriers to the mobility of its people and goods. Also, almost everything is imported. These structural constraints highlight the unique challenges facing the Government of Maldives, including the high unit costs of providing social and infrastructure services and of creating income and employment opportunities, particularly in the outer atolls. It is not surprising, therefore, that, as in other small and dispersed island economies, in the Maldives public expenditures are sizable, amounting to about 40 percent of GDP.<sup>1</sup>

1.2 Under good economic management and generous donor support, and helped by its rich marine resources and dynamic tourism, the Maldives has achieved strong economic performance since the late 1970s, with real GDP growth averaging over 9 percent annually and real per capita income growing well over threefold (more details in Chapter 2 below). In parallel, the Maldives has also made significant social progress. During 1977-1997, life expectancy at birth increased by 16 years, reaching 62 years; infant mortality was halved to around 62<sup>2</sup>, and the crude death rate fell from 38 to 5 per thousand; the net primary school enrollment rate increased from 38 percent to 93 percent of the age group, while the adult literacy rate rose to 98 percent, thanks to the non-formal adult literacy program. During the same period, there was a significant reduction in Maldives' very high population growth rate, which fell from over 3 percent in the 1980s to around 2 percent according to the results of the 2000 population census. Maldivian women are considered among the most emancipated in the muslim world, and there is no institutional discrimination along gender lines in access to education and health services and for jobs in the public sector.

1.3 **Economic growth and regional disparities in income poverty.** Sustained high economic growth has increased Maldives' per capita income significantly over the last two decades, raising it to around \$2,000. However, due to the highly dispersed nature of inhabited islands and significant differences in the growth rates of principal economic activities, average growth of per capita income levels of the communities in the outer atolls have been lower than in Malé and the nearby atolls. This is not unexpected given that Malé is the country's dynamic commercial and financial center, with a well developed sea port and the country's international airport next to it. Until now, this has naturally led to the development of the tourist resort islands in the atolls around Malé. As such, Malé and nearby atolls have benefited more from the direct as well as indirect spill-over effects of faster growth in tourism, trade, construction, transportation, and other services. In contrast, the communities of the mostly small outer islands, where over two-thirds of the population live, rely mainly on fisheries and simple agriculture. The latter activities have grown at an annual average rate of 3 percent during the last decade, while tourism has grown three times faster. Thus, notwithstanding the remittances sent by the family members working on the resort islands and for the international shipping lines, the limited income earning opportunities as

---

<sup>1</sup> Total government expenditures are well over 50 percent of GDP in Belize, Seychelles, St Vincent and the Grenadines, and over 40 percent of GDP in Fiji

<sup>2</sup> Source *Republic of Maldives Vulnerability and Poverty Assessment*, Ministry of Planning and National Development and United Nations Development Programme, 1999

well as the high cost of transportation and the absence of scale economies in most of these sparsely populated outer islands appear to have led to considerable disparities in average income levels between Malé and the outer islands.<sup>3</sup>

1.4 *The economic and social progress achieved so far notwithstanding, there is still substantial incidence of income poverty in the Maldives, particularly in the outer atolls.* This is verified by the findings of a comprehensive benchmark study that was carried out recently.<sup>4</sup> The latter study was based on a 1997/98 vulnerability and poverty survey which covered all the inhabited islands. The results indicate that 22 percent of Maldives' population falls below the (lower) national income poverty line of Rf10 per person per day (about \$0.78), while the incidence of income poverty jumps to 43 percent of the entire population when the higher income poverty line of Rf15 per person per day (\$1.17) is taken. In the outer atolls, the incidence of income poverty for both income poverty lines is found to be 2 ½ times that of Malé. The findings indicate that over 85 percent of income poor live in the outer islands.

1.5 *Regional disparities in incomes and economic opportunities and the high incidence of income poverty in the outer atolls are well recognized by the Government, and efforts are being made to address these through the development programs targeting the atolls.* Such efforts will help improve the standards of living in the outer atolls by creating opportunities for employment and income earning activities, and thus play a critical role in reducing poverty in the outer atolls. In parallel with this increasing focus on the atolls, the size of social expenditures increased from 31 percent of total government expenditures (11.2 percent of GDP) in 1995 to 41 percent in 2000 (or 17.5 percent of GDP), with many programs in education, health care, and community development directed to the atolls. These programs are critical in enhancing human capital and raising living standards of the island communities. The atolls are also benefiting from some infrastructure programs, including rural electrification, potable water, and transport. Indeed, the improving trends in the infant mortality rates and life expectancy in the atolls in tandem with the national trends reflect the positive impacts of these efforts. Notwithstanding these improvements, the existing regional disparities and the fairly high incidence of income poverty in the outer atolls remain a key development challenge to tackle.

1.6 **The critical role of well targeted public expenditures.** *Public expenditures constitute a powerful government instrument in advancing national development objectives.* To the extent that these expenditure programs are selected on a sound-basis to justify government intervention, and designed and prioritized for development effectiveness, they would help facilitate sustained economic growth and reduce poverty. Growth-oriented and poverty-focused public expenditure programs could play a significant role in the overall development of the country and in raising the living standards of the poor. When designed well, such programs facilitate high growth and enable the poor to participate in the growth process through improved access to quality social services, critical infrastructure, and financial resources. Accordingly, public expenditures should be funding programs that provide core "public" goods/services and strong externalities, and generate benefits for the poor. Also, these expenditures should not be used for the provision of private goods/services which can be adequately and more efficiently supplied by the private sector.

1.7 As noted above, the budgetary expenditures are substantial in the Maldives, averaging around 40 percent of GDP in recent years. This is a significant amount of resource. Public expenditure management therefore assumes an even more central role in the Maldives in pursuit of the key development objectives. Such amounts of public expenditures are large enough to make a substantial impact on economic growth and poverty, notwithstanding the high cost of transportation and the inability to benefit from scale economies. Given that one half of the outer atolls' population is income poor, it is critical that public resources are deployed in the most effective way to help reduce regional disparities in

<sup>3</sup> According to the finding of the 1997/98 survey, the average household income (per capita/per day) was about 75 percent higher in Malé than in the atolls; source "Vulnerability and Poverty Assessment", *ibid*, page 19

<sup>4</sup> *Vulnerability and Poverty Assessment* (1999), *ibid*

access to social services and physical infrastructure and for funding well-targeted interventions in the outer islands.

1.8 **The rationale for and objectives of this public expenditure review (PER).** *The principal objective of this PER, which is a first for the Maldives, is to support the Government in its effort to further strengthen the development effectiveness of public expenditures and thus also help in the implementation of Maldives' poverty reduction strategy (PRS).* To enhance its usefulness and effectiveness, the PER has been jointly carried out by a task team consisting of members from the Government, the World Bank, the Asian Development Bank (ADB), and with support from the International Monetary Fund (IMF). It is comprehensive and serves several purposes. First, it provides an assessment of sectoral allocations of public expenditures, focusing on their growth and poverty orientation within the context of their rationale for public sector intervention, prioritization, and quality. Second, it helps in identifying under-funded areas that are critical for economic growth and poverty reduction and thus should also facilitate more effective donor coordination. Third, the findings of the PER would inform future donor assistance, including those of the World Bank and the ADB, and thus will be helpful in targeting donor assistance in the Maldives, including lending. Finally, the PER work itself has served as a capacity building exercise for the key Ministries and Departments in the Government. Drawing on the PER's findings with respect to the institutional aspects of budget and budgetary processes and on the findings of World Bank's recently completed *Country Financial Accountability Assessment (CFAA)* report, the World Bank plans to support *institutional capacity building* in public expenditure management through an IDf supported technical assistance (TA).

## B. The Unifying Theme and Focus of the Other Chapters

1.9 The unifying theme of the PER is the growth and poverty focus of public expenditures, evolving around the question of how effective public expenditures are in addressing Maldives' overriding objective of reducing regional disparities and income poverty, particularly in the outer atolls. Since macroeconomic stability is a key prerequisite for sustained high economic growth and poverty reduction, the soundness of the fiscal framework and the issues of fiscal sustainability and contingent liabilities are examined in **Chapter 2**. The latter chapter also looks at the allocation of public expenditures along the key economic categories (such as current and capital spending, salary/wage costs versus other spending etc.) as well as by major sectoral (functional) break-down, with specific recommendations for reform measures.

1.10 **Chapter 3** focuses on the institutional issues and challenges faced in public expenditure management (PEM), including in: the coordination of public expenditure decisions and budgeting; the integration of the budget's current and capital accounts and moving towards the implementation of a medium-term expenditure planning and budgeting framework; achieving efficient service delivery; and in auditing, monitoring, and evaluation of public expenditures. Chapter 3 identifies some of the key institutional changes that are needed to: strengthen PEM and thus ensure high development impact; improve the expenditure information and tracking mechanisms; and enhance transparency/accountability in the use of public resources. Sectoral allocations of public expenditures are evaluated in **Chapter 4**, with particular focus on education, health, and infrastructure. Leaving aside "general administration and public order/internal security", the three cited sectors are the most important spending sectors. Sectoral public expenditures are evaluated in terms of: (i) their rationale for public sector intervention—is it market failure (allocative efficiency) or distributive (equity)?; and if there is a rationale, (ii) what is the appropriate instrument (for achieving technical efficiency) --public provision, subsidy, contracting out (to the private sector or NGOs), or decentralization; and (iii) their impacts/outcomes. Such assessment of public expenditures is useful to establish how much room there is to rationalize and re-orient public expenditures towards programs with stronger development impact and with benefits for the income-poor, particularly in the outer atolls. **Chapter 5** is the concluding chapter. It summarizes the overall reform priorities and discusses the planned next steps to disseminate the findings and the follow-up support activities to implement some of the recommendations.



## Chapter 2

# BUDGETARY REVENUES, EXPENDITURES, AND FISCAL SUSTAINABILITY

### A. Macroeconomic Context

2.1 **Overview.** Government's good economic management and generally prudent macroeconomic policies have been a key factor in underpinning Maldives' strong economic performance and improvements in social indicators. While maintaining macroeconomic stability and ensuring considerable certainty in the policy environment, the Government has adopted a pragmatic approach to the role of the state in economic activity and in the provision of social/infrastructure services. The Government has shown flexibility and determination in responding to short-term destabilizing external shocks with difficult fiscal and monetary adjustment decisions, as occurred in the early 1990s.<sup>1</sup> It has pursued an open, export-oriented growth strategy, and a liberal labor market access policy that allows expatriate workers to fill important skill gaps. And in further liberalizing the economy, the Government has been following a gradual and selective approach, while also creating more room for a growing and maturing private sector.

2.2 Another important factor that has contributed to Maldives' strong economic and social development has been its access to concessional donor assistance. In the 1990s, donor support provided relatively significant amounts of resources, enabling the Maldives to undertake some priority development programs that would not have been feasible with the available Government tax and non-tax resources. Bilateral grants and concessional loans supported a significant portion of public expenditures in the priority areas, with the coverage ranging from 34 percent to 14 percent of total expenditures since 1995. However, in recent years donor assistance has started leveling off, and both its level and relative size as a percentage of GDP are showing declining trends, which may continue in the future. Donor loan (gross) disbursements plus bilateral official grants fell from over 12 percent of GDP in 1995 to about 6 percent of GDP annually in 1998-2001 (Table 2.1).<sup>2</sup> This, of course, highlights the crucial importance of better prioritization of public expenditures and also points to the urgency of strengthening Maldives' tax system with a view to expanding its narrow base in the period ahead (more on this below).

#### a. Recent Economic Developments

2.3 During the last couple of years, economic performance has been affected by external shocks, including a deterioration in the terms of trade, and by an expansionary turn in fiscal policy. Following a 7.4 percent economic growth in 1999, GDP growth slowed in 2000 to 4.6 percent and further down to 2.1 percent in 2001. Several developments contributed to this outcome, including: a decrease in fish catch; a sharp slowdown in the construction activity with the completion of several new resorts; and a shortening in the average length of stay of tourists. Stronger economic growth was expected in 2001 based on the

---

<sup>1</sup> For further details, see World Bank (1999), *Maldives Country Economic Memorandum: Policies for Sustaining Economic Growth*

<sup>2</sup> The Statistics Section of the Ministry of Planning and National Development initiated a major effort in 1996 to improve Maldives' National Accounts (NA). This work, supported by an Asian Development Bank TA, will be completed in 2002. A key objective of this major exercise has been to move closer to the 1993 System of National Accounts by improving the coverage of all the economic activities on the production side. The base for the real GDP series has also been changed from 1985 to 1995. The results of these efforts are now being used in the official documents and being shared with the donors. However, the revisions have been applied only from 1995; consequently the pre-1995 NA figures are not directly comparable with the revised NA statistics for the period since 1995.

The updated national income figures show significantly different (higher) nominal GDP levels. *Compared to the old GDP series, the revised GDP figure for 1995 is 34 percent higher, and that for 1999 is 42 percent higher.* Real GDP growth rates are not much different. The other important result concerns the structure of the economy. The new series indicate that tourism accounts for 33 percent of GDP, as opposed to 18 percent shown by the old GDP series, and the share of fisheries is down from about 9 percent of GDP in the old series to around 6 percent of GDP in the new series.

observed pick-up in tourism and construction activities through August 2001. However, in the aftermath of the events of September 11, the GDP growth performance weakened further in 2001 as tourist arrivals fell; (see Table A.1 in Statistical Appendix for details on recent macroeconomic developments).

Table 2.1: Summary of Government Finances

	1995	1996	1997	1998	1999	2000	2001 /a
	(In percent of GDP)						
<b>Total Revenue and Grants:</b>	<b>29.9</b>	<b>28.9</b>	<b>31.0</b>	<b>31.8</b>	<b>33.8</b>	<b>36.0</b>	<b>36.0</b>
Current revenues	25.6	24.4	28.0	29.1	31.3	33.4	33.2
Tax revenue	13.5	13.2	14.7	14.9	14.8	15.4	14.9
Non-tax revenue	12.0	11.2	13.4	14.2	16.4	18.0	18.3
Capital Revenue	0.1	0.1	0.1	0.0	0.1	0.1	0.2
Grants	4.2	4.5	2.9	2.7	2.5	2.5	2.5
<b>Expenditure and net lending</b>	<b>36.3</b>	<b>31.4</b>	<b>32.3</b>	<b>33.8</b>	<b>38.1</b>	<b>40.8</b>	<b>41.3</b>
Current expenditure	18.6	17.6	20.1	21.4	23.5	28.4	28.9
Capital expenditure	17.8	13.6	12.8	13.4	14.4	13.1	12.8
Net lending	-0.2	0.2	-0.5	-1.0	0.2	-0.7	-0.4
<b>Current account bal. (Gov. saving)</b>	<b>7.0</b>	<b>6.8</b>	<b>8.0</b>	<b>7.7</b>	<b>7.8</b>	<b>5.0</b>	<b>4.2</b>
<b>Overall balance [deficit (-)]</b>	<b>-6.4</b>	<b>-2.5</b>	<b>-1.4</b>	<b>-2.0</b>	<b>-4.3</b>	<b>-4.9</b>	<b>-5.3</b>
<b>Overall balance (excluding grants)</b>	<b>-10.6</b>	<b>-7.0</b>	<b>-4.2</b>	<b>-4.7</b>	<b>-6.7</b>	<b>-7.4</b>	<b>8.0</b>
<b>Primary deficit (including grants)</b>	<b>-4.8</b>	<b>-1.0</b>	<b>0.1</b>	<b>-0.7</b>	<b>-2.8</b>	<b>-3.3</b>	<b>-3.7</b>
<b>Financing:</b>	<b>6.4</b>	<b>2.5</b>	<b>1.4</b>	<b>2.0</b>	<b>4.3</b>	<b>4.9</b>	<b>5.3</b>
Foreign financing	6.3	3.0	2.9	2.1	0.9	0.1	3.1
Domestic financing	0.0	-0.5	-1.5	-0.1	3.4	4.8	2.2
<b>Total Debt (end of period).</b>	<b>47.2</b>	<b>42.1</b>	<b>40.3</b>	<b>42.9</b>	<b>42.3</b>	<b>45.5</b>	<b>48.6</b>
Of which: foreign	24.6	24.4	25.4	26.8	25.6	25.5	27.2
<b>Memorandum items:</b>							
Nominal GDP (in million rufiyaa)	4,714	5,419	5,894	6,070	6,583	6,598	6,989
Nominal exch. rate (Rufiyaa/US\$)	11.77	11.77	11.77	11.77	11.77	11.77	12.24
Grants+gross official loan disburse :							
(a) in millions of US dollars	48.8	45.8	45.0	39.8	31.4	26.5	38.4
(b) in percentage of GDP	12.2	9.9	9.0	7.7	5.6	4.7	6.7

Source: Ministry of Finance and Treasury, and Ministry of Planning and National Development, IMF.

/a Provisional

**2.4 Fiscal expansion and weakening macroeconomic balances.** Fiscal expansion, which started in 1999, continued in 2000 and 2001, resulting in substantial expenditure overruns (see Table 2.2). Current expenditures increased, in nominal terms, by 19 percent in 1999 and by another 21 percent in 2000 and by about 8 percent in 2001, with the current spending-to-GDP ratio rising by 7.5 percentage points in three years to 28.9 percent of GDP. This reflects the sharp increases observed in general administration and social services expenditures. Apart from a 35 percent increase in government salaries/wages effective from September 1999 (the first such increase since the early 1990s), one major contributing factor to this expenditure surge was a 32 percent jump in government employment (Table A.2 in Statistical Appendix) during 1998-2001. While a steady increase in the number of social sector personnel (particularly of expatriates) has been an important factor in this expansion with the opening of the new regional schools and hospitals, the latter explains only 41 percent of the growth in government employment since 1998; (though, it would explain a larger share of the expansion in current expenditures). Besides the social sectors, however, there has been a considerable expansion in current spending/employment in the general services, including "public order and internal security" (Table A.6 in Statistical Appendix). *In the future, it will be important to contain the growth of current expenditures--particularly in the general public services, which already absorb over 42 percent of total current expenditures (12 percent of GDP). These*

recent current expenditure overruns also underscore the critical importance of integrating current and capital expenditure decision processes, such that current expenditure implications of new investment projects are fully considered in expenditure decisions and prioritization.

2.5 Compared to 1998, in 2000 the budget deficit increased 2 ½ times to 4.9 percent of GDP.<sup>3</sup> The deficit reached 5.3 percent<sup>4</sup> of GDP in 2001. Foreign financing (from concessional and other loans) covered only one-fifth of the deficit in 1999 and, as a result, a sizeable recourse to monetization of the deficit through the (automatic) central bank financing from the Ways and Means Account (W&MA) took place.<sup>5</sup> The monetization of the budget deficit continued in 2000 and 2001. More than half of the budget deficit was financed once again through the W&M borrowing from the Maldives Monetary Authority (MMA) in 2000, and this source financed over 40 percent of the deficit in 2001. Improvements in fiscal revenues and containment of capital spending led to a budget deficit outturn of less than the initial budgeted amount of over 8 percent of GDP in 2001 (see Table A.1 in Statistical Appendix for details).

**Table 2.2: Differences in the Budgeted and Actual Figures**

	1997		1998		1999		2000		2001	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total rev and grants	29.3	31	32.7	31.8	31.5	33.8	36.7	36.0	35.6	36.0
Tax and non-tax rev.	26.2	28	29.7	29.1	29.7	31.3	34.1	33.4	33.1	33.2
Grants	3.1	2.9	3	2.7	1.8	2.5	2.6	2.5	2.4	2.6
Expend and net lending	32	32.3	34.1	33.8	34.4	38.1	37.9	40.8	43.7	41.3
Current expenditure	18.9	20.1	20.8	21.4	20.7	23.5	26.0	28.4	26.5	28.9
Capital expenditure	13.1	12.8	13.3	13.4	14	14.4	13.1	13.1	17.8	12.8
Overall balance [deficit]	-2.7	-1.4	-1.4	-2	-2.9	-4.3	-1.2	-4.9	-8.1	-5.3

2.6 In the Maldives, the import content of public expenditures is very high, particularly that of capital spending. Thus, the expenditure overruns of 1999-2001, coupled with adverse external developments (oil price increases, the sharp fall in international tuna prices, and the events of September 11), led to a significant *expansion in the external current account deficit*. The latter, after registering more than three-fold increase in 1999 to almost 15 percent of GDP, fell to 9.5 percent of GDP in 2000 due to the decrease in the imports of construction material with the completion of the new resorts and then surged to almost 11 percent of GDP in 2001. Private capital inflows and reductions in the net foreign asset holdings of commercial banks covered the bulk of the external current account deficit in 2000, thus limiting the depletion of the official reserves to a fairly small amount. This helped in maintaining the import cover of gross official reserves at around 3.3 months of imports. However, in 2001 there was a \$30 million reserve loss, which reduced the import cover to only 2.5 months of imports. With the exchange rate being fixed and pegged to the U.S. dollar, the adverse spill-over effects of the continued fiscal expansion and of adverse external shocks eventually reached the foreign exchange market, leading to 8-12 percent premium in the parallel market exchange rate in the first half of 2001, as the MMA remained conservative in selling foreign exchange to the commercial banks.

2.7 The rate of *inflation* has remained moderate in recent years. Inflation (CPI-based) was 3 percent in 1999, and it showed a negative (1.2 percent) change in 2000. The latter fall in the domestic price level was linked to the falling (US dollar) prices of imported goods due to a strong dollar. In 2001 inflation was below 1 percent (Table A.1 in Appendix). Maldives' real effective exchange rate (REER)

<sup>3</sup> The latter amounted to 8.0 percent of GDP, when grants are treated as a financing item

<sup>4</sup> Or 7.7 percent of GDP, when grants are excluded

<sup>5</sup> In the Maldives there is a provision to finance any deficit between domestic revenue and domestically funded expenditures through an overdraft facility called the Ways and Means Account. Borrowing from this account, which is provided by the Maldives Monetary Authority (MMA) --at 6 percent interest-- may be for any duration and there is no legal limit to the amount of borrowing.

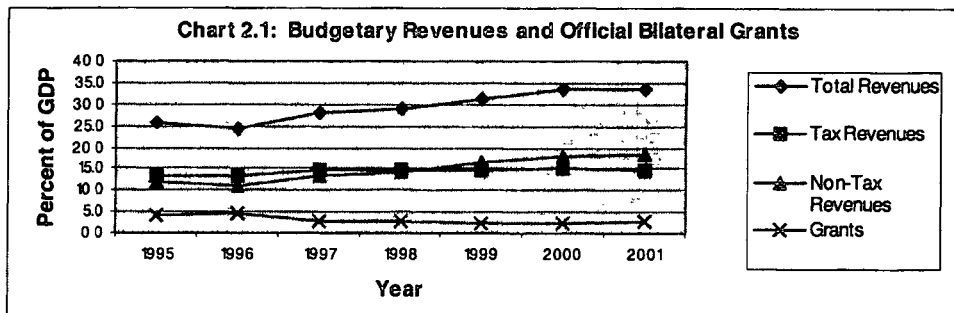
appreciated by 4 percent in 2000, as the dollar strengthened against other currencies. In any case, the Government effected a 9 percent devaluation from July 25, 2001.

## B. Issues In Budgetary Revenues, Expenditures, And Financing

2.8 Against the background of recent macroeconomic developments, some of the key budgetary challenges faced in consolidating Maldives' fiscal framework--broadening the revenue base, strengthening expenditure controls, and improving deficit financing--will be discussed below. These issues are taken up together with the coverage of Government's efforts to address them, and specific recommendations for additional fiscal actions are also presented. At this point, it should also be noted that in what follows, the focus will be on the Government budget. There are serious constraints to consolidating the overall "public sector" finances in the Maldives. Atoll administrations, which are extensions of the central government in the outer atolls, rely on the Government allocations to carry out their expenditures, which are incorporated in the government budget. Their revenue collection and self-financed expenditures are reportedly negligible, and firm information on the latter is not readily available. This points to the need to improve public accounts and to cover and monitor revenues/expenditures at all levels of government. Regarding the state-owned enterprise (SOE) sector deficits and financing, the lack of information/clarification on all the transactions taking place between SOEs and the Government via the budget makes the consolidation of their accounts very difficult. However, the issue of quasi-fiscal deficit/contingent liabilities associated with the activities of Maldives' SOEs is covered below.

### a. Budgetary Revenues

2.9 Import duties and tourism taxes make up the bulk of Maldives' tax system,<sup>6</sup> while dividends from the state-owned-enterprises and resort lease rents are the principal sources of non-tax revenues. Tax revenues amount to about 15 percent of GDP (Table 2.1).<sup>7</sup> In the second half of the 1990s, total budgetary revenues increased from about 26 percent of GDP in 1995 to about 33 percent in 2001, with over 6 percentage point of the latter increase coming from non-tax revenue sources (Table 2.1). Additional resort lease rents collected from the recently completed 14 resorts have contributed to the rising share of non-tax revenues, which increased from 47 percent of total revenues in 1995 to 55 percent in 2001. In addition to the country's own budgetary resources, the Maldives has benefited from fairly generous bilateral grants, which have provided additional budgetary resources in the range of 3-4 percent of GDP in recent years (Table 2.1 and Chart 2.1).



2.10 *The structure of the economy as well as the institutional capacity limitations have so far shaped the budgetary revenue base and the tax structure in the Maldives.* The economy is very open, reflecting the fact that the country needs to import almost everything and the two leading sectors--tourism and fisheries--are export-oriented. In 2001, imports of goods and non-factor services amounted to 80 percent of GDP, while exports of goods and non-factor services stood at 82 percent of GDP. Naturally, given the

<sup>6</sup> Other (minor) taxes include the 25 percent bank profit tax, which is currently the only income tax in the Maldives; motor vehicle taxes; revenue stamps, and license fees and company registration fees. There is also a \$10 airport tax, but proceeds are kept by the Airport Authority.

<sup>7</sup> Note that in Belize the tax revenue-to-GDP ratio is about 40 percent of GDP, 33 percent in Seycheles, and 31 percent in Fiji.

importance foreign trade and the ease of tax collection on foreign trade, import tariffs<sup>8</sup> have become the most important budgetary revenue source, accounting for 63 percent of tax revenues.<sup>9</sup> Tourism, as the most developed and dynamic growth sector of the economy (accounting for 33 percent of GDP in 2001), has become the second most important source of tax revenue through a flat tax of \$6 per person/per day/per room; (the latter tax has remained fixed at this nominal level since 1988). And together with the non-tax revenues collected from the resort lease rent and resort land rents, tourism now generates over 32 percent of total budgetary revenues<sup>10</sup>--amounting to 11 percent of GDP in 2001.<sup>11</sup>

2.11 The other important source of budgetary revenue is the dividends--accounting for 31 percent of non-tax revenues--collected from the state-owned enterprises (SOEs). Public enterprises operate in most of the key sectors and dominate some activities, including public utilities, processing and exporting fish, import/wholesale/retail of many merchandise items, and social services. Concerns about the limited capacity of the private sector, possibilities of private monopolies due to the small size of the domestic market, and the desire to benefit from potential scale economies in production and in international trade have been among the factors that explain Maldives' sizable SOE sector. Various Government policies/interventions have been instrumental in making most of the SOEs profitable and thus also facilitating the flow of dividends to the budget. For example: SOEs benefit from explicit/implicit subsidies because until recently--January 2002--they did not pay rent for the state land that they use, and many SOEs benefit from government guaranteed domestic and external loans; some are granted monopoly privileges; and the Government remains a major buyer of these SOEs.<sup>12</sup>

2.12 Leaving aside the bank profit tax (fixed at 25 percent of profits), there is no income tax system in the Maldives. Similarly, there is no goods and services tax (GST). Some of the key reasons behind Maldives' very narrow tax base include: the relatively undeveloped nature of the rest of the domestic economy; the generally poor state of accounting practices and book-keeping; and limitations of the institutional capacity in the Government, including the nascent state of the tax administration. These constraints explain why the Maldives has until now relied on the two major taxes--customs duties and the tourism tax--which have served the Government's revenue needs at low administrative costs. *However, it has also become clear that it is time to broaden Maldives' tax base beyond these two taxes to reduce its vulnerability to external shocks and improve its robustness and equity aspects.*

2.13 Aside from the variability of tariff revenues due to external shocks, there is a possibility that revenues from customs duties may be adversely affected if and when South Asia Free Trade Area (SAFTA) is established. With zero tariffs on imports from other SAFTA countries--which now account for over 20 percent of Maldives' imports--budgetary revenues, *ceteris paribus*, could fall. Negative external shocks--such as the events of September 11 or economic slowdown in Europe--do affect tourist arrivals and thereby revenues from the tourism tax. The volatility and the likely downward trend in bilateral grants with the imminent graduation of the Maldives from the LDC status exacerbate the vulnerability of Maldives' fiscal balances further.

2.14 **Revenue mobilization efforts.** The Government has long recognized the need to strengthen budgetary revenue base by improving non-tax revenue performance and by broadening the tax base, while also strengthening the newly established *Department of Inland Revenue* (DIR). In 2001, the Government initiated adjustments in various fees and charges--including the rates for stamp duty, commercial land lease, non-fishing vehicle registration fees, secondary school fee, and business fees for retail/wholesale

<sup>8</sup> Currently, the (unweighted) average import tariff rate is around 20 percent, and there are customs duty exemptions--granted mainly to tourism and agriculture activities--on imports of capital goods and inputs for agriculture. Note also that revenues from export taxes are negligible.

<sup>9</sup> In the Maldives customs duties are levied basically for revenue purposes as there is not much to protect. As such, tariffs are also serving as sales/excise taxes.

<sup>10</sup> This is excluding customs duty proceeds collected on merchandise imports destined to tourism resorts.

<sup>11</sup> The proceeds of the \$10/per person airport tax go to the Airport Authority, instead of the treasury.

<sup>12</sup> For a detailed coverage of Maldives' SOE sector and recommended actions, see World Bank (1999), *Maldives Country Economic Memorandum: Policies for Sustaining Economic Growth*, pages 16-18.

trade. These measures, although they will help, are not expected to generate significant amounts of additional revenue. A more important and crucial measure, however, would be the introduction of simple income tax and a GST. The Government has been contemplating to introduce a business profit tax and a property rental value tax for sometime. The relevant tax legislation have apparently been drafted for these two taxes, and they have been awaiting reviews and submission to the Parliament.

2.15 In view of the vulnerabilities cited above, it would be prudent to take action in the tax front soon. Accordingly, it is highly **recommended** that the following measures are given a serious consideration:

- Converting the fixed *tourism tax*, which has remained at \$6 since 1988, to an ad valorem rate<sup>13</sup>, while ensuring also that its real value is at least restored; once the planned corporate profit tax is introduced, then the tourism tax could be abolished. (The IMF staff calculations indicate that just restoring the real value of the flat tourism tax to its 1988 level would generate additional revenues amounting to over 2 percent of GDP).<sup>14</sup>
- Strengthening the Department of Inland Revenue (DIR) through training, hiring of qualified new professionals, including long-term resident advisors, such that it could effectively manage the consolidation of the existing taxes and the implementation of the new ones.
- Completing the necessary reviews/revisions of: the draft *Business Profit Tax*, the draft *Property Rental Value Tax*, and of the draft *Tax Administration Bill*; and introducing them as soon as possible. The introduction of a corporate profit tax will also enable the Government to stop relying on SOE dividends as a source of revenue and pave the way for the privatization of commercial SOEs.
- Preparing a (low rate) GST, initially to be levied at the wholesale/import level, and introducing it as soon as the DIR strengthens its capacity and gains more experience. It is important to note that if SAFTA becomes a reality, a GST could provide the needed revenue cushion even when import tariffs are reduced to zero on imports from other SAFTA countries. Related to this, with the introduction of a GST, the customs duty structure could be simplified further towards a low and uniform rate. Such a tariff rationalization would also reduce SAFTA's potential "trade diversion" effects.
- And the existing tariff exemptions should be removed as part of a tariff rationalization drive; this would also help towards revenue effort. ( Calculations by the IMF staff show that the existing tariff exemptions cause a revenue loss of about 5 percent of GDP, and that the introduction of a uniform 5 percent minimum tariff could generate additional revenues of about 1.5 percent of GDP).<sup>15</sup>

#### **b. Expenditures: Aggregate Level and Allocations to Major Economic Categories**

2.16 As in many small island economies with dispersed populations, public expenditures have been substantial in the Maldives, amounting to 42 percent of GDP in 2001 (Table 2.1 and Chart 2.2). *High transportation costs, inability to benefit from scale economies, and the need to import almost everything, including the hiring of a sizable expatriate work force all contribute to higher (three to four times) unit costs in the provision of social services and infrastructure in the outer islands.* Beyond these factors that explain why inherently public expenditures are relatively high in the Maldives, several recent

<sup>13</sup> Moving to an ad valorem rate tax will not only protect the real value of tourism taxes, but will also eliminate the discriminatory treatment of relatively cheaper hotels/resorts.

<sup>14</sup> The IMF, *Maldives—Staff Report for the 2000 Article IV Consultation*, August 14, 2000, pages 10-11.

<sup>15</sup> *Ibid.*

developments in the pattern of government expenditures deserve attention in view of their implications for fiscal sustainability as well as for the development effectiveness of public expenditures.

**2.17 Rapid expansion in current expenditures and stable capital expenditures.** As highlighted in Section A above, total government expenditures have been on a rising trend since 1996, showing particularly strong expansion during 1999-2001 for reasons given earlier. As a result, total budgetary expenditures increased from about 31 percent of GDP in 1996 to 42 percent of GDP in 2001, an 11-percentage point increase in five years (Chart 2.2).<sup>16</sup> The major underlying push came from rapidly expanding current expenditures. Indeed, current expenditures showed a steady and strong expansion throughout the second half of the 1990s, rising from about 51 percent of total expenditures (or about 19 percent of GDP) in 1995 to over 69 percent of total expenditures (29 percent of GDP) in 2001. Several developments, including a 55 percent increase in government employment over a six year period (1995-2001), the 1999 salary increase mentioned earlier, and the sharp increase in the public order/internal security expenditures explain the recent extraordinary jump in current expenditures. Personnel expansion has resulted in ever increasing levels of payments to the government employees, which were already very sizable. The level of personnel emoluments (salaries/wages plus various other allowances/entitlements) increased from 40 percent of current expenditures in 1996 to about 45 percent in 2001, while expenditures for "repairs and maintenance (R&M)" remained at around 4.3-4.9 percent of current expenditures despite expanding physical infrastructure and capital equipment stock.<sup>17</sup>

**2.18 *Such a rising current expenditure trend is not sustainable and, unless contained, it could crowd out resources for the priority development programs,*** given that there are constraints on potentially available non-inflationary resource envelope. As experienced recently, with the rising fiscal deficit comes weakening macroeconomic framework, external and internal instability. In addition, efforts to bring about fiscal adjustment tend to push the burden of fiscal adjustment on critical expenditure categories, such as social sector programs and non-wage R&M activities and capital expenditures in general.<sup>18</sup> Aside from low priority expenditures and overstaffing issues, there is also an underlying fundamental weakness in Government's current public expenditure management (PEM) practice, and that is ***the disconnect between capital and current expenditures***. This issue is addressed in Chapter 3. Rapid growth in capital expenditures without careful prioritization and little attention to recurrent spending implications could seriously undermine sustainability of fiscal balances.

**2.19** With respect to Government's capital spending (which hovered around 13-14 percent of GDP in 1996-2001), it is worth noting that, because of the smallness of the country, there is also an element of bulkiness and thereby cycles of faster and slower growth (or even contraction) in public sector capital spending. In the first half of the 1990s, there were several physical and social infrastructure projects undertaken by the Government, followed by a period of slowdown. Indeed, as noted earlier, part of the reason for the rapid increase in the Government employment that accelerated in the second half of the 1990s was the expansion of the education and health facilities. Nonetheless, the latter does not explain all the increase in the size of civil service. The other explanation for the slowdown in government capital spending in the mid-1990s is the expansion of the private sector investment in utilities, sometimes in joint

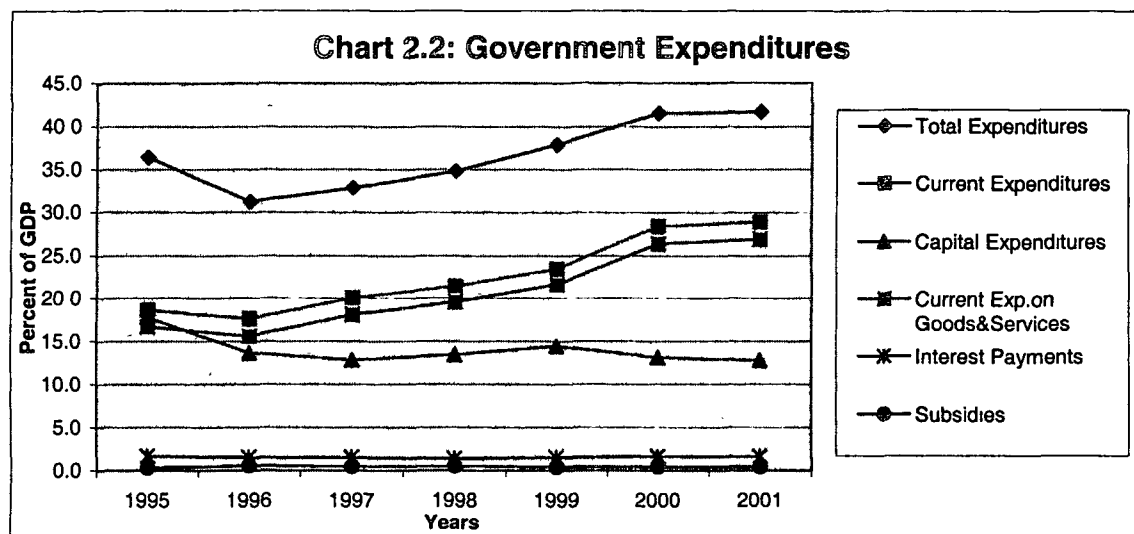
---

<sup>16</sup> Note that after a fairly expansionary fiscal stance observed in 1995, the Government had subsequently pursued fiscal tightening until 1999, with the fiscal adjustment coming mainly from the falling share of capital expenditures.

<sup>17</sup> Source. *Government Budget in Statistics*, recent Financial Year issues, Table 3.06

<sup>18</sup> Note that the significant fiscal expansion (and large fiscal deficit) of 1995 was a result of large increases in both the current as well as capital expenditures. The expansion in current spending reflected the continuation of the rising trend in that category, whereas the jump in capital spending must have resulted from some lumpy new project(s), which also appear to have had their external financing as shown by the sudden rise in foreign financing of the deficit. It is also worth highlighting, however, that after 1995, as part of fiscal adjustment, there was nevertheless a significant slowdown in capital expenditures, which remained well below the 1995 level for three consecutive years both in absolute and relative terms during 1996-98 (Table 2.1)

ventures with the Government. The latter development is reflected in falling share of capital expenditures in “economic activities”—such as fisheries/agriculture, tourism, and trade/industry (see Table A.7 in Statistical Appendix).



**2.20 Inter-sectoral allocation of public expenditures.** To fully capture the actual expenditure decision trade-offs and priorities and the emerging pressures, it is important to look at the changing pattern of sectoral allocation of public expenditures over time. Such information is summarized in Table 2.3 below.<sup>19</sup> The data, consistent with the high priority given to the human development objectives, clearly indicate that the level and relative size of public expenditures in social sectors, particularly for education and community programs, expanded significantly in the second half of the 1990s—rising from 11.2 percent of GDP in 1995 to 16.4 percent of GDP by 2001. And more than four-fifths of the latter increase was due to the expansion in current expenditures, mostly associated with the increases in the number of employees in education and health. As expected, the relative share of public spending in “economic services” has declined—from over 12 percent of GDP to 6 percent of GDP—as a result of the increasing role of the private sector and of private-public sector joint ventures in utilities. Under this category, the most important sector for public expenditure has been *transportation*. Since sea transport is carried out by the private sector, airport expansion activities and port development have been the two dominant areas where public sector spending has specifically focused (details are in Chapter 4).

**2.21** However, as highlighted earlier, there was also a sharp increase in government spending in the “*public services*” area, which rose from 11.3 percent of GDP in 1995 to 17.4 percent of GDP in 2001, now absorbing 42 percent of total government spending. “Public services”, which account for almost half of the government employment—exceeding by far the number of people employed in education/health—include *general administration* and *public order and internal security*. The general administration includes President’s Office, many of the ministries, Boards, Departments, and the courts. And the spending on “public order and internal security” includes law and order as well as *defense spending*. The latter also covers “coast guard” activities, which appear to be sizable given the large size of Maldives’ Exclusive Economic Zone. While the details of public services spending are not available, undoubtedly it has been increasing at an unsustainable rate in recent years, as also reflected by a 48 percent expansion in the number of people employed in the general services category during 1995-2001 (see Table A.2 in Appendix). Such rapid expansion must have crowded out some priority spending. Indeed, while it is

<sup>19</sup> And detailed in Table A.6, Table A.7, and Table A.8 in Statistical Appendix

difficult to ascertain about the development priorities of what might have been given up, it seems that one outcome of the rising “public services” spending was the decline in the relative size of capital spending in the second half of 1990s (Table 2.1).

**Table 2.3: Inter-sectoral Allocation of Total Government Expenditures: 1995-2001**

	1995	1996	1997	1998	1999	2000	2001/a
	(Percent of GDP)						
<b>Total Expenditure</b>	<b>36.4</b>	<b>31.2</b>	<b>32.9</b>	<b>34.8</b>	<b>37.9</b>	<b>41.5</b>	<b>41.7</b>
<b>Public services.</b>	<b>11.3</b>	<b>11.2</b>	<b>13.0</b>	<b>13.1</b>	<b>16.1</b>	<b>17.6</b>	<b>17.4</b>
General administration	7.0	6.6	7.3	7.0	8.1	10.8	11.1
Public order and internal security	4.3	4.5	5.7	6.1	8.0	6.8	6.3
<b>Social Services:</b>	<b>11.2</b>	<b>10.6</b>	<b>12.7</b>	<b>16.4</b>	<b>15.5</b>	<b>17.3</b>	<b>16.4</b>
Education	4.7	4.6	5.4	7.1	6.8	8.2	7.6
Health	3.7	3.5	3.6	3.7	3.9	4.5	4.3
Social security and welfare	1.1	0.9	1.1	1.2	1.1	1.2	1.0
Community programs	1.7	1.7	2.6	4.4	3.7	3.4	3.5
<b>Economic Services</b>	<b>12.3</b>	<b>8.0</b>	<b>5.7</b>	<b>4.0</b>	<b>4.7</b>	<b>5.0</b>	<b>6.2</b>
Fisheries and agriculture	4.4	1.5	0.4	0.4	0.4	0.7	0.3
Transportation	5.7	2.6	3.7	2.6	3.3	2.5	3.2
Post and telecommunication	0.0	0.8	0.6	0.0	0.3	0.1	0.5
Tourism	0.4	0.3	0.4	0.3	0.3	0.4	0.4
Trade and industry	0.3	0.2	0.1	0.1	0.1	0.1	0.1
Electricity	1.5	2.5	0.5	0.6	0.3	1.2	1.7
<b>Interest on Public Debt</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>
<i>Memorandum item</i>							
Nominal GDP (millions of Rufiyaa)	4,714	5,419	5,894	6,070	6,583	6,598	6,989

Source: Table A.6, Table A.7, and Table A.8 in Statistical Appendix. /a Provisional.

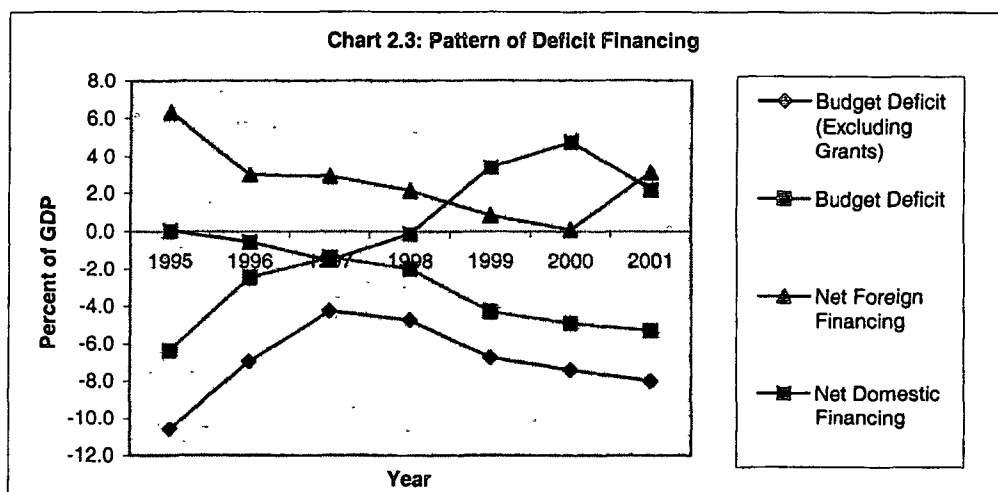
**2.22 Need for effective expenditure control and prioritization, and better integration of current and capital expenditures.** Steps are needed in several fronts to ensure the consistency of the public expenditure program with the macroeconomic stability objectives as well as to ensure the availability of the needed resources for high priority development programs. Some of the **recommended** actions include:

- Expenditure restraint needs to be an essential and a permanent feature of fiscal strengthening efforts by the Government:
  - Focus should be on curtailing low priority/unproductive spending. A serious effort is needed to contain the growth of “general public services” expenditures. This points to a need for a public administration reform in the near future.
  - Maldives has one of the highest number of government employees per capita in the developing world (about one employee for every 13 Maldivians). Given the recent substantial expansion in the size of civil service and the ever rising share of budgetary resources absorbed by salary/non-salary personnel costs, a *civil service reform* should be an integral part of a medium-term public administration reform program.
  - Given the urgency and importance of the needed civil service reform, a major review of the civil service is a key priority.
- As highlighted earlier, it will be crucial to consider recurrent cost implications of all capital expenditure programs. This would require the adoption of an appropriate medium-term fiscal framework that would facilitate the integration of recurrent costs and capital expenditures. (Details on various recommended mechanisms for linking current and capital expenditures in

budgeting/planning and prioritization decisions within a consistent fiscal framework are discussed in Chapter 3 below).

### c. Deficit Financing

2.23 To establish macroeconomic stability in the aftermath of adverse external shocks and expenditure overruns observed in the early 1990s, the Government had initiated a strong program of fiscal, exchange rate, and monetary adjustments in 1993. Indeed, the budget deficit was reduced from well over 10 percent of GDP in 1991-1993 to single digit levels since 1994. With sustained fiscal discipline, the Government also managed to finance the budget deficit without any recourse to central bank financing in the mid-1990s and relied mainly on highly concessional foreign borrowing.<sup>20</sup> In fact, for three consecutive years during 1996-98, net repayments were made to the MMA thus reducing Government's domestic debt stock (Table 2.1, Chart 2.3). However, this pattern of deficit financing has changed since 1999. With the expansionary fiscal policy and slowdown in concessional loan disbursements, the Government has increasingly relied on the monetization of the budget deficit as net financing through the Ways and Means borrowing from the MMA jumped to 3.4 per cent of GDP in 1999, further to 4.8 percent of GDP in 2000 and remained strong at 2.2 of GDP in 2001. As noted earlier, Government's borrowing from the central bank tends to weaken the macroeconomic framework by increasing pressure on the balance of payments and the exchange rate, crowding out private credit, and generally undermining the role of the monetary policy in supporting the fixed exchange rate regime.



2.24 It is important to note also that in recent years an increasing number of private foreign loans—through suppliers' credit, commercial loans, and foreign government guaranteed commercial loans—have been contracted to finance some public sector expenditures, including, e.g., generators, aircraft, and harbor expansion. These carry interest rates of 7 percent and higher, with much shorter grace and loan repayment periods than concessional loans. Even if the expected social returns may justify these relatively expensive commercial loans, it is important to be cautious in using such loans given that a sudden increase in their number may face the government with a debt servicing challenge in the medium-term.

2.25 **Public sector debt** hovered around 42 percent of GDP in the second half of the 1990s, only to jump to almost 49 percent of GDP in 2001 due to the rising budget deficit as explained earlier (Table 2.1). About 56 percent of the government debt is foreign and highly concessional. And the domestic debt stock consists of what is owed to the MMA, borrowed at a below-market fixed rate of 6 percent. Currently,

<sup>20</sup> Here official foreign grants are being treated as a revenue item

neither the domestic nor the total debt poses any major debt servicing problem for the Government. However, as stressed earlier, borrowing through the W&M window has potential crowding-out effects. Furthermore, unlimited access to this facility undermines fiscal discipline and the complementary role of the monetary policy in supporting the fixed exchange rate policy.

2.26 The recent deterioration in financing pattern of the budget deficit needs to be corrected. It is **recommended** that:

- Drafting of the *Public Finance Act* be accelerated to enact it so that the Government could introduce long-term debt instruments (bonds) for domestic borrowing and treasury bills for cash management. With the introduction of government bonds, automatic central bank borrowing through the Ways and Means account should be discontinued. And as T-bills are introduced, the MMA could switch to indirect monetary controls through open market operations in T-bills.
- In the meantime, it would be prudent to introduce, as in other countries, a ceiling on the W&M borrowing (e.g., fixed at a certain percent of tax revenues). The Government should also pay the market interest rate on W&M borrowings instead of the fixed 6 percent. At the same time, a mechanism could be put in place to allow the treasury to get at least part of the seigniorage revenue.
- And, of course, the budget deficit needs to be contained within sustainable levels to ensure that destabilizing monetization of the deficit is avoided and ever increasing (expensive) debt accumulation does not happen (see Section C below).

#### d. Contingent Liabilities

2.27 Most of Maldives' 20 state-owned enterprises (SOEs) are making profits, because of the factors explained earlier. While the Government considers the privatization of at least some of the SOEs as an objective, their privatization in the near-term is not seen as a feasible option. Given the importance of profit transfers for the budget, privatization is seen as a possibility following the introduction of a domestic income tax system and an apex regulatory agency.<sup>21</sup>

2.28 In addition to the revenue transfers to the budget, operations of SOEs affect Government's budget through Government guaranteed domestic/foreign loans or through Government loans (on-lent from concessional donor loans). Therefore such loans constitute contingent liability for the Government. So far, this has not created a serious problem for the budget, since most SOEs are in financially strong position to service their debt. And the Bank of Maldives, which is a state-owned commercial bank, is profitably operating, with below 2 percent non-performing loans.<sup>22</sup> However, a few SOEs have been making losses due to non-commercial mandates, inefficiencies, and mismanagement, and unable to repay the Government. This forces the Government to assume their debt servicing obligation. Of these, two are important. Maldives Industrial Fisheries Company (MIFCO), the fisheries SOE, is one of these, and the recently closed Air Maldives is the other. A third one, Maldives National Shipping Limited (MNSL) has also been making losses, though it has cut its potential losses by reducing the size of its fleet from 18 ships in 1988 to 5 in 2001.

2.29 Air Maldives, which was a joint venture with the Naluri Bhd (a Malaysian Airline company), incurred significant losses from its international and inter-island operations and went bankrupt in 2000. The Government has indicated that the impact of the bankrupt AML's outstanding loans on the budget is

<sup>21</sup> For more details on Maldives' SOE sector, see the CEM (1999)

<sup>22</sup> The other three commercial banks are foreign-owned and are branches of the state-owned banks of the three neighboring countries. They are also profitable with very low non-performing loans.

expected to be about \$6-\$10 million (1-2 percent of GDP)--to be serviced over a number of years. Therefore, the Government does not expect a problem in servicing these loans.

2.30 MIFCO, when it was separated from State Trading Organization (STO) Limited in the mid-1990s, another SOE, and incorporated, it was saddled with sizable debt on account of the loans that had been on-lent by the Government at market rates. In addition, the sharp fall in international tuna prices during 1999-2000 substantially increased MIFCO's losses, further weakening it financially. *MIFCO has been unable to service its debt to the Government since the mid-1990s and has been in arrears (nearly \$25 million at end-December 2000) to the Government in interest payments.<sup>23</sup> Its long-term debt of over 7 percent of GDP--about \$41 million as of end-December 2000-- and servicing of this debt present a significant burden on the budget.* Given the poor state of MIFCO's finances, the Government will need to continue servicing these concessional loans (including three IDA credits) on account of MIFCO's outstanding debt. Noting that MIFCO has been making losses for many years now--about \$15 million in 2000 alone--it is important to take an early decision on the future of MIFCO and stop this continuous drain on the budget.

2.31 Regarding the SOE sector, the following specific measures are recommended:

- Regardless of the size of the contingent liability burden created by the SOE sector, it is important to prepare, as an integral part of a medium/long-term public sector reform strategy, for the privatization of at least some SOEs that have no natural monopoly features--for example, State Trading Organization (STO), Maldives Transport and Contracting Company (MTCC), and MIFCO. In the meantime, while the preparations for an early introduction of a domestic tax system are accelerated and a broader privatization strategy is prepared, efforts could be made to create more room for the private sector and improve the performance of the existing SOEs by: ending the existing monopoly privileges of some SOEs in commercial activities (as being done in the case of MIFCO), including those of STO; hiving off some activities that could be left to the private sector without much delay (e.g., STO's retail activities); discontinuing government interference in the economic/financial decisions of SOEs; and ensuring that SOEs regularly service their debts to the Government and pay rent for the use of state land.
- As in the case of Air Maldives, MIFCO's situation requires urgent attention. MIFCO's non-commercial mandates, such as supporting employment and incomes of the fishermen, need to be met through more direct and less costly development strategies. As noted above, while conditions are prepared for wider privatization, some strategic decisions need to be taken to cut MIFCO's losses and reduce its burden on the budget. Some of the measures may include, for example: the closure of any major loss making activities; hiving off and privatizing the boat building operation; significant manpower rationalization with appropriate compensation; dropping any contemplated expansion plan; and a serious consideration could be given to early privatization of the fish processing activities. To oversee these re-structuring activities, it might be worth considering the appointment of a new board (with members from the private sector) and a new management. Of course, the introduction of a fisheries resources management regime (FRMR)--both for the reef fisheries and tuna fishing--at the earliest possible time would be highly desirable, as recommended in the recently completed reports.<sup>24</sup> A much scaled down MIFCO, under a different mandate, could play a role in the enforcement and monitoring of the implementation of the FRMR.<sup>25</sup> A similar approach could be adopted for MNSL as well.

<sup>23</sup> MIFCO's total amount of interest arrears outstanding at end-December 2002 will reportedly be about \$33 million

<sup>24</sup> World Bank, *Maldives Fisheries Sector Assessment of Development Prospects*, A Policy Note, October 2000; and CEM (1999), op cit.

<sup>25</sup> In October 2002, it has been indicated by the authorities that the Government is planning to restructure MIFCO. The measures contemplated include: (i) the removal of the floor fish procurement price, (ii) MIFCO's operational autonomy in decisions pertaining the choice of supplier as well as the freedom to select freight forwarder and carrier; (iv) developing new "profitable" activities, which would involve the purchase of a reefer vessel to reduce freight cost and increase storage capacity, and the construction of a fresh fish plant and two ice plants; (vi) disposal of uneconomical mother vessels and removal of the loss making Maandhoo Fisheries complex from MIFCO's balance sheet; (vii) the reduction of

### C. Sustainable Budget Deficit

2.32 Generally sound macroeconomic management and generous amounts of highly concessional donor aid enabled the Government to maintain relatively manageable budget deficits without getting trapped in unsustainable debt dynamics in the last decade. Bilateral grants also helped in keeping budget deficit relatively low since the mid-1990s, despite occasional external shocks. However, the expansionary fiscal stance of the very recent years on the one hand and the possible future declines in grants and concessional donor assistance raise important questions about the *size of sustainable budget deficit* for the Maldives in the medium-term. Falling grants will, ceteris paribus, tend to raise the size of the budget deficit, and having to face increasingly more expensive commercial loans and/or non-concessional donor aid would increase debt servicing costs.

2.33 In estimating the size of the sustainable budget deficit, Maldives' macroeconomic objectives--price stability, economic growth, the public sector debt ratios--and foreign and domestic real interest rates as well as real exchange rate depreciation (or appreciation) need to be taken into account. In view of its importance in coming years, an attempt is made in this study to assess the size of sustainable deficit for the Maldives. The details of the specific quantitative approach used--the so called "accounting approach"--are explained in a technical Annex to this chapter.

2.34 The results of our calculations are presented in Table A2.1 in Annex. Findings indicate that the size of sustainable primary deficit--i.e., budget deficit net of interest payments--would fluctuate between 1.9 percent and 7.3 percent of GDP, depending on the assumed magnitudes of the key macroeconomic variables. For example, *in the case of 3 percent inflation, 6.0 percent real GDP growth, and 0 percent depreciation of the real exchange rate, the resulting figure for the sustainable primary deficit (SPD) is 4.7 percent of GDP*. For the same parameters, but under 2 percent depreciation of the real exchange, the SPD falls to 4.1 percent of GDP. As expected, increases in the real GDP growth rate expand the size of sustainable deficit, while increases in the real interest rates on domestic and foreign debt as well as in the rate of real exchange rate (RER) depreciation reduce it (see Annex for the details).

2.35 The findings point to some important policy implications that need to be highlighted here:

- First, the calculation results presented in Table A2.1 in Annex indicate that for the Maldives the estimated SPD is above the actual (annual average) primary deficit observed in 1998-2000, when official grants are treated as revenue. This indicates that Maldives' primary deficit has remained well within sustainable limits and likely to remain so in the near-term.
- However, for policy preparedness, it will be strategically wise to assume also that the bilateral grants will continue falling. Indeed, if the amount of bilateral grants were zero (last row of Table A2.1 in Annex to this chapter), the implied "actual" primary deficit would have exceeded the SPD at 6 percent real GDP growth and 3 percent inflation rate. This indicates the need that the Government should bring down the size of primary deficit gradually as official grants fall.
- Moreover, as expected, the results show that the size of SPD will fall further as "real" interest rate on foreign debt (and on domestic debt) rises. This possibility is also around the corner with the approaching of the date when the Maldives graduates from its LDC status. This underlines the critical importance of structural measures to strengthen fiscal balances.

2.36 **External debt sustainability.** No separate elaboration will be attempted here on the issue of Maldives' external debt sustainability, which basically refers to a country's ability to service its external

---

the interest rates on on-lent loans from 13 percent (and 10 percent) to 6 percent, and the capitalization of the outstanding interest arrears. This appears like a plan to grow out of the existing huge financial and inefficiency problems and, as such, deserves a careful reconsideration given the potential for more of the same problems

debt in full without recourse to debt rescheduling or relief of the accumulation of arrears in the medium to longer term. At this point, it suffices to say that some of the key indicators of external sustainability show fairly robust and sustainable external position at least in the medium-term. First, due to high concessionality of its official multilateral and bilateral debt, the present value of Maldives' external debt is about 70 percent of its outstanding debt. Not surprisingly, the ratio of the *present value* of Maldives external debt to exports of goods and services was fairly low at around 32 percent in 2000. The latter is expected to remain well below the critical 200-250 percent range in the medium-term. Second, the ratio of external debt service to exports of good and services is about 4.5 percent, which is again well below the critical range-- 20-25 percent in this case. And 3.3 months of imports worth of official international reserves provide adequate cushion against short-term external shocks.

## Chapter 3

### STRENGTHENING PUBLIC EXPENDITURE MANAGEMENT

*The Government of Maldives has recently brought public sector management issues to the forefront of the policy agenda. A core objective outlined in the Government's "National Vision 2020" document is to reform and modernize the public sector for effective and efficient service delivery. A strategic medium-term public service plan has been formulated. It emphasizes issues such as improved work ethics and accountability, increased awareness to provide better service delivery to the people and measurement of public sector performance. In view of these changes, reforming budget formulation, execution and monitoring practices offer an opportunity to improve public sector performance.*

3.1 The Constitution of Maldives gives a broad range of powers to the executive branch of the government in managing public resources. Most of the core functions relating to public budget management—planning, formulation, budgeting, execution, monitoring and evaluation—are performed by the executive branch. The power of budget approval rests with the legislative branch, the People's Majlis. The Constitution gives the job of auditing public accounts to the Auditor General, who is appointed by and reports to the President. Currently, the President is also the Minister of Finance.

3.2 The Maldives is a unitary state, but there are local institutions for delivering public services in the outer atolls. The Ministry of Atoll Administration functions as an extension of the central government in the atolls through its offices in the atolls that are headed by the Atoll Chief, who is appointed by the President. All activities in the atolls are carried out by the Government Ministries under the supervision of the Atoll Chief.

3.3 The Government of Maldives is aware of the recent advances and improvements made in public sector performance in both developed and developing countries. It recognizes the importance of modernizing its public sector in order to continue to improve public service delivery to its citizens. To this end, a new unit—Public Service Division—was created in September 1999 in the President's Office to facilitate and coordinate the public sector modernization process. The unit has drawn a strategic plan<sup>1</sup> to modernize and reform public service in the Maldives in line with the objectives spelt out in the National Vision 2020 document. The Government agrees that a program of simple and sequenced reforms--consistent with the domestic capacity--of its budgetary processes is a necessary imperative. It has been seeking help from its international development partners to address the weaknesses of the public sector.<sup>2</sup>

3.4 The objective of this chapter, indeed the entire report, is to contribute to that process. More specifically, this chapter addresses the following two issues:

- How can the process of public budget management be reformed to provide better service delivery to the public at large?
- How can it deliver goods and services effectively and efficiently to the intended beneficiaries?

3.5 The public budget is one of the most important instruments in the management of the public sector. Using an analytical framework that guides policy analysis and focuses on building institutions, the next section evaluates the existing budgetary processes in the Maldives. Lessons from cross-national

---

<sup>1</sup> *Strategic Plan 2000-2005: Vision, Mission and Values*, Research and Publications Unit, Public Service Division, The President's Office.

<sup>2</sup> Besides this review of the public budget in the Maldives, the World Bank completed a *Country Financial Accountability Assessment (CFAA)* in 2000. To avoid duplication, the financial management analysis and the associated recommendations of the CFAA are very briefly discussed in this review. The Asian Development Bank (ADB) has been working with the Government on a number of public sector related areas and issues, including technical assistance programs to strengthen Auditor General's Office and to improve the public accounting system. The International Monetary Fund (IMF) has also provided some help in this area in the mid-1990s, including placing a resident advisor in the country.

experiences are included to illustrate these points. The chapter concludes by outlining a set of possible reform options as they apply to the Maldives. Due care has been taken to ensure that the suggested options are realistic in light of the various constraints--primarily financial and institutional--that are faced by the Government of Maldives in the short- and medium-term.

**Box 3.1: Malaysia's Public Budget System**

Introduced in 1989 to incorporate greater managerial flexibility and accountability, the Malaysian public expenditure management system performs on par with international best practice. It has the following objectives and features:

**Main objectives:**

- Promote a rational allocation of resources to government programs by imposing fiscal limits upon agencies and forging a link between inputs and outputs;
- improve discipline and rationality into the budget process by explicitly quantifying a binding expenditure limit for each agency, shifting from line item budgeting to performance-based budgeting, and producing output-oriented program structures;
- improve program management by adoption of better management practices, including encouraging greater delegation of authority from Treasury to agencies and then on to line managers; and
- reorient the focus of accountability on issues of program efficiency and effectiveness, by measuring performance against predetermined targets, evaluating programs and activities according to their impact and relevance, and matching accountability and authority by holding managers accountable for performance.

**Main features:**

- The public budget is divided into two parts: the operating budget and the development budget. The Treasury, which is part of the Ministry of Finance, has the primary responsibility for preparing the operating budget. The development budget is prepared by the Economic and Planning Unit that reports to the Prime Minister's Office;
- an "Expenditure Target" is provided to each Ministry/Department at the start of the budget process to which existing policy budget submissions must comply;
- a "Program Agreement" is signed between the Treasury and the line ministry which determines the level of performance that can be achieved for a budget year with the allocation approved;
- at the end of the fiscal year, an "Exception Report" is prepared by the line ministries regarding the performance of activities which do not reach the levels specified in the program agreement;
- "Program Evaluation" takes place for each activity at least once every five years.

**Source:** World Bank, *Malaysia Public Expenditure Review*, 1999.

**A. Evaluating Budgetary Processes**

3.6 In undertaking budgetary reforms, governments can improve their performance at three levels: (a) maintaining macro fiscal discipline; (b) strategic priority setting; and (c) efficient public service delivery.<sup>3</sup> A good budget system that performs well according to these three parameters and performs on par with

<sup>3</sup> For details involving public sector performance at the three levels, see the World Bank's *Public Expenditure Management Handbook*, 1998.

international best practice, exists in Malaysia (see Box 3.1). For each of the three levels, we first discuss the concept and then examine how it relates to the case of Maldives.

### a. Maintaining Fiscal Discipline

3.7 Research and experience show that in the long-run, low fiscal deficits are associated with higher economic growth and are conducive to an effective public sector. Many countries, developed and developing, have found fiscal discipline an elusive goal. The benefits of an increased allocation to a particular ministry accrues to that ministry, while the costs--in terms of higher taxes or deficits--are borne by society as a whole. Consequently, there is an incentive for each ministry to overstate its budgetary need. The result is an inflated budget, with its attendant problems of economic performance. One possible way to minimize this fiscal problem is to have a strong central government agency, which can enforce fiscal discipline.

3.8 In the Maldives, the Ministry of Finance and Treasury (MFT) has the basic responsibility for preparing the overall budget. The principal component of the capital budget--known as the annual public sector investment program (PSIP)--is prepared by the Ministry of Planning and National Development (MPND). The composition of the PSIP is determined by MPND on the basis of an indicative domestic resource figure provided by the MFT as well funds available through external aid. The annual budget calendar begins in the middle of July when the MFT sends budget circulars to the spending agencies. Following a five-month period of interaction and consultation with line ministries, the budget is submitted for approval by the Minister of Finance to the People's Majlis in the last week of December.

3.9 While the fiscal deficit has remained broadly under control, the size of the public sector in the Maldives has grown big in the last couple of years (as detailed in Chapter 2). The share of public spending in GDP increased from roughly 35 percent in 1998 to 42 percent in 2001--a nearly 20 percent increase in the size of the government. (There was also a concomitant increase in revenue). Moreover, the difference between the budgeted and actual level of total spending for 2000 shows an overrun of 9 percent--about 4 percentage point overrun in terms of GDP (Table 2.2 in Chapter 2). A good sign is that the Government is cognizant of this lack of fiscal discipline, particularly in the management of its overall public expenditures.

3.10 While the Government needs to contain the ever increasing public spending, it is also important what ways does it adopt to apply the control. Until its removal in 2001, a strange feature of Maldives' budget was that shortly after it is approved by the People's Majlis and assented by the President, a fraction of the approved appropriation would be taken back by the MFT across all spending agencies. (In 2000, the reduction on this account, as noted by the World Bank's recent *Country Financial Accountability Assessment* study, was 12 percent). During the year, the spending agencies would have to fill out forms to get all or part of their approved appropriation. The apparent justification of this quirk -- known as "unspent balances"--was that it provided the MFT a way to control the level of expenditures by the spending agencies.<sup>4</sup> This mechanism might have been effective in controlling the overall spending of the Government, but it certainly introduced a lot of uncertainty about the "hard" budget limits of the spending units. Not being able to know their total budget, the spending agencies found it difficult to prioritize their spending and their financial planning used to be affected. While it was a good step to remove the "unspent balances", which should be supported by an effective cash management system, *consideration should be given to enforcing a binding expenditure limit for each spending agency to improve fiscal discipline further.* Given the external vulnerabilities facing the Maldives, it might also be prudent to maintain a small "contingency fund" item in the budget as a cushion.

3.11 ***Looking ahead, the MFT needs to ensure that it does a good job in estimating the total resource envelope of the country.*** This is an important first step in the budget process and is critical in

---

<sup>4</sup> For details, see: World Bank, *Country Financial Accountability Assessment Republic of Maldives*, December 2000, pages 15-16

getting a better handle on fiscal discipline. Both the IMF (in its earlier fiscal work in the mid 1990s) and the Asian Development Bank (in its recent technical assistance program on public accounting system) have emphasized the need for having an appropriately staffed economic unit within the MFT which should be entrusted with this job.<sup>5</sup> It is also the opinion of this report that the right way of strengthening the starting point of the budget is to have a good forecast (based on solid analytical work) of total resources for the country. Deciding on total expenditures and deficit financing (if any) comes next. This has to be consistent with the country's macro objectives of growth, inflation, and fiscal/external sustainability. The Government should therefore consider having a professionally staffed economic unit in the MFT as a first necessary step in strengthening the budget process.

3.12 Recent experience suggests that there is another dimension to preserving fiscal discipline, namely, *transparency*. If budgetary transactions--either on the expenditure or revenue side--are not properly recorded and monitored, then the reported fiscal balance could be misleading. In most cases, these "hidden deficits" are due to contingent liabilities of a government which are generally not incorporated in fiscal policy debates. In the case of Maldives, this issue is particularly relevant due to the loans made by the Government to individuals and public enterprises (see Chapter 2 and Chapter 4). *The budget needs to be comprehensive and all liabilities--actual and contingent--should be recorded in a transparent manner*. The impending reform in the public accounting system should be appropriately designed to address this problem.

3.13 *An effective expenditure monitoring and control* capacity is critical not only for mid-course corrections/adjustments, such that fiscal discipline is maintained at both sectoral and macro levels, but also to monitor whether allocated funds are being spent well for the stated objectives. For having such a capacity, one of the first requirements is the existence of a well functioning *public accounts system* that provides timely and relevant financial information. According to the findings of the World Bank's recent *Country Financial Accountability Assessment (CFAA)* study (Box 3.2), Maldives' current, manually recorded, single entry accounting system is grossly inadequate for such purpose. Moreover, the chart of accounts (coding system) currently used does not allow the accumulation of expenditure information beyond broad functional categories; for example, ready expenditure aggregation by approved programs/projects is not possible. However, with the support of technical assistance from the Asian Development Bank (ADB), the Government will be developing a modern, computerized, public accounting system; it will be based on an appropriately developed expenditure coding system.<sup>6</sup>

#### b. Strategic Priority Setting

3.14 Both theory and experience suggest that strategic priority setting is always the most difficult aspect of improving public sector performance. In most democratic societies it is essentially a political process for policy-makers. It is true that in practice there is no "optimal" or "right" allocation of the public budget. Beyond the *core* public sector activities (e.g., pure public goods like national defense and police services or control of communicable diseases), the design and implementation of public expenditure priorities require detailed assessment and careful tailoring to country circumstances. However, a technical approach that provides policy-makers important information--such as the reason for public sector involvement, appropriate instrument, and competing claims on the budget--could be used to take better decisions. Two dimensions that such an approach looks at involve: (a) the economic classification of expenditures (recurrent vs. capital), and (b) the functional classification of expenditures (that looks at budget allocation *among* and *within* sectors.)

<sup>5</sup> For more information, see: International Monetary Fund, "Maldives. The Management of Public Spending", Fiscal Affairs Department, June 1994, and ADB's "Capacity Building for the Maldives Public Accounting System. Section No 7 - Budgetary Procedures", Stanton Partners, West Perth, Australia, May 2001.

<sup>6</sup> For further details, see *Country Financial Accountability Assessment (CFAA)*, op cit, pages 22-25.

### Box 3.2: Country Financial Accountability Assessment (CFAA)

The World Bank recently did an assessment of the financial management and accountability arrangements in the Maldives. The report submitted to the Government in December 2000, had the following main findings and recommendations:

#### (i) Findings:

- The public financial management and accountability is at a nascent stage in the Maldives. Staff capacity is a major constraint.
- The chart of accounts (budget coding system) used in the public accounting system does not allow expenditure information beyond broad functional categories. This lack of data restricts the Government's ability to monitor spending to ensure that they reflect approved development plans and programs.
- A system of government auditing, which meets international standards and includes a methodology and manual, has been established with the help of the Asian Development Bank. However, the effectiveness of the new system remains limited due to staff capacity constraints. The Anti-Corruption Board, established in 1999, has developed prevention and investigation functions, but it too suffers from staff capacity constraints.
- Full financial statements of the Government are not prepared and published.

#### (ii) Recommendations:

- A comprehensive reform program, with support from the highest levels of Government, is needed.
- Timely collection of accounting information on government revenues and expenditures, recorded against an appropriately detailed chart of accounts (that is useful for resource management decision making) is required.
- A process of annual budgeting integrated with investment plans and a medium term budget framework is needed. The process should have accountability for applying economic affordability to budget proposals and effective monitoring of performance by spending units against clear budget targets.
- In the short- to medium-term, the Government should update its consolidated financial regulations (preferably in the form of Public Finance and Public Enterprise Acts), develop a focused strategy to deal with the problems of lack of financial management capacity, complete the draft Audit Act and submit it to the People's Majlis for passage.

Source: World Bank, *Country Financial Accountability Assessment: Republic of Maldives*, December 2000.

### b.1 Recurrent vs. Capital Spending

3.15 A common feature in developing countries is the under-spending on non-wage operations and maintenance (O&M) expenditures--an expenditure category of the recurrent budget usually associated with high rates of return--relative to capital expenditures. At this time, the Maldives does not appear to suffer from this problem in any significant way. There are no cases of large wage bills crowding out drug supply in health clinics or education materials in schools (see the Education and Health sections in Chapter 4). In the infrastructure sub-sectors, while there are some issues of concern (see Chapter 4 for details), lack of an appropriate recurrent budget is not one of them. This could, however, become an issue in the coming years.

3.16 By separating capital and current budgets, governments frequently do not forecast the recurrent expenditures associated with today's investment program.<sup>7</sup> For example, if the project involves a school

<sup>7</sup> In a developing country, an estimate of the current investment program showed that recurrent expenditures would exhaust 110 percent of the government's future revenues.

construction, the future recurrent costs that should be taken into account are wages and salaries of teachers and administrative staff, school supplies, operation and maintenance of the building, etc. If the project involves improving port services, the recurrent costs are mostly related to operation (administration, etc.) and maintenance. In most cases, when decisions are made without proper accounting for future recurrent costs, projects die prematurely (e.g., a road project) or function very badly (e.g., teachers not getting paid or students without text books sitting in poorly maintained buildings).

3.17 In the Maldives, the future recurrent cost implications of new capital projects are insufficiently taken into account, in part due to the nature of the budgeting process which involves a one-year planning and budgeting exercise. For example, the health sector has followed a construction intensive investment policy for the last five years without taking due account of the recurrent cost implication of this expansion (see the Health section in Chapter 4). In the absence of a concurrent adjustment in the recurrent budget in the coming years, this may seriously affect service delivery in the health sector.

**Box 3.3: Medium-Term Planning and Budgeting**

The medium-term planning and budgetary process consists of three steps:

- *Macroeconomic and fiscal analysis.* To emphasize macro fiscal sustainability, the budget is formulated within a three- to five-year horizon and includes macroeconomic constraints, the costs (current and capital) of ongoing policies, and room for new policies.
- *Fiscal policy formulation.* Within the aggregate fiscal constraint, the executive branch of the government decides on new policies and sectoral spending limits, and discusses those with parliament to ensure a general overall agreement. In this phase, the government decides on additional revenue measures, and on which policies to drop in order to create room for new policies.
- *Detailed budget preparation.* Within the broad sectoral limits and the policy decisions made, individual line ministries prepare their budgets. The line ministry budgets, which cover both capital and recurrent costs, focus on *programs* rather than *projects*. The budget proposals are accompanied by result statements detailing what has been achieved in the past budget year(s), and what will be achieved in the coming year. The budget policy agency no longer needs to negotiate down bloated demands for funding, as line ministers need to stay within the broadly agreed limits. Instead, it focuses on the financial and economic analysis underlying the budget proposals.

3.18 There are a couple of noteworthy features associated with Maldives' budget process that could be utilized to properly take into account the recurrent cost implications of all capital projects. First, unlike most developing countries, the MFT is consulted in the PSIP budgeting process and has the potential to be actively involved in project selection. (See Box 3.4 on PSIP below). Second, the ongoing capital projects are given funding priority in the subsequent year PSIPs, so very rarely would a development project die due to lack of funds before it is completed.<sup>8</sup> *The Government could simply make a requirement that all project proposals that are submitted for consideration under the PSIP provide an estimate of the recurrent cost implications of the project over the next five to eight years after the project comes on line.*<sup>9</sup> These numbers could be estimated using information from other ongoing projects. This would help the line ministries and the MFT to get a better understanding of the future recurrent costs that would need to be funded. Estimates of future recurrent costs would be an important piece of additional information in deciding whether a project should be funded.

<sup>8</sup> Following a move by the MFT to reduce spending and to streamline it with revenue, the PSIP budget in 2001 was reduced by 19 percent relative to the previous year's PSIP. All ongoing projects, however, were included and funded.

<sup>9</sup> In line with this recommendation, the Government has very recently introduced a change in the submission process of PSIP proposals by the line ministries. Starting with the 2003 Budget, the latter are now required to give estimates of not only capital costs but also of recurrent cost implications of any new project proposal--the relevant information needs to be provided in the newly revised Form P2 (see Box 3.4).

3.19 Yet another way of properly accounting for the future cost implications of current policies is to introduce a *multi-year rolling budgetary planning exercise* (See Box 3.3). This methodology integrates

**Box 3.4: Formulation, Compilation, and Monitoring of the Public Sector Investment Program (PSIP) in the Maldives**

On receiving (from the Ministry of Finance) an indicative total figure for the annual PSIP, the Ministry of Planning and National Development (MPND) sends out a circular to all project implementing agencies requesting proposals to be submitted around the end of August. The circular provides an indicative figure—that is closely linked to the previous year's allocation—to each line ministry within which the total investment plan of the ministry should fit in. Government agencies submit their project proposals—that are expected to be based on the priorities outlined in the sectoral, regional and national development plans—in a prescribed format (Forms P1 and P2 ) to MPND, including their project priorities (Form P3).

The project allocation process is guided by the following principles:

- A PSIP budget that would maintain the pace of existing development activities in the country.
- Funding of those ongoing projects, which if discontinued, would have adverse impacts on the development of the country, and
- Funding the domestic components of those projects which have committed external funding.

On receiving the project proposals, MPND technically appraises them and in the process consults line ministries for clarifications and/or other related information. MPND submits the projects for approval to the Projects Appraisal Committee (PAC).<sup>10</sup> The PAC appraises the projects taking account of national development priorities, the scope of projects and their links with the country's development objectives. Some projects are also identified as potential candidates for donor funding by the PAC. MPND then organizes a series of meetings with the project agencies, with the participation of MFT, to discuss the projects approved by the PAC. The proposed (and past, if any) spending and annual budget requirements are discussed and final agreement at the line ministry level is reached on budget allocations for the approved projects and their priority. MPND then sends the list of prioritized projects to MFT for funding. Once the allocations are finalized, the PSIP component along with the complete budget is sent to the People's Majlis for approval.

MPND compiles the PSIP taking both the domestic funded projects covered under the approved budget and projects funded under external donor assistance. Data on donor-assisted projects are received from Department of External Resources and the MFT. The complete PSIP list is then utilized in the quarterly monitoring of the development projects by MPND.

There is no direct role of the donors in the formulation of the PSIP. Any project proposed for external financing is appraised by the PAC. After approval from the President's Office, the projects are then sent to the Aid Management and Coordination Committee (AMCC) for selection of possible donors. The AMCC, consisting of President's Office, Department of External Resources, MPND, and MFT, identifies donors for the approved projects. Once donor commitment is obtained the project is included in the PSIP.

Source: Information provided to the World Bank's PER mission by MPND.

the capital and current accounts into a single budget, and then projects this budget out for three to five years, so that the recurrent costs can be evaluated alongside the country's projected revenues. Some developing countries (including South Africa) and developed countries (Australia and New Zealand) have successfully adopted this process. In view of the significant institutional capacity constraints that exist in the Maldives, an interim step could be taken now with the introduction of a medium-term financial

<sup>10</sup> Under the Presidential Office Circular Number 72/97, dated October 23, 1997, the PAC was established with a mandate to screen and prioritize the new projects submitted by the line ministries. However, until mid-2002 the PAC remained ineffective because the members of the PAC failed to meet. The situation has changed with the preparation of the 2003 Budget as the PAC has become active and resumed its project prioritization responsibilities. The PAC comprises of high level representatives from the President's Office, MPND, MFT, Department of External Resources, Ministry of Home Affairs, Housing and Environment, Ministry of Atolls Administration, and Ministry Of Women's Affairs and Social Security.

framework (MTFF) as a stepping-stone to the introduction of a full-fledged medium-term rolling expenditure program (MTEP) in the near future. As suggested in the preceding paragraph, information prepared on the capital costs of new (and approved) programs/projects as well as their recurrent cost implications could be utilized as inputs for the development of a MTFF as an important medium-term financial planning instrument in the budgetary process. And as the Government undertakes other important budget related reforms (including the development of the new public accounts system), a rolling MTEP could be introduced in the near-term (more on this below).

### ***b.2. Process for Evaluating Public Expenditures: Across and Within Sectors***

3.20 In addition to the allocation of resources between current and capital expenditures, strategic priority setting involves improving the allocation of resources *among* and *within* sectors, such as *health, education* and *infrastructure*. As mentioned earlier, there is no such thing as a unique or optimal allocation of resources that can be applied universally. But experience has taught us that applying simple principles can help to boil down the decisions to the essential ones, thereby permitting decision-makers to focus on a few, crucial tradeoffs.

3.21 A simple decision tree approach can be adopted to evaluate public expenditure programs. Such an evaluation of resource allocation within (and across) sectors proceeds by asking three questions: (a) What is the rationale for public intervention? (b) What is the right instrument for public sector intervention? (c) What are the fiscal costs?

3.22 **What is the rationale for public intervention?** One of the main principles that guides the PSIP process in the Maldives suggests choosing an overall capital budget that “would maintain the pace of development activities” (see Box 3.4). But this is a very general statement and, by applying some interpretation, any project could be included in the PSIP. While in recent years there has been a recognition that the private sector needs to play a more important role in the economy, the Government’s budget system does not incorporate any feature which requires rationalization of public sector involvement in the proposed activity.

3.23 In the current budget system, line ministries submit their recurrent budget proposals to MFT and proposals of PRSP to MPND. For the capital budget proposals, line ministries are required to support their project proposals with statements of objectives, likely benefits and priorities, but there is no requirement for justification for public sector intervention. Routinely line ministries submit inflated budget proposals knowing in advance that the budget allocation process is a negotiated game between them and the two central agencies--MPND and the MFT.

3.24 Ideally each program in the budget, including both current and capital expenditures, should be scrutinized for whether there is a rationale for government intervention in that area. Market failure (externalities and/or public goods) and concern for social equity (including equal opportunity of access to basic goods and services) provide the two possible rationale for government intervention. However, a large number of expenditure programs, which appear in a majority of government budgets, fail this test. Some lessons from other countries are provided in Box 3.5.

3.25 ***It is highly desirable that the rationalization of public sector intervention be required for all new programs proposed in the budget.***<sup>11</sup> Failing adequate justification the proposed program should not be funded. This kind of a discipline would help the Government to undertake much needed changes in the composition of its spending. For example, short- to medium-term policy changes could involve things like spending more on the quality improvement of basic health and education services and less on direct (untargeted) subsidies, e.g., housing subsidies.

<sup>11</sup> This view is consistent with the Government’s view as outlined in the draft *Sixth National Development Plan*. The Plan underlines the need for using “economically and financially sound criteria for evaluation of capital investments.” (Section 6.1.1)

3.26 One problem that has been repeatedly noted by nearly all past public sector studies on the Maldives is the number of spending units and their budget submissions.<sup>12</sup> There are currently 176 units—with several of them representing the same ministry—that submit their budgets to the MFT. This large number of proposals puts a heavy burden on the MFT staff and lets the Ministries and Departments get away from making tough decisions regarding spending trade-offs among their spending units. *Consolidation of these spending units into a more manageable number should be a priority and urgent option.*

3.27 **What is the right instrument?** *Market failure and distributional equity* consideration may provide the rationale for public sector involvement in an area, but it does not necessarily imply that the public sector should be the service provider in that area. If the rationale is the existence of a positive externality (such as the one associated with primary education, for example),<sup>13</sup> the same objective could be achieved by a public subsidy, with the private or nongovernmental sector providing the service. This is the reasoning behind various schemes, such as school vouchers, that seek to improve outcomes in sectors where there is a justification for government intervention. In the past, monopoly conditions in infrastructure services usually justified public provision. Over the years, technological advancements have gradually reduced the need for a single supplier and conditions have been created for market competition. Thus, for many infrastructure services, the right instrument for government intervention has become enforcement of efficient and impartial regulation.

#### Box 3.5: Justification of Government Spending

- In education, the rationale for public provision of higher education is difficult to justify on grounds of failure in the market for education. The main beneficiary of a university education is the student himself. If as a non-poor he is unable to afford the high cost of tertiary education, it could reflect another market failure in the economy, namely, a failure of the credit market. In such a case, there is no market mechanism for a student to secure a loan to finance the high cost of tertiary education. Government intervention to alleviate the credit problem is justified (as is the case in many OECD countries). Some governments resort to the second rationale—redistribution—to justify their subsidies to universities. But research has shown that in most developing countries almost all tertiary education subsidies accrue to the non-poor.
- In Malaysia, research showed that an increase in the number of public doctors in a district had no effect on infant mortality—because they were crowding out the private doctors—whereas increases in safe water and sanitation (involving large externalities) had a substantial effect.
- The largest item in the Indian government's agriculture budget is a fertilizer subsidy. When the fertilizer was introduced forty years ago, there was a rationale in terms of the information externalities associated with farmers' adopting the new technology. Since then, that externality has vanished, but the fertilizer subsidy continues. Moreover, the beneficiaries of the subsidy are mostly better-off farmers. Subsidy reduction or removal has become a difficult political issue.
- Some government programs can only be justified in terms of the redistribution rationale. Most transfer schemes (cash and in-kind) fall under this category. The main issue here is whether such programs reach their intended beneficiaries—the poor. In the Indian state of Andhra Pradesh, the rice subsidy scheme—ostensibly targeted for the poor and needy—reaches more than 65 percent of the population and consumes a sizeable proportion of the state's annual budget, leaving fewer resources for other desirable activities such as basic health care and road maintenance. In Jordan, a lower middle-income country, the recently-abandoned cash transfer program reached 76 percent of the population. That it consumed 1.7 percent of GDP made it an excellent candidate for public-sector rationalization according to these criteria.

<sup>12</sup> See: CFAA (2000), op. cit., page 16; IMF (1994), op. cit., page 8.

<sup>13</sup> It can be argued that it is in the interest of a nation to have a numerate and literate society. Therefore, one could argue for a justification of public support/provision of basic education to all citizens.

3.28 Analyzing the instruments of public sector intervention in the Maldives reveals the following:

- The private sector has been playing an important role in increasing the inter-island accessibility, particularly for residents of the outer islands. Recent private sector initiatives include several scheduled voyages per week between Malè and Baa and Lhaviyani Atolls as well as some other atolls. The private sector is also reducing prices and increasing retail choice throughout the country through networks of private island distribution depots. The Government has been concentrating more on designing and enforcing the rules. This is an example of a desirable mix of public-private activities.
- The MFT is providing guarantees on electricity generator loans to Island Development Committees (see the Infrastructure section in Chapter 4). It also provides assistance to individuals and state owned enterprises (SOEs). It is unclear if there is any justification of a public sector role here. Most of these activities should be handled by the private commercial sector. Island Development Committees (IDCs) should be able to approach the Development Cell of the Bank of Maldives for loans, relying on “island community” group guarantees and/or the generator itself as collateral. Government should not be in the business of lending to private citizens. And SOEs, while they remain in the public sector domain, should be subjected to “hard budget” constraints and not supported with soft money from the budget. If they are operating efficiently and profitably, they should be able to borrow from commercial sources. If they are perennial loss-makers, then they should be closed or divested (see Chapter 2 for details).
- The public sector role in the housing policy needs an appropriate adjustment. Any financial assistance in this context should be based on a targeted program to protect the poor. For example, it appears to be the case that most tenants in the existing Malè Housing Project can afford to pay the 50-70 percent rent subsidy that they are receiving from the government (see the section on Infrastructure in Chapter 4).<sup>14</sup>
- The government has plans to expand technical and vocational education facilities at the tertiary level. Given that the benefits of such programs accrue mostly to the better-off students, the government should recover the cost of the program from the beneficiaries. The existing program of sending students abroad on government scholarship in exchange for working for the government upon return seems to be paying high dividends in addressing the capacity constraint issue.

3.29 **What are the fiscal costs?** Among those programs where there is a rationale for public intervention, and where public provision is the appropriate instrument, the government needs to decide which programs have the highest priority. This is essentially a political decision, and is typically undertaken at the level of the cabinet. Yet, experience has shown that technical analysis can contribute to this process by providing decision-makers with the information they need to evaluate the unavoidable tradeoffs. Although it is often difficult, if not impossible, to quantify the benefits, the fiscal costs (both current and future) can be quantified. The latter information can be used by policy-makers to make judgments on program expansion vs. contraction vs. elimination (or introduction).

3.30 The existing process of PSIP (described in Box 3.4) can be modified to allow for a comparison of fiscal costs of those projects that are justified for public sector intervention. For example, the cost of subsidy (including information on those targeted who benefit from it) from a new housing project can be compared to a project to improve the quality of education at the secondary level or the cost of building a new regional airport. In the current system of PSIP formulation, line ministries are expected to prioritize their projects. This information on opportunity cost could be useful--notwithstanding the lack (or

<sup>14</sup> The latter estimate is based on the information collected in May 2001.

incompleteness) of information on the benefits--to decision-makers when evaluating the difficult tradeoffs across sectors.

### c. Efficient Public Service Delivery

3.31 Even in cases where the rationale for public sector intervention is clear and the choice of instrument is correct, public service delivery may not improve social welfare. In many countries, particularly developing, government failure is as common as market failure. The key to achieving cost effective service delivery is to have the right incentives. Public sector agents often face little or perverse incentives for efficiency. Managers in the public sector are rewarded in terms of the size of their budgets, giving incentives for *cost-inefficiency*.

3.32 Recognizing these problems, several developing and developed countries have attempted to reform the incentives in their public sectors. Cross-country experience suggests these reforms can be classified in the following categories.

- **Performance-based budgeting.** Rather than evaluating public servants on the size of their budgets, or making their budgets a function of their costs, public managers in New Zealand are given budgets based on a specified set of outputs for which they are held accountable. The manager of a school district, for instance, is given a budget and is expected to have a certain number of students complete schooling successfully. Among developing countries, Malaysia has successfully integrated such a budget system.
- **Performance-based rewards.** In addition to the budget being based on performance, a public manager's own reward in New Zealand is based on the achievement of certain outputs. For instance, the salary of the Governor of the Central Bank is a function of the inflation rate. In Jordan, a publicly-owned utility has instituted a new compensation system that annually evaluates the performance of its employees and gives merit-based rewards including promotions. A few African countries (e.g., Malawi) have also tried performance contracting with limited success.
- **Client surveys.** Eliciting information from clients has proved to be an important way of improving efficiency and fighting corruption. An expenditure tracking survey was conducted in Uganda to ascertain whether the money appropriated in the budget for a particular activity was actually reaching and funding that activity. In a randomly selected sample of 250 government schools showed that on average, less than 30 percent of the funds intended for non-salary public spending actually reached schools during 1991-95. Both publicizing this information and making the school budgets more transparent have dramatically improved the resource usage. In several Eastern European countries (Albania, Georgia and Latvia) detailed corruption surveys have been conducted--among households, enterprise managers as well as public officials--that have helped policy-makers to design appropriate action plans to improve efficiency and provide better public services.

3.33 However, it is also important to stress that reforming public service delivery through better incentives, such as performance-based budgeting and rewards, is generally feasible when *the basics of the budgeting system* are in place. The latter, as noted earlier, include: well functioning budgets which provide the spending units with the amount appropriated; spending is done on activities that were approved; internal and external controls are established, helped by an effective and timely public accounts system; and civil servants are adequately paid. Survey mechanism, however, is good to get feedback on service delivery related issues and make necessary adjustments.

3.34 **Accountability, monitoring, and evaluation.** The Government of Maldives is quite cognizant of these issues relating to improved public service delivery. As noted earlier, the President's Office has prepared a strategic plan that outlines several objectives of reforming the public sector including emphasis

on effective and efficient service delivery, customer satisfaction.<sup>15</sup> Ways and means to facilitate improved service delivery include better accountability, performance measurement at the organizational as well as individual levels, and rewards based on team performance. The challenge remains to implement some of these action programs.

3.35 The existing practices for public expenditure management do acknowledge the importance of evaluating the performance of public sector service delivery. The Audit Department undertakes a few performance audits on an ongoing basis, but the Department does not have adequately trained staff to do a good job.<sup>16</sup> In fact, the overall control mechanism of public budget in the Maldives requires major changes.

3.36 The Constitution of Maldives provides a role for the Auditor General (AG). The AG is appointed by and reports to the President and not to the People's Majlis. Currently, no annual audit reports are prepared. Audits of public resources spent by spending units are done on an ongoing basis including performance and financial audits. Due to lack of adequate staffing, some financial audit work is sub-contracted to the private sector. Annual audits are also done for high risk projects. The audit reports are submitted to the President's Office and in some cases actions are taken by sending the case to either the Anti-Corruption Bureau or to the courts. The internal audit function is also housed in the Office of the Auditor General and is indistinguishable from the external audit function. As suggested in the Bank's CFAA, *given the increase in absolute size of the Maldives government, the time has come to separate the internal and external audit functions*. An internal audit unit that provides service to the management of departments and agencies could be housed in the MFT.

3.37 The Government of Maldives has already initiated a few corrective actions on the *audit front*. A new draft law (Draft Audit Bill 1999) has been prepared under the ADB's technical assistance program to the Audit Office. (The latter Draft Bill has been with the Law Commission for review). It has several features, which will enhance the Audit Office's standing, independence and quality.<sup>17</sup> If it becomes law, the Auditor General will be required to prepare annual financial reports and present it to the President. In turn, the President, at his discretion, will present the report before the People's Majlis. As emphasized by earlier Bank reports, this bill needs to be considered a priority legislation and be enacted into law as soon as possible. Moreover, international experience suggests that the external audit function is most effective when it is independent of the executive branch of the government. Therefore, *it may be a good option to consider changing the reporting relationship of the Auditor General from the President's Office to the People's Majlis*. This will require amending the Constitution, but such a reporting relationship is common in democracies.

3.38 There are no *client surveys* or any other similar mechanism--to the best of our knowledge--to gauge the quality and effectiveness of public services in the Maldives. While this issue is implicitly raised in the Government's strategic plan, no concrete action plan has emerged so far in the work of any spending agency. Given the popularity and effectiveness of this instrument in other developing countries, the Government may consider taking steps in this direction. User surveys could be piloted in large spending departments such as infrastructure, health, and education to promote accountability and improve service delivery.

3.39 We used a framework to evaluate the budgetary process in Maldives. Each of the three components--fiscal discipline, strategic priority setting, and cost efficiency--was described and lessons from experience from other countries were discussed. In light of this information, the budgetary process

---

<sup>15</sup> For more information see: "Strategic Plan 2000-2005: Vision, Mission and Values", Research and Publications Unit, Public Service Division, The President's Office.

<sup>16</sup> During the Bank's mission the Director of Audit had asked for help (in the form of training for his staff) in three broad areas of which *performance audit* was one of them

<sup>17</sup> For further details on the Audit Office and the Draft Audit Bill, see: CFAA, pp 37-44.

in the Maldives was assessed. What does this evaluation tell us? What actions can be taken in light of the existing administrative and political constraints? The next section outlines some key reform options.

## B. Reform Options

3.40 The “Vision 2020” document has created an environment of change in the Maldives. The President’s Office has taken the first important step of outlining a strategic plan to improve public service delivery. This provides an opportunity for all relevant stakeholders to work together and *implement* the various reform options that have been outlined through different reports and technical assistance programs. Studying the public budget system in the Maldives and linking with other recent public budget related studies, this chapter suggests a number of reform options--that are consistent with the existing administrative and political considerations--for improving public service delivery.

- The first important step in the budget process is to get an analytically sound estimate of total budgetary resources. To be able to discharge this function effectively, a professionally staffed economic unit needs to be established within the Ministry of Finance and Treasury (MFT). Improved resource estimation would be helpful in maintaining good fiscal discipline.
- The elimination in 2001 of the practice of enforcing “unspent balances” as a way of establishing fiscal discipline was a step in the right direction. The latter should be supported by an effective cash management system. In addition, to improve fiscal discipline further, setting and enforcing *binding expenditure limits for each of the spending units* could be considered. Also, given the external vulnerabilities facing the Maldives, it might also be prudent to maintain a small “contingency fund” item in the budget as a cushion.
- Budget comprehensiveness--reporting all expenditures and revenues--is important for transparency and to understand the macroeconomic effects of fiscal balances. Currently, several budget related activities (particularly, lending to individuals and public enterprises) are not included in the budget. The proposed reform of the public accounts system, which needs to be speeded up, should rectify this error.
- The Government’s (Draft) *Sixth National Development Plan* underscores the need for using “economically and financially” sound criteria for the evaluation of capital investments. To this end, the Government may want to consider the following options for improving the PSIP decision process:
  - A simple economic principle could be introduced to require that all new projects submitted for consideration should include a section that describes the rationalization of using public resources for the proposed activity. This would provide important technical information to the committee overseeing the PSIP process to make a good judgment on competing claims.<sup>18</sup>
  - All project proposals provide an estimate of the recurrent cost implications of the proposed activity over the next five to eight years after the project is completed and comes on line.
  - In the existing PSIP process there is a system for line ministries to prioritize their project proposals in line with their sectoral strategy. There is, however, no good way of comparing projects across ministries. A possible option in this context is: after screening the projects for rationalization of public sector intervention and taking into account the future recurrent cost implications, the *Project Appraisal Committee* (PAC) could look at opportunity costs (in terms of “what is being given up”, as described in paragraphs 29 and 30). This could be helpful in evaluating the difficult tradeoffs across ministries.

<sup>18</sup> Starting with the 2003 Budget, the line ministries are now asked to provide a justification for the public sector intervention for all the new project/program proposals

- The number of spending units submitting budget proposals directly to the MFT should be reduced from the current 176 to a more manageable number. This would force the Ministries and Departments to make the tough spending trade-offs within their respective units rather than asking the MFT to make those decisions.
- In view of the capacity constraints that exist in government departments, in moving towards a medium-term budgeting framework, it would be prudent to introduce a medium-term financial framework (MTFF) first. Information on the capital and recurrent cost estimates of the approved new programs/projects would serve as input in the preparation of a MTFF. As the Government undertakes other important budget related reforms (particularly the reform of its accounting system), adopting a full rolling medium-term expenditure program (MTEP) could be considered as a medium-term objective--as has been contemplated by the Government for sometime. A good starting point in this context for the Government would be to study the experience of multi-year budgeting in other similar developing nations. To this end, a committee consisting of officials from the President's Office, MFT, MPND and other line ministries could be formed to begin the exploratory work in this area. Assistance from donors could also be sought.
- The process of budget *monitoring and evaluation* appears to be quite weak. Two reform options need consideration in this context:
  - The proposed Audit Bill has been in draft form for quite some time. It should be considered a priority legislation and be enacted into law as soon as possible. The Government may also want to consider how to enhance the limited role played by the People's Majlis in the budget process, without endangering fiscal discipline.
  - A possible way to implement the strategic plan of the Government to improve service delivery is to conduct *user surveys* in a few key areas. This is a powerful instrument to facilitate greater transparency and accountability in public service delivery. Such surveys could be piloted in public schools or to gauge the effectiveness of infrastructure services (e.g., inter-island access, utilities). These surveys could also be helpful in improving service delivery in agencies providing services such as motor vehicle registration or passports. Disseminating the results of a well-designed and executed public service delivery survey can reveal if the taxpayers are getting value for their money in that activity.

3.41 This chapter has offered a number of options for the Government to reform its budgetary process. So have a few other reports. The next challenge for the Government is to work with its development partners and outline a time bound agenda for reform based on a realistic assessment of its capacity.

## *Chapter 4*

# **AN EVALUATION OF SECTORAL PUBLIC EXPENDITURES**

## **I. EDUCATION**

### **A. Introduction**

#### **a. The Nature of the Review <sup>1</sup>**

4.1 An effective development strategy for the Maldives must give high priority to programs and policies which both raise the productivity of the labor force and improve the quality of life of the whole population. Education programs contribute centrally to both objectives. There are, however, other government programs which also lay claim to the public resources available. And, in turn, these resources which are generated both domestically and externally are constrained. In such a situation there is no alternative to prioritizing expenditures, both between sectors and within them. The central objectives of this section are to assess the extent to which the Government of the Maldives is spending public money (including development assistance) in an appropriate and effective way to provide education services, and to develop recommendations for increasing the benefits from these investments.

4.2 These issues have to be considered within three specific contexts. First, over the next four or five years, the growth rate of both the economy and resources for Government programs is likely to be around six-seven percent a year in real terms. Over the past decade, public expenditures in the education sector have increased at a rate much higher than this and higher than that of public expenditures overall. Any further increases above six percent a year would require lower than average increases for some other sectors and would need to be based on sound justifications. Second, it is important that analyses of public expenditures and government policies for education acknowledge both that there is private provision of education and an often substantial cost to households of accessing publicly financed schools. The latter is particularly the case in the Maldives. Third, expanded and higher quality provision in the education sector can be gained by increasing program efficiency as well as by increasing expenditures.

4.3 Allocations of public expenditure to education in the Maldives, as in virtually all other countries, are higher than expenditures in any other category of government developmental expenditure. It is important, therefore, to periodically re-assess their size and distribution and the extent to which these continue to reflect the importance which is given to achieving the sets of particular objectives adopted by Government. In assessing public expenditures on education in the Maldives, the fundamental questions are:

- (i) What should be the role of government in the Maldives in financing and providing educational services and what are the implications of this for the degree of subsidization for each part of the sector?
- (ii) What are the Government's several objectives in the sector and how do they relate to the justifications for financial involvement?
- (iii) Given the justifications and the objectives, is the level of public expenditure and its distribution, relatively optimal?
- (iv) How effective and efficient are publicly funded activities and programs in meeting Government objectives and in responding to the rationale for Government involvement and what are the major constraints to improving their outcomes?

---

<sup>1</sup> All the figures given in this chapter are based on the information that was available in May 2001.

4.4 More simply, is the level of public expenditure appropriate in the context of the population's educational status, alternative sources of expenditure and competing demands? Is the distribution of public resources between the various levels of the education system, across regions and population groups, and between inputs, appropriate? Are the inputs funded by public resources used efficiently?

#### **b. Why Public Expenditure in Education?**

4.5 Before detailing the current status of the education sector in the Maldives and the expenditures being made both by Government and by others, it is useful to consider briefly the grounds on which the use of public resources in this sector can be justified. Conventionally, economists have used the arguments of both *economic efficiency* and *equity*. Public intervention is justified on (allocative) *efficiency* grounds when total reliance on private markets is likely to prevent the aggregate result of individual decisions coinciding with social valuations. The standard list of causes of such divergence includes externalities, public goods, non-competitive markets and an absence of well-informed consumers or producers. Public sector involvement can also be justified through an explicit concern with the social *equity* of the distribution of services which would result from the sole operation of markets. However, each of these cases for public sector intervention needs to be made carefully. Neither justifies the complete subsidization of services.

4.6 *In the education sector, the main causes of market failures are externalities and it is widely argued that a reliance on individuals to pay its full cost would result in the demand and the provision being below socially optimal levels.* Further, when the private costs of education are borne by parents and the future benefits accrue to children, or to the parents of male children only, under-investment from a societal viewpoint is likely. Imperfections in credit markets constrain borrowing against anticipated future increased earnings and again limit the demand for education below the amount which would be socially justified. Public interventions in the financing of education services can also be justified on the grounds of promoting social equity and alleviating poverty. The responsibility to foster cultural awareness and national harmony, and to respond to democratic mandates, are additional objectives for most governments and again can be used to justify subsidization of particular types of social expenditures.

4.7 *Presenting justifications for public expenditure is not the same as declaring that all public expenditures in the education sector are justified, or are all equally justified.* For instance, subsidization of education expenditures may publicly be justified on equity grounds, but in practice the subsidies may be captured largely, or not less than proportionately, by the better off sections of the population. Similarly, government interventions/subsidies may be justified on the grounds of externalities and public goods, yet in practice these interventions may be concentrated on types of education for which virtually all of the benefits are gained by the individual and few accrue to the rest of society. One purpose of this review is to assess the extent to which public expenditures in the Maldives in education currently are distributed in ways which increase demand to socially desirable levels and/or improve social equity.

4.8 The rest of the Education section begins by discussing briefly the current status of the education sector, moves to a description and analysis of current expenditures and trends, including assessments of effectiveness and the constraints to improved performance, and then considers the expenditure patterns in the context of Government objectives. In the final sections, the implications of the analysis are drawn and recommendations are made for changes in resource allocation and reductions in the constraints.

### **B. The Status Of Education In The Maldives**

#### **a. Structure and Evolution**

4.9 Maldivian society has traditionally placed a very high priority on education. Both households and governments have devoted significant efforts and resources to the sector. By 1998, the adult literacy rate

was 98 percent.<sup>2</sup> Virtually all children attend five years of primary school and a majority complete seven years of basic education. In addition to the strong belief in education as a basic necessity of life, the reality of an economy based on tuna and tourists, both of which it is reasoned could migrate at any time, has provided a strong incentive to the Government to give high priority to the sector. (*Education Annex to Chapter 4 provides a more comprehensive account of the performance, policies, priorities and issues in each level of education in the Maldives*).

4.10 Basic schooling comprises of five years of primary and two years of middle schooling. For virtually all children in Malé and an increasing proportion on the islands (53 percent in 1998), this is preceded by two years of pre-primary classes. All islands have some form of primary schooling and all schools provide the five year cycle. The net enrolment ratio for the primary cycle across the country is 93 percent, though the gross rate is 123 percent implying significant over age. Dropout rates are negligible and the automatic promotion policy results in low repetition rates, apart from the final year in those islands where higher grades are not yet available. There are no gender disparities. The high levels of enrolment and completion do not appear to be matched by the levels of learning achievement. A recent study of competencies produced a mean scores of 65 percent in Dhivehi but only 43 percent in mathematics and with very significant differences between Malé and atoll pupils, and between students in different types of school. Previous surveys have highlighted extremely large differences in English results between pupils in Malé and in the atolls with performance in the latter being worse. The transition rates from primary to middle school grades are generally high on islands where classes 6 and 7 have been established. Universalizing these grades is an immediate priority and the current net enrolment ratio is around 75 percent.

4.11 Secondary education is in two separate parts: three years of lower secondary leading to the 'O' level examination (grade 10) and two years of upper secondary leading to 'A' levels (grade 12). Both examinations are set in England. The gross enrolment rate for lower secondary is estimated to be 65 percent and the net rate, 28 percent.<sup>3</sup> Again there are significant differences between Malé and the atolls, both in the level of coverage and in recent growth rates. While the population of Malé is about 28 percent of the total population, secondary school enrolments are shared equally between the capital and the atolls. However, a serious attempt is being made to expand places in the atolls. In the past three years enrolment growth in the atolls has increased threefold compared to 50 percent in Malé. Slightly more females than males are enrolled at this level. Upper secondary is offered only in Malé. Enrolments increased by 50 percent between 1997 and 2000, but remain very low compared to those in lower secondary. Fifty seven percent of students are male.

4.12 Efforts to concentrate sub-degree tertiary education and training in the Maldives College of Higher Education began in late 1998. The College has merged a number of institutions and currently includes teacher education, health sciences, management and administration, technical education, hotel and catering, and maritime training. More recently, Institutes for Open Learning and for Shariah and Law have been added. Entry requirements range from below 'O' level to 'A' levels. Since courses range from a few weeks to two years, an aggregate total of enrolments is not very meaningful. For instance, in 1999 in administrative studies, 17 students were enrolled in courses beyond one year and 481 were enrolled in shorter courses averaging around 15 weeks each. Teacher education offers both one and two-year certificate courses plus in-service and upgrading courses. In 1999, 138 students were enrolled in Dhivehi-medium primary teaching, around 90 in English-medium primary, 49 in the middle school course, and 69 in secondary teacher training. Student-staff ratios are very low. Enrolments in tertiary education have been split evenly between males and females over recent years.

<sup>2</sup> Note that in addition to formal education, the ongoing non-formal adult literacy program, supported by the Government, has contributed to Maldives' very high adult literacy rate.

<sup>3</sup> Source. Draft Sixth National Development Plan

4.13 For university education, Maldivians must travel abroad. Students are financed by parents, the Government and donors. Between 1977 and 1997, the Government sponsored 851 students in first degree courses and above. Seventy one percent were male. Currently 199 students are studying overseas and fully funded by the Government. In addition, 345 students are fully funded by donors and a further 78 are jointly funded by donors and the government. The largest field of study is education. It is not known how many students are studying privately abroad. The Draft *Sixth National Development Plan* (SNDP) provides a rough estimate of annual expenditure of \$14 million, which would imply around 1000 students. Students who are provided with scholarships are bonded in government service on their return. For example, an undergraduate degree requires five years of employment in the relatively low paid public sector.

4.14 The tremendous success in providing near universalization of primary education and places for a large majority in middle schooling now allows for a sharper focus on the next round of objectives and challenges. These include completing the provision of seven-year basic cycle of schooling to all children, raising its overall quality while also ensuring that children in the atolls are not disadvantaged, preparing for the anticipated rapid increase in demand for secondary schooling and further developing the opportunities for tertiary and higher education. For each of these, there is a desire to ensure that the current inequities in educational provision and quality between children and young adults in Malé and those on the islands are reduced, in an upward direction. As demonstrated in the following section, these objectives have to be set in a context of an already high level of public expenditures on education. The principles of economic efficiency and equity may be useful to help guide the distribution of this expenditure.

### C. Levels And Distributions Of Government Education Expenditure

#### a. Public Expenditure on Education

4.15 Government expenditure on education between 1994 and 2001 is described in Table 4.1. These totals include allocations to the Ministry of Education and to the tertiary institutions, and include all donor financial assistance. Expenditures as proportions of GDP and of total government expenditure are also described. Over the period, the share of GDP allocated to education has risen continuously and appreciably from 4.7 percent to 7.7 percent in 2000. This is the highest share across South Asian countries and compares well with Caribbean island countries. However, although these shares are based on new estimates of GDP, such measures are notoriously unreliable. More important perhaps is education's share of total government expenditure. This increased from 13.0 percent in 1995 to a budgeted 17.8 percent in 2001. While total government expenditures doubled over this period, those for education increased by two and half times. Over the last three years, however, the share has remained relatively stable. Again the current share of total government expenditure compares favorably with that in other countries in the region, but is similar to that in several other island countries of a similar per capita income and sharing similar geographical and logistical constraints.

**Table 4.1: Government Expenditure on Education 1994 – 2001 (Rf. million)**

	1995	1996	1997	1998	1999	2000	2001
<b>Education expenditure (EE)</b>	223	247	318	432	451	502	601
Recurrent (REE)	169	197	257	297	338	415	473
Capital (CEE)	54	50	61	135	113	87	128
Gross Domestic Product (GDP)	4,714	5,419	5,894	6,070	6,583	6,547	n.a.
Total Government Expenditure (TGE)	1,718	1,693	1,937	2,114	2,495	2,820	3,371
Total Government recurrent expenditure (TRE)	878	955	1,182	1,298	1,546	1,826	2,018
Education expenditure as percent of GDP	4.7	4.6	5.4	7.1	6.8	7.7	n.a.
EE as % TGE	13.0	14.6	16.4	20.4	18.1	17.8	17.8
REE as % TRE	19.2	20.5	21.7	22.9	21.8	22.7	23.4
Government employees in Education (number)	3046	3283	3509	3979	4421	4952	n.a.

Source: Ministry of Planning and National Development

4.16 Disaggregating expenditures into recurrent and capital, education's share of total recurrent expenditures has been increasing slowly but persistently since 1995, from 19.2 to 23.4 percent (and the share in total capital expenditures rose from 6.4 to 8.6 percent). Even over the past three years as the share of total expenditure has stabilized, education's share of the recurrent budget has continued to increase. The increases in current expenditures are largely driven by increases in teachers. Table 4.1 indicates that employment in the education sector increased by an average of 12 percent a year between 1995 and 2000. Teachers constitute almost 25 percent of all Government employees.

4.17 Part of government expenditure on education is funded through development grants and loans. Between 1995 and 2000 these accounted for 18 percent of total expenditure in the sector, which is similar to the overall share of development aid in government expenditure (19.7 percent). Over the four year period 1998 to 2001, education secured one sixth of all aid flows into the budget.

4.18 Overall, the level of public expenditure on education in the Maldives reflects the high level of importance which society and Government place on the sector. As a share of both GDP and government expenditure (especially recurrent expenditures), it has grown significantly over the past several years and the country belongs to a small group of countries which allocate over 7 percent of GDP and almost a quarter of recurrent expenditures to education.

## b. Composition of education expenditures

4.19 The shares of recurrent and capital expenditure on education vary year by year and are presented in Table 4.2 for 1995 to 2001. Over the period, capital expenditures have ranged between 17.2 percent

**Table 4.2: Shares of Capital and Recurrent Education Expenditure: 1996 to 2001**

	1995	1996	1997	1998	1999	2000	2001
Recurrent (in percent)	75.8	79.7	80.8	68.7	74.9	82.8	78.7
Capital (in percent)	24.2	20.3	19.2	31.3	25.1	17.2	21.3

Source: see Table 4.1

and 31.3 percent of the total, and on average have been significantly above the shares in most other developing countries. The volatility reflects the importance of aid flows in capital expenditures, but the high overall share also reflects the significant rate of expansion and the determination to expand access to all levels of education. The capital expenditures are, in turn, generating the need for additional recurrent expenditures.

4.20 Recurrent education expenditures mainly fall into the four categories of salaries (or personal emoluments), grants and subventions, communications, and training/utilities/education materials. For 2001, the shares were 60 percent, 18 percent, 11 percent, and 11 percent, respectively. Again, compared to most low income countries, the share for non-salary items is high, reflecting both the cost of communications between Malé and the atoll schools, and higher than normal allocations for utilities and educational materials. These allocations are distributed to all types of schools, including the private schools which account for eight percent of school enrolments, according to funding formulae.<sup>4</sup> For community and private schools, the formulae take into account both enrolment and age of the school. The latter presumably is meant to act as a disincentive to the establishment of new schools. Community schools receive around three times the allocation to private schools.

### c. Education and the Public Sector Investment Program

4.21 The capital expenditures described above incorporate allocations within the annual Public Sector Investment Programme. In all, the Ministry of Education and the Maldives College together received 10.5 percent of the total allocations and additional contingency funds in both 1997 and 1998, increasing to 15.4 percent in 1999. The allocation in 2001 was Rfs. 6.6 million for the College and Rfs. 31.6 million for the Ministry of Education and a combined share of 12.8 percent of the total. Aggregating the allocations to the Ministry of Education and the College and dividing between expenditures in Malé and on the atolls, *the shares for the atolls between 1997 and 2000 were 65, 62, 48, and 55 percent.* For the Ministry's expenditures alone, the shares were 65, 62, 56 and 58 percent respectively. In both cases, *the atolls' share has been decreasing and is now well below their 72 percent share of the population – an issue which is discussed further below.*<sup>5</sup>

### d. Distributions of Educational Expenditure

4.22 Distributions of public expenditure on education are useful tools to help examine the relationships between government spending and its sectoral objectives. To help assess the extent to which public expenditure on education in the Maldives is utilized in ways which correspond with the economic efficiency and equity (poverty reduction) objectives described in the Introduction, two types of distribution are presented below. The first is by level of education and provides the base for assessing the appropriate balance between basic, secondary and tertiary education. Ideally, the second distribution would describe the incidence of public expenditures (subsidies) on education across different income groups in order to assess the extent to which the poor are benefiting. In the Maldives, this information is not available. As a proxy, the geographical distribution of expenditure between Malé and the atolls is described. The incidence of poverty on the atolls is significantly higher.

### e. By Educational Level

4.23 The education budget in the Maldives is not presented in a form which immediately allows for its disaggregation by level of education and calculation of the unit costs. However, parts of the exercise of constructing the measures are straightforward. For instance, the in-country tertiary education institutions which since 1998 have been placed under the umbrella of the Maldives College of Higher Education,

<sup>4</sup> Another interesting aspect of the private schools in the Maldives is that the Government provides 20 percent of teachers' salaries and in several cases has provided the building.

<sup>5</sup> It should be noted that some students from the outer atolls do attend the colleges located in Malé, therefore some of the capital spending in Malé cater students from the atolls.

continue to receive separate budgets. The allocation to the Ministry of Education is more complicated. In general, each school with over 1000 pupils receives a separate budget. This applies to all Malé schools. However, the bulk of atoll schools are smaller than this and the budgets for all of these are aggregated into the single item 'inter Atoll schools'. These schools cover a mix of primary, middle, and secondary grades. As a result, there is no division in the budget between basic and secondary education. A third item of the budget is Development Project Grants and Loans. In 2001, five of the forty projects were in the education sector. Table 4.3 presents these three categories for each of the years between 1998 and 2001.

**Table 4.3: Government and Donor Expenditure on Education by Major Categories: 1998 – 2001**

	(Rf. '000)			
	1998	1999	2000	2001
College of Higher Education	31,661	41,187	48,308	51,229
Ministry of Education	272,020	344,051	396,073	412,885
Development Projects	128,400	65,500	57,400	127,000
Total Expenditure	432,100	450,800	501,700	601,100

Source : Budget sheets

4.24 A first division has been made between tertiary education and the rest. Of the Development Projects, an Asian Development Bank Loan provided support in 2000 and 2001 for the Institute of Health Sciences and almost half of the World Bank supported Second Education and Training Project (1995 to 2000) was for two of the tertiary institutions and foreign scholarships.<sup>6</sup> Adding these expenditures to the allocation to the College, roughly 85.5 percent of total budgeted education expenditure between 1998 and 2001 was for basic and secondary education and 14.5 percent for tertiary. (In addition, in 2001 as an example, 323 students were receiving scholarships for tertiary and higher education overseas from bilateral donors).

4.25 A more detailed calculation has been attempted for just one year, 2000. As described above, separate budgets are provided for each school in Malé and allocations by level are straightforward. In the atolls, while nine schools had their own budget that year, only two offer just the lower secondary grades. The budgets for the other seven schools were aggregated with the single budget item covering all of the other atoll schools. The totals were divided across basic and lower secondary schooling according to the numbers of teachers and the division between local and expatriates. The latter are twice as expensive as the former. The distribution of the allocation for Development Projects for that year was divided according to the overall shares of the World Bank supported project across secondary, tertiary and higher education. Administrative costs of the Ministry and other education-related institutions were allocated according to the shares of enrollments in basic and secondary schooling. The results of this exercise provide only rough indicative estimates. They suggest that, overall, the budgetary allocation for the education sector in 2000 was distributed across levels in the following approximate shares: 51.8 percent of total education expenditures for basic education; 29.2 percent for lower secondary; 2.2 percent for upper secondary; 13.3 percent for tertiary; and 3.4 percent for overseas higher education.

4.26 Overall, roughly half of all expenditure was directed to basic education, 30 percent to lower secondary and 20 percent to higher secondary and above.

4.27 The estimated total expenditures by level imply an average annual cost per student of Rfs 3470 for basic education, Rfs 7886 for lower secondary and Rfs 17,000 for upper secondary. Because of the mix of students taking short and longer courses in tertiary education, it is difficult to provide an overall unit cost at

<sup>6</sup> The Asian Development Bank is providing support for the following Faculties and Departments under the Postsecondary Education Development Project: Education, Engineering and Technology, Health Sciences, Hospitality and Tourism Studies, Maritime Studies, and Open Learning

that level, though it appears to be rather high. The College itself has estimated expenditure per student year in health sciences to be between Rfs 54,000 and 67,000, and in teacher education to be around Rfs 25,000. Management courses are estimated to cost around Rf 23,000 per year for a full time student. The annual cost of overseas higher education (including subsistence, fares etc) is approximately US\$ 14,000 or about Rfs. 179,000. All of these unit cost estimates include both capital and recurrent expenditures. Overall, the capital expenditure component in 2000 was 17.2 percent of the total (Table 4.2). Some of the implications of the sub-sectoral distribution and the pattern of unit costs are discussed in Section D.

#### f. By Geographical Distribution

4.28 According to the report *Vulnerability and Poverty Assessment 1999*, the median per capita income in Malé is Rf.26 per day compared to Rf.15 in the atolls. In Malé, 10 percent of the population live on less than Rf10 a day compared to 26 percent in the atolls. Of the very poorest group, 85 percent live in the atolls. In the absence of information on the incidence of education expenditure across income groups, the allocations to Malé and to the atolls can be seen as proxy measures.

4.29 In 2000, the population of the atolls was 194,513 and that of Malé 74,497 (approximately 72 and 28 percent respectively). For a variety of reasons, including a concentration of population and economies of scale, educational development particularly beyond the primary grades has been concentrated in Malé. Many island families who wanted their children to have a post primary education either sent their children to Malé, or moved the entire family. Over the past few years, however, the Government has emphasized the need to provide greater access to middle and secondary education within the atolls so as to reduce the costs to households and to ensure that Malé does not become yet more overcrowded. Even in just four years, *there have been discernible changes in the spatial patterns of enrolments, particularly in lower secondary schooling*, as indicated in Table 4.4.

**Table 4.4: Enrolments by Educational Level: Malé and the Atolls-- 1997 and 2000**

	1997		2000	
	Malé	Atolls	Malé	Atolls
<b>Primary</b>	8,742	41,448	8,436	37,793
<b>Middle</b>	6,364	16,047	5,999	21,294
<b>Lower secondary</b>	6,642	3,011	9,018	9,236
<b>Higher secondary</b>	399	-	638	-

Source: Ministry of Education. Educational Statistics 2000

4.30 The reduction in enrolments in primary grades over recent years reflects the almost universal coverage and the lower level of repetition in grade 5, as the provision of grades 6 and 7 has expanded on the islands. Aggregating primary and middle school enrolments, there has been a four percent fall in Malé and a four percent increase in the atolls and in 2000, the atolls had a higher share of enrolments at these grades than their share of total population. The situation in secondary schooling is very different, though it is changing rapidly. Between 1997 and 2000, lower secondary enrolments in Malé increased by around 50 percent, while on the atolls they tripled. In 1997, enrolments in Malé were twice as high as those in the atolls, but by 2000 they were roughly equal. However, in spite of the very high recent growth rates in the atolls, the distribution of enrolments remains very different to that of the population. To reflect population shares, secondary enrolments in the atolls would need to be around 23,000 rather than just over 9,000. Complicating the situation, it remains the case that many island children attend the Malé schools. At the upper secondary level in 2000, all students were in Malé, but courses are to begin in two atoll schools in 2001. Overall, school enrolments suggest that (i) there is equality between Malé and the atolls with respect to access to basic education, and (ii) while secondary places are very skewed towards Malé, there is a recent strong trend to increase opportunities in the atolls. A question which arises is the extent to which resource flows similarly exhibit these patterns.

4.31 In the same way that it is difficult to allocate expenditures by educational level, the distribution between Malé and the atolls is not readily available. However, aggregating the individual budget items for specific schools as well as the general allocation for atoll schools, and distributing the Ministry of Education other expenditures by enrolment shares, some rough estimates can be made. This has been done for 2000. *While the share of total enrolments on the atolls is 74 percent, the share of total expenditure was 40 percent.* Part of this is due to different shares of primary and secondary students in Malé and in the atolls and the *different unit costs between levels*, but part is also due to higher unit costs in Malé at each level. Have the differences in expenditure per pupil between Malé and the atolls been decreasing over time? The analysis done for 2000 was repeated for 1995. Surprisingly, in spite of the overall enrolment share for the atolls having increased from 60 percent to 74 percent over the period, their share of total expenditures on primary and secondary schooling remained virtually constant. Since most of the change in enrolment shares has resulted from faster growth of secondary schooling in the atolls, a substantial increase in the expenditure share for the atolls could have been anticipated. That this has not occurred implies that expenditures per pupil have been falling relative to those in Malé. In this current exercise it is not possible to provide a comprehensive explanation. However, of the 9236 places in secondary schooling on the atolls in 2000, 7463 (80.8 percent) were in classes attached to existing primary and middle schools while 1773 were in the dedicated secondary schools or schools with middle but no primary school grades. In Malé, all secondary students are enrolled in dedicated secondary schools, or in schools offering grades 6-10. Since there is little difference between unit costs of the dedicated secondary schools in Malé and in the atolls, this distinction is perhaps the main cause of the distribution of expenditures not reflecting the growth in enrolments in the atolls. The implications of these findings, and their importance in the context of equity, are discussed in Section D below.

4.32 In the previous sub-section, it was explained that the budget does not easily allow comparisons of the unit costs and total expenditures across levels of education. This has implications for assessing equity via the geographical distribution, as well as for estimating the cost of secondary expansion. The current budget presentation make it difficult to compare, say, the cost of providing grades 8, 9 and 10 in atoll schools offering all grades, with the costs in the atoll secondary schools, and with those in Malé.

4.33 The discussions above on both unit costs and the geographical pattern of educational expenditures treat the atolls as a single item. In Malé it is not likely that there are significant differences in educational inputs per student across schools but between atolls there are differences. The simplest way to begin to illustrate this is through pupil/teacher and, more important, pupil/trained teacher ratios. Variations are described in Table 4.5 for separate levels of schooling. The situation in the average, most favored and

**Table 4.5: Pupil/Teacher and Pupil/Trained Teacher Ratios by Level and Location 2000**

	Pupil / Teacher Ratio			Pupil /Trained Teacher Ratio
	Primary	Middle	Lower Secondary	All
<b>Malé</b>	21.1	22.3	17.3	26.0
<b>Atolls</b>	20.8	28.2	15.1	34.8
Lowest	15.0	18.3	16.2	22.8
Highest	24.6	46.2	21.0	47.0

Source: Ministry of Education. Educational Statistics 2000

least favored atoll is presented, in addition to that in Malé. Overall, the pattern of pupil/teacher ratios between Malé and the atolls differs between school levels. The average ratios are similar in primary schooling, higher in the atolls in middle grades and lower in secondary grades. Inter-atoll variations are wide in middle schooling (between 18/1 and 46/1) but quite small in primary and lower secondary grades. More variation occurs when trained teachers are considered. There is one trained teacher for every 26

students in Malé compared to one for every 35 students in the atolls. And between the atolls, the variation is between 23 students and 47 students. In Malé schools, 80 percent of teachers are trained compared to an average of 63 percent across the atolls, and in one atoll, the proportion is below 50 percent. There is little difference between unit costs of the dedicated secondary schools in Malé and in the atolls.

4.34 The report *Vulnerability and Poverty Assessment: 1999 (VPA)* presents similar information on the distribution of teachers in a rather different way. Across the country, only 2 percent of the population live on islands where there is no trained teacher at all in the primary school. However, there are more than 100 pupils for each trained teacher on islands which house 8 percent of the population, and this percentage varies between 0 and 19 percent across all the atolls. There are between 50 and 100 pupils per trained teacher in atolls where 30 percent of the population live and the percentage varies between 0 and 71 percent. In seven of the 20 atolls, the ratio of pupils per trained teacher was below 50 in every school, while in three atolls it was below this figure in less than half of the schools. Again, these data demonstrate the variations between atolls, and between islands within atolls.

4.35 There are similar variations in the physical environment in which schooling takes place. The VPA study cited above also described the provision in schools of drinking water, toilets, enclosed classrooms, and libraries. The results were then aggregated by atoll. Across all the atolls, the percentage of the population not having access to these facilities were 12, 13, 44 and 52 percent, respectively. The variations across atolls were quite large. For example, in eight atolls drinking water was available in all island schools, while in five atolls at least a quarter of the population lived on islands in which the school(s) did not have access to it. Similarly, in five atolls over 80 percent of the population had access to schools in which all classrooms were enclosed, while in four of the atolls at least 20 percent had access only to schools with no enclosed rooms.

4.36 Finally, in the VPA study, an education index with a system of penalty points was constructed incorporating eight measures combining characteristics of teachers, grade offerings and facilities. At one end of the spectrum Malé and ten other islands, which together have 40 percent of the population, recorded no penalty points. At the other end, 50 islands received a full penalty point. These islands cover 10 percent of the population, implying, *not surprisingly, that educational deprivation is closely correlated with small population size*. How do education conditions compare to overall levels of vulnerability and, in particular, to indicators of poverty? A rank correlation was calculated across atolls comparing the scores on the education index with an index of income poverty from the VPA study. The relationship between the two indices is not statistically significant. The poorest atolls systematically have neither better nor worse educational conditions. *Again, lower levels of educational provision are associated with small populations, rather than with income poverty*.

4.37 The variations in expenditures and in the quantity and quality of inputs affecting different populations, is likely to have an impact on the quality of schooling and level of learning achievement. In 2000, the Ministry with UNICEF, undertook a comprehensive survey of the 22 elementary schools selected as being disadvantaged. Of these, thirteen had no water tank, eight had no toilets, only two had an office in a condition noted as satisfactory, four had a store, and none had a library. However, no cases of overcrowding were noted and most of the schools had recently been constructed or renovated. The major structural problems were the division of classroom space by blackboards or poorly installed dividers. Learning achievement was tested in the schools at grades 4 and 7. The results for grade 7 were 'encouraging' for Dhivehi with only four schools having pass rates below 40 percent, 'very poor' in mathematics with only 8 of the schools having pass rates of 30 percent and over, and 'extremely poor' in English with only one school with a pass rate of over 40 percent and a large majority with no passes at all. In fourteen of the 22 schools, temporary teachers outnumbered permanent ones. Only just over one third of the teachers had had training and of the untrained over three quarters had completed only grade 7. Obviously, not all children in the Maldives are receiving a schooling of similar quality. However, that the Ministry undertook such a study indicates both the awareness of the problem and the desire to alleviate it.

## D. Evaluation Of Current Expenditures

### a. Efficiency

4.38 At over 7 percent of GDP and 18 percent of total government expenditure, the allocations made to the education sector in the Maldives are above average for the region and for developing countries as a whole. However, such allocations tend to be high in small island nations. Shares in the English speaking Caribbean countries average around 5.5 percent of GDP and 17.0 percent of total expenditures. In spite of difficult geographical conditions, the almost universal coverage of primary (and, soon, middle) schooling is a significant achievement, as is the recent growth in lower secondary enrolments in the atolls. The extensive coverage is accompanied by high unit costs. This results mainly from the need for expatriate teachers, and the consequent costs of recruitment and necessary remuneration packages, and from high transport costs for distributing materials and supervision. It is also a result of teacher/pupil ratios which are significantly higher than in most other countries which are at the same level of development. In addition, there are the high unit costs in tertiary education. At this level, the Maldives does not share the advantages of, for instance, Caribbean island countries who together have been able to take advantages of scale in a regional University. Given the high expenditure share for education, and its significant growth in the early and mid 1990s, it is important to note that it has stayed constant over the past three years. Over time, once the planned expansion of lower secondary schooling is completed, unit costs should fall as local teachers replace expatriates and the high overheads of tertiary courses are shared across more students.

4.39 Given the very high coverage of primary and middle schooling, the estimated expenditure share of 52 percent for basic education, compared to 31 percent for secondary and 17 percent for tertiary, is lower than might be anticipated. The shares reflect the significant differences in unit costs between the levels of education. Compared to basic schooling, unit costs are around 2.3 times higher for lower secondary, five times higher for upper secondary, and 6.8 times higher for (local) tertiary education. At the tertiary level, some of the courses, such as nursing, have very high unit costs and it may be cheaper to train students abroad. Part of the problem is low enrolments. However, with a strengthened college, the determination to reduce unit costs, and an anticipated increased flow of secondary graduates and opportunities in the labor market likely for young, well-trained workers, demand will increase. Overseas courses in higher education are particularly expensive, but both Government and donors have judged that such exposure is necessary for at least a small number of young people. The externalities associated with higher education are high in a small island country such as the Maldives where graduates are few and are a source of new ideas. The Government operates a system of employment bonding and, more recently, a significant measure of cost recovery. This is a thoughtful approach. As donor funding for overseas scholarships declines in the future, there will be a need for some level of revolving fund. In the balance between basic and secondary schooling, several factors will be involved. The policy objective of quickly moving to universal lower secondary education, which, at least in the short term, will require additional expatriate teachers, could place additional pressure on the budget. The danger is that this expansion will successfully compete with basic education, which still requires additional resources to ensure that improvements in learning achievements are widely achieved, including on the least populated islands.

### b. Equity

4.40 *Do the poor receive the highest levels of subsidy?* Since there are no data on educational coverage or attainment by level of household income, the geographical distributions of expenditure have to be used to answer this question. There are two issues-- *differences in the access* to educational facilities, and *differences in the quality* of education. The equitable provision of education services poses particular challenges in a country with 199 inhabited islands, many of which are sparsely populated. It is Government policy to ensure that grade 7 classes are available on all islands as soon as possible. In 2000, this had been achieved on 115 of the islands and class 6 was available on a further 60, and class 5 on the remaining 25 islands. Of the 20 atolls, only one was without grade 10 schooling. Since coverage of grades

1-5 is virtually universal and coverage of grades 6 and 7 is very high, the distribution of subsidies from this level of education (which consumes 52% of total education expenditure) would be evenly distributed if unit costs were (roughly) equal. However, they are not equal. Between Malé and the atolls overall, while the pupil/teacher ratio is similar in primary schooling, it is more favorable in Malé in middle schooling. More crucially, the pupil/trained teacher ratio is significantly more advantageous in the capital. Further, the variations of these ratios between atolls is greater than that between Malé and all atolls. In addition to teacher distribution, the Vulnerability and Poverty Assessment and other surveys have pointed to deficiencies in facilities such as water and toilets in several island schools and it may be that the geographical constraints on mobility result in lower levels of professional support such as supervision and in-service teacher training. The differences in levels of learning achievement between Malé and most atoll schools is quite wide, particularly in English which is important for being successful in secondary school.

4.41 At secondary level, there is still a much greater chance of a young person in Malé attending school than if s/he was living in the atolls as the enrollment population ratio demonstrates. Migration results in some of this difference being reduced but also entails additional costs to the household. Among those who do enroll, there are differences in the amount and quality of inputs received, and in the consequent achievements. The finding presented in Section C indicate that although secondary school enrolments on the islands have increased very rapidly in recent years, the share of expenditure has not correspondingly changed implies that expenditures per student on the atolls are well below those in Malé. In turn, this reflects the high pupil/trained teacher ratios in some atolls. Until very recently, upper secondary schooling was available only in Malé, but that is now changing and will change further with the full functioning of the new secondary schools and those being upgraded. Tertiary education is concentrated on Malé. Economies of scale make this inevitable, but that is even more reason why the standard of secondary education in the atolls needs to be raised to that of Malé schools. A simple study of the educational careers of pupils in the upper secondary grades and full time at the College would be useful to further understand the differences in opportunity for the residents of Malé and the atolls. Across atolls, it appears overall that it is the least populated ones which are least served, rather than the poorer ones.

#### E. The Future

4.42 The draft *Sixth National Development Plan* clearly confronts many of the challenges still facing the education system in terms of access, quality, and equity. It notes the continuing lack of sufficient trained teachers and headmasters, funds for the timely expansion of school buildings, capacity in financial management and an operational Educational Monitoring and Information System (EMIS). Among the objectives for the Plan period are to upgrade the capacity of the few schools which still do not provide a full seven years of elementary schooling, and to increase the quality of this cycle. It is noted that 30 percent of those entering the first grade of lower secondary schooling have to repeat the year. To increase quality in basic schooling, it is suggested that a standard set of facilities and resources for all schools be designed, implemented and monitored and that school or cluster based in-service training be expanded. At the lower secondary level, a rapid expansion is forecast from around 18,000 in 2000 to over 30,000 in 2003. Current enrolments in grade 7 are 14,100 and 8262 in grade 8. There is no intention to screen enrolment into grade 8 and therefore a substantial expansion of additional classrooms and teachers will be required. The number of students who will complete lower secondary schooling is anticipated to increase from 4300 in 2001 to over 8000 in 2003. The Government has also made a decision to expand upper secondary education, and to develop some places in the atolls. For both lower and upper secondary education, mention is made in the Plan of the need to encourage the private sector further. Over the coming years the Plan anticipates the need for over 200 additional teachers a year, mainly for secondary education, while the current capacity to train in country is around 50. Overall, expatriate teachers at the secondary level will need to increase from the current level of around 800 to a peak of over 1300 in 2003 if no alternative ways can be found to accelerate local training. In tertiary education, the Plan envisages a significant expansion of the College and its transformation to a University with all that entails for activities such as curriculum development, lecturer education and training, and course accreditation.

4.43 The plans for the expansion of the educational system are ambitious, in particular the time frame for the attainment of universal lower secondary education, and the transformation of the College to a degree granting institution. At the same time, it is well understood that there is room to improve learning conditions in many existing basic and secondary schools in the atolls and to improve the quality of education in general.

## F. Recommendations

4.44 Over the past two decades in particular, the Maldivian society and Government have achieved a great deal in the education sector. Building on the society's strong desire for education, Government has significantly aided community initiatives and developed an extensive public education sector. The attainment of universal primary schooling and the extensive coverage of middle schooling is an achievement which many countries with higher levels of national income cannot claim. That this has occurred in a sparsely populated country with 199 inhabited islands adds to the obvious success of Government in this sector. Some challenges, naturally, remain. The most important of these is to continue to expand opportunities for schooling in the remoter islands, and at levels of quality comparable to those in the larger islands and Malé. Within this overall context, and the Government's planned intentions for the future, sets of recommendations are presented below for consideration:

- On both *efficiency* and *equity* grounds, there is a strong case for improving the **quality of primary education** in the atolls:
  - This might be done by defining and deploying a package of necessary inputs and annually and publicly reporting on their implementation. As part of this, there is a need to ensure as quickly as possible that all islands provide classes 1-7 with trained teachers and to equalize pupil/teacher and pupil/trained teacher ratios in Malé and the atolls-- and again to report publicly on this.
  - More generally, a conscious effort is needed to ensure that elementary education does not suffer from the expansion of secondary education by, for instance, the transfer of trained teachers.
  - Other ways to improve atoll schooling include a strengthening of the cluster system of teacher development and, perhaps, altering the cash grant and equipment formulas in favor of schools in the atolls. Overall, given the past and current allocations of investment and recurring expenditures in basic education, and the room for improvement in learning achievement, additional expenditures in the atolls to improve the quality of this level of education are likely to have the largest returns.
- The current target for universalizing lower secondary education by 2005 appears very ambitious in view of its budgetary implications, and might usefully be reconsidered.<sup>7</sup> At the same time, all possible ways to strengthen island schools need to be considered (including transport and accommodation), and more community resources tapped for Malé schools. The efficient deployment of the available cadre of trained teachers is of great importance. Current deployment practices and the packages of incentives for teachers to live on more remote islands might be reconsidered.
  - The Government may want to consider reviving the plan, contemplated in 2001, to introduce some cost recovery in secondary education in Malé. Emphasis on promoting private sector participation in secondary education is also desirable.
- The direct costs of tertiary level education in the Maldives College are high relative to secondary education and to comparable courses in the Region. Currently, student/teacher ratios are low and bursaries are given to students in some of the important fields. The need for bursaries should be

<sup>7</sup> Ministry of Education has recently changed the target date for universal lower secondary education to 2010

continually kept under review. In the near future, the demand for many courses may change rapidly. A doubling of the graduates from secondary education will increase the demand for further training and could increase the range of jobs which Maldivian youth are willing to take. Simultaneously, for skilled occupations, wages may increase as it becomes more difficult to hire expatriate labor from the regional labor market at the going rate. A study of medium-term labor market needs is shortly to be sponsored by the Ministry of Human Resources. In addition, the College would benefit from ongoing monitoring of labor market needs and of the movement of wages to inform *both* the range of courses to be offered and the levels of fees and bursaries.

- The high costs of overseas *higher education* pose significant problems. While the recipients will benefit, there are also significant externalities. Without public subsidy for this type of education, the public sector, in particular, will be inadequately staffed by Maldivians, unless wages increase significantly. Most of the overseas students who are fully supported by their parents are unlikely to opt for public sector employment. The current mix of bonding and partial re-payment for public sector workers (and in the World Bank supported project) and a much higher level of repayment for employees in the private sector appears to be appropriate while the public-private wage differentials remain wide. Many of the scholarships over the past decade have been provided as grants by donors (particularly Australia) and as concessional loans by the World Bank. The former are declining and it is unknown whether the latter will continue beyond the current project period (to 2005). In this context, it is important that the repayment system is effectively implemented and perhaps widened to the scholarships funded by bilateral grants. A renewed effort to monitor privately funded overseas students would be useful.
- As is the case across the whole of Government, planning and budgeting in the Education sector could be improved:
  - A new EMIS was programmed for the World Bank-supported Second Education and Training project, but not implemented, and is part of the Third.<sup>8</sup> Examples of the types of data which might be covered are described in the Education Master Plan (1996-2005). In addition, critical decisions will need to be made in the future regarding the modalities and scheduling for the expansion of secondary education. In both elementary and secondary education there are considerable inequalities in the distribution of public resources between students. The EMIS could highlight these and be used to develop and implement time-bound programs to reduce them. A similar effort should also be made
  - As explained above, the current presentation of budgetary data does not allow calculation of the unit costs of schooling by level on the islands, outside of the larger schools, and makes it difficult to compare, say, the costs of providing classes in grades 8, 9 and 10 in island schools offering all grades, in island secondary schools and in Malé. In turn, this hampers analyses of equity but also the planning of secondary school expansion. As part of the overall reform of the public accounts system, measures need to be taken to gather and tabulate more disaggregated education expenditure data to allow for unit cost analysis and comparison.
  - For effective medium-term planning and budgeting, the strategies and the costs for improving the quality of elementary education and for the expansion of the secondary system need to be worked out. The dependence on the PSIP, which covers just one year and only the capital costs, for funding new activities (beyond donor supported ones) provides no incentives for forward planning. Finally, current budgetary reporting practices underestimate the public expenditures on tertiary education. A clearer picture would require aggregation of the training budgets of the Health and Education ministries in particular, and of the Government's allocation for overseas scholarships.

<sup>8</sup> The new EMIS is now being tested and will become operational in 2003

## II. HEALTH

### A. Introduction

#### a. Structure of the Sector<sup>1</sup>

4.45 Maldives' health sector is dominated by a public delivery system organized around four tiers.<sup>2</sup> At the top of the service delivery pyramid is tertiary care in the capital island, Malé, at the Indira Gandhi Memorial Hospital (IGMH), a 239 bed general and specialty hospital staffed by experienced Maldivian and expatriate doctors. IGMH is the highest referral center in the country. Next on the pyramid are regional level secondary care facilities. In each of the five regions of the Maldives, a secondary hospital has been constructed and staffed to offer a wide range of curative and preventive services (including surgery). These hospitals are designed to decrease the referral volume to the center and to cut travel time for the population living in the outer Atolls. In addition to service provision, the regional hospitals perform a regional management function, including supervision and outreach. Attached to the hospitals are public health units focusing on preventive care programs.

4.46 The next to last level are primary care atoll health centers, typically staffed with a doctor, a community health worker, nurse aides, family health workers, and traditional birth attendants. The health centers provide a wide array of curative, preventive, promotive and rehabilitative services. At the lowest end of service delivery are island level services provided by family health workers (FWH) and traditional birth attendants. At this level, simple curative and preventive services as well as safe/normal deliveries are provided free of charge. A restricted drug list is used by the FHWs. In some of the larger islands, private clinics are run by doctors and in most islands private sector traditional healers practice.

4.47 The management structure over the service delivery pyramid is depicted in Figure 4.1.<sup>3</sup> The Ministry of Health is directly responsible for managing the tertiary and secondary level care while the Department of Public Health manages the lower two levels (Atoll and Island levels). The Maldives Water and Sanitation Authority falls under the administrative structure of the Ministry of Health.

4.48 **The role of the private sector and NGOs.** The Government has encouraged substantial and increasing involvement of the private sector in health delivery over recent years. The importation and distribution of pharmaceutical drugs have been almost entirely privatized;<sup>4</sup> water and sanitation in Malé is provided through a joint commercial venture; and a previously Government owned hospital has been leased to the private sector. The percentage of doctors working in the private sector has grown from zero to 29 percent in ten years. There are many privately operated pharmacies. NGO involvement in the health sector is relatively small, but such involvement that does exist complements Government programs well. For example, the *Society for Health Education* (SHE) is involved in community-based screening and counseling on Thalassaemia, while the government-operated National Thalassaemia Center concentrates on treatment.

#### b. Strategic Objectives and Policy Direction

4.49 The Republic of Maldives has set out an ambitious agenda for improving the health of the population. Various documents by the Ministries of Health and Planning lay out the main thrusts and strategic objectives. A complete list of priorities is identified in the Health Master Plan 1996-2005. The following thrusts summarize the policy directions:

---

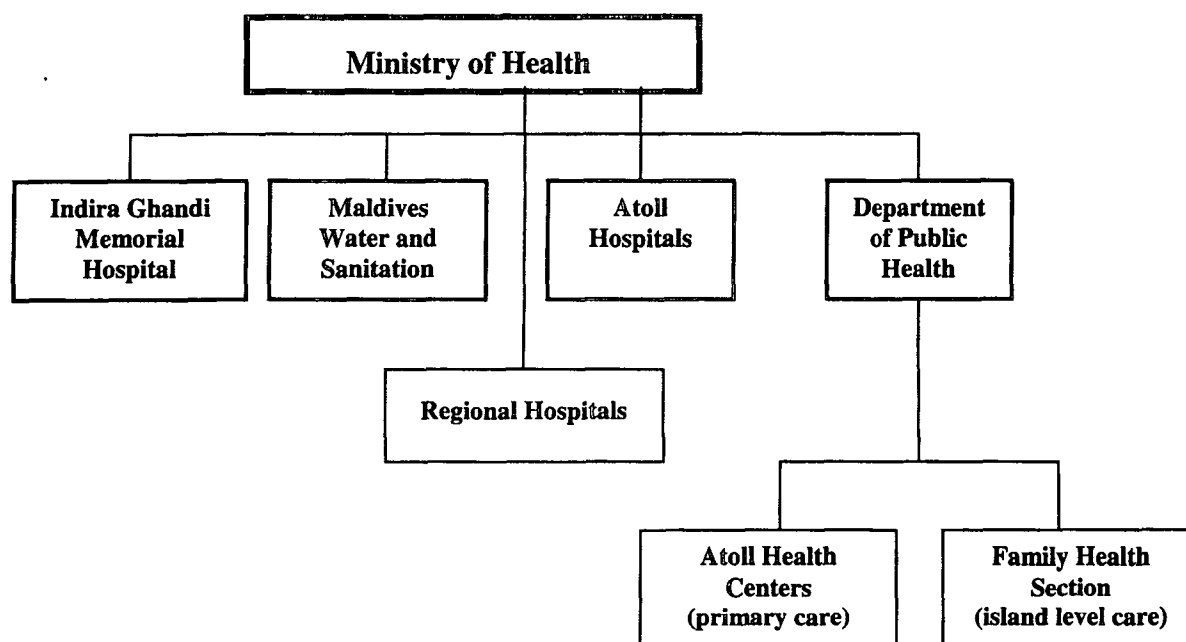
<sup>1</sup> All the figures given in this chapter are based on the information that was available in May 2001

<sup>2</sup> The Government has recently opened hospitals in four atolls. These will form a new tier in Maldives' health service system

<sup>3</sup> Detailed organizational charts are available for each department.

<sup>4</sup> STO continues to import and retail pharmaceutical drugs

**Figure 4.1: Organization of the Public Sector for Health, Nutrition, Population and Water and Sanitation**



- Equitable access to health services. The emphasis has been on infrastructure investments that decrease travel time to facilities for the population of the most distant islands.
- A focus on prevention of diseases and the promotion of healthy lifestyles. The vision statement of the Ministry focuses on empowering citizens to improve their health status by engaging in healthy lifestyles and appropriate use of preventive and curative care.
- Comprehensive reproductive health services, including maternal and child health (MCH). There is a recognition that maternal and reproductive outcomes continue to lag behind and require focused policy and investments.
- Strong communicable disease control function. Building on success.
- A new emphasis on non-communicable diseases. Adapting to the epidemiological transition.
- Improvements of health sector manpower. Responding to the need to develop technical and managerial skills currently lacking.

#### **B. Health, Nutrition And Population Outcomes And Challenges**

4.50 In terms of health outcomes, it is important to note the impressive achievements of the Maldives, especially when one considers the unique and difficult nature of the geography. Achievements include: an

over 20-year increase in life expectancy since 1977, reaching almost 70 years very recently;<sup>5</sup> the reduction in infant mortality from 34 per 1000 live births in 1990 to 21 per 1000 in 2000<sup>6</sup>, and eliminating gender disparity with life expectancy higher for women and identical infant and child mortality rates for boys and girls. These achievements are only second to Sri Lanka in the South Asia region. Other measures of health sector success include the improvements in the control of communicable diseases such as measles, leprosy and TB, maintaining a malaria-free status, and the almost universal immunization coverage of the standard EPI package plus the Hepatitis B vaccine.

4.51 While the achievements are impressive, a number of important gaps remain and deserve policy and financial attention. One such gap relates to the geographic disparities in health, nutrition, and population (HNP) outcomes and system benefits. The *Vulnerability and Poverty Assessment* (VPA) study<sup>7</sup> cited earlier allows us to look at geographic variations in health and nutrition outcomes (Table 4.6).

**TABLE 4.6: HNP OUTCOMES IN MALÉ AND THE ATOLLS, 1997/98**

Atolls	Life Expectancy	Stunting (%) <sup>8</sup>	Contraceptive use
Alif Dhekunu Buri	65	26	26.9
Alif Uthuru Buri	58	16	28.3
Baa Atoll	66	26	24.7
Dhaal Atoll	58	37	25.9
Faafu Atoll	54	60	12.5
Gaaf Alif Atoll	62	70	10.8
Gaaf Dhaal Atoll	58	49	14.6
Gnaviyani Atoll	69	50	12.8
Haa Alif Atoll	58	54	16.4
Haa Dhaal Atoll	62	48	16.1
Kaafu Atoll	66	22	34.1
Laamu Atoll	59	43	24.0
Lhaviyani Atoll	58	36	26.8
<b>Malé</b>	<b>68</b>	<b>0</b>	<b>13.6</b>
Meemu Atoll	62	37	33.3
Noonu Atoll	56	47	24.0
Raa Atoll	52	56	19.6
Seenu Atoll	69	23	16.6
Shaviyani Atoll	53	50	24.1
Thaa Atoll	54	35	18.3
Vaavu Atoll	61	39	23.6

Source: Ministry of Planning and National Development and the United Nations Development Programme, *Vulnerability and Poverty Assessment, 1998*, (1999).

4.52 The picture is of large differences between Malé and the other islands in the outer atolls. Table 4.6 also shows large disparities across the atolls. Data from Ministry of Health sources also confirm the large differences in outcomes between Malé and the atolls (Table 4.7).

<sup>5</sup> Ministry of Health (2000). It should be noted that there are some discrepancies between the official numbers cited here and survey based numbers cited by UN agencies working in the Maldives--the finding of the VPA study was 62 years for 1997.

<sup>6</sup> Ministry of Health (2000) Note, however, that the 1990 Census gives an IMR of 88 for 1990, and the VPA study shows an IMR of 62 for 1997/98

<sup>7</sup> Ministry of Planning and National Development and UNDP, *Vulnerability and Poverty Assessment, 1998*, op cit.

<sup>8</sup> The UNDP assessment uses a height-for-age indicator of stunting which is an indicator of linear growth retardation.

TABLE 4.7: MORTALITY RATES: MALÉ AND ATOLLS-2001

	Malé	Atolls
IMR	13	19
Under 5 Mortality	17	30
Early Neonatal Death Rate	7	9
Late Neonatal Death Rate	4	3
Post Neonatal Death rate	3	8
Neonatal Death rate	10	12

Source: Ministry of Health

4.53 The geographic disparities in HNP achievements are not the only remaining challenges facing the HNP sector in the Maldives. The list of concerns includes population growth, malnutrition, maternal health, and growing non-communicable disease patterns.

- **Population growth.** While the official results of the 2000 census have not been officially released to date, preliminary analysis indicates a drop in the fertility rate. But even if the preliminary findings are confirmed, the country will continue to face a population challenge because of the age structure of the population resulting in a large share of the population entering reproductive age in the near future. *Continuing the emphasis on decreasing fertility rate and increasing birth spacing should be a high priority.*
- **Malnutrition.** Table 4.6 highlights the remaining challenge of malnutrition in the Maldives. In addition to stunting, low birth weights, intestinal parasites, and iron deficiencies are indicators of nutritional problems that continue to plague the population in spite of high and sustained economic growth rates. *The remaining malnutrition gap is another important challenge facing the HNP sector in the short- and medium-term.*
- **Maternal Mortality.** Caused by high fertility rates among women in high risk age groups, high anemia rates in pregnant women, and limited physical access to facilities, maternal mortality remains high. *Focused attention on this difficult issue remains a priority for the Ministry of Health.*
- **Non-Communicable Disease.** As would be expected in a post-epidemiological transition environment, mortality and morbidity caused by heart disease and diabetes are on the rise. *Strengthening and reorienting the public health and prevention approach is critical in order to address the emerging burden of these diseases.*

4.54 It is important to note that there is wide spread agreement between the Ministry of Health and the external development partners and technical agencies (including UNICEF, UNFDP, and WHO) on the remaining HNP challenges.

4.55 Aside from these strategic policy challenges faced in the HNP area, another important key challenge concerns the weakness in the budgeting/financial information system. This, which is a generic public expenditure management issue in the Maldives, makes it very difficult to determine whether the identified priorities laid out in Government's strategy documents are reflected in the expenditure and investment plans. *Improving how financial information is organized and collected by the Ministry of Health will allow policy makers to ensure that priorities are funded appropriately and that strategic choices receive the bulk of the resources.* This matter is already covered in Chapter 3 within the context of broader public expenditure management issue, and it is discussed again below in relation to the HNP sector.

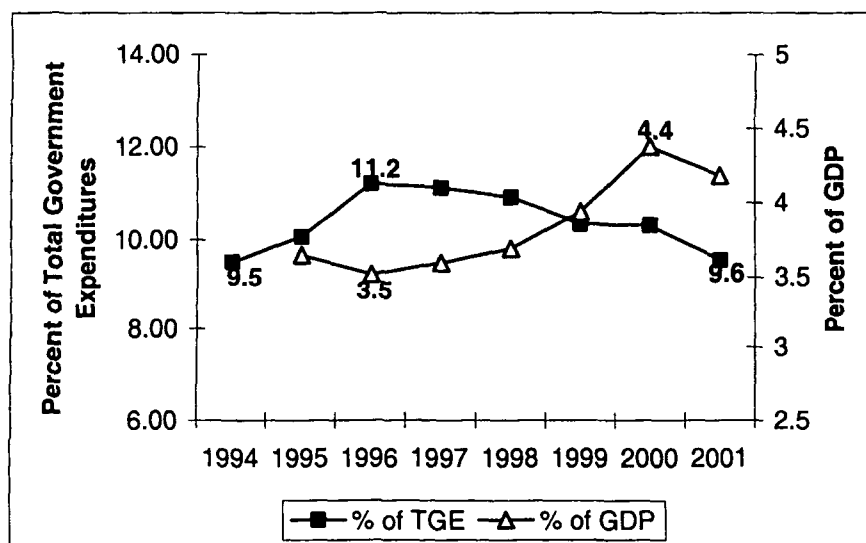
### C. Public Expenditures In Health, Nutrition And Population

4.56 The Public Expenditure Review exercise in the HNP sector collected and organized data to analyze both the overall picture of health sector spending as well as the implications of resource allocation choices. The overall picture looks at the financial commitment of the public sector to improved health, nutritional, population outcomes, and better water and sanitation services. The exercise also attempts to develop a sources and uses (flow of funds) chart of current arrangements in the public sector. Detailed sectoral analysis, constrained by data availability, looks at the variety of programmatic choices within the health sector. Moreover, the available data allow for some analysis of input mix and a limited look at equity aspects.

#### a. Overall HNP Sector Spending

4.57 There are a number of standard ways to measure the public sector's financial commitment to the health sector. The most common approach is to look at public spending on health relative to other government priorities, namely the share of total government expenditure allocated to health. Figure 4.2 shows a recent time series of public spending measured as a share of total government spending on health and as a percent of GDP. The recent magnitudes of public spending *show a strong commitment to health, with more the 10 percent of government spending-- about 4 percent of GDP--being channeled to this sector*. This compares favorably to other South Asian countries, but should be seen in the context of a small island nation with unique geographic characteristics, and the resulting higher costs of health service provision.

FIGURE 4.2: PUBLIC SECTOR COMMITMENT TO HEALTH

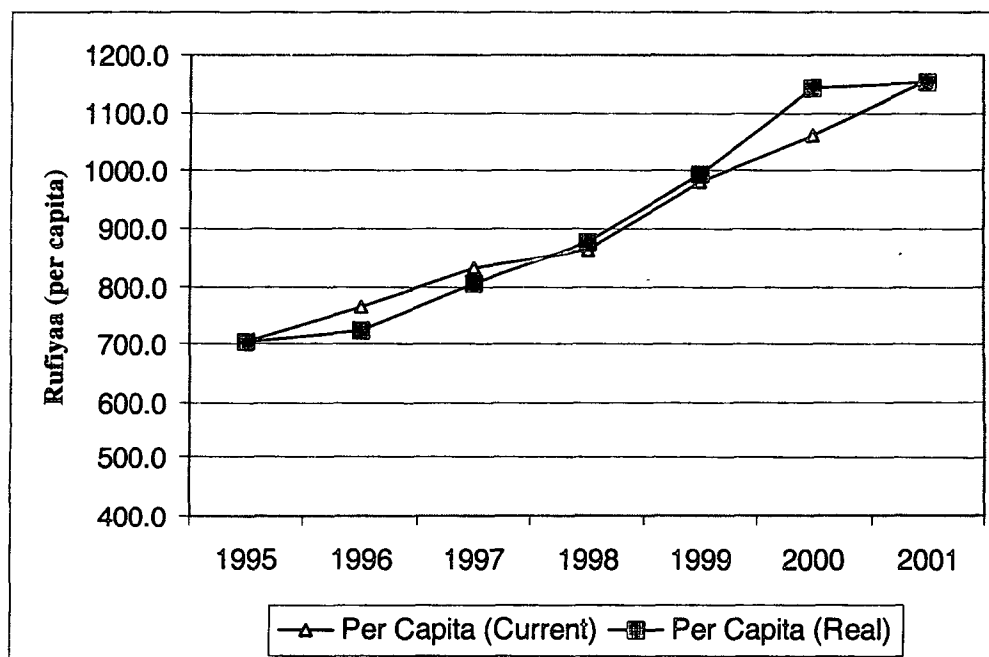


Source: Ministry of Finance and Treasury (2001 figures are estimates).

4.58 An interesting observation from Figure 4.2 is the opposite trends in the public spending in HNP as a ratio of GDP and of total government expenditure (TGE)--the former rising, while the latter falling during 1996 and 2001. Starting from a high of 11.2 percent of TGE in 1996, public spending on health is estimated to have dropped to 9.6 percent in 2001. On the other hand, the ratio of public spending in HNP-to-GDP has steadily increased from its lowest magnitude of 3.5 percent of GDP in 1996 to 4.4 percent of GDP in 2000. This indicates a continued increase in public spending on health, but at rates lower than other public sector priorities. It also reflects the completion of some infrastructure projects—e.g., the regional hospitals.

4.59 Another way of tracking public sector financial commitment to the health sector is to look at per capita spending, preferably in real terms. Figure 4.3 shows per capita spending steadily increasing in the last six years, both in nominal and real terms (real spending in the figure uses 1995 as a base year). Per capita spending increased from about Rf700 (US\$ 60) in 1995 to an estimated Rf1,153 (US\$94) in 2001, showing an average annual increase of 7.5 percent.

FIGURE 4.3: PER CAPITA PUBLIC SECTOR SPENDING ON HEALTH

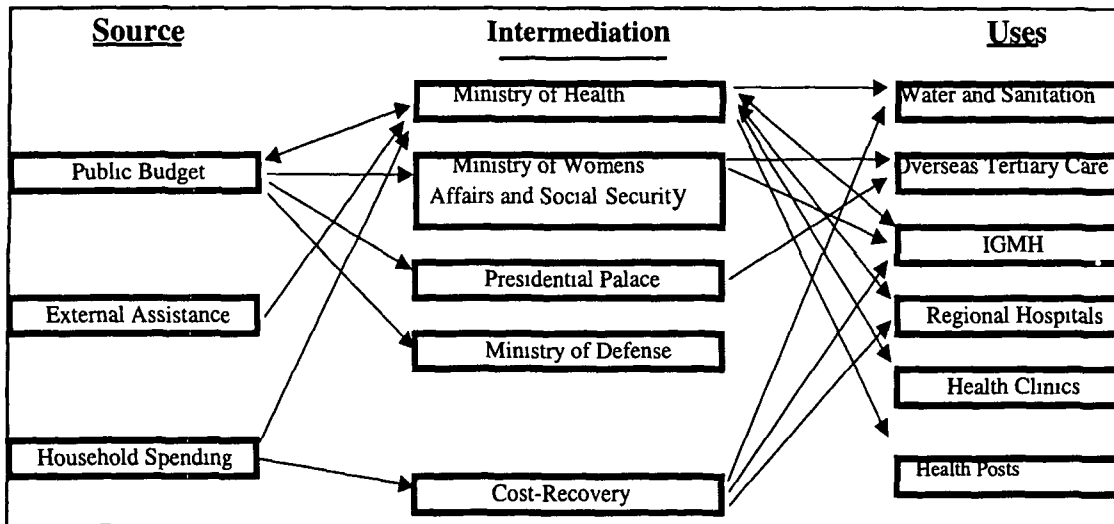


Source: Ministry of Finance and Treasury (2001 figures are estimates).

4.60 It is possible that the expenditure and budget numbers used here actually underestimate the Government's commitment to the health sector in the Maldives. This is due to the fact that, in addition to the Ministry of Health, a number of the other line ministries have budget items related to health sector spending. Figure 4.4 presents a flow of funds diagram covering public spending on health. While the bulk of spending on health goes through the Ministry of Health, a complete public spending picture includes:

- *Ministry of Women's Affairs and Social Security (MOWASS)* provides financial aid for Maldivians needing care outside the Maldives as well as to Maldivians receiving treatment in Malé (primarily at IGMH). In 2000, for example, MOWASS provided financial aid of more than Rf 8.5 million to 589 individuals receiving treatment abroad and 1485 individuals receiving treatment within the country.
- *The Presidential Palace.* The Presidential Palace also provides aid to individuals that receive treatment abroad.
- *Ministry of Defense and National Security.* Some spending takes place on health services for staff and their families.
- *Cost Recovery.* IGMH, some regional hospitals, the Ministry of Health, the Water and Sanitation Authorities, and Department of Public Health charge for a variety of services. Revenues are not retained/recycled at facilities; they are remitted to the Treasury.

FIGURE 4.4: SOURCES AND USES (PUBLIC SECTOR FLOW OF FUNDS)



Source: PER Mission discussions with government officials.

4.61 The flow of public funds depicted in Figure 4.4 and the *difficulty of finding disaggregated expenditure and budget information* for all the intermediaries highlight the need for a well functioning financial information system and National Health Accounts. *The inability to track sectoral expenditures from sources to intermediaries to uses makes it difficult for policy makers to ensure that resources are allocated and used in effective and efficient ways and that priority activities are receiving appropriate funding.*

4.62 While the information on public sector spending in health is limited and has gaps, information on private spending is practically non-existent. There is information on out-of-pocket spending in the form of cost-recovery at public facilities but little information on private spending on pharmaceuticals and other private sector curative care services. The only estimate of private spending available indicates that it was 27 percent of all health sector spending in 1996. If the estimate is accurate, it would be considerably lower than any other South Asian Country (80 percent in India, 60 percent in Bangladesh and 50 percent in Sri Lanka).

4.63 With respect to cost-recovery in the public sector, it is estimated that from 1995 to 2000, cost recovery has accounted for between 11 and 13 percent of total public sector spending on health. The overwhelming majority of that is accounted for by cost recovery at IGMH. In 1999, for example, cost recovery by IGMH accounted for 89 percent of all the revenue by the Ministry of Health. As noted earlier, there is no retention and recycle at the facility level and all revenues collected are sent to the Treasury.

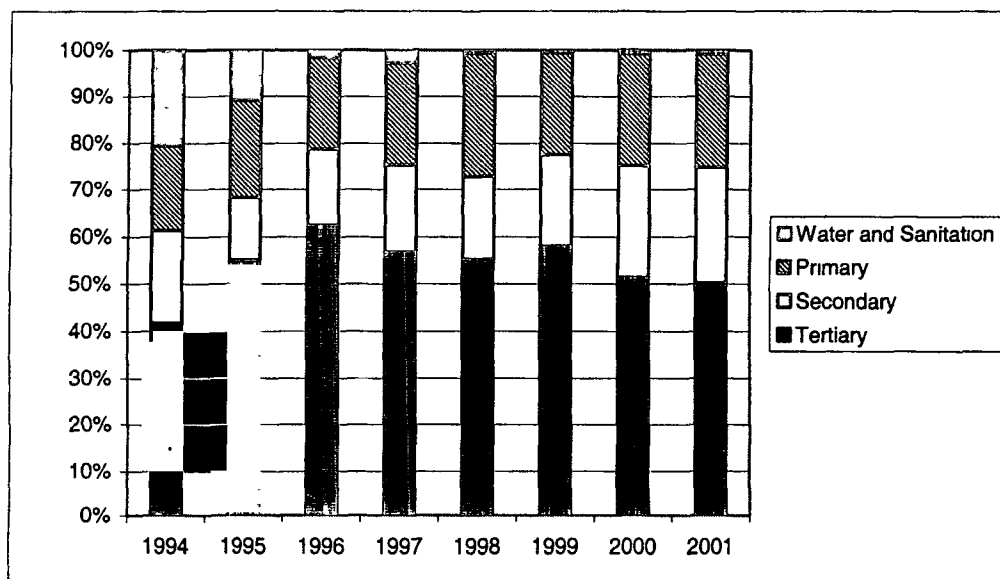
#### b. Details of Intra-Sectoral Allocations

4.64 A critical question in conducting an HNP sector public expenditure review is the extent to which policy objectives and stated public priorities are reflected in the expenditure program of the public sector. Sectoral allocations can be organized around basic economic categories of inputs or organized around defined programmatic outputs.

4.65 **Expenditure allocations by levels of care.** Looking first at programmatic choices, we can look at a time trend of expenditure allocations by levels of care. Figures 4.5 and 4.6 track gross and net expenditure allocations by the Ministry of Health from 1994 to the budgeted spending in 2001. Tertiary-level care is basically the Indira Gandhi Memorial Hospital in Malé plus a share of the administrative costs at the ministry level. Secondary-level care includes the regional hospitals, some specialized facilities, and a

share of administrative costs at the ministry level. Primary care combines atoll-level health centers and island-level facilities and staff, and includes the administrative costs at the level of the department of public health. Expenditures by the water and sanitation authority are treated separately.

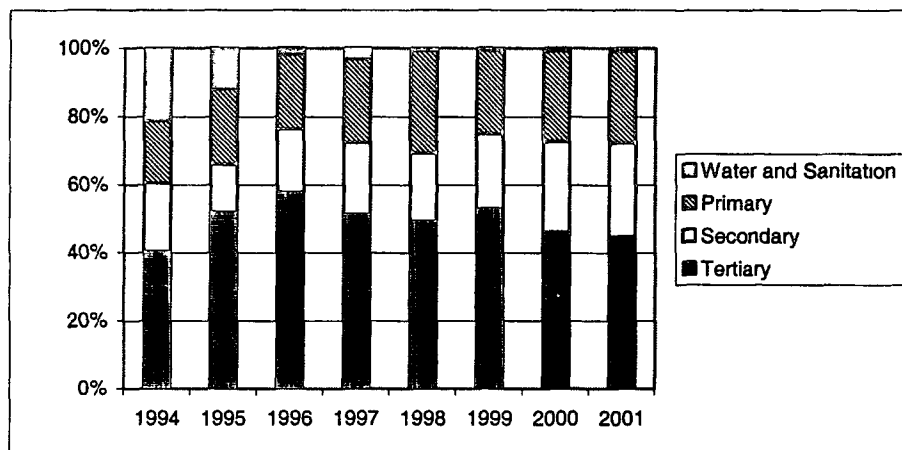
FIGURE 4.5: GROSS ALLOCATIONS OF MINISTRY OF HEALTH BUDGET: BY LEVEL OF CARE



Source: Ministry of Finance and Treasury and Ministry of Health.

4.66 Gross allocations to tertiary level care have accounted for more than fifty percent of Ministry of Health spending since 1995, with the secondary and primary care levels sharing almost equally the remaining budget allocations (Figure 4.5). IGMH alone has accounted for more than 40 percent of total Ministry expenditures in the late 90s, with the levels being more than double of all spending on the lowest two tiers, atoll and island levels. When net expenditures are calculated by subtracting cost recovery (Figure 4.6), tertiary level spending drops somewhat but still remains at about 50 percent of the allocations by the Ministry of Health. It is important to note also that health sector expenditure by two other spending centers (Ministry of Women's Affairs and the Presidential Palace) are entirely for tertiary care abroad or at IGMH.

FIGURE 4.6: NET ALLOCATIONS OF MINISTRY OF HEALTH BUDGET, BY LEVEL OF CARE



Source: Ministry of Finance and Treasury and Ministry of Health.

4.67 Gross and net allocations by the Ministry of Health appear to favor tertiary and secondary health services at the expense of primary care at the two lower levels of care delivery (i.e., the atoll and island levels). *Given the stated policy directions of the Ministry of Health (Section A) and the national emphasis on regional equity, some reallocation of resources combined with an aggressive cost recovery system<sup>9</sup> at hospitals may be needed if objectives are to be met.*

4.68 While figures 4.5 and 4.6 give us a good idea of the distribution of public expenditures across levels of care, it is important to go one step further and look at the budgetary allocations and expenditures towards specific priorities/programs. The current financial information system, however, is not designed to provide such policy-related critical information. As noted earlier, this weakness in the Ministry's financial information system severely limits the ability policy makers and planners, and makes it impossible to track spending in the priority areas.

4.69 Turning next to the analysis of expenditures by economic category, we look first at the balance between capital and recurrent allocations. Table 4.8 highlights a persistent high level of capital expenditures throughout the late nineties. This is mainly driven by the governments ambitious investments in facility construction and expansion. The list of investments in the Public Sector Investment Program (PSIP) during this period includes the new Institute for Health Sciences, upgrading elements of the Indira Gandhi Memorial Hospital, construction and expansion of the regional hospitals, construction of health centers, and construction of island level health posts.

**TABLE 4.8: SHARES OF PUBLIC SECTOR RECURRENT AND CAPITAL EXPENDITURES IN HEALTH (IN PERCENT)**

	1994	1995	1996	1997	1998	1999	2000	2001
<b>Recurrent Expenditures</b>	59	72	67	68	69	72	80	77
<b>Capital Expenditures</b>	41	28	33	32	31	28	20	23
<b>Total</b>	100	100	100	100	100	100	100	100

Source: Ministry of Finance and Treasury and Ministry of Health.

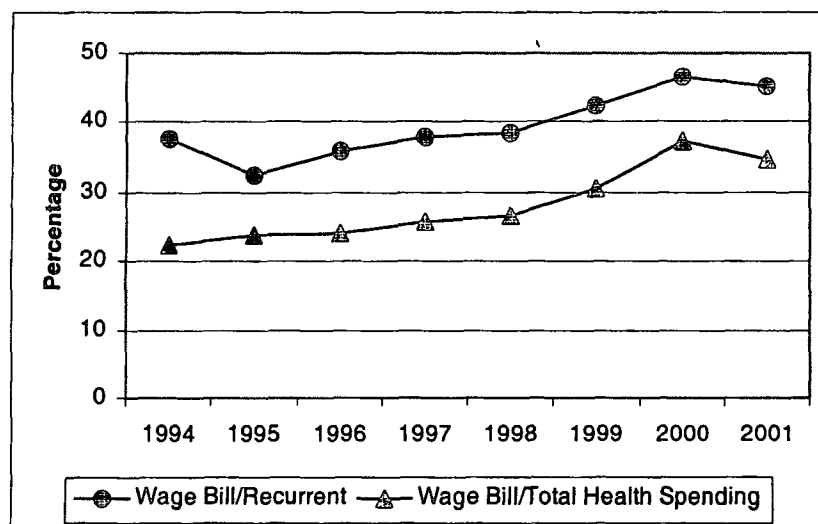
4.70 The persistent high levels of capital investments, while signaling the strong commitment of the Government to health and human development in the Maldives, are likely to have long-term fiscal implications in terms of higher recurrent cost needs. Typically, capital investments, such as construction of facilities, that simply replace existing infrastructure have smaller recurrent cost implications than investments in new facilities or expansions of existing facilities. A review of the Public Sector Investment Plan for the health sector in the last four years shows that most capital investments are in new or expanded facilities which are likely to have substantial recurrent cost implications. *In order to ensure long-term sustainability and input balance, a basic requirement of reviewing the recurrent cost implications of proposed PSIP investments should be enforced (see Chapter 3 for further elaboration on this important issue).*

4.71 Another important input-balance factor relates to the mix of expenditures within the recurrent spending category. A typical concern is the protection of the non-wage share of recurrent expenditures, covering expenditures such as drugs, maintenance, and supplies. While there does not appear to be a current problem with shortages of critical non-wage inputs in the Maldives, *the trend of increasing share of the wage bill relative to other recurrent and total expenditure should concern policy makers (Figure 4.7).* Since 1995, there has been a steady increase in the relative share of the wage bill. Between 1995 and 2000, government employment in the health (and welfare) sector grew at a compound rate of 12 percent, from 1635 in 1995 to 2905 in 2000. This increase in the number of staff (which has been, at least in part, due to

<sup>9</sup> More on cost recovery in Sections C and D.

the rapid expansion of the health facilities), coupled with the employment of high cost expatriates appear to have led to such an increasing trend in the wage bill. However, with the slowdown in the expansion of tertiary and secondary health facilities, it should be possible to contain the growth of public sector wage bill in the health sector.

FIGURE 4.7: THE WAGE BILL RELATIVE TO OTHER EXPENDITURES



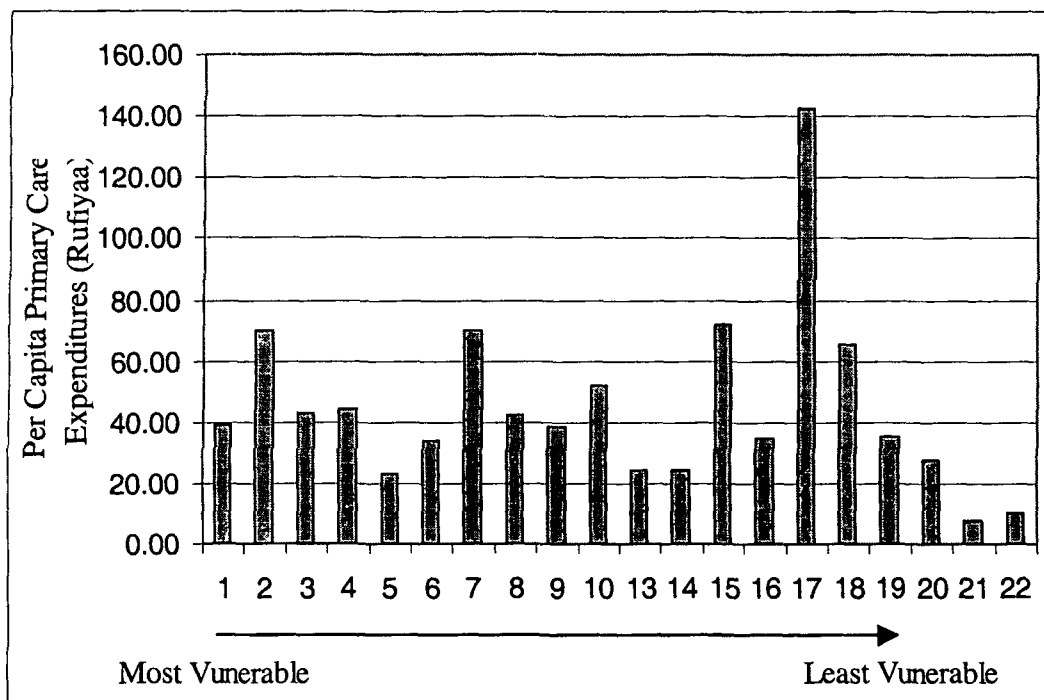
4.72 **Geographic distribution.** The final area of expenditure analysis is to look at regional allocations of public sector spending in health. As in the case of the functional categorization, the financial information system does not allow for a direct analysis of regional allocations. Indirect methods were used to impute expenditures by atolls for the three levels of care delivery. Since the only tertiary care facility, IGMH, is located in Malé, the negative equity implications of spending at that level are both obvious and inevitable. A similar problem exists when looking at the secondary care facilities as only a limited number can be supported and have to be placed in the selected atolls. *An enhanced cost recovery effort at the secondary and tertiary levels, with appropriate exemption mechanisms, can, however, mitigate some of the negative equity implications.*

4.73 The only level of care where there is an opportunity to compare across the atolls is primary care (the combination of island-level and atoll-level facilities and expenditures). One way of looking at the equity aspect of spending at the primary care level is to compute estimates of per capita spending by atolls and look at the variations as they relate to different atoll characteristics. The average per capita spending at the primary care level was Rufiyaa 41, but the range varied from a low of Rufiyaa 7 in one atoll to a high of Rufiyaa 142 in another atoll in 1997/98. Using an index of vulnerability developed for the *Maldives: Vulnerability and Poverty Assessment 1998* (VPAS) study cited earlier, we can look at the relationship between per capita spending and vulnerability. In Figure 4.8, the atolls are ranked from the most to the least vulnerable and there does not appear to be a relationship between the spending and need.

4.74 A more direct measure of the need in the health sector can be constructed using health outcome measures. In Figure 4.9, the atolls are ranked by infant mortality rates (from the lowest to the highest rate) and the corresponding per capita primary care expenditures are graphed. *The results are similar in that there does not appear to be a relationship between the need and spending.*<sup>10</sup>

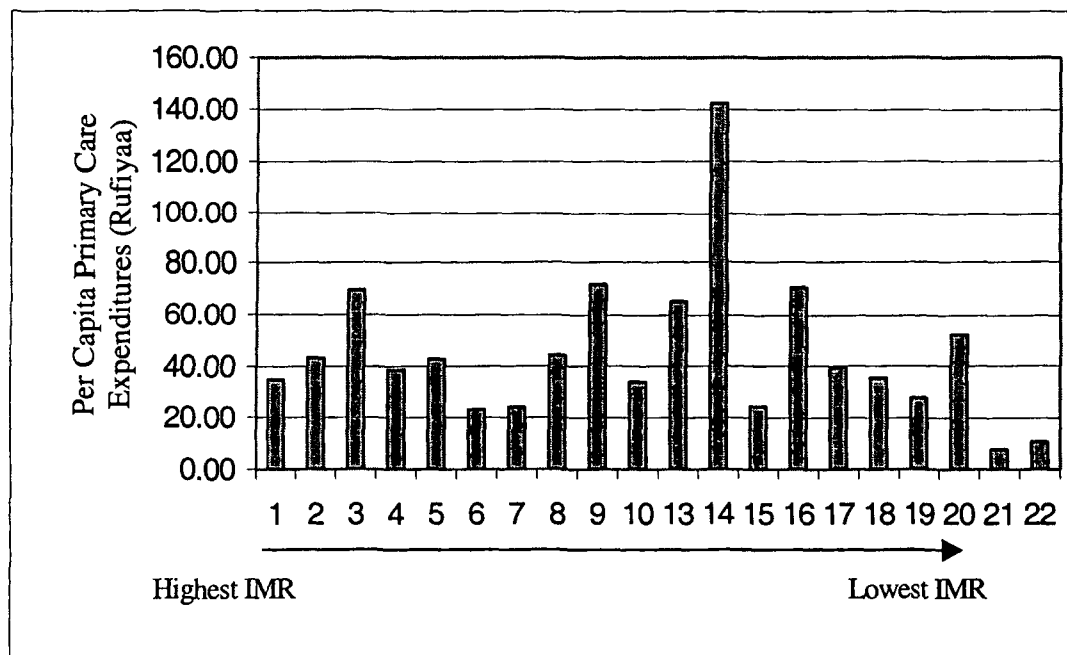
<sup>10</sup> Population concentration is obviously a key factor in affecting the allocation of primary care expenditures among the atolls. However, many of these atolls do have broadly comparable populations.

**FIGURE 4.8: PRIMARY CARE EXPENDITURE AND ATOLL VULNERABILITY**



Source: *Maldives: Vulnerability and Poverty Assessment 1998*; and Department of Public Health Statistics.

**FIGURE 4.9: PRIMARY CARE EXPENDITURE AND ATOLL IMR RATES**



4.75 When you combine the inevitable inequity built into the tertiary and secondary levels of care (where the bulk of resources are allocated) with the lack of a clear distributional direction of primary care spending, it could be argued that the Ministry of Health needs to take a closer look at resource allocation mechanisms currently used. Some degree of inequity in the health sector is inevitable due to scale issues

related to hospitals and geographic realities leading to dispersed population pockets. Some steps, however, can be taken to improve the distribution of public subsidies. *An important step in that process is to improve the financial information systems so that policy makers can take more informed decisions.* Another important step is to take advantage of the findings of the 1997/98 household survey and of the VPA study (and of their future updates) in reorienting public resources and services to the most efficient and equitable uses. Public subsidy distribution can be influenced in a number of specific ways to improve the poverty-orientation of the sector:

- *Better alignment of resources to the needs of the poor.* As was highlighted in Section B above, the poor in the outer Atolls continue to lag behind Malé in terms of basic HNP outcomes, including nutritional status, mortality, and reproductive health outcomes. Addressing this critical gap means more spending on nutrition, population and reproductive health programs as well as water and sanitation systems in the most vulnerable atolls. Data from the UNDP-financed poverty and vulnerability 1997/98 survey (and its future updates) can be used to identify needs and guide program development and resource allocation.
- *Improved level of care targeting of public resources.* Consistent with policy direction of the Ministry of Health and to achieve the above cited improvements, public funds (net of cost recovery) need to be reallocated to the two lowest levels of care delivery away from the hospital sector. This would mean both a gradual re-allocation of funds and a cost recovery system at the hospital levels that decreases subsidy levels. Care should be taken to ensure an effective and transparent exemption system that helps vulnerable groups.

#### D. Summary Of Findings And Recommendations

4.76 In Maldives' health sector, it is critical to address the uneven achievements in HNP outcomes. One area where there is a need to follow up and further improve the hitherto excellent achievements concerns infant and child health, with a focus on the *unfinished agenda for maternal health, malnutrition, and still high population growth rates*. This can be achieved if the policy attention given to these issues is combined with a reorientation of public expenditures. Specifically, *a stronger financial commitment to nutrition programs, reproductive health programs (including population), and targeted water and sanitation programs is needed.*

4.77 A second area where more effort is needed to enhance achievements relates to observed disparities in HNP outcomes and inequity in public resource allocations between Malé, the capital island, and the atolls, especially the most vulnerable atolls. Needs-based planning and more equitable resource allocation mechanisms are critical if the gap is to be reduced/eliminated in the medium-term. Specifically, *the capacity for needs-based planning should be developed and strengthened at the Ministry of Health* in order to take advantage of the available atoll and island-based information. Once the specific needs have been identified and mapped, *increased and targeted resource reallocation to the atoll and island level facilities and programs* is needed to address the needs of the most vulnerable groups. Of course, the latter effort should pay attention to factors affecting costs, such as population concentration/scale economies, and transportation costs.

4.78 In addition to the need to address the unfinished agenda and the uneven coverage of critical basic services, the health sector should re-tool technically and operationally to address the impact of the epidemiological transition of the population. Specifically, it is important to *reorient public health efforts to address risk factors for non-communicable diseases*. The epidemiological transition has shifted the curative care profile from health needs that could be addressed by low-cost and cost-effective interventions to chronic diseases which require high investigation and treatment costs. A difficult and important challenge for the health sector would then be to address the long-term financial consequences to the health sector and the well-being of the population.

4.79 Cost recovery policy is an area where considerable work is needed to improve the efficiency and equity of public spending. The review identified a number of important elements that need to be addressed to strengthen the existing systems. Specific recommendations include: *increasing the levels of cost recovery at the hospital sector in order to reallocate resources to the lower levels of care delivery at the atoll and island levels and to ensure adequate expenditures for priority programs such as nutrition, reproductive health, and water and sanitation.* It is critical that changes in the cost recovery system include: (i) *an effective and transparent exemption system for vulnerable groups;* (ii) *allow facilities to retain and recycle a share of the recovered resources;* and (iii) *have prices that accurately reflect the relative costs of services.*<sup>11</sup>

4.80 It is important for the Government to maintain a strong commitment to the health sector, but new processes and capacities need to be developed to improve the way allocation decisions are made. Specific recommendations include:

- *Improve the financial management information system (FMIS) at the Ministry of Health.* The existing health sector information base is rather inadequate for informed policy making. As it stands, the input and cost-center based orientation of the FMIS does not allow for program based budgeting. As noted earlier, it is critical for the Ministry of Health to match policy objectives with resource allocation decisions, but the current FMIS does not facilitate this. Another important weakness of the current FMIS that should be addressed is the apparent disconnect between the geographic needs and regional allocations.
- *Ensure expenditure balance and sustainability by examining the recurrent cost implications of new capital investments,* and factoring these in the prioritization decisions. While the lack of a medium-term budgetary framework and the separate development of current and capital accounts budgets are system-wide issues, there is a role for the Ministry of Health in reviewing and prioritizing capital investments in order to protect non-wage recurrent expenditures.
- *Develop a national health accounts and a monitoring system.* Figure 4.4 describes Maldives' existing complex sources and uses matrix for the health sector. It underscores the need to improve the health sector information base and strengthen the coordination among the various public sector entities involved in health related spending (MOH, MOWASS, the Presidential Palace, and Ministry of Defense and National Security). Moreover, little information is available on private sector spending on the health sector.

4.81 Maldives' record of achievements in the health sector is impressive and reflects a strong commitment by the Government. As the country develops further and the epidemiological and demographic transitions are completed, the role of the public sector will need to adapt to reflect new priorities and emerging challenges. The ability of the health sector to adjust will depend in large part on investments made in the coming years in addressing the needs of the most vulnerable and strengthening the institutional capacity to collect and analyze critical technical and financial information.

---

<sup>11</sup> Recently the Government has initiated steps to review the existing social security programs, with a view to developing a modern system covering the pension and provident system as well as health insurance.



### III. INFRASTRUCTURE

#### A. Introduction

4.82 Infrastructure expenditure, unlike education and health, is not highly-consolidated and, even for individual sub-sectors, is scattered through the Public Sector Investment Programme (PSIP) and over many ministries/Government Department and private agencies.<sup>1</sup> The key infrastructure sub-sectors / programs considered here are: (i) land-reclamation/development, housing, and the North and South Growth Centers; (ii) transport; and (iii) rural electrification.<sup>2</sup> Whilst the latter covers a homogeneous activity, the others are "mixed bags". For example, transport embraces such disparate elements as regional airports, road paving, and components of land reclamation/development projects.

##### a. The Rationale for Public Sector Involvement

4.83 To address the critical issue of acute land scarcity, facilitate more broad-based and equitable economic growth against an environment of highly dispersed and sparsely populated small islands, and to address Malé's serious housing problem, Maldives' Government has been directly involved in land reclamation/development, social housing in Malé, and more recently in regional development activities. Budgetary resources have been and are being channeled into these programs. Aside from the national objective of achieving "equitable" growth and reduction in regional disparities in the living standards, several market imperfections appear to have motivated the Government in getting involved in these infrastructure activities. For example, with the exception of few plots in Malé, all land is state-owned in the Maldives. However, an appropriate Land Act/regulatory framework, which is necessary to clearly define and protect property rights such that land-use rights can become marketable and be used as collateral, does not exist yet. This constitutes a serious constraint to efficient use of the very scarce land. In turn, these factors create a barrier to commercial financing of housing and land development. These difficulties are compounded further by the existing deficiencies in contract and mortgage laws and the absence of strong debt recovery legislation.<sup>3</sup> (Through a technical assistance program the World Bank is currently supporting Government's efforts in developing a legal/regulatory framework for efficient land use).

4.84 In transport, the private sector is the principal service provider in sea transport, which is the most important mode of transportation for the Maldivians. And, as in most other developing countries, the public sector is also involved in transportation, particularly in airport development and air transport as well as in major harbor development and road construction. Apart from the land-related property rights constraints, other market imperfections (e.g., those related to the financial market) and institutional gaps also appear relevant in explaining the state's involvement in these activities. Some of these reasons include: the existing weaknesses in the legal/regulatory system associated with contract enforcement and loan recovery; and the desire to benefit from scale economies, while avoiding potential pitfalls of private monopolies in activities. Given their vital importance for foreign trade and tourism, it is not surprising that the Government has remained engaged in airport and seaport development until now. As for rural electrification, equity consideration and market imperfections are the principal motivation in the public sector's intervention in favor of the disadvantaged outer atoll communities.

4.85 Against this background, the development of regional growth centers--including one in the Northern Development Region (NDR) and one in the Southern Development Region (SDR)<sup>4</sup>--has obvious pro-poor objectives, in that these regional growth centers are intended to create economic opportunities and provide better social/infrastructure services for the disadvantaged communities in the outer atolls. However, there are obvious questions about the poverty-focus of subsidized housing in Malé, given that it is not specifically targeted to the

---

<sup>1</sup> The figures given here are based on the information that was available in May 2001

<sup>2</sup> For an illustration, see. *Government. Budget in Statistics: Financial Year 2001*, Ministry of Finance and Treasury, Table 3 02, pages 48-53.

<sup>3</sup> For a detailed coverage of some of these issues, assessments, and options to address the current issues, see. The World Bank (1999), *Maldives- Country Economic Memorandum. Policies for Sustaining Economic Growth*, (Report No. 18340-MAL) The latter also has a detailed section on land-related issues

<sup>4</sup> The Government has recently added more areas for promoting regional development--in South Central, North Central, and Central regions

poor, neither based on financial hardship nor sharply focused on housing needs of the poor. And how will the sizable Hulhumalé land reclamation and development (in the lagoon of Hulhule, Airport island) project benefit the poor will depend on: how will it be financed--who will pay for the developed land; how will the reclaimed land be distributed/marketed; and what other development programs will be given up or postponed, if this project is financed from the government budget, at least in part (as currently happening), with or without future cost recovery.

4.86 Clearly, Government's intervention has been instrumental in determining the geographic patterns of development in the Maldives in recent decades, particularly through its concentration of public investment programs in Malé and in the nearby islands/atolls. The impacts have, for several decades, been complemented by conscious national development objectives, largely aimed at redressing the widening differences in service levels between Malé and the outer atolls. These issues continue to attract active policy debate and experiment, most recently with respect to the Regional Growth Centers, the revised Resettlement policy, and the Hulhumalé land reclamation and development. Given that such development projects are increasingly costly, competing with each other for limited public resources, it is essential that their strategic objectives, rationale for public sector intervention, prioritization, and their implementation programs are very clearly defined and developed.

#### b. The Existing Situation<sup>5</sup>

4.87 **Land reclamation/development, the North and South Growth Centers, and housing.** The *Fifth National Development Plan 1997-2000* (FNDP) acknowledged that human settlement planning has not done enough to redress the imbalances between Malé and the islands. And the policy continues to change in search of more effective methods. The Draft *Sixth National Development Plan (2001-2005)* on Regional Development and Growth Centers that was available at the time of the writing had not yet developed the policy beyond the FNDP. Of the 10 key issues in the FNDP three relate to population distribution and are a response to the need to tackle the problems of physical accessibility: (xiii) resettlement and the consolidation of inhabited islands; (ix) establishment of regional growth centers; and (x) the management of growth and development of Hulhumalé.

4.88 There appears to be growing support for the consolidation of populations by depopulating uneconomic islands and concentrating people where they can support higher levels of service and economic activity. The established *Resettlement Policy* was replaced by the *National Population and Development Consolidation Strategy and Programme*<sup>6</sup> in 2001, which it is intended will "result in a significant reduction over a 10-15 years period in the number of inhabited islands". It is to be assisted by the *National Housing Finance Scheme*, which is being implemented on a pilot basis now. The medium-term objective of the latter is to provide support for migration from the primary islands to focus islands.

4.89 It is acknowledged that the country cannot afford to provide equal levels of service on all islands, and investment is therefore to be concentrated most intensively in Regional Growth Centers. The ongoing *Regional Development Project*, which is supported by the ADB, "aims to provide the focus for regional development in the Northern Development Region (NDR) and Southern Development Region (SDR), thereby supporting broader and more equitable development in the country and taking some of the pressure off Malé." There are now efforts aimed at assessing the current situation and future needs with regard to: (i) water supply and sanitation; (ii) solid waste management; (iii) land use planning; (iv) drainage; (v) transport infrastructure; (vii) pressing environmental issues; and finally (viii) economic activity.

4.90 In terms of investment priority, below the Regional Growth Centers are the *Focus Islands*, also increasingly referred to as Growth Centre Islands. These will receive relatively high order services, and the remaining Primary Islands will receive only basic, but adequate, levels of service, e.g., possibly access channel

<sup>5</sup> For the details of the recent public sector infrastructure programs in the areas covered here, see Annex to Chapter 4.

<sup>6</sup> See Annex to Chapter 4 for details.

deepening but not major harbor works, and only health posts and primary schools by way of social infrastructure. Incentives will be provided for households to relocate from Primary to Focus Islands.

4.91 Malé's ever-increasing population pressure and its **housing** problem, indicated by the extraordinarily high occupancy rate of 15.85 persons per dwelling in 1998, have long taxed policy makers. Over the years attempts have been made to meet the housing demand by land reclamation, but the potential for this on Malé is exhausted whilst the development of nearby Villingili as a satellite island with a population capacity estimated at 5,574 is useful but not on an adequate scale to solve the problem. The long-term solution adopted for Malé's housing problem is the cited Hulhumalé extensive reclamation/land development project near the airport island. In fact the justification put forward for this project is reduce overcrowding in Malé by means of creating land for housing and other developments to stabilize Malé's population.<sup>7</sup>

4.92 **Transport.** Spurred by Maldives' strong economic growth in general and the expansion of tourism in particular, the transport sector has grown rapidly in the 1990s. Most transport operators are in the private sector with some involvement by public entities, none of which have monopolies. Maldives National Shipping Limited (MNSL) is a 100 percent state-owned company; and the Maldives Transport and Contracting Company (MTCC), another SOE, is active in sea transport and island harbor improvement and reclamation, as well as trading.

4.93 In recent years, technical improvements have largely replaced sail with motorised vessels for inter-island sea transport. The private sector continues to provide local and inter-island passenger and cargo services by sea; and there are some welcome indications of private sector inter-atoll transport initiatives, e.g., two scheduled voyages per week between Malé and Baa and Lhaviyani Atolls to the north. At present the only ferry services in the Maldives are those from Malé to Villingili and to the airport. In 2000, there were 307 registered inter-island boats, each capable of carrying cargo and 20 or 30 passengers; 47 percent of these were in Malé Atoll, the remainder being divided equally to north and south of Malé, but with some atolls having none of these vessels. However, if, as anticipated under the regional development programs, the population concentration on smaller number of islands picks up pace, further increases in the number of private boats and scheduled inter-island voyages could result, with likely reductions in relative unit travel costs. There has been a large increase in tourist related sea craft, with 86 percent of the 816 launches registered in 2000 being in Malé Atoll, where the tourist resorts are concentrated. However, Maldives National Shipping Limited (MNSL), a loss making SOE, has been in steep decline, with some 80 ships in the 1970s, 39 in 1982, 13 in 1988, and 5 in 2001.

4.94 Inter-island air services began in 1981 and are operated by Island Aviation Services Ltd, 100 percent owned by the Government—formerly Air Maldives Ltd). There was no domestic competition to the partly state-owned Air Maldives until Ocean Air was founded as a 100 percent Maldivian company in 2000 to provide scheduled inter-island air services between Malé, Gan and Kaadedhdhoo. In addition to Ocean Air, two other private companies operate 27 twin-engined Otter seaplanes and some helicopters as taxi services to the resorts. However, air travel costs, now closely related to fuel prices, have risen sharply and are naturally very high in terms of local affordability. Traffic volumes are low and continue to be mainly informal and un-scheduled, so that ad hoc access of the poor to services on other islands is now prohibitively expensive; (however, in the event of health threatening emergencies, evacuations are made by the Government). The Maldives Port Authority (MPA), a revenue generating government enterprise under the MTCA, operates only Malé port because other ports have not been officially designated as such by the President.

4.95 Malé Road Construction Unit of the Ministry of Construction and Public Works (MCPW) has finished surfacing the roads on Malé, and maintenance is now the responsibility of the Municipality. The Unit will, with its seven Maldivian and 125 foreign workers, continue work on the Villingili Road Construction project, which has been included in the PSIP 2002.

---

<sup>7</sup> In May 2001, it had been mentioned by some in the Government that the Hulhumalé land development project may present an option for the would-be migrants who would otherwise settle in Malé

4.96 In the medium-term, some of the key *transport sector development issues and agenda* items appear to be linked to the maintenance, expansion, and development activities related to the Malé International airport, regional airports, and the principal sea ports (see also Annex to Chapter 4 on Infrastructure). Road sub-sector program is fairly small. In order to formulate future development strategies for the transport sector in tandem with the growth of the economy and to set priorities for the public sector activities, some officials in the Government strongly support the need for a comprehensive transport master plan, and for more planning and regulation, particularly in the marine transport sector. In any event, indications are that the role of the private sector will continue growing, particularly in sea transport and in the establishment of simple ports and depot facilities throughout the country. This is a healthy development, and with increases in the number of private boats and competition, and with rising population densities, transportation costs should also become increasingly more affordable.

4.97 **Rural electricity.** Electricity is a service regarded by all island communities as having extremely high priority. The State Electricity Company Limited (STELCO) provides only 23 of the outer inhabited islands (32.7 percent of their population) with electricity. In the outer atolls, the Island Development Committees (IDCs) operate 146 of the outer island systems, 14 run by private parties, and 14 have both private and community systems. On the regulatory side, the Maldives Electricity Board (MEB) was established in 1988 to establish standards of supply and regulate service providers, including tariff setting. However, it has only a skeleton staff and has not been able to provide adequate guidance and control, which is of particular concern in the outer atolls where safety and quality standards are poor and development is active. At present both the MEB and STELCO are part of the same Ministry, which is contrary to best practice since it compromises regulatory independence.

4.98 One of the main issues related to rural electrification is inadequate power supply systems. Two outer island communities, with a total population of 4,321, have no electricity supplies; and, whilst the mean number of service hours per day on non-STELCO islands is over 18 hours, 56 islands suffer from frequent supply interruptions. Another issue is the absence of a clear Government policy on subsidies. The capital costs of improving power supply for the outer islands are often subsidized, and the islands are not entitled to equivalent support. Operating costs for the outer islands that operate independently are never subsidized, but those served by STELCO benefit from a hidden cross subsidy by being charged lower tariffs, with STELCO recovering the losses through the profits earned on Malé. Thus, whilst the residents of 23 outer islands pay less for their electricity, the mean charge on non-STELCO islands is 40 percent higher. *Given the expected high development impacts and externalities, the Government could consider being more active in supporting rural electrification through targeted subsidies (e.g., through the provision of power generators) and enhanced micro credit programs, and by supporting community-based initiatives. However, any subsidy involved should be reflected in the budget explicitly.*

4.99 Work is underway to commence the implementation of the *Outer Islands Electrification Project*, which aims at improving electricity supply in about 40 focus islands on a sustainable and affordable basis. The project will also address institutional capacity building needs of the MEB as well as strengthen the legal framework for the devolution of responsibilities to the outer island power supply utilities. The project would directly benefit some 47,000 people.<sup>8</sup>

## B. Sectoral Allocation of Public Expenditures

4.100 **Overview.** The available aggregate-level classification of budgetary expenditures provides only the broadest expenditure indications for the key infrastructure sub-sectors being considered here. It is only possible to have an accurate perspectives on the expenditure size of infrastructure programs at the individual project level within sub-sectors/programs. The principal elements are extracted from the Budgets and discussed below. Table 4.9 below indicates the two line items which most closely reflect the sub-sectors. "Land Formation", although

<sup>8</sup> The Government's draft sector policy for "outer islands electrification" was reviewed by the ADB in April 2001 and found to be generally acceptable.

accounting for only 4.1 percent to 12.9 percent of total capital expenditures over the last four years, is important in urbanization in the Maldives, and, particularly in connection with the Hulhumalé project. Its significance and implications for future public expenditures have perhaps not been fully worked out. "Roads and Ports, Water and Sanitation Systems" are a much more significant group at present. Nominal increases over the last three years have been much greater than for capital spending as a whole, with a 40 percent increase in 2000 and a further 75 percent increase in 2001 to Rf555.2 million or 43.6 percent of total capital expenditure. This summary description includes improvements to the international airport of Rf5.1 million in 1999, Rf3.9 million in 2000, and Rf111.5 million in 2001.

**TABLE 4.9: COMPONENTS OF CAPITAL EXPENDITURE (RF MILLION)**

Item	1998		1999		2000		2001	
	actual	%	actual	%	revised budget	%	allocated Budget	%
Land Formation	102.6	12.9	37.1	4.1	38.7	4.1	84.7	6.6
Roads, Ports, Water, Sanitation Systems	211.6	26.7	226.1	24.9	316.9	33.6	555.2	43.6
Other	479.5	60.4	643.4	71.0	587.8	62.3	634.7	49.8
<b>Total Expenditure</b>	<b>793.7</b>	<b>100.0</b>	<b>906.6</b>	<b>100.0</b>	<b>943.4</b>	<b>100.0</b>	<b>1,274.6</b>	<b>100.0</b>

Source: Maldives Government Budget for Financial Year 2001; these figures are in local recording format and, as such, they include amortization payments as well.

4.101 Budgetary expenditure on transportation has increased by 17 percent and 78 percent, respectively, in the two years to 2001 to Rf448 million or 12.6 percent of all total budgeted expenditure in 2001. Expenditure on electricity has also increased since 1999, to Rf83.8 million in 2001, and a large proportion of this is for rural electrification, particularly from Japanese grant assistance.<sup>9</sup>

#### a. Land Reclamation and Development, Housing, and the North-South Growth Centers

4.102 Budgetary expenditure on infrastructure is scattered under various budget lines and through the locally-sourced PSIP as well as under the list of projects supported by donors. And there are many implementing Government agencies and Departments involved. For example, most of the MAA's budget of Rf274.6 million for 2001, increasing from 2000 by 11 percent, is devoted to administration. Amongst its 29 sections those of most interest here are the Atoll Development Special Projects, Resettlement Section, and the Northern and Southern Regional Development Project Offices; but recurrent expenditures are not fully attributed to such specific programs with primary investment components.<sup>10</sup>

4.103 Recurrent expenditure in the MAA's Atoll Development Special Projects section is dominated by the "grants and subsidies" item which shows amounts going to the outer islands, mainly for electricity generators. As such, the latter item might more appropriately be classified under capital equipment. Building construction has been halved over the past two years, to Rf10.4 million in 2001, but "Roads and Ports, Water and Sanitation systems", in fact entirely the harbor improvement program, has remained relatively high, with allocations for the latter program of Rf50 million in 1999 and in 2000 and Rf45.0 million in 2001.

4.104 The expenditure of the Resettlement Section of the MAA was Rf23.3 million in 1999, Rf19.9 million in 2000, and Rf15.6 million was allocated in the 2001 budget. Relocations completed to date have cost some Rf300,000 for each household. The work of the Resettlement Section may be terminated in the near future as the policy is replaced; in the meantime allocations remain significant. The capital expenditure account for very high

<sup>9</sup> See: *Government Budget in Statistics-Financial Year 2001*, Ministry of Finance and Treasury, Malé, Republic of Maldives, page 55, Table 3.03

<sup>10</sup> *Government Budget in Statistics-Financial Year 2001*, ibid, pages 48-49, Table 3.02

proportions of the Section's total expenditure (96 percent in 2001); but not all of the costs for the lengthy negotiations and processing with resettling communities are included here.

4.105 The Northern and Southern Regional Development Project Offices represent the new budget lines in 2001, with allocations of Rf1.1 million to each from the domestically-sourced budget. And disbursements from the ADB loan for the *North and South Regional Growth Centers* project was Rf22.3 million for 2002 and is expected to be Rf62.0 million in 2001.<sup>11</sup>

4.106 Budgetary expenditures on the Hulhumalé project have been undertaken by several Ministries and Departments/Units, including the now terminated Ministry of Construction and Public Works (MCPW) reclamation activities, and the more recent involvement (in design) of the Hulhumalé Section of the Ministry of Home Affairs, Housing and Environment (MHAHE). This has made tracking expenditures on this project difficult. However, the project ownership was passed to the Hulhumalé Development Unit (HDU) of the President's Office early in April 2001.<sup>12</sup> As such, it is expected that it will become easier to establish how much domestically-sourced budgetary sources are spent/allocated on the Hulhumalé project each year. In the 2001 Budget, only Rf5.4 million under the MCPW and Rf3.5 million under the MHAHE are shown. Separately, the 2001 Budget shows an amount of Rf 81.4 million as being financed by external project loans.<sup>13</sup> Nevertheless, it is clear that the costs of the project, even for basic reclamation part of the first phase, have (at Rf88 million since 1998) been not insignificant. A Reclamation and Coastal Structure Development contract has been signed by the HDU for Euro19.7 million, with works to be implemented in three contracts over 39 months. This contract is only for land formation, and infrastructure and superstructures will cost much more than this. It is hoped by the Planning Unit that the utilities will be constructed and financed by the existing service providers at costs no higher than on Malé or by other tenderers.

4.107 Three of the five *Malé Housing Project* apartment blocks have been built with Chinese grant and concessional loan assistance, and construction of a fourth such block has just begun. Prices for Phase III were regarded as "approximately twice the rate of a local contractor who would, with proper supervision, construct to a higher quality and standard." The 36 flats in the sixth phase are reported to cost some Rf17.3 million--i.e., about Rf480,000 each or some fourteen times mean household income compared with international affordability ratios of 3 or 4 times.

#### **b. Transport**

4.108 As noted above, in the transport sector, the Government has focused mostly on air transport and the development of the Malé harbor and a few other harbors on large islands. Accordingly, in recent years, public expenditures in the transport sector have been directed mostly to the airport development and harbor projects. One-off allocations were also made for some sea transport (during 1999-2001) and for the purchases of a petrol boat.

4.109 **Airports.** The 2001 Budget for the Ministry of Transport and Civil Aviation included Rf35.9 million for the regional airports, compared with the revised budget amount of Rf29.0 million for 2000 and actual expenditure of Rf22.8 million in 1999. Of this, staff costs account for about one half. In addition, Rf111.5 million was budgeted in 2001 for the airport development project from the Kuwait Fund and OPEC development project loans. The project to resurface the runways and install runway lighting at the three regional airports in 2002 was awarded to the Maldives Transport and Contracting Company. This project will eliminate the current need for frequent repair of the runways due to poor quality.

<sup>11</sup> Ibid, pages 48-53, Table 3.02

<sup>12</sup> HDU is now the only authority responsible for the development of Hulhumalé.

<sup>13</sup> Ibid, pages 48-53, Table 3.02.

4.110 **Harbours.** In 2000, the Kuwait Fund for Economic Development (KFED) made available Rf10.1 million for port development at Hithadhoo in the SDR and Kulhuduffushi in the NDR and a further Rf46.9 million was expected to be disbursed in 2001. There was also a Danish grant aid of Rf12.7 million and a Danish loan of Rf38.0 million in 2000 for the Fuvahmulaku Harbour Project; and a further Rf19.1 million grant and Rf18.5 million loan were expected from the same source in 2001.

### c. Rural Electrification

4.111 There has been substantial Japanese grant assistance for rural electrification in recent years, with disbursements of Rf14.4 million in 1999 and Rf65.9 million in 2000, but this *Atoll Electrification* project is now complete. Ministry of Atolls Administration (MAA) provides about 20 electrical generators ranging from 15kW to 80 kW to the outer islands each year on a grant basis. Over a four year period, about 75 islands have received generators as a free gift to the community. The Ministry also provides cash grants under various development projects implemented by the Ministry to support community initiatives to upgrade electrification.

4.112 In addition, loans are available for island electrification from two revolving fund schemes of Rf 10 million from the Ministry of Finance and Treasury (MFT) and the Bank of Maldives (BOM). These loan schemes, administered by MAA, have provided assistance to a number of island electrification projects. Thirty islands have received assistance from the MFT loan scheme and forty three have received assistance from the BOM scheme. The MFT provides sovereign guarantees for the loans under the BOM scheme. The loans normally range from Rf 300,000 to Rf 500,000 and repayment period is usually five years, including a six-month grace period. The interest rate of the MOFT loans is 8 percent per annum, some 4 percentage points below the market rate. In the acse of the BOM loans, the interest rate is 12 percent, however MAA subsidizes 4 percent of interest annually from its budget, making the latter rate effectively 8 percent per annum. The ADB has approved a loan of \$8 million to support the Outer Islands Electrification Project and the loan was declared effective on July 25, 2002. This loan is to be supplemented by government funds of \$2.6 million to cover the total project cost of \$10.6 million.

## C. Evaluation And Recommendations

### a. Fiscal Sustainability and Timing of Large Development Projects and Programs

4.113 The Hulhumalé land reclamation/development and the Regional Development projects are both relatively sizable public expenditure programs. Already significant amounts of public resources have been spent on some land reclamation/formation activity for the former, and spending started in 2000 on the Regional Development Project (RDP). If the Government were to press ahead with the implementation of both of these sizable projects at full speed, fiscal balances may come under significant strain as the Government may end up relying on increasing amounts of more costly international commercial borrowing to finance the Hulhumalé project. On the other hand, efforts to continue with both projects, but at a fairly slow pace such that fiscal situation remains manageable and sustainable, would mean spreading public resources thin and extending the project gestation periods much longer. This would dampen down the social returns to the public resources being tied up in these projects since it will take much longer before these projects are completed and become productive. Even if concessional financing for the development of the RDP were to be available, there will be pressure on domestically-sourced budgetary resources. And the intensity of the fiscal pressure will depend on how fast the Hulhumalé project will be implemented and whether the Government will finance the whole development (including the infrastructure etc.) or allow private developers to be involved directly and sell (say, through, competitive bidding) leasehold rights of the developed land for housing and businesses.

- It is important to have a complete and reliable costing of all the ongoing and planned reclamation, infrastructure and superstructures for the medium-term phases/stages under various scenarios of public sector involvement. This will help improve decisions with respect to timing and prioritization of major

public expenditure programs, and will also bring a reality check on the appropriate role of the state. In this regard, it will be particularly critical to take into account *recurrent cost implications* of these physical and social infrastructure programs.

- The Hulhumalé land reclamation/development project presents a major fiscal sustainability challenge in the near- to medium-term, in terms of the amounts of both capital expenditure and recurrent costs involved. The key decisions pertaining to the financing and use of the land to be gained and developed need to be formulated carefully-- who will pay for what part of the land and infrastructure? who will use it? how will it be distributed and paid for? what will be the legal/regulatory framework to facilitate efficient use of the Hulhumalé project land? These questions point to the need for great care in developing this project, in arranging for the financing of capital and recurrent costs, as well in addressing the key issue of establishing property rights for the use of the land. It would be prudent to minimize the Government's involvement and exposure in the Hulhumalé project as much as possible.
  - Very recently, the HDU has apparently developed the Hulhumalé Development Project strategy further, bringing some clarity to the roles of the Government and the private sector in the project. Accordingly, the project is now being developed as a "corporation", which has a business plan and has already been authorized to 'sell' land. Thus, the corporation will: (i) provide land for roads and public places--e.g., for parks and mosques--at no cost; and (ii) sell land at "full cost-recovery" for public buildings and utilities, and sell it at profit for other purposes. In the subsequent phases of the project, the private sector will be directly involved in the development of commercial areas as well as of housing. The Government will limit its involvement to social and physical infrastructure. (Nevertheless, in the initial phase, the HUD is going ahead with the construction of 280 housing units, which are more in the nature of social housing, not necessarily targeted to the poor only).
  - It is strongly advisable that the key strategic policy formulations be developed with respect to the use of the land in the Maldives, including of course any new reclaimed/developed land. In this regard, the recent enactment of the **Land Law Act of the Maldives** constitutes an important step. Since the latter will become effective one year from the day it was enacted, it will be important to pass other crucial laws as well, including the draft new **mortgage** law and a **debt recovery** legislation. Also, it would be prudent to accelerate the ongoing efforts aimed at strengthening the judiciary. Such an enabling environment would allow the development of an efficient land use/tenure system with well-defined property rights that would be protected and be marketable. The latter legal framework for land-use/housing market should be strengthened by including a **landlord/tenant law**, a **condominium law**, and new **building/housing codes**. This framework would also encourage the development of housing finance. (As noted earlier, the World Bank, through technical assistance, is providing support to the Government in the development of an appropriate legal and regulatory framework that would define, govern, and protect property rights associated with the land use and tenure).
  - Under such a setting, the Government can limit its financial involvement and exposure in the development of the Hulhumalé project and that of the RDP. To this end, through competitive bidding, private developers could be invited to take over the development of Hulhumalé housing and business sites, while the Government limits its involvement to the financing of social and some basic physical infrastructure. Once an appropriate legal/judicial framework is in place to define and enforce property rights, then the private sector could handle the development, sale, and rental of housing and business units.

### b. Allocative Efficiency and Equity/Poverty-Focus of Public Expenditure in Infrastructure

4.114 Likely explanations for the public sector's involvement (in terms of market failures and equity concerns) in the four major areas that are covered here were discussed in Introduction. Here the focus of the assessments and recommendations will be on the growth and poverty orientation of public expenditures in housing, land reclamation/development, the regional growth centers, transport, and rural electrification.

4.115 **Housing.** It is not surprising that *Malé Housing Project* apartments are so popular when rents are about a third of the market price and only very persistent defaulters are under any threat of eviction. It is understood that sitting tenants could in most cases well afford to pay the 50-70 percent rent subsidy, and indeed to purchase the flats if they were made available on conventional mortgage terms and at realistic prices. The *Project* was first mooted in the 1970s, and its function and financial structure have for a long time, and continue to be, questionable. It is not targeted to the poor alone, and as such it transfers public resources to well-off people who are lucky to rent one of these highly subsidized units.

4.116 It is perplexing that the Government should be contemplating extending this policy, and thereby its borrowing, to the first stage of Hulhumalé when the financing of this project may be a major challenge in the short, medium- and long-term. The first stage 280 "social housing" units at Hulhumalé and social infrastructure are planned to be completed by August 2003 and would, at the same rate as the new Malé Housing Project phase, cost about Rf190 million. Recurring subsidies will amount to perhaps Rf12 million per year on a market rental rather than cost recovery basis (since the latter does not give a credible figure). The social infrastructure for the initial stage is estimated to cost some Rf300 million, ie., approaching Rf500 million for the latter two components alone, equivalent to 14 percent of estimated total budgetary expenditure for 2001. Even if a far more conservative cost figure--say, half of the latter amount--is taken, this figure still amounts to about 8 percent of the total budgeted government expenditures in 2001 and about 2.5 percent of GDP. For 2002, the latter amount is significant--amounting to about over 3 percent of the projected GDP for 2002. Financing such amounts through commercial loans from international markets would soon create debt servicing difficulties.

4.117 Apart from the latter fiscal sustainability issue, there is also the fundamental "equity" issue. If the Government is contemplating to replicate a program in Hulhumalé that is similar to the Malé housing program, which is not a pro-poor program, then public resources end up not being used for their intended purposes, which are to help reduce poverty and promote economic growth.

- The social housing program that is being implemented in Malé and considered for expansion in the initial phase of the Hulhumalé project is not justified, neither on allocative efficiency nor on equity grounds. The program is not targeted to the poor, and appears to be benefiting mostly well-off people. It is highly recommended that the plan for expanding the "social housing" program in Hulhumalé be re-considered. And in Malé, there appears to be a strong case for raising the rents at the Malé Housing Project blocks gradually towards market levels. Once the legal framework for land use/housing market is established, a serious consideration could be given to selling these flats off by auctioning; (appropriate steps could be taken to prevent monopolistic tendencies in the real estate market through suitably escalating real estate taxes).
- The legal/regulatory framework cited above for efficient land use/housing market should provide the basis for radical changes in the land and property markets. It would also provide for new opportunities for public-private partnership schemes which seek to involve the private sector in the provision of housing and other urban development with minimum Government outlay. The development of the construction industry during the last few years, with the availability of capital, provides a suitable climate for property development including housing construction on a larger scale. These resources could be tapped and utilized to fulfill the growing demand for housing, with the involvement of the Government limited to an enabling role. New and alternative financing options

could be explored and developed, including, but not restricted to, cross-subsidization for the poor, mortgage finance, and housing improvement loans. For example opportunities may be opened up for well targeted cross-subsidies from the development at Hulhumalé to island housing, perhaps by auctioning development rights bundled with island housing construction for the poor. There is a significant stock of empty housing on the islands, usually belonging to families that have migrated to Malé, and the new Land Law may also encourage the owners to sell or let out their property.

4.118 The *National Housing Finance Scheme* (NHFS), which is now being carried out as a pilot project (with a view to turning it into a corporation in the longer term), is intended to support the new *National Population and Development Consolidation Strategy and Programme*. It does, however, create a huge potential call on Government finances and, like Hulhumalé, also requires extremely careful consideration and planning. Offering loans at less than commercial rates, as currently envisaged, will be unattractive to potential depositors and will tend to lead to abuse of the loans by diversion for other purposes; (see Infrastructure Annex to Chapter 4 for further detail). It is not clear why the intended design and direct contracting of construction will be cheaper than a competitive design-and-build approach, given the *Maldives Housing and Urban Development Board's* (MHUDB) experience with Malé Housing Project. Nor is it clear why a new National Housing Finance Corporation is preferred; there are already far too many institutions in the Maldives and it will be cheaper and more efficient to use, and thereby encourage the development of, commercial banking services.<sup>14</sup>

4.119 Compared with the “entire island” *Resettlement Policy*, the advantages of the *National Housing Finance Scheme* from the Government’s point of view are that: the compensation and moving costs are avoided; building costs are, reputedly, low because of economies of scale; it will be administratively less expensive; and the program is flexible because individual households can relocate to islands of their choice, whilst others can remain. The drawback from the re-settlers’ point of view is that re-location costs are vastly greater. Indeed this is a scheme that is likely to exclude the poor and, since loans are to be for new house construction only, probably caters for only the top 30<sup>th</sup> percentile of the income spectrum. Many families do not include married couples and few households on vulnerable islands have incomes that can sustain these loan repayments. It might be expected that the poor people will find themselves increasingly disadvantaged as vulnerable islands are abandoned by wealthier households.<sup>15</sup>

- As in the case of strong in-migration to Malé, wealthier and relatively better off people may migrate to the new growth centers or to ‘focus’ islands” regardless, if indeed they know that they can find better economic opportunities and schooling for their children (on this, see the next bullet below). So, why should they be supported through subsidized housing? What seems to be critical for them is “access to credit” at market rates. The group that will need help within the context of the new *National Population Consolidation Strategy and Program* is the poor. In this regard, it would be advisable that any subsidized housing program should target this group.

4.120 **The Hulhumalé and the Regional Development projects.** The development of Hulhumalé<sup>16</sup> does appear to provide solution to the urban problems of Malé and is likely to contribute to economic growth by supporting the expanding tourism and service sectors. However, in addition to competing for funds and for the Government’s implementation capacity, the RDP and the Hulhumalé development may also end up competing in economic activity and development, rather than complementing and reinforcing each other at least in the initial stages of their development. Being next to the financial/economic center, Malé, and being located in the middle

<sup>14</sup> For a detailed coverage of some of these issues, see. The World Bank (1999), *Maldives- Country Economic Memorandum Policies for Sustaining Economic Growth*, op cit, pages 22-27.

<sup>15</sup> In October 2002, the authorities noted that assistance is provided not only to support people moving to new islands but also provided for people with the greatest need for housing on the targeted islands. As such, it is indicated, the program will also benefit the poor.

<sup>16</sup> Multilateral donors have not been involved in the economic, social, and environmental evaluation of the Hulhumalé reclamation and development project. The Government has decided to go ahead with this sizable project with a view to expanding Maldives’ land area near the capital island to reduce the housing pressure on Malé as well as to facilitate further growth of business activity near Malé, which is the financial and economic center of the country.

of an already developed tourism area, the Hulhumalé development may become a preferred destination for those families seeking jobs/opportunities and higher education for their children. This could in turn slowdown the expected “economic regeneration” in the North and South Growth Centers.

- It is therefore important to revisit the prioritization and timing of the RDP and the Hulhumalé development. If the latter project is to continue, then one possibility could be to focus attention to one of the regional growth centers, e.g., the SDR, and postpone the development of the other for a while. This would reduce pressure on resource availability and could make additional resources available for supporting a more effective program of income generating activities in the SDR. Such a strategy would also provide lessons for the other growth center. If the Government opts for continuing to develop these two sizable projects concurrently, without scaling down the RDP, then it may become even more critical to promote income-generating activities in the two growth centers. Otherwise providing the basic physical and social infrastructure may not be sufficient to attract people into these areas. In this regard, perhaps the biggest stimulus could come from new resorts in these areas; e.g., the completion of the second resort in the SRD and the opening of the airport at Gan could attract people from the surrounding non-economic islands to the SRD.

4.121 **Transport.** At present, the inter-island regional flights are subsidised by some \$2,000 – \$3,000 per round trip by the Ministry of Transport and Civil Aviation (MTCVA). Whilst there are plans for more domestic airports, this would, under current pricing policies, therefore further exacerbate the already significant recurrent subsidies, which would generally be benefiting the relatively better off, not the poor.

- The feasibility of further airport investments would have to be carefully studied and be closely linked to the potential growth of effective demand for passenger and cargo flights as commercial agricultural activity picks up, the implementation of the RDP proceeds, and the location of the new tourism resort developments are decided.

4.122 There does seem to be significant interest in perishable cargo flights from the North, for fruit, vegetables and fish; particularly chilled yellow fin tuna which could be flown to Hulhumalé or to Colombo for example. However, in the short- to medium-term, seaplanes may be a more viable alternative, since additional airports may not be justified on grounds of financial viability and economic impact.

4.123 Private port development is bringing major benefits to the poor, by facilitating access and mobility of goods and people. The private ports are less capital intensive in contrast with the schemes which are being planned and implemented by the Government, and are a good example of the advantages of enabling, or permitting, private sector initiatives. Nevertheless, it is of course important to regulate and inspect the construction of these private ports, such that adverse environmental impacts and traffic problems are avoided.

- The success of the private sector port developments also calls into question the need, at least in the near future, for a new port in the NDR, in addition to the planned large new harbor. The site originally designated for it on Kulhudushi is now not available and it will have to be located away from the Regional Growth Centre, which will significantly reduce its impact and increase transport costs and also raise question about the viability of the commercial land attached to it. Even without the new private competition, there may not be sufficient potential trade to warrant this new port.

4.124 It is reputedly common for poorly protected islands to lose two or three dhonis each year in bad weather, at a cost of over Rf0.5 million each. Thus, the Ministry of Atoll Administration’s harbor program appears to be a good investment, with immediate and direct benefits for the outer atoll residents. However, it would be highly desirable to give a greater say to the island communities (say, through the IDCs) in whether the public expenditure priorities for the island are improved harbors, improved electricity or improved education facilities

etc. Once such a decision is made, the island communities themselves could contribute to project implementation and operate it, with the initial financial support of the Government.

**4.125 Rural electrification.** The planned *Outer Islands Electrification Project* could make a significant impact on the quality of rural power supplies. However, a clear policy is required on the financing of rural electrification, and if any subsidies are warranted they should be made explicit and be targeted to the poor. Accordingly:

- It would be appropriate and efficient to transfer the island electrification loans from the Treasury to the Bank of Maldives (BOM), which has branches in the outer atolls and already has experience in micro-credit activities supported by FAO. The Treasury should not be involved in such banking operations. Moreover, consideration should be given to the elimination of sovereign guarantees given on electricity generator loans extended to the Island Development Committees (IDC). The latter, while not yet legal entities, could provide “group guarantees” on behalf of the island communities, with the generator also serving as a collateral, backed by a portion of electricity tariff collections if necessary.
- There is a need also for clearer agreements on the ownership and operation of island electricity operations before any work commences. This is particularly important for the planned *Outer Islands Electrification Project*. To foster community-based development and prioritisation as well as to assure cost efficiency and sustainability, it might be preferable if systems are owned and operated by the IDCs on behalf of the island communities, providing they have appropriate institutional arrangements and assistance in establishing proper operation and maintenance practices. Already there are some examples of well functioning island electricity operations run by the IDCs.

## Chapter 5

### SUMMARY AND CONCLUSIONS

#### A. A Short- to Medium-Term Public Expenditure Reform Program

5.1 It is the intension of the Government of Maldives to continue using public expenditures as a strategic instrument in pursuing Maldives' economic and social development goals and to further raise the living standards, particularly of those communities living in the outer atolls. As noted in the preceding chapters, under a generally sound macroeconomic management, the Government has so far effectively managed both domestically mobilized resources as well as donor assistance in fostering economic growth, stimulating the private sector, and in enhancing the access of the distant island communities to public services. That this has been achieved under serious institutional capacity constraints and limitations caused by the nascent state of the budgetary financial system and processes is a tribute to the Government's commitment to responsible macroeconomic management.

5.2 The Government is well aware of the need to modernize and strengthen its public sector in order to continue improving service delivery to its citizens. Indeed, significant efforts have been made by the Government to strengthen institutional capacity in the public administration and budget management. Recognizing that **staff capacity constraints** are very serious and one of the priority issues to tackle, a tertiary education scholarship program has been put in place to send students for overseas training in various fields. Many of the returning graduates are filling badly needed positions in the central and line ministries. A program, supported by the Asian Development Bank, has been in place for sometime to strengthen the Audit Office's capacity. Public accounts system will soon be modernized. An *Anti-Corruption Board* was established in 1991. And a *Public Enterprise Monitoring and Evaluation Board* was formed in the Ministry of Finance and Treasury in 1994 to monitor and provide oversight of the financial and operational performance of SOEs and to make recommendations for reforming the SOE sector. And in 1999, a *Public Service Division* was created within the President's Office with a mandate to reform public services for effective delivery.

5.3 This joint PER exercise is intended to support the Government's ongoing efforts aimed at modernizing and strengthening public sector resource management for better development outcomes. To this end, and based on the assessments carried out, a set of recommendations for specific actions--in the short-term and beyond--are made in each of the key areas covered for the Government's consideration. These recommendations are now summarized in Table 5.1 below, and those that are deemed priority for action in the short-term are highlighted.

Table 5.1: Maldives: Key Elements of a Reform Program to Strengthen Public Resource Management for Stronger Development Outcomes

Policy area	Challenges/objectives	Key Actions For Government's Consideration in the Short-term and Beyond
Fiscal sustainability and macroeconomic stability	<ul style="list-style-type: none"> <li>◦ Broaden the tax revenue base to reduce its vulnerability to external shocks and improve its robustness and equity aspects.</li> <li>◦ Improve expenditure control and prioritization</li> <li>◦ Improve the pattern of deficit financing</li> <li>◦ Reduce exposure to contingent liabilities</li> </ul>	<ul style="list-style-type: none"> <li>◦ <b>Strengthen the Department of Inland Revenue</b></li> <li>◦ <b>Convert the fixed tourism tax to an ad valorem rate</b></li> <li>◦ <b>Phase out tariff exemptions as part of a tariff rationalization drive towards a low uniform rate</b></li> <li>◦ Complete the reviews/revisions of the draft Business Profit Tax, the draft Property Rental Value Tax, and the draft Tax Administration Bill with a view to introducing them in the near term.</li> <li>◦ Initiate preparations for a goods-and-services tax (GST)</li> <li>◦ <b>Contain and reduce the growth of "general public services" expenditures (below nominal GDP growth).</b></li> <li>◦ In this context, also initiate a public administration reform, which also includes a civil service reform.</li> <li>◦ Complete the drafting of the Finance Bill and enact it so that the Government could issue long-term bonds for domestic borrowing and treasury bills for cash management. <b>Until such time, introduce a ceiling on W&amp;M borrowing from the MMA and pay market interest rate.</b></li> <li>◦ <b>Maintain budget deficit within sustainable limits.</b></li> <li>◦ <b>Develop a strategy to restructure MIFCO, with a view to hiving off and privatizing commercial activities and stopping any expansion plans.</b></li> <li>◦ Develop a restructuring and divestiture plan covering all other commercial SOEs to implement it in the medium-to long-term.</li> </ul>
Strengthening public expenditure management	<ul style="list-style-type: none"> <li>◦ Strengthen fiscal discipline</li> <li>◦ Move towards a comprehensive and integrative budgetary framework</li> <li>◦ Improve expenditure control mechanisms</li> <li>◦ Require strong rationale for public sector intervention and better prioritization in the public expenditure decisions</li> <li>◦ Strengthen accountability, monitoring, and evaluation in public finances and service delivery</li> </ul>	<ul style="list-style-type: none"> <li>◦ <b>Continue efforts aimed at addressing the issue of "staff constraint" in the central and line ministries within the context of overall institutional capacity building.</b></li> <li>◦ <b>Strengthen capacity to better estimate fiscal resource envelope. To this end, establish a professionally staffed "economic unit" within the Ministry of Finance and Treasury.</b></li> <li>◦ <b>Accelerate the development and adoption of a modern "public accounts" system, which provides timely spending information for expenditure tracking/control and aggregation.</b> The new accounting system should be based on a comprehensive coverage of the budget so as to include all actual and contingent liabilities.</li> <li>◦ <b>Develop an effective cash management system for the spending units. And to strengthen fiscal discipline further, serious consideration should be given to setting and enforcing binding expenditure limits for each spending unit.</b></li> <li>◦ <b>Require all spending units to provide economic/financial rationale for all proposed new capital expenditure programs/projects. Develop a medium-term financial framework (MTFF), using the capital and recurrent cost information provided by the line ministries in their new project proposals.</b></li> <li>◦ <b>Use the latter information in public expenditure prioritization as well.</b></li> <li>◦ In the medium-term, with improved capacity, adopt a full, rolling medium-term expenditure program (MTEP), which can serve as a key PEM instrument also linking Maldives' National Development Plans with the existing PSIP and the annual budget.</li> <li>◦ <b>Complete the review of the <i>Audit Bill</i> with a view to enacting it into a law soon.</b> Consistent with the Government's expressed desire to modernize public expenditure management and accountability, it might be opportune time to enhance the role of the People's Majlis in the budget process and to establish a "Public Accounts Committee".</li> </ul>

<p>Enhancing development impact and poverty-focus of public expenditures:</p> <ul style="list-style-type: none"> <li>• Education</li> </ul>	<ul style="list-style-type: none"> <li>• Improve the rationale, prioritization, quality, and the geographic distribution of public expenditures in social sectors and infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Improve the quality of elementary education in the atolls by: increasing the number of trained teachers in grades 1-7; gradually equalizing pupil/teacher and pupil/trained teacher ratios in Malé and the atolls; strengthen the cluster system of teacher development; and alter the cash grant and equipment formulas in favor of schools in the atolls</li> <li>• <b>Reconsider the time frame for universalizing lower secondary education—the current target appears short</b></li> <li>• Current deployment practices with respect to the available cadre of trained teachers and the packages of incentives for teachers to live on more remote islands may need to be reconsidered</li> <li>• <b>Implement the repayment system under the ongoing overseas tertiary education scholarship program effectively and extend the latter to scholarships funded by bilateral grants;</b> gradually reduce the subsidy element in financial support provided for overseas training.</li> <li>• Develop and implement the planned Educational Monitoring and Information System (EMIS) as a tool in program development and implementation</li> <li>• As part of the overall reform of the public accounts system, measures need to be taken to gather and tabulate disaggregated education expenditure data to allow for unit cost analysis and comparison</li> </ul>
<ul style="list-style-type: none"> <li>• Health/nutrition/pop</li> </ul>		<ul style="list-style-type: none"> <li>• <b>Improve the financial management information system (FMIS) at the Ministry of Health</b></li> <li>• Strengthen expenditure identification, review, and prioritization capacity in the Ministry of Health</li> <li>• Develop a national health accounts and monitoring system; develop capacity to collect information on private sector spending on health</li> </ul>
<ul style="list-style-type: none"> <li>• Infrastructure</li> </ul>		<ul style="list-style-type: none"> <li>• <b>Finalize the ongoing preparations and introduce the legal/regulatory framework related to defining and protecting property rights in land-use, housing/rental markets, mortgage, and debt recovery.</b> The latter framework will complement the recently passed “The Land Law Act of the Maldives” and facilitate not only an efficient use of the country’s scarce land but also the development of a mortgage and housing finance market</li> <li>• <b>Carefully define and formulate the role of the Government in the Hulhumalé land development project, with particular focus on the critical issues pertaining to financing, impact on the budget, use of the reclaimed land, and property rights</b></li> <li>• <b>Minimize the Government’s financial involvement in and exposure to the Hulhumalé project</b></li> <li>• Reconsider the Government’s role in the social housing program. Any subsidized housing program needs to target the poor for it to be justified on “redistributive” grounds</li> <li>• Within the context of the ongoing support for “outer island electrification”, develop a clear policy/agreement/guidelines as to the ownership and operation of island electricity operations. It might be preferable if the systems are owned and operated by the Island Development Committees on behalf of the island communities</li> <li>• <b>Discontinue the Treasury’s involvement in the electrification loan activities and transfer this function to the Bank of Maldives; eliminate sovereign guarantees on such private loans</b></li> </ul>

∇a: Immediate priorities (next 12-24 months) are indicated in bold.

## B. Next Steps

5.4 **Dissemination.** In October 2002, assessments and the findings of this joint PER were discussed in Malé in widely participated meetings. As such, these meetings served as workshops, facilitating open discussions and exchange of views on the key findings and recommendations of the PER. The report will be distributed to the bilateral donors so that its assessments could be utilized in the formulation of their assistance strategies.

5.5 **Technical assistance.** As a follow up on the findings, the Government and the World Bank will discuss areas of *institutional capacity building* in public expenditure management to be supported by a World Bank technical assistance. This effort will complement the support being provided by the Asian Development Bank in strengthening the Audit Office and in reforming the public accounts system.

5.6 **Future support in social sectors and infrastructure.** It is expected that the findings of this PER exercise will inform the future sectoral support programs of the multilateral donors, including the World Bank and the Asian Development Bank, particularly in social sectors and infrastructure. The findings would also support Government's efforts aimed at moving from project-based capital budgeting to sectoral program-based multi-year budgeting.

5.7 **Areas for further investigation.** The PER exercise has also identified some important areas where further assessments would be highly useful for better informing public policy making and its direction, as well as for determining the appropriate role of the state. Three priority areas are: first, a thorough review of the civil service size, functions and effectiveness; second, a detailed review and assessment of the role of the private sector in education and health; and, third, an in-depth study of housing finance issues.

# **ANNEXES**



## ANNEX TO CHAPTER 2

### MALDIVES: SUSTAINABLE BUDGET DEFICIT

1. The obvious starting point for the sustainable deficit analysis under the commonly used *accounting approach* is the budget constraint faced by the public sector.<sup>1</sup> The budget constraint offers a simple framework for analyzing the fiscal sustainability and consistency issues, given that it incorporates the links between the key macroeconomic variables and the budget deficit. In the analysis, the public sector, data permitting, should ideally cover central as well as local governments, non-financial and financial SOEs plus the central bank. The broadest coverage of the public sector would give an accurate picture of the current fiscal situation and of the true dimensions of the debt servicing burden and of underlying debt dynamics. Including all the components of the public sector in the analysis would also show the full extent of current and future public sector claims and pressures on country's real and financial resources. However, unavailability of information and measurement problems may limit the extent of consolidating the public sector. This is indeed the situation for the Maldives case. Unavailability of consolidated public sector accounts and difficulties of deriving such accounts from the existing information base necessitate an assessment that is based on the Government budget alone. However, given that there is practically no fiscal decentralization in the Maldives and at least part of the financing of SOE deficits is reflected in the Government budget, the results are expected to represent most of the public sector.

2. The budget constraint (Equation 1) simply states that the total public sector budget deficit (consisting of primary deficit—i.e., non-interest deficit—and total net interest payments on domestic and foreign debt) must equal the sources of financing, which include changes in the public sector's external and internal (non-monetary/interest paying) debt holdings<sup>2</sup> and the monetary debt (i.e., changes in the base money).

$$D^p + iB + i^*B^*E = \dot{M} + \dot{B} + E\dot{B}^* \text{ or}$$

$$(\text{Eq.1}) \quad D^p/(Py) + (iB)/(Py) + (i^*B^*E)/(Py) = \dot{M}/(Py) + \dot{B}/(Py) + E\dot{B}^*/(Py) \text{ or}$$

$$[D^p/(Py) + (iB)/(Py) + (i^*B^*E)/(Py)] = \dot{M}/(Py) + (\dot{B}/(Py) + (\dot{B}^*E)/(Py));$$

where:

$D^p$  = primary (non-interest) deficit of the public sector in (current price) local currency units;

$B$  = total stock of the public sector's domestic debt in local currency units;

$B^*$  = total stock of the public sector's foreign debt, expressed in (current price) foreign currency units, say, US dollars; (note that  $B^*$  should be measured as net of "net foreign asset" holdings of the central bank);

$E$  = nominal exchange rate (expressed, say, as rufiyaas per US dollar);

<sup>1</sup> For a detailed treatment of the issues as well as for country-specific applications of the accounting approach for estimating sustainable public sector deficits, see. Easterly, W., Rodriguez, C.A., and Klaus Schmidt-Hebbel (eds.) *Public Sector Deficits and Macroeconomic Performance*, A World Bank Publication, (1994), New York: Oxford University Press

<sup>2</sup> Government's borrowing from the banking system should not be considered non-monetary borrowing if the banks finance their purchases of government debt instruments through central bank rediscounts.

- $i$  = nominal domestic interest rate paid on domestic debt;  
 $i^*$  = nominal foreign interest rate paid on external debt--in units of foreign currency;  
 $P$  = GDP deflator;  
 $y$  = real GDP;  
 $P^*$  = foreign price index; (trade-weighted average of CPIs of the country's major trading partners could be used for this purpose);  
 $e$  = real exchange rate--defined in terms of purchasing-power-parity adjusted exchange rate; and here it is equal to  $EP^*/P$ ;  
 $M$  = stock of the base money (i.e., the currency held by the public and the banks). A dot over a letter represents change in that variable per unit of time.

3. After some manipulations--for the explicit treatment of inflationary erosion of domestic and external public debts and for taking into account capital losses on the outstanding foreign debt that would result from a depreciation of the real exchange rate—Equation(1) could be expressed as:

$$\text{Equ. (2)} \quad d^p = (\eta + g)m + (g - r)b + (g - r^* - c)b^* + \dot{m} + \dot{b} + \dot{b}^*, \text{ where}$$

$d^p = D^p/(P.y)$ : the ratio of primary deficit to nominal GDP

$b = B/(P.y)$ : the ratio of stock of nominal domestic public debt to nominal GDP

$\dot{b} =$  change in  $b$  per period of time; (it is  $db/dt$  in the continuous time context or  $\Delta b$  in the discrete time context).

$b^* = B^*.E/(P.y)$

$\dot{b}^* =$  change in  $b^*$  per period

$c =$  rate of change of real exchange rate—i.e., it equals  $\dot{e}/e$

$g =$  rate of growth of real GDP

$\eta =$  domestic inflation rate

$r =$  domestic real interest rate

$r^* =$  foreign real interest rate

4. Equation (2) summarizes the accounting approach's measurement of *sustainable primary deficit* for the public sector. It shows that the ratio of the public sector's primary deficit to GDP is restricted to the sum of financing available from: (i) the inflation tax ( $\eta.m$ ), which results from the erosion of the real value of the monetary base, and the seigniorage revenue ( $g.m$ ) that the government obtains by issuing currency to meet the increased demand for money associated with economic growth; (ii) the excess of real GDP growth over the real interest costs of domestic debt  $[(g - r).b]$  and of foreign debt adjusted for the capital loss resulting from the depreciation of the real exchange rate  $[(g - r^* - c).b^*]$ ; and (iii) increases in demand for the monetary base ( $\dot{m}$ ), domestic and foreign debt ( $\dot{b}, \dot{b}^*$ ), respectively.

5. Each source of financing the public sector budget deficit has macroeconomic implications, with possible effects on money supply, domestic inflation and real interest rates, investment, for debt accumulation and servicing, and the balance of payments. Excessive reliance on monetary financing<sup>3</sup> could fuel inflation, thereby hurting the poor, distorting relative prices, increasing uncertainty, and leading to a shift away from money and thus also shrinking the base for the inflation tax itself. Monetary financing should therefore be consistent with the macroeconomic stability objectives.

<sup>3</sup> When a recourse to the central bank borrowing leads to money printing at a rate higher than the growth in demand for money at the prevailing levels of prices.

6. Domestic (non-monetary) debt accumulation could crowd out private investment by pushing up domestic real interest. Accordingly, further domestic debt accumulation should be considered if the additional debt is going to be used to finance public expenditures with higher expected rates of return than those of private investment that is being displaced. In this regard, of course, the **composition of public expenditures** is of critical importance. When public expenditures are directed to sectors/activities with high economic growth and poverty alleviation impact, such as social sectors and infrastructure, rather than being channeled into activities where the private sector has a comparative advantage, then the economic returns (inclusive of positive externalities) are likely to be high, thus providing justification for such spending and financing of the budget deficit through non-monetary borrowing. Public sector investment in human resource development and infrastructure will also have a complementary/crowding-in effect on private investment, thus amplifying the positive impact of public expenditures. There are also difficulties in assessing the degree to which a government should rely on foreign resources to finance its budget deficit. Such assessment would require an evaluation of the country's ability to service and repay its external debt, as well as an examination of the likely terms at which foreign borrowing would be contracted. Obviously, public sector projects that are to be financed with external borrowing should generate high enough economic rates of return to justify the costs of such borrowing.

7. *The preceding discussion could also be recast within the framework of Equation (2) by simply pointing out that the primary deficit (as a share of GDP) will be sustainable if it does not lead to ever-rising ratios of debt-to-GDP and money-to-DGP.* On this, Equation (2) implies that if the public sector is running a primary deficit that is in excess of the seigniorage and inflationary tax revenues and if the (weighted average) real interest rate on non-monetary debt exceeds the economy's real growth rate (proxy for the rate of return on public expenditure), then debt-to-GDP ratios will continue rising. Of course, this can not continue forever. The unsustainability of the deficit will soon be recognized by the public, and as the government finds it increasingly difficult to sell debt instruments, a change in the policy stance and steps to cut the primary deficit will become inevitable. If, on the other hand, real economic growth exceeds the (average) real interest on public debt, then a country could run primary deficits in excess of seigniorage revenue, since the size of debt as a share of GDP would fall. The latter could happen during periods of fast growth and/or high inflation when the real interest rates fall or turn negative.

8. In applying the accounting approach to the issue of medium-term public sector solvency, it is generally assumed that the ratios of debt-to-GDP and money-to-GDP are constant. This implies that a given set of debt-to-GDP ratios are accepted as policy targets by the government and that demand for money, as a share of income, remains constant, implying a unitary income elasticity of demand for money, for given inflation and interest rates. In a relatively low inflationary environment, constant money-to-GDP assumption is not unreasonable in the near- to medium-term. *In this restricted sense, the sustainable deficit is defined as the deficit level that could be financed without adding to the country's debt burden (i.e., enabling the maintenance of a given set of debt-to-GDP and money-to-DGP ratios) and without compromising macroeconomic objectives such as stable and low levels of domestic inflation and interest rates.*<sup>4</sup> When the assumption of constant debt-to-GDP and money-to-GDP ratios are incorporated, Equation (2) reduces to:

$$\text{Equ. (3)} \quad d^p = (\eta + g).m + (g - r).b + (g - r^* - c).b^*$$

<sup>4</sup> As alluded to it earlier, the accounting approach to the fiscal sustainability calculations does not provide information on what might be considered as optimum level of external debt burden for a country. Obviously, this will depend on many factors that do (and will) affect the country's ability to service its foreign debt and on whether the government is going to spend additional debt for activities that will help strengthen the economy's growth and export capacity.

9. In the context of Maldives, a level of primary deficit that is in excess of seigniorage revenue will not necessarily lead to unstable debt dynamics. This is due to the very high concessionality of foreign aid received by the Maldives. The nominal US dollar (weighted) interest rate on the public sector's concessional multilateral and bilateral external debt has been around 1.2 percent, implying negative real interest rate of around 1.5-2.0 percent expressed in terms of foreign goods. The nominal interest rate on foreign debt goes up to only 2.36 percent (in US dollar terms) even when more expensive public sector debt owed to foreign private creditors (suppliers and financial markets) are included. As for the nominal interest rate on (domestic) government debt owed to the MMA, it is 6 percent.

10. Table A3.1 below presents the results of sustainable primary deficit (SPD) calculations for the Maldives, corresponding to different rates of real GDP growth, domestic inflation, and real exchange rate depreciation.

Table A2.1: Sustainable Primary Deficit (in % of GDP)											
Case I: Zero Real Exchange Rate Depreciation						Case II: 2% Real Exchange Rate Depreciation					
Inflation (%)	Real GDP Growth Rate (in %)					Inflation (%)	Real GDP Growth Rate (in %)				
	4.0	5.0	6.0	7.0	8.0		4.0	5.0	6.0	7.0	8.0
1.0	2.41	3.11	3.80	4.50	5.19	1.0	1.88	2.57	3.27	3.96	4.65
2.0	2.84	3.53	4.23	4.92	5.62	2.0	2.30	3.00	3.69	4.39	5.08
3.0	3.27	3.96	4.65	5.35	6.04	3.0	2.73	3.42	4.12	4.81	5.51
4.0	3.70	4.03	5.08	5.77	6.47	4.0	3.16	3.50	4.54	5.24	5.93
5.0	4.12	4.81	5.51	6.20	6.89	5.0	3.58	4.28	4.97	5.66	6.36
6.0	4.54	5.24	5.93	6.63	7.32	6.0	4.01	4.70	5.40	6.09	6.78
m=0.25; b=0.176; b <sup>*</sup> =0.268; r <sup>*</sup> = -0.01						m=0.25; b=0.176; b <sup>*</sup> =0.268; r <sup>*</sup> = -0.01					
Actual Primary Deficit (in % of GDP) —Three-year Average (1998-2000)											
Including Grants	2.2	2.2	2.2	2.2	2.2		2.2	2.2	2.2	2.2	2.2
Excluding Grants	5.0	5.0	5.0	5.0	5.0		5.0	5.0	5.0	5.0	5.0

11. The results of the calculations could be summarized with the following key observations:

- *Due to very high concessionality of official multilateral and bilateral debt, the Government of Maldives is not facing a fiscal sustainability problem in the medium-term. Actual primary deficit—at around 2.2 percent of GDP in 1998-2000—has remained below the sustainable levels in recent years*
- *Given the current negative real interest rate on the highly concessional external financing, the Government could keep the size of actual primary deficit aligned with the aid disbursements that are being mobilized in the medium-term. Larger high impact development expenditures could be undertaken if more grants and concessional aid could be mobilized. The resulting larger actual primary deficit would remain within sustainable limit.*
- *When Maldives' LDC status ends, the size of sustainable deficit will start falling as real interest rate to be paid on new foreign borrowing would rise. A similar effect will be observed when the Government introduces—as it should— appropriate debt*

*instruments (such as long-terms bonds) and starts domestic borrowing at market-based interest rates.*

- *If the Government increases its reliance on relatively more expensive external borrowing from international commercial source to finance the budget deficit, again the size of sustainable deficit will fall.*



## EDUCATION ANNEX TO CHAPTER 4

### TRENDS, POLICIES, PRIORITIES AND ISSUES IN BASIC, SECONDARY AND TERTIARY EDUCATION IN THE MALDIVES

#### a. Introduction

1. **Structure and evolution.** Maldivian society has traditionally placed a very high priority on education. Both households and governments have devoted significant efforts and resources to the sector. By 1998, the adult literacy rate was 98 percent. Virtually all children attend five years of primary school and the majority attend the seven years of basic education. The immediate medium-term objectives are to: complete the universalization of basic education; move towards universal access to three years of secondary education; and ensure that there is an expanding tertiary sector and opportunities for higher education abroad. In addition to the strong belief in education as a basic necessity of life, the reality of an economy based on tuna and tourists, both of which it is reasoned could migrate at any time, has provided a strong incentive to the Government to give high priority to the sector. Public expenditures on education as a share of GDP and of total government expenditure are comparatively high both in relation to other countries in the region and to other developing economies.

2. The initial expansion of schooling, particularly on the islands, had a strong community flavor. By 1945, each inhabited island had a 'maktab' providing instruction in Dhivehi and Arabic at the lower primary level. These evolved into the community primary schools which still today provide places for 48 percent of all pupils in the atolls, and 43 percent nationally. In 1960, the Government created two English medium schools in the capital, Malè. Only in 1978 did the Government decide to move to a unified national system of education with an emphasis on primary (grades I-V) and middle (grades VI-VII) schooling, and the establishment of an Atoll Education Centre and Atoll Primary Schools in each atoll. The community schools have increasingly become undifferentiated from government schools, teaching the national curriculum and employing teachers provided by the Government. No fees are charged in either type of school. Eight percent of enrolments are in private schools, mainly at the secondary level. The nature and role of these schools, which are mainly in Malè, are very distinct to the Maldives. First, Government has often provided the financial resources for their construction, and provides 20 percent of the teaching salary bill plus cash subsidies for overheads and educational materials. Second, they are generally regarded as second rate institutions while places in government schools are far more prestigious.

3. The tremendous success in raising literacy rates and providing near universalization of at least primary education now allows for a sharper focus on the second round of objectives and challenges. These include raising the overall quality of basic schooling and ensuring that children in the atolls are not disadvantaged, preparing for the anticipated rapid increase in demand for secondary schooling and further developing the opportunities for tertiary and higher education. For each of these, there is a desire to ensure that the current inequities in educational provision and quality facing children and young adults in Malè and on the islands are reduced, in an upward direction.

#### b. Basic Schooling

4. **Trends in performance.** Basic schooling comprises of five years of primary and two years of middle schooling. For virtually all children in Malè and an increasing proportion on the islands (53 percent in 1998), this is preceded by two years of pre-primary classes. All islands have some

form of primary schooling and almost all schools provide the five year cycle. The net enrolment ratio for the primary cycle across the country is 93 percent, though the gross rate is 123 percent implying significant over age enrolment, largely through repetition of grade 5 in those islands where higher grades are not yet available. Dropout rates are negligible and the automatic promotion policy results in low repetition rates, apart from the final year. There are no gender disparities at this level. The pupil/teacher ratios are very low, by any comparable standard. In primary schools the ratio is 21/1 in both Malè and on the islands. The range across atolls is from 15.0 to 24.6. The high levels of enrolment and completion do not appear to be matched by the levels of learning achievement. While a recent study of competencies provided a mean score of 65 percent in Dhivehi, in mathematics the score was 43 percent and with very significant differences between Malè and atoll pupils, and between students in different types of school. Earlier surveys highlighted extremely large differences in English performance between Malè and Atoll pupils.

5. Between 1997 and 2000, primary enrolments fell from 50,230 to 46,229. Much of this is likely to have resulted from lower levels of repetition in grade 5 as additional grade 6 and 7 classes have been created on the remoter islands. In the Fifth National Development Plan it was stated that 'the highest priority will be placed on ensuring that all children in all locations enter school and complete a basic learning cycle of 7 years by the year 2000'. While significant progress has been made (atoll enrolment rose from around 16,000 to 21,000 over the period), this has not yet been fully achieved. It is estimated that the net enrollment ratio in middle schooling is roughly 74 percent. Enrolments in class 6 in 2000 were higher than those in class 5 in the previous year, implying both a high transition rate and repetition in class 6. Female enrolment in middle school grades is 47.5 percent of the total. Out of a total 254 schools offering primary grades, 60 schools were without grades 6 or 7 in 1998. Pupils in these schools go either to the central atoll island or to Malè, or they remain in class 5. By 2000, the number of schools in the islands not offering at least class 6 had been reduced to just nine. Pupil/teacher ratios in middle grades average 22.3 in Malè and 28.2 in the atolls, ranging from 18.3 to 46.2.

6. *Policies, priorities and issues.* The major policy objective is to universalize seven years of basic education as soon as possible. In practice this means providing access in the atolls and within a year or so, physical access to grades 6 and 7. The major remaining issue at this level will then be to raise the level of quality (learning achievement), especially in the atolls. In turn this will require both policy initiatives to improve the quality of inputs in general and resources to facilitate this and to at least equalize the per pupil resource in the atolls, if learning achievements there are to be comparable to those in Malè. Unit costs in primary schools have been estimated to be Rfs. 1,369 per student in the atolls and Rfs. 2,486 in Malè – 80 percent higher. While there is little difference in the pupil/teacher ratios, this large variation arises mainly from the composition of the teaching force in each location between trained, untrained and temporary teachers; and between local and expatriate staff. In Malè, out of 400 primary teachers just 28 are temporary and/or untrained. In the Atolls, out of 1821, 835 are in these categories. In middle schooling, 219 out of 269 are trained in Malè compared to 591 out of 756 in the atolls. Out of 669 teachers of basic education in Malè, 190 are expatriates compared to 447 out of 2576 in the atolls.

7. One of the several results of the small share of trained teachers and expatriates in the atolls is the relatively limited acquaintance with English which these pupils receive. This both affects their performance in English as a subject and the opportunity for further study (or wage employment). The major issues facing the funding of basic education is how to improve its quality in the atolls without an increase in expatriate teachers but through more trained national teachers and more in-service training, and how quickly the unit cost can be reduced in Malè schools. Overall, the pupil/teacher ratios appear to be extremely low, even in schools with large enrolments. Many of the schools which have recently begun to offer classes 6 and 7 have very low enrolments in these grades. Fifty schools have less than 20 pupils in class 6.

8. The emerging demographic profile in the Maldives implies that once provision has been made for the universalization of the basic cycle, the demands for additional resources will be modest. The annual growth rate of population which fell from 3.4 percent 1985-90 to 2.7 percent 1990-1995, is reported to have fallen further to 1.9 percent between 1995 and 2000. Few new schools or additional teachers will be required.

### c. Secondary

9. **Trends in performance.** Secondary education comprises of three years of lower secondary leading to the 'O' level examination and two years of upper secondary leading to 'A' levels. Both examinations are set in England. In 2000, compared to 46,229 in the five primary grades and 27,293 in two middle school grades, enrolments in lower and upper secondary were 18,254 and 638 respectively. While comparatively low, enrolments in lower secondary doubled between 1997 and 2000. This growth has not been matched in upper secondary. The gross enrolment rate for lower secondary is estimated to be 64.7 percent and the net rate, 28.2 percent.<sup>5</sup> Again there are significant differences, both in the level of coverage and in recent growth rates between Malè and the atolls. Whereas the population of Malè is 28 percent of the total population, secondary school enrolments are shared equally between the capital and the atolls. However, enrolment growth on the atolls has increased threefold in the past three years compared to 50 percent in Malè. Slightly more females than males are enrolled at this level. Upper secondary is offered only in Malè. Enrolments increased by 50 percent between 1997 and 2000, but remain very low compared to those in lower secondary. Fifty seven percent of students are male.

10. Currently, lower secondary schooling is offered in four government schools, three community schools and four private schools in Malè. Of these, four including the largest two, essentially offer these grades only, and enroll around two thirds of the total. In the atolls, a lower secondary schooling is taught to 1730 pupils in three secondary schools (two government and one private), with the remaining 7300 being taught in schools offering all 10 grades. Around 90 percent of upper secondary students attend the Science Education Centre and take the 'A' level examination while the rest attend an Islamic school.

11. Unlike primary and middle schools, the majority of the teaching cadre in secondary teaching are expatriate, mainly from Sri Lanka and India. In 1997, expatriates were 601 out of a total of 822 teachers in lower secondary. In 2000, the figures were 840 and 1134, respectively. Of the 53 teachers in upper secondary, 39 are expatriate. Pupil/teacher ratios are very low both in Malè and in the atolls. In Malè, the ratios are 17.3 and 12.0 for lower and upper secondary, respectively. In the atolls, they average 15.1 in lower secondary, with most falling in the range of 12.5 to 16.5.

12. Dropout rates appear to be quite high. In 1997, 4570 students were enrolled in grade 8 but only 2600 in grade 10 two years later. Similarly, in 1998, 5946 were enrolled in grade 8 and 3919 in grade 10 two years later. Success rates in the 'O' level examinations vary by subject but overall are modest. In 1995, pass rates in English and mathematics were 32 and 40 percent, respectively, but in the science subjects ranged between 48 and 75 percent. In that year, a total of 1355 students sat (or re-sat) the examinations. The average pass rate in the 'A' level examinations was 54 percent. A minimum of two passes is required for entry to higher education in most countries.

13. **Policies, priorities and issues.** Enrolments in grade 7 increased from 10,574 in 1997 to 13,104 in 2000. Consequently, there is increasing pressure to expand secondary schooling. Government policy is to universalize this level of education through providing places for all

---

<sup>5</sup> Draft Sixth National Development Plan: 2001-2005.

graduates of the basic education cycle. Anticipating a reduction in repetition rates in grades 6 and 7, the draft *Sixth National Development Plan: 2001-2005* (SNDP) expects enrolments to increase from 18,873 in 2000 to 31,024 in 2003, falling to 30,000 by 2005. Most of this expansion will need to be accommodated in the atolls. The ongoing (World Bank-supported) Third Education and Training Project will (among other activities) construct, upgrade and equip facilities in the Atoll Education Centres in four atolls and equip an additional six.. The demand for teachers will increase at levels well beyond those capable of being trained locally. By 2004, an additional 935 teachers will be required while only an additional 200 will have been trained at the Institute for Teacher Education (see below). The demand for expatriate teachers will have doubled. A major question facing government is how to provide a reasonable quality secondary education at reasonable cost given the dispersion of the student population and the breadth of subjects to be covered, and hence teachers to be provided.

14. In addition to providing facilities and teachers, there is a need to improve the quality of the secondary cycle. One change planned is to shift from the London Board to the Cambridge Board for the Ordinary ('O') level examinations at grade 10. It is anticipated that this will have a positive effect on the relevance of the curriculum. Recently, the Government has also decided to expand upper secondary education to the atolls and anticipates a doubling of enrolments by 2003. A strategy to diversify the content of this level of schooling is to be designed.

15. Two recent tracer studies of secondary school leavers have been undertaken. Within six months of leaving school (grade 10), 41 percent were employed, and 34 percent were continuing their education. One in ten of the latter was abroad. Around 20 percent were still looking for work or places to study. A similar study of upper secondary leavers (grade 12) found almost 70 percent employed, with the rest continuing their education, mainly abroad. Most of those employed were in the public sector where scholarships for overseas study are available. Those already studying abroad are likely to be privately financed. A doubling of graduates from each level of secondary schooling over the next four years or so could alter these patterns significantly.

### c. Tertiary and Higher

16. Trends in performance. Efforts to concentrate tertiary level education and training in the Maldives College of Higher Education began in late 1998. The College has merged a number of institutions previously found within individual ministries, and currently includes teacher education, health sciences, management and administration, technical education, hotel and catering, and maritime training. More recently, Institutes for "Open Learning" and for Shariah and Law have been added. Entry requirements range from below 'O' level to two 'A' levels. Courses range from a few weeks to two years. An aggregate total of enrolments is therefore not very meaningful. For instance, in 1999 in administrative studies, 17 students were enrolled in courses beyond one year and 481 were enrolled in shorter courses averaging around 15 weeks. In technical education, 72 were enrolled in the technician course and 81 on the skilled worker courses. Maritime training tends to be all short course (389 enrolments in 1999), while teacher education offers both one and two year certificate courses plus in-service and upgrading courses. In 1999, certificate enrolments were: 138 in Dhivehi medium primary, 30 in English medium primary plus 59 in a refresher course; 25 in the middle school course and 24 in its refresher; and 37 in secondary teaching with 32 in the foundation course. Because of the mix of courses it is difficult to calculate academic student/staff ratios, though in Education it is described as 10/1, with a similar ratio for non academic staff. Across the College, there are 116 academic staff, of whom 44 have at least a first degree. Enrolments in tertiary education have been split evenly between males and females over recent years.

17. For university education, Maldivians must travel abroad. Students are financed by parents, government and donors, including through loans. Between 1977 and 1997, the government sponsored 851 students in first degree courses and above. Seventy one percent were male. Currently 199 students are studying overseas and fully funded by the Government. In addition, 345 students are fully funded by donors and a further 78 are jointly funded by donors and the government. The largest field of study is education. It is not known how many students are studying privately abroad. The draft SNDP provides a rough estimate of annual expenditure of \$14 million which would imply around 1000 students. Students who are provided with scholarships are bonded in government service on their return. An undergraduate degree would require five years of employment in the relatively low paid public sector.

18. **Policies, priorities and issues.** The provision of post-secondary education poses many problems for small countries in general and for low income countries such as the Maldives in particular. Unit costs are high and the range of courses is necessarily limited. In addition, the numbers of students graduating from the secondary system has been low and many applicants are under-qualified, leading to the necessity of launching 'refresher' courses which further increase the cycle completion costs. In the future the College hopes to further rationalize the courses, broaden the funding base and improve facilities such as libraries and laboratories. As secondary graduates increase, additional demand for courses will be generated and competition could lead to a reduction in the expensive refresher courses.

19. The demand for overseas degree courses will also increase in the future. At the same time, the number of scholarships provided to the country as grants by donors is being reduced. A significant part of the new IDA credit for the Education sector is to fund overseas education, for both the public and private sector. But these funds are loans. A scheme now in place to require students to partially reimburse the Government for the scholarships in an attempt to establish a sustainable fund.

### Summary

20. In spite of the significant geographical constraints, primary education has been almost totally universalized and the government has gone a long way in ensuring that places are available for all children to complete a seven year basic education. Over 97 percent of those enrolled are in schools virtually fully funded by the Government. The remainder are in private schools which are partially funded by the Government. An important stage has been completed. The next stage is to improve the quality of basic schooling and to respond to the increased demand for secondary school places, while ensuring that those children in the atolls share the same opportunities as those in Malè. A basis for a tertiary education sub-sector is also in place. Over the next few years, the demands on that could change from a situation of inadequate demand to one of strong demand.



## INFRASTRUCTURE ANNEX TO CHAPTER 4

### A. PUBLIC SECTOR INFRASTRUCTURE PROGRAMS: AN OVERVIEW

#### a. Land Reclamation and Development, Housing, and the North-South Growth Centers

1. The reduction in the rate of population increase recorded in the 2000 Census is geographically differentiated and is in fact confined to the outer atolls, where it fell from 2.8% per year in 1990-1995 to 1.3% per year in 1995-2000. By contrast the population growth in Malé continues to accelerate, apparently increasing from 2.5% to 3.5% per year during the same sub-periods, as a result of the additional push from in-migration. There are currently more additional people in Malé each year than in the rest of the country. Three atolls lost population during 1995-2000, i.e., out-migration and deaths exceeded births, and this switch to a negative position can become more widespread. These figures intensify longer term trends and underline the difficulty of policies aimed at stimulating economic development in the outer atolls and stemming the growth of Malé.

2. Under the *Resettlement Policy* that was in effect through 2001, the Government provided for voluntary resettlement of entire island populations only when: (i) residents of an island made a request, with at least two thirds of the total island population being in favour; (ii) relocation was expected to improve utilization of land resources and efficiency in the delivery of services; and (iii) the livelihood of residents was threatened. The Government compensated for abandoned assets, provided new houses to high standards and assumed the removal costs. During the Fourth and Fifth National Development Plan period 216 households were relocated from three islands to three others; two more islands are in the current active pipeline and nine others have applied for resettlement but been refused.

3. The new *National Population Consolidation Strategy and Programme* is to be assisted by the *National Housing Finance Scheme* which is being piloted by the Maldives Housing and Urban Development Board (MHUDB) on two islands in the NDR. The MHUDB stresses that the pilot may not be typical of the fully developed scheme and is heavily influenced by the urgent need to assist in population consolidation policy. The latter Board will contract the construction of some 15 houses on each island. Two thirds of the houses are designated for households wishing to resettle from Primary Islands and Rf90,000 loans will be provided for repayment over 15 years at 10 percent interest, which is two percentage points below current commercial rates. The regional services of the Bank of Maldives (BOM) will be contracted for loan administration in the first instance, but the intention is to form an independent National Housing Finance Corporation in the longer term. Borrowers are required to have a plot of land, be married and employed, and they will receive no compensation for abandoned property.

4. It is not intended that the above scheme will replace the *Malé Housing Project*. The latter was officially launched in 1981 and now comprises five apartment blocks with a sixth under construction and further phases being expected. Units have been (and are being) built with Chinese grant and concessional loan assistance. Costs have been regarded as being very high and quality low by MHUDB. The apartments are allocated to tenants on the basis of applications requiring at least five years residence in Malé, co-habiting with children, the absence of good property inheritance prospects, a clean criminal record and evidence of good citizenship etc, with poverty not being a consideration. Their continuing popularity is indicated by the fact that the recent offer of 60 units on Villingili received over 7,000 applications.

5. The Hulhumalé reclamation project began in October 1997. The development Phases One and Two, with 195 ha and 240 ha each are estimated to accommodate 50,000 and 100,000 population, respectively, i.e., more than half of Maldives' current population. The current programming is for 27,111 population in 4,500 dwelling units on 52 ha by 2010. The first stage is to comprise 250 social housing units to be completed by the end of 2002. These government-developed housing units carry the risk of being managed as those subsidized Malé housing units that are not targeted to the poor alone. In parallel with housing construction, the first phase covers construction for full public services and social infrastructure, including roads, jetty, primary and secondary schools, a 50 bed hospital, and a mosque.

6. Yet another very recent major reclamation project in close proximity to Malé is the largely unplanned reclamation of Thilafushi Island by the Waste Management Section of the MCPW. The island is used as landfill for Malé and resort waste, but has been developed for industrial land, which is now rented to both private and government entities. Uses are predominantly storage, at prices far below those prevailing in Malé, but there are also several light manufacturing activities.

#### b. Transport

7. The transport sector has grown rapidly in recent years, particularly with the expansion of tourism: the number of tourists handled by the recently privatised Maldives Airports Company Limited, formerly a Government Authority, tripled during the last decade. Gan is already a second international cargo airport, with three or four flights per week to Sri Lanka, principally serving the garment factories, and it will operate for passengers too in 2002 following improvements to fuel, ground-handling and fire-fighting facilities. Since 2000, the Island Aviation Services, the state-owned successor to the failed Air Maldives joint venture with Malaysian Helicopter Services, operates scheduled domestic flights to the four regional airports from Hulhulé. In addition to Ocean Air, two other private companies operate 27 twin-engined Otter seaplanes and some helicopters as taxi services to the resorts.

8. One-way air fares between Malé and Gan are currently at Rf800 for Maldivians and \$100 for foreigners. These prices are the same for both the state-owned Island Aviation Services and Ocean Air. However, the majority of passenger traffic on this route is still by sea, at less than Rf200 for the same journey but taking three days. The half-price school holiday services previously provided by Air Maldives have not been revived. Table A4.2.1 presents regional airport activity levels, indicating a large range and very low levels of activity at Kadhdhoo. The runway at Hanimaadhoo in the north is not at present suitable for the Ocean Air aeroplane; and all of the three smaller airports need expensive periodic maintenance, including runway re-surfacing, lighting and power supplies. In 2001 the MTCA identified 7 islands where they wish to establish additional regional airports.

Table A4.2.1: Regional Airport Activity, 2000

Airport	Total Aircraft Movements		Number of Passengers		Cargo (ton)		Mail (kg)	
Gan	1,298	56%	29,744	48%	4,470	98%	9,613	38%
Hanimaadhoo	283	12%	14,487	23%	63	1%	7,772	31%
Kaadeddhoo	548	24%	10,835	18%	23	1%	6,420	25%
Kadhdhoo	185	8%	6,835	11%	16	0%	1,396	6%
Total	2,314	100%	61,901	100%	4,572	100%	25,201	100%

Source: Ministry of Transport and Civil Aviation, May 2001; (Note: Gan figures include international cargo traffic).

9. An important function of Thilafushi is that of international port with most operations directly across the berth to stores at lower costs, including landside transport, than are available via Malé Port. In fact, it is possible to berth an internationally rated ship virtually anywhere in the Maldives, and a number of businessmen have recently established some dozens of simple port and depot facilities throughout the country. These arrangements are operating with great benefit to the residents of the outer atolls; e.g., the price of cement in Addu has been virtually halved to levels comparable with that in Malé. These warehouses are being developed as distribution hubs for, in the first place, imported building materials. Agriculture activity is also taking place on some of the islands, and papaya, limes, watermelons, and chillies are being transported to the Malé market.

10. Thus Malé Port is in active or prospective competition with: (i) Thilafushi; (ii) planned port facilities at Hulhumalé; (iii) the Regional Growth Centers; and (iv) dozens of other points where international ships can call. In the face of this competition, and according to the MPA, throughput in freight tons declined by 39 percent in 2000, whilst container traffic, which at present cannot be handled elsewhere, continued its upward trend by 14 percent.

11. Outside Malé, *road building* activity of any significance takes place only on the four largest islands where it has for the last decade been limited to repairing vehicular damage to about 10 km of water-logged, unsurfaced roads on each island. This activity is planned to be significantly upgraded with the construction of the surfaced Addu Link Road with assistance for the Islamic Development Bank as part of the *Regional Development Project*



# **STATISTICAL APPENDIX**



Table A1: Maldives: Selected Economic Indicators, 1995-2001

	1995	1996	1997	1998	1999	2000	2001 Prv
(Annual percentage change)							
<b>Growth and prices</b>							
Real GDP	7.8	9.1	10.2	8.2	7.4	4.6	2.1
Consumer prices	5.5	6.2	7.6	-1.4	3.0	-1.2	0.7
(Percent of GDP)							
<b>Central government</b>							
Revenue and grants	29.9	28.9	31.0	31.8	33.8	36.0	36.0
Of which Grants	4.2	4.5	2.9	2.7	2.5	2.5	2.6
Expenditure and net lending	36.3	31.4	32.3	33.8	38.1	40.8	41.3
Of which Capital spending	17.8	13.6	12.8	13.4	14.4	13.1	12.8
Overall balance	-6.4	-2.5	-1.4	-2.0	-4.3	-4.9	-5.3
Overall balance, excl grants	-10.6	-7.0	-4.2	-4.7	-6.7	-7.4	-8.0
Financing							
Domestic	0.0	-0.5	-1.5	-0.1	3.4	4.8	2.2
Foreign	6.3	3.0	2.9	2.1	0.9	0.1	3.1
(Twelve-month change at year-end)							
<b>Money and credit</b>							
Domestic credit	6.3	-2.4	8.8	18.6	8.0	14.5	19.4
Public sector	-3.6	-10.2	-15.1	9.2	14.1	23.3	7.0
Central government, net	-7.1	-10.6	-11.4	1.4	12.9	30.9	8.4
Public enterprises	18.1	-8.4	-33.2	59.3	18.9	-5.9	-0.4
Private sector	26.4	9.5	38.9	25.7	4.0	8.0	29.9
Broad money	15.6	26.0	23.1	22.8	3.6	4.1	9.0
Velocity (level)	3.2	2.9	2.6	2.1	2.2	2.2	2.1
Interest rates							
Deposits	5-6.5	5-6.5	5-6.5	5-6.5	5-6.5	5-6.5	5-6.5
Loans	12-15	12-15	12-15	12-15	12-15	12-15	12-15
(In millions of U.S. dollars)							
<b>Balance of payments</b>							
Exports 1/	85.0	79.9	93.0	95.6	91.5	108.7	110.2
Imports	-235.8	-265.5	-307.0	-311.5	-353.9	-342.0	-348.0
Trade balance	-150.8	-185.6	-214.0	-215.9	-262.4	-233.3	-237.8
Non-factor services, net	156.1	201.1	218.0	232.4	234.6	238.8	244.6
Current account	-18.2	-7.4	-34.2	-23.3	-81.5	-53.0	-61.3
(In percent of GDP)	-4.5	-1.6	-6.8	-4.5	-14.6	-9.5	-10.8
Official capital (net)	24.8	17.3	21.9	14.7	5.2	-2.1	7.6
Private capital (net) 2/	33.6	41.0	42.9	42.9	42.9	25.6	24.3
Errors and omissions (net)	-24.9	-7.1	-3.2	-5.3	26.2	21.6	8.0
Overall balance	15.3	43.7	27.4	29.1	-7.2	-7.9	-21.4
Gross official reserves (year-end)	49.3	77.6	99.7	119.9	128.5	124.1	94.3
(In months of imports of goods and non-factor services (NFS))	1.9	2.6	3.0	3.5	3.3	3.3	2.5
(In percent of short-term ext. debt)	238.9	572.9	781.5	745.7	470.5	369.1	333.2
External debt (year-end)	172.2	177.2	178.1	200.8	212.9	211.6	209.6
(In percent of GDP)	43.0	38.5	35.6	38.9	38.1	37.7	36.8
Debt service 3/	10.7	11.8	27.9	14.9	16.8	18.9	20.4
(In percent of exports of goods and NFS)	3.4	3.2	6.9	3.5	3.9	4.1	4.4
<b>Exchange rate</b>							
Rufiyaa per US\$	11.77	11.77	11.77	11.77	11.77	11.77	12.24
NEER (percent change)	-7.5	2.8	8.4	5.4	0.5		
REER (in percent change)	-5.0	6.5	14.0	2.3	2.6		
<b>Memorandum items:</b>							
Nominal GDP (millions of rufiyaa)	4,714	5,419	5,894	6,070	6,583	6,598	6,989
Terms of trade (percent change)	-10.9	20.5	23.6	3.1	-32.9	11.1	0.0

Sources: Ministry of Finance and Treasury, and Ministry of Planning and National Development; IMF.

1/ Includes re-exports.

2/ Estimated private capital inflows of US\$ 128.7 million to the tourist sector have been spread evenly over 1997-99.

3/ Includes the repayment of a \$15 million medium-term balance of payments loan from Kuwait in August 1997.

Table A.2: Maldives: Government Employees by Sector, 1992-2000 <sup>1/</sup>

	1993	1994	1995	1996	1997	1998	1999	2000	2001
(In number of persons)									
<b>Total</b>	<b>13,280</b>	<b>13,454</b>	<b>13,965</b>	<b>14,007</b>	<b>16,006</b>	<b>16,463</b>	<b>19,748</b>	<b>20,336</b>	<b>21,705</b>
Fisheries and agriculture	266	227	203	229	181	207	223	233	230
Construction	149	157	164	158	145	144	156	166	168
Electricity and water	199	207	176	166	157	94	193	133	127
Commerce	1,643	1,539	1,302	1,669	1,760	989	2,099	1,013	978
Transport, storage and communication	753	541	492	556	557	1,096	1,426	1,474	1,561
Tourism	42	41	43	48	51	59	59	66	52
Services	6,057	6,451	6,904	5,982	7,579	7,637	8,581	9,420	10,209
Education	2,929	2,918	3,046	3,283	3,509	3,979	4,421	4,928	5,193
Health & welfare	1,242	1,373	1,635	1,916	2,067	2,258	2,590	2,903	3,187
<i>Memorandum item:</i>									
<i>Of which : Expatriate work force</i>	1,563	1,577	2,023	2,266	...	...	...	...	...

1/ Public corporations such as STO, and Joint Venture Companies such as Dhiraagu directly recruit large numbers of Employees. However, Government posts in these Public Corporations and Joint Venture Companies are included.

Source: The President's Office

Table A.3: Maldives: Summary of Central Government Finance, 1995-2000

	1995	1996	1997	1998	1999	2000	2001
							<i>Prv. Est</i>
	(In millions of Rufiyaa)						
<b>Total revenue and grants</b>	<b>1,408.7</b>	<b>1,567.8</b>	<b>1,824.7</b>	<b>1,930.2</b>	<b>2,225.3</b>	<b>2,372.7</b>	<b>2,513.2</b>
Current revenue	1,205.8	1,321.6	1,652.0	1,763.6	2,058.6	2,202.6	2,317.2
Capital revenue	3.7	3.3	4.5	2.1	4.0	4.2	13.0
Grants	199.2	242.9	168.2	164.5	162.7	165.9	183.0
<b>Expenditure and net lending</b>	<b>1,708.8</b>	<b>1,701.6</b>	<b>1,906.0</b>	<b>2,053.3</b>	<b>2,506.4</b>	<b>2,694.2</b>	<b>2,886.2</b>
Current expenditure	878.1	955.4	1,182.0	1,297.9	1,545.5	1,875.9	2,021.1
Capital expenditure	839.7	737.2	754.9	816.0	949.4	864.0	891.8
Net lending	-9.0	9.0	-30.9	-60.6	11.5	-45.7	-26.7
<b>Overall balance</b>	<b>-300.1</b>	<b>-133.8</b>	<b>-81.3</b>	<b>-123.1</b>	<b>-281.1</b>	<b>-321.5</b>	<b>-373.0</b>
Overall balance excluding grants	-499.3	-376.7	-249.5	-287.6	-443.8	-487.4	-556.0
Current balance	327.7	366.2	470.0	465.7	513.1	326.7	296.1
Foreign financing	298.0	163.0	172.2	129.3	56.7	3.6	216.7
Domestic financing	2.1	-29.2	-90.9	-6.2	224.4	317.9	156.3
Total debt ( end of period)	2,223.7	2,281.3	2,373.0	2,605.5	2,782.9	3,002.9	3,397.3
Of which: Foreign	1,160.7	1,323.7	1,495.9	1,625.2	1,681.9	1,685.5	1,902.2
	(In percent of GDP)						
Total revenue and grants	29.9	28.9	31.0	31.8	33.8	36.0	36.0
Current revenue	25.6	24.4	28.0	29.1	31.3	33.4	33.2
Capital revenue	0.1	0.1	0.1	0.0	0.1	0.1	0.2
Grants	4.2	4.5	2.9	2.7	2.5	2.5	2.6
Expenditure and net lending	36.3	31.4	32.3	33.8	38.1	40.8	41.3
Current expenditure	18.6	17.6	20.1	21.4	23.5	28.4	28.9
Capital expenditure	17.8	13.6	12.8	13.4	14.4	13.1	12.8
Net lending	-0.2	0.2	-0.5	-1.0	0.2	-0.7	-0.4
Overall balance	-6.4	-2.5	-1.4	-2.0	-4.3	-4.9	-5.3
Overall balance excluding grants	-10.6	-7.0	-4.2	-4.7	-6.7	-7.4	-8.0
Current Account balance	7.0	6.8	8.0	7.7	7.8	5.0	4.2
Foreign financing	6.3	3.0	2.9	2.1	0.9	0.1	3.1
Domestic financing	0.0	-0.5	-1.5	-0.1	3.4	4.8	2.2
Total debt ( end of period)	47.2	42.1	40.3	42.9	42.3	45.5	48.6
Of which: Foreign	24.6	24.4	25.4	26.8	25.6	25.5	27.2
<b>Memorandum item:</b>							
Nominal GDP (millions of rufiyaa)	4,714	5,419	5,894	6,070	6,583	6,598	6,989
Official grants (millions of US\$)	16.9	20.6	14.3	14.0	13.8	14.1	15.0
Gross official loan disbursements (million US\$)	31.9	25.2	30.7	25.8	17.6	12.4	23.4
a. Grants+loan disburse (million US\$)	48.8	45.8	45.0	39.8	31.4	26.5	38.4
b. Grants+ off loan disburs (% of GDP)	12.2	9.9	9.0	7.7	5.6	4.7	6.7

Source: Ministry of Finance and Treasury, and Ministry of Planning and National Development; IMF.

Table A.4: Maldives: Central Government Revenue, 1995-2000

	1995	1996	1997	1998	1999	2000	2001 <i>Prv.Est</i>
(In millions of Rufiyaa)							
<b>Total revenue and grants</b>	<b>1,408.7</b>	<b>1,567.8</b>	<b>1,824.7</b>	<b>1,930.2</b>	<b>2,225.3</b>	<b>2,372.7</b>	<b>2,513.2</b>
<b>Total revenue</b>	<b>1,209.5</b>	<b>1,324.9</b>	<b>1,656.5</b>	<b>1,765.7</b>	<b>2,062.6</b>	<b>2,206.8</b>	<b>2,330.2</b>
<b>Current revenue</b>	<b>1,205.8</b>	<b>1,321.6</b>	<b>1,652.0</b>	<b>1,763.6</b>	<b>2,058.6</b>	<b>2,202.6</b>	<b>2,317.2</b>
<b>Tax revenue</b>	<b>638.5</b>	<b>713.1</b>	<b>864.1</b>	<b>902.7</b>	<b>977.3</b>	<b>1,013.8</b>	<b>1,039.9</b>
Import duties	410.0	450.6	552.8	576.5	628.5	652.6	656.0
Export duties	1.4	0.1	-	-	-	-	-
Tourism tax	188.8	215.8	257.0	257.7	276.0	276.6	292.2
Airport tax	-	-	-	-	-	-	-
Bank profit tax	19.2	23.8	27.3	35.4	42.1	46.9	52.4
Others <sup>1/</sup>	19.1	22.8	27.0	33.1	30.7	37.7	39.3
<b>Nontax revenue</b>	<b>567.3</b>	<b>608.5</b>	<b>787.9</b>	<b>860.9</b>	<b>1,081.3</b>	<b>1,188.8</b>	<b>1,277.3</b>
<b>Entrepreneurial and property income</b>	<b>411.2</b>	<b>460.9</b>	<b>617.7</b>	<b>670.1</b>	<b>849.3</b>	<b>912.7</b>	<b>965.5</b>
State Trading Organisation	14.2	26.0	35.0	40.0	96.2	87.3	65.0
State Electric Company	13.0	8.0	17.0	-	20.0	10.7	25.0
Post and Telecommunications <sup>2/</sup>	-	-	-	-	-	-	-
Dhivehi Rajjееge Gulhun Ptd <sup>2/</sup>	26.3	30.4	36.0	49.7	55.3	67.2	96.8
Maldives Post Limited <sup>2/</sup>	4.0	4.5	4.5	5.0	5.5	9.2	8.4
Maldives Monetary Authority	31.2	38.6	48.4	56.2	58.1	71.2	63.8
Other enterprises and institutions	65.0	79.8	62.4	118.6	127.9	111.8	133.7
Royalties, land and resort rent	167.6	206.6	282.1	304.3	394.8	470.1	493.6
Resorts lease rent	149.8	185.1	248.5	267.4	351.9	416.7	443.7
Resorts land rent	2.2	1.4	1.7	6.4	8.5	9.8	6.1
Royalties	15.6	20.1	31.9	30.5	34.4	43.6	43.8
Interest	89.9	67.0	132.3	96.3	91.5	85.2	79.2
Administrative fees and charges	70.0	105.5	122.3	144.4	168.5	189.8	226.5
Fines and Forfeits	49.6	22.2	23.8	18.3	22.6	32.9	21.0
Other	36.5	19.9	24.1	28.1	40.9	53.4	64.3
<b>Capital revenue (sales of assets)</b>	<b>3.7</b>	<b>3.3</b>	<b>4.5</b>	<b>2.1</b>	<b>4.0</b>	<b>4.2</b>	<b>13.0</b>
<b>Grants <sup>3/</sup></b>	<b>199.2</b>	<b>242.9</b>	<b>168.2</b>	<b>164.5</b>	<b>162.7</b>	<b>165.9</b>	<b>183.0</b>
<b>Memorandum items</b>							
<b>Total receipts from tourism <sup>4/</sup></b>	<b>340.8</b>	<b>402.3</b>	<b>507.2</b>	<b>531.5</b>	<b>636.4</b>	<b>703.1</b>	<b>742.0</b>
(as percent of GDP)	7.2	7.4	8.6	8.8	9.7	10.7	10.6
<b>Total revenue and grants (as percent of GDP)</b>	<b>29.9</b>	<b>28.9</b>	<b>31.0</b>	<b>31.8</b>	<b>33.8</b>	<b>36.0</b>	<b>36.0</b>
Nominal GDP (millions of rufiyaa)	4,713.6	5,419.2	5,893.9	6,069.6	6,582.5	6,598	6,989

1/ Includes license fees, company registration fees, revenue stamps and motor vehicle taxes

2/ Data for 1994 onwards have been revised on 28/02/2000

3/ Includes grants-in-kind and cash but excludes direct expenditure by donors

4/ Tourism and airport taxes plus resort lease rents and resort land rents

Source: Ministry of Finance and Treasury

**Table A.5: Maldives: Economic Classification of Central Government Expenditure and Net Lending, 1995-2000**

	1995	1996	1997	1998	1999	2000	2001 <i>Prv Est.</i>
(In millions of Rufiyaa)							
<b>Total expenditure and net lending</b>	<b>1,708.8</b>	<b>1,701.6</b>	<b>1,906.0</b>	<b>2,053.3</b>	<b>2,506.4</b>	<b>2,694.2</b>	<b>2,886.2</b>
<b>Current expenditure</b>	<b>878.1</b>	<b>955.4</b>	<b>1,182.0</b>	<b>1,297.9</b>	<b>1,545.5</b>	<b>1,875.9</b>	<b>2,021.1</b>
Expenditure on goods & services	787.9	845.2	1,069.1	1,188.4	1,421.8	1,741.2	1,880.0
Salaries and wages	232.2	249.3	269.9	290.7	366.1	466.9	485.5
Other	555.7	595.9	799.2	897.7	1,055.7	1,274.3	1,394.5
Interest payments	76.5	81.0	87.1	81.6	98.7	106.4	113.9
Subsidies	13.7	29.2	25.8	27.9	25.0	28.3	27.2
<b>Capital expenditure</b>	<b>839.7</b>	<b>737.2</b>	<b>754.9</b>	<b>816.0</b>	<b>949.4</b>	<b>864.0</b>	<b>891.8</b>
<b>Net lending</b>	<b>-9.0</b>	<b>9.0</b>	<b>-30.9</b>	<b>-60.6</b>	<b>11.5</b>	<b>-45.7</b>	<b>-26.7</b>
Domestic	-11.3	6.8	-32.1	-62.6	-1.8	317.9	156.3
Abroad	2.3	2.2	1.2	2.0	13.3	0.0	0.0
(In percent of GDP)							
Total expenditure and net lending	36.3	31.4	32.3	33.8	38.1	40.8	41.3
Current expenditure	18.6	17.6	20.1	21.4	23.5	28.4	28.9
Expenditure on goods & services	16.7	15.6	18.1	19.6	21.6	26.4	26.9
Salaries and wages	4.9	4.6	4.6	4.8	5.6	7.1	6.9
Other	11.8	11.0	13.6	14.8	16.0	19.3	20.0
Interest payments	1.6	1.5	1.5	1.3	1.5	1.6	1.6
Subsidies	0.3	0.5	0.4	0.5	0.4	0.4	0.4
Capital expenditure	17.8	13.6	12.8	13.4	14.4	13.1	12.8
Net lending <sup>1/</sup>	-0.2	0.2	-0.5	-1.0	0.2	-0.7	-0.4
Domestic	-0.2	0.1	-0.5	-1.0	0.0	4.8	2.2
Abroad	0.0	0.0	0.0	0.0	0.2	0.0	0.0
<i>Memorandum items.</i>							
Nominal GDP (millions of rufiyaa)	4,714	5,419	5,894	6,070	6,583	6,598	6,989

1/ Net lending is not included in the regular budget

Source: Ministry of Finance and Treasury

**Table A.6: Maldives: Functional Classification of Central Government Current Expenditure, 1995-2000**

	1995	1996	1997	1998	1999	2000	2001
							<i>Prv.Est</i>
(In millions of Rufiyaa)							
<b>Current expenditure</b>	<b>878.1</b>	<b>955.4</b>	<b>1,182.0</b>	<b>1,297.9</b>	<b>1,545.5</b>	<b>1,875.9</b>	<b>2,021.1</b>
<b>General public services</b>	<b>365.2</b>	<b>417.9</b>	<b>485.0</b>	<b>536.8</b>	<b>651.7</b>	<b>787.3</b>	<b>847.6</b>
General administration	206.8	240.7	286.3	308.4	353.9	445.9	518.8
Public order and internal security	158.4	177.2	198.7	228.4	297.8	341.4	328.8
<b>Social services</b>	<b>397.7</b>	<b>414.7</b>	<b>550.6</b>	<b>623.0</b>	<b>726.2</b>	<b>890.8</b>	<b>966.4</b>
Education	169.4	196.4	257.2	296.7	337.7	428.5	471.7
Health	124.7	127.4	144.0	155.6	187.4	241.9	277.6
Social security and welfare	52.0	43.5	65.6	70.3	67.7	77.0	67.5
Community programs	51.6	47.4	83.8	100.4	133.4	143.4	149.6
<b>Economic services</b>	<b>38.7</b>	<b>41.8</b>	<b>59.3</b>	<b>56.5</b>	<b>68.9</b>	<b>91.4</b>	<b>93.2</b>
Fisheries & agriculture	5.3	5.0	5.8	6.6	6.5	7.9	7.6
Transportation	17.8	20.2	22.4	27.0	33.9	47.6	46.1
Post and telecommunication	1.9	1.8	2.8	2.1	4.0	4.1	5.7
Tourism	11.1	11.5	22.7	15.5	18.7	26.6	28.9
Trade and industry	2.6	3.3	5.6	5.3	5.8	5.2	4.9
<b>Interest on public debt</b>	<b>76.5</b>	<b>81.0</b>	<b>87.1</b>	<b>81.6</b>	<b>98.7</b>	<b>106.4</b>	<b>113.9</b>
(In percent of GDP)							
Current expenditure	18.6	17.6	20.1	21.4	23.5	28.4	28.9
General public services	7.7	7.7	8.2	8.8	9.9	11.9	12.1
Social services	8.4	7.7	9.3	10.3	11.0	13.5	13.8
Economic services	0.8	0.8	1.0	0.9	1.0	1.4	1.3
Interest on public debt	1.6	1.5	1.5	1.3	1.5	1.6	1.6
(In percent of GDP)							
<i>Memorandum items.</i>							
Nominal GDP (millions of rufiyaa) <sup>1/</sup>	4,714	5,419	5,894	6,070	6,583	6,598	6,989

1/ Nominal GDP figures for 1995 -1999 are revised estimates and for 2000 & 2001 are projections

Source: Ministry of Finance and Treasury

Table A.7: Maldives: Functional Classification of Capital Expenditure, 1995-2000

	1995	1996	1997	1998	1999	2000	2001 <i>Prv.Est.</i>
(In millions of Rufiyaa)							
<b>Capital expenditure</b>	<b>839.7</b>	<b>737.2</b>	<b>754.9</b>	<b>816.0</b>	<b>949.4</b>	<b>864.0</b>	<b>891.8</b>
<b>General public services</b>	<b>168.5</b>	<b>186.7</b>	<b>280.0</b>	<b>260.3</b>	<b>409.7</b>	<b>377.2</b>	<b>368.2</b>
General administration	124.3	119.5	141.7	118.4	180.4	269.7	259.1
Public order & internal security	44.2	67.2	138.3	141.9	229.3	107.5	109.1
<b>Social services</b>	<b>129.8</b>	<b>161.0</b>	<b>199.4</b>	<b>370.7</b>	<b>296.7</b>	<b>249.7</b>	<b>181.1</b>
Education	54.1	50.2	61.2	135.4	113.1	112.7	62.3
Health	47.4	63.4	68.0	68.6	72.0	57.3	22.8
Welfare services	0.1	4.3	0.9	1.0	2.3	-	0.1
Community programs	28.2	43.1	69.3	165.7	109.3	79.7	95.9
<b>Economic services</b>	<b>541.4</b>	<b>389.5</b>	<b>275.5</b>	<b>185.0</b>	<b>243.0</b>	<b>237.1</b>	<b>342.5</b>
Fisheries & Agriculture	202.0	78.1	16.0	15.4	16.7	39.8	15.3
Transportation	251.3	120.6	194.8	132.1	181.7	118.6	178.5
Telecommunication	-	40.1	31.9	0.2	18.3	0.4	27.5
Tourism	8.0	6.2	1.2	0.3	4.2	1.1	0.5
Trade and industry	11.1	6.6	2.5	1.0	1.2	0.9	0.3
Electricity	69.0	137.9	29.1	36.0	20.9	76.3	120.4
(In percent of GDP)							
<b>Capital expenditure</b>	<b>17.8</b>	<b>13.6</b>	<b>12.8</b>	<b>13.4</b>	<b>14.4</b>	<b>13.1</b>	<b>12.8</b>
General public services	3.6	3.4	4.8	4.3	6.2	5.7	5.3
Social services	2.8	3.0	3.4	6.1	4.5	3.8	2.6
Economic services	11.5	7.2	4.7	3.0	3.7	3.6	4.9
(In millions of Rufiyaa)							
<i>Memorandum items:</i>							
Nominal GDP (million of rufiyaa) <sup>1/</sup>	4,714	5,419	5,894	6,070	6,583	6,598	6,989

1/ Nominal GDP figures for 1995 -1999 are revised estimates and for 2000 & 2001 are projections.

Source: Ministry of Finance and Treasury

**Table A.8: Maldives: Functional Classification of Central Government Total Expenditure, 1995-2000**

	1995	1996	1997	1998	1999	2000	2001 <i>Prv.Est</i>
(In millions of Rufiyaa)							
<b>Total expenditure</b>	<b>1,717.8</b>	<b>1,692.6</b>	<b>1,936.9</b>	<b>2,113.9</b>	<b>2,494.9</b>	<b>2,739.9</b>	<b>2,912.9</b>
<b>Public services</b>	<b>533.7</b>	<b>604.6</b>	<b>765.0</b>	<b>797.1</b>	<b>1,061.4</b>	<b>1,164.5</b>	<b>1,215.8</b>
General administration	331.1	360.2	428.0	426.8	534.3	715.6	777.9
Public order and internal security	202.6	244.4	337.0	370.3	527.1	448.9	437.9
<b>Social services</b>	<b>527.5</b>	<b>575.7</b>	<b>750.0</b>	<b>993.7</b>	<b>1,022.9</b>	<b>1,140.5</b>	<b>1,147.5</b>
Education	223.5	246.6	318.4	432.1	450.8	541.2	534.0
Health	172.1	190.8	212.0	224.2	259.4	299.2	300.4
Social Security and Welfare	52.1	47.8	66.5	71.3	70.0	77.0	67.6
Community programs	79.8	90.5	153.1	266.1	242.7	223.1	245.5
<b>Economic services</b>	<b>580.1</b>	<b>431.3</b>	<b>334.8</b>	<b>241.5</b>	<b>311.9</b>	<b>328.5</b>	<b>435.7</b>
Fisheries & agriculture	207.3	83.1	21.8	22.0	23.2	47.7	22.9
Transportation	269.1	140.8	217.2	159.1	215.6	166.2	224.6
Post and telecommunication	1.9	41.9	34.7	2.3	22.3	4.5	33.2
Tourism	19.1	17.7	23.9	15.8	22.9	27.7	29.4
Trade and industry	13.7	9.9	8.1	6.3	7.0	6.1	5.2
Electricity	69.0	137.9	29.1	36.0	20.9	76.3	120.4
<b>Interest on public debt</b>	<b>76.5</b>	<b>81.0</b>	<b>87.1</b>	<b>81.6</b>	<b>98.7</b>	<b>106.4</b>	<b>113.9</b>
(In percent of GDP)							
<b>Total expenditure</b>	<b>36.4</b>	<b>31.2</b>	<b>32.9</b>	<b>34.8</b>	<b>37.9</b>	<b>41.5</b>	<b>41.7</b>
<b>Public services</b>	<b>11.3</b>	<b>11.2</b>	<b>13.0</b>	<b>13.1</b>	<b>16.1</b>	<b>17.6</b>	<b>17.4</b>
General administration	7.0	6.6	7.3	7.0	8.1	10.8	11.1
Public order and internal security	4.3	4.5	5.7	6.1	8.0	6.8	6.3
<b>Social services</b>	<b>11.2</b>	<b>10.6</b>	<b>12.7</b>	<b>16.4</b>	<b>15.5</b>	<b>17.3</b>	<b>16.4</b>
Education	4.7	4.6	5.4	7.1	6.8	8.2	7.6
Health	3.7	3.5	3.6	3.7	3.9	4.5	4.3
Social security and welfare	1.1	0.9	1.1	1.2	1.1	1.2	1.0
Community programs	1.7	1.7	2.6	4.4	3.7	3.4	3.5
<b>Economic services</b>	<b>12.3</b>	<b>8.0</b>	<b>5.7</b>	<b>4.0</b>	<b>4.7</b>	<b>5.0</b>	<b>6.2</b>
Fisheries & agriculture	4.4	1.5	0.4	0.4	0.4	0.7	0.3
Transportation	5.7	2.6	3.7	2.6	3.3	2.5	3.2
Post and telecommunication	0.0	0.8	0.6	0.0	0.3	0.1	0.5
Tourism	0.4	0.3	0.4	0.3	0.3	0.4	0.4
Trade and industry	0.3	0.2	0.1	0.1	0.1	0.1	0.1
Electricity	1.5	2.5	0.5	0.6	0.3	1.2	1.7
<b>Interest on public debt</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>
<i>Memorandum item:</i>							
Nominal GDP (millions of rufiyaa)	4,714	5,419	5,894	6,070	6,583	6,598	6,989

Source: Ministry of Finance and Treasury

Table A.9: Maldives: External Debt and Debt Services, 1995-2000

	1995	1996	1997	1998	1999	2000	2001
							<i>Prv</i>
(In millions of U.S. dollar)							
<b>Total external debt outstanding &amp; disbursed</b>	<b>172.2</b>	<b>177.2</b>	<b>178.1</b>	<b>200.8</b>	<b>212.9</b>	<b>211.6</b>	<b>209.6</b>
<b>Medium- and long-term (DOD)</b>	<b>151.6</b>	<b>163.7</b>	<b>165.3</b>	<b>184.7</b>	<b>185.6</b>	<b>178.0</b>	<b>181.3</b>
Official creditors	127.8	132.3	135.2	144.0	143.7	139.4	141.3
Multilateral	90.7	96.5	102.2	114.2	116.5	114.9	118.6
Bilateral	37.1	35.8	33.0	29.8	27.1	24.5	22.7
Private creditors	23.8	31.4	30.1	40.7	41.9	38.6	40.0
Suppliers	6.9	14.3	23.4	27.5	25.3	23.5	25.2
Financial markets <sup>1/</sup>	16.9	17.1	6.7	13.2	16.7	15.1	14.8
<b>Short-term debt</b>	<b>20.6</b>	<b>13.5</b>	<b>12.8</b>	<b>16.1</b>	<b>27.3</b>	<b>33.6</b>	<b>28.3</b>
Maldives Monetary Authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	20.6	13.5	12.8	16.1	27.3	33.6	28.3
<b>Debt service</b>	<b>10.7</b>	<b>11.8</b>	<b>27.9</b>	<b>14.9</b>	<b>16.8</b>	<b>18.9</b>	<b>20.4</b>
Amortization	7.1	8.2	24.1	11.1	12.5	14.3	15.8
Interest payments	3.6	3.6	3.8	3.8	4.3	4.6	4.6
Medium- and long-term	3.6	3.6	3.8	3.8	4.3	4.6	4.6
Public sector	3.6	3.6	3.8	3.8	4.3	4.6	4.6
Official creditors	1.5	1.9	1.9	2.0	2.1	2.0	2.1
Multilateral	1.0	1.2	1.1	1.3	1.4	1.4	1.5
Bilateral	0.5	0.7	0.7	0.7	0.6	0.6	0.5
Private creditors	2.1	1.7	2.0	1.8	2.3	2.7	2.5
Suppliers	0.8	0.5	0.5	1.2	1.3	1.2	1.2
Financial markets	1.3	1.2	1.5	0.6	0.9	1.5	1.3
Private sector							
Short-term debt	1.8	1.1	1.1	1.3	2.2	3.1	2.0
Commercial banks	1.8	1.1	1.1	1.3	2.2	3.1	2.0
Total external debt as percent of GDP	43.0	38.5	35.6	38.9	38.1	37.7	36.8
Medium- and long-term debt/GDP	37.9	35.6	33.0	35.8	33.2	31.7	31.9
Short-term debt/GDP	5.2	2.9	2.5	3.1	4.9	6.0	5.0
Debt service ratio <sup>2/</sup>	3.4	3.2	6.9	3.5	3.9	4.1	4.4
<b>Memorandum items:</b>							
Nominal GDP (in millions of U.S. dollars)	400.5	460.4	500.8	515.7	559.3	560.6	568.9
Exchange rate (rufiyaa per U.S. \$)	11.77	11.77	11.77	11.77	11.77	11.77	12.24
Exports of goods & non-factor services (XGS)	317.8	369.0	405.2	426.9	434.3	457.2	464.3

1/ Includes BOP loan of US\$ 15 million as of 1993. This was repaid in full in 1997.

2/ Ratio of debt service to exports of goods and nonfactor services

Source: Ministry of Finance and Treasury, and Maldives Monetary Authority



## REFERENCES

### Specific References to Chapter 4: Education

- Maldives College of Higher Education (2000). *Strategic Plan 2000-2005*
- Maldives College of Higher Education. (2001). *Handbook of Courses*
- Ministry of Education (various years). *Educational Statistics*
- Ministry of Education (1995). *Education Master Plan 1996-2005. Final Report*
- Ministry of Education (1999). *Country Report: Maldives. Education for All: The Year 2000 Assessment.*
- Ministry of Education/UNICEF (2000). *Report of the Needs Assessment Case Studies. Maldives Underserved Schools Project*
- Ministry of Planning and National Development (no date). *Population and Housing Census 2000. Preliminary Results.*
- Ministry of Planning and National Development/UNDP (1999). *Vulnerability and Poverty Assessment*
- UNDP (2001). *Maldives: Human Development Report. Draft*
- World Bank (1999). *Sector and Project Economic Analysis for Third Education and Training Project.* (mimeo)
- World Bank (2000). *Project Appraisal Document for Third Education and Training Project*

### Specific References to Chapter 4: Health

- Heywood, Alison, Eileen Darby, and Dympna Leonard, 1999, 'The Maldivian Health Project Identification Mission Report,' AusAID.
- Jenkings, Carol, 2000, "A Situational Assessment of HIV/AIDS in the Maldives for the Year 2000," mimeo.
- Ministry of Health, 2001, "Department of Public Health Introduction 2001", Male, Republic of Maldives.
- Ministry of Health, 2000, "Maldives Health Report: 1999," Male, Republic of Maldives.
- Ministry of Health, 1998, "Health Master Plan 1996-2005," Male, Republic of Maldives.
- Ministry of Planning and National Development, 2001a, "Draft Sixth National Development Plan: Selected Chapters," Male, Republic of Maldives.
- Ministry of Planning and National Development, 2001b, "Gross Domestic Product Estimates 1995 to 2001 in 1995 constant prices," Male, Republic of Maldives.

- Ministry of Planning and National Development, 2001c, "Population and Housing Census 2000: Preliminary Results," Male, Republic of Maldives.
- Ministry of Planning and National Development, 2000, "Public Sector Investment Programme 2000," Male, Republic of Maldives.
- Ministry of Planning and National Development, 1999, "Public Sector Investment Programme 1999," Male, Republic of Maldives.
- Ministry of Planning and National Development and UNDP, 1998, "Vulnerability and Poverty Assessment, 1998,"
- Ministry of Planning and National Development, 1995, "Population and Housing Census of Maldives, 1995: Volume I, Population," Male, Republic of Maldives.
- Salih, Ahmed, & Waheed, Abdullah, 2001, "Health care financing in the Maldives: financial and related Barriers to Health Services," Male, Republic of Maldives.
- UNFPA, 2000, "Mid-Term Review of the UNFPA Second Country Programme to the Maldives (1998-2002)",
- UNFPA, 1999, "Republic of Maldives: Reproductive Health Baseline Survey, 1999," Male, Republic of Maldives.
- UNFPA, \_\_\_\_\_, "Strategy Formulation and Programme Development Report: Maldives,"
- UNFPA, 1997, "UNFPA Second Country Program"
- World Bank, 2000, "Country Assistance Strategy for the Republic of Maldives," Report No. 21301-MAL, Washington, USA.
- World Bank, 1999, "Maldives Country Economic Memorandum: Policies for Sustaining Economic Growth," Report No. 18340-MAL, Washington, USA.