



DEVELOPMENT EFFECTIVENESS COUNTRY BRIEF

Maldives

Selected Country Indicators

Country Indicators	Comparison Year	Most recent year
Gross domestic product per capita (constant year 2000 in US \$)	\$2,021 (2001)	\$2,600 (2006)
Population living on less than \$1 a day (%)	3 (1997)	1 (2004)
Human Development Index rank	112/173 (1990)	98/177 (2004)
Primary completion rate, total (% of relevant age group)	–	127.3 (2005)
Ratio of girls to boys in primary and secondary education (%)	–	101.6 (2005)
Under-5 child mortality (per 1,000 live births)	48 (1990)	18 (2003)
Maternal mortality ratio (per 100,000 live births)	500 (1990)	78 (2003)
Population with access to an improved water source (%)	58 (1995)	92 (2001)
Fixed line and mobile phone subscribers (per 1,000 people)	110.5 (2000)	564 (2005)
Household electrification access (% of households)	87 (2000)	93 (2004)
Cost required for business start-up (% of GNI per capita)	–	18.1 (2006)
Time required for business start-up (days)	–	13 (2006)

GNI = gross national income.

COUNTRY DEVELOPMENT SETTING

Overview of Country Achievements and Development Challenges

- 1. Roadmap for the Reform Agenda.** The Maldives has a presidential system of governance wherein the president is also the head of the government. The president heads the executive branch and appoints the cabinet; he is nominated to a 5-year term by a secret ballot of the *Majlis* (parliament), a nomination which must be confirmed by a national referendum. The unicameral *Majlis* comprises 50 members serving 5-year terms. Of these, eight are appointed by the president, while the rest are elected directly by universal suffrage. President Maumoon Gayoom has been in power since 1978. Subsequent to the 2003 announcement of democratic reforms, the formation of political parties was permitted in 2005. Presently, there are four registered political parties in the Maldives. These include the Dhivehi Raiyyithunge Party, headed by President Gayoom, and the Maldivian Democratic Party, the main opposition party.
- 2.** In June 2006, the Government announced its Roadmap for the Reform Agenda. Key components of the roadmap comprise strengthening the system of governance, promoting the protection of human rights, enhancing the independence of the judiciary, developing the multiparty political system, strengthening the civil service, modernizing the electoral system, enhancing the role of the media, and strengthening key institutions. This constitutes a challenging list of reforms with elections scheduled for mid-2008. Before the elections, an interim referendum has been proposed on the form of government (presidential or parliamentary) and a new constitution must be drafted and approved.
- 3. Poverty and the Millennium Development Goals.** The 2004 Poverty and Vulnerability Assessment findings confirm the overall low incidence of poverty in Maldives. At a poverty line of Rf15 per day (currently, Rf12.8=\$1), only 3% of the population in Malé are classified as poor. Using the \$1 purchasing power parity per day methodology used for assessing progress towards the Millennium Development Goals (MDGs), 1% of the Maldivian population was estimated to be living in poverty in 2004. While the overall incidence of absolute income poverty is very low in the country, there are issues of large regional disparities between Malé and the outer atolls, and between atolls. With respect to progress on non-income MDGs, Maldives is well on track to achieve five of them by 2015. These pertain to (i) eradicating extreme poverty and hunger; (ii) achieving universal primary education; (iii) reducing child mortality; (iv) improving maternal mortality; and (v) combating HIV/AIDS, malaria, and other diseases. Greater efforts are needed to achieve the MDG targets relating to gender equality and environmental sustainability.
- 4. Narrow Economic Base Relying Heavily on Tourism and Fisheries.** A small domestic market and a high degree of dependence on tourism and fisheries make

the Maldives highly dependent on global markets. In 2004, tourism accounted for 33% of the gross domestic product (GDP), 28% of domestic revenues, and over 90% of balance of payments service receipts. The sector contracted in 2005 due to the damages caused by tsunami and the reduced number of tourists, but by March 2007, it had regained its pre-tsunami status. The fisheries sector represents 6% of GDP and remains a key industry in terms of employment and exports. Fisheries export growth is, however, constrained by a limited product range and volatile world market prices. The fisheries sector has also regained its pre-tsunami growth trajectory.

5. While political stability and reliance on expatriate labor have contributed to a rapid, tourism sector-driven growth, it has also left the Maldives with an economy that generates a high degree of inequality, a narrow and vulnerable economic base, and a top-down system of decision-making which finds it difficult to set priorities, devise suitable policies, and implement decisions in a responsive and accountable manner. The authorities are well aware of this, and the Seventh National Development Plan (7NDP) and the Roadmap for Reform Agenda, signal fundamental changes to the way the Maldives is governed, wherein opportunities will be shared between Malé and the atolls. Broadening the focus of economic growth, ensuring a more equitable distribution of opportunities and employment, democratizing the political system, decentralizing authority, ensuring greater role for the private sector, reforming the role of government, and professionalizing the civil service are major challenges that will require a paradigm shift in the management of the development process in the Maldives.
6. **Long-Standing Structural Issues.** Formal accountability mechanisms are underdeveloped in the Maldives, and there is little, if any, separation between the

state and the government. Traditionally, Parliament has acted more as an extension of the Government rather than as a body holding the government accountable. In 2007, for the first time, the Parliament committees will review the annual budget and annual reports of ministries, though the conventions that surround these processes and the research analysis capability to support them have yet to be developed. Consequently, there is little pressure to hold ministries accountable for outcomes, outputs, or even inputs. Another area where accountability is seemingly lacking is the prevalence of conflicts of interest. Widespread government ownership of commercial businesses and lack of transparency around pricing and operations also reduces accountability. In many sectors, most notably tourism, policy is formulated by officials who have a substantial personal stake. Historically, none of the key elements of an effective anticorruption strategy—such as political accountability, civil society participation, competitive private sector, and institutional restraints on power and quality public management—have existed in the Maldives. The Anticorruption Board was only established in 1993. The Government has, however, signaled its intention to develop improved accountability backed by independent institutions. Important legislation has been passed to encourage greater accountability, such as the Public Finance Act and the revisions to the Maldives Monetary Authority Act, the Auditor General Act, and revisions to the commercial legal code. Consistent with the 7NDP and the Reform Roadmap, several important pieces of new legislation are under review by the Attorney General's Office and the Parliament.

7. **Severe Human Resource Capacity Constraints.** Weak institutions and human resource deficiencies are major constraints across the entire spectrum of the development process. A dearth of skilled and experienced staff and the fragmented structure of government

hinder all aspects of development management. Public sector institutions face capacity constraints in almost all areas, pay in the civil service lags far behind the private sector (with irregular adjustment), and secondary employment to augment incomes is widespread. The chronic shortage of skilled technical and managerial staff is accentuated by the fragmentation of the public service into 21 small ministries and a growing number of

statutory authorities. Currently, there are 12 presidential authorities and a further 8 are proposed to be established under the 7NDP. While heavy reliance on expatriate labor has allowed the Maldives to register high growth rates, the downside of this is that existing institutions do not have adequate capabilities to identify emerging constraints, develop appropriate policy responses, and implement policy decisions in a sustainable manner.

ADB'S CONTRIBUTIONS TO DEVELOPMENT RESULTS

Volume and Performance of ADB Operations

8. Since 1981, ADB has provided 17 loan projects to Maldives corresponding to a total approved amount of \$101.3 million. In terms of volume, the transport and communications sector was the largest recipient accounting for 35% of total lending, followed by education at 27%, energy at 21%, and water supply and solid waste management at 13% (figures 1 and 2). All projects completed from 1995 to 2006 had a satisfactory rating (figures 3 and 4). Further, as of 30 June 2007, ADB had approved 56 technical assistance (TA) projects for the Maldives, of which 16 were project preparatory and 40 advisory (institutional strengthening and capacity development).

Highlights of ADB Results

9. **Energy.** ADB has been by far the main contributor to the power sector of the Maldives, having extended five loans totaling over \$31 million, and seven TA projects totaling \$1.5 million, to the sector since 1984. A grant was also earmarked to rehabilitate the power

sector after the 2004 tsunami. ADB's loan and TA programs have helped meet electricity demands in the capital island of Malé and strengthen the institutional capacity of the sector. While earlier assistance was focused on Malé, consistent with its strategy of supporting a balanced regional development, ADB shifted its support to rural electrification in the outer islands, where the majority of the country's poor reside and inadequate electricity supply has constrained economic and social development. Recognizing the need for developing environmentally sustainable energy resources in the country, ADB is now facilitating the possibility of introducing renewable energy technologies. ADB's long-term support to the energy sector was instrumental in promoting reforms and policy dialogue, and strengthening key institutions (see box on page 7).

10. **Transport.** ADB has played a lead role in addressing issues relating to the transport sector in the Maldives. To date, ADB has provided five loans for the transport sector, and a component for harbor infrastructure rehabilitation is included in the Tsunami Emergency Rehabilitation Assistance Project. The Interisland Transport Project introduced

Figure 1

Asian Development Fund Loans and Grants Approved, 1995–2006 (\$ million)

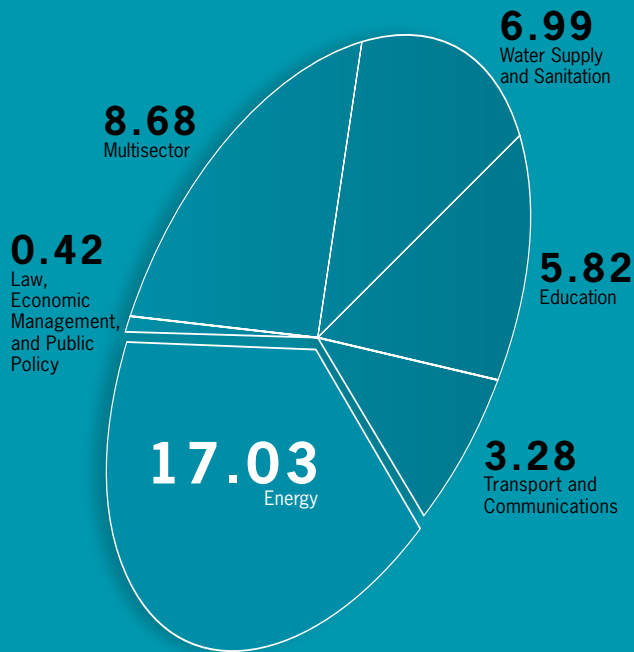


Figure 2

Asian Development Fund Loans and Grants Approved, 1995–2006 (number of projects)

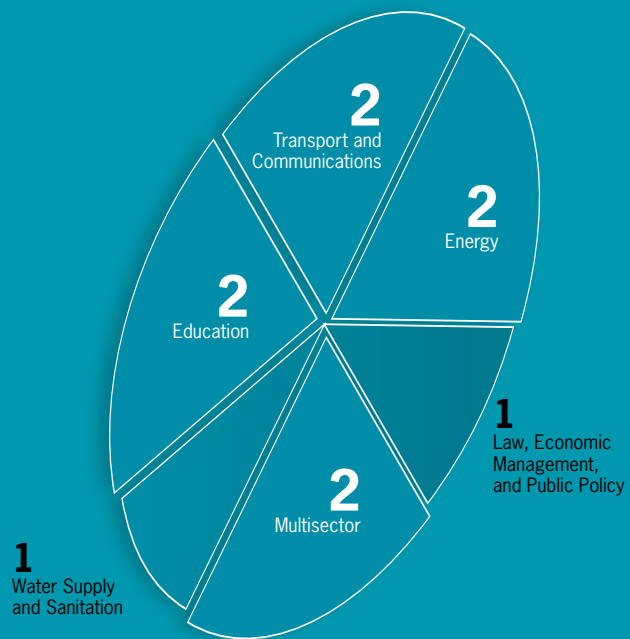
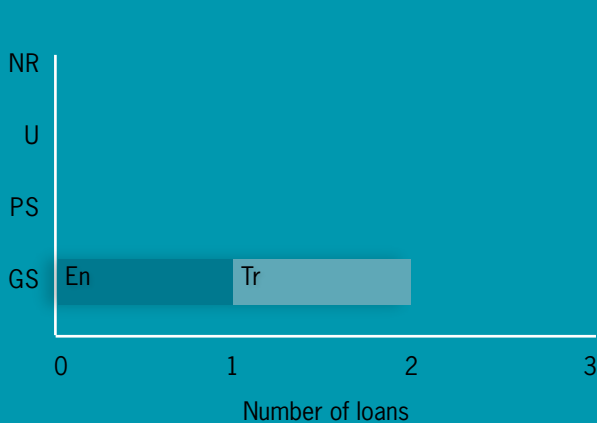


Figure 3

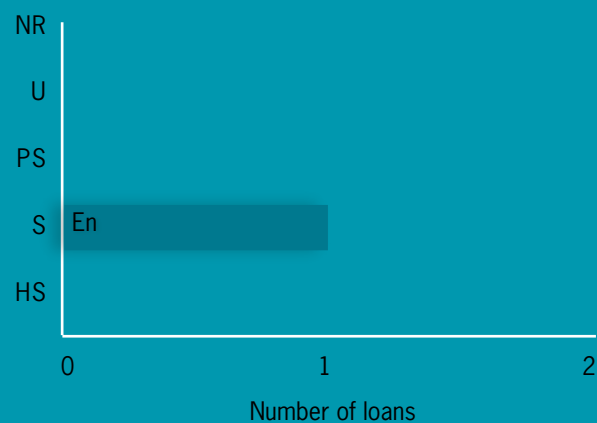
Project Completion Report Ratings, 1995–2000 (prepared under old guidelines)



En Energy
Tr Transport and Communications

Figure 4

Project Completion Report Ratings, 2001–2006 (prepared under new guidelines)



NR = not rated, U = unsuccessful, PS = partly successful, GS = generally successful, S = successful, HS = highly successful.

a reliable, publicly operated transportation service between Malé and the atolls to improve the efficiency and safety of interisland transport. The development of the Malé Commercial Harbor has been supported through

two loans. The latest loan, approved in March 2007, aims at removing congestion at Malé North Harbor—the life line of transportation of goods between Male’ and the outer atolls—as well as strengthening of port management

functions. ADB's sectoral assistance has been vital, given the geographic setting of the country, and has evolved from supporting infrastructure development to supporting sector reforms and capacity development, as well as rationalizing the role of different government entities in the sector (see box on next page). While, up to now, assistance has focused mainly on maritime transport, starting with the 2007–2011 Country Partnership Strategy (CPS), ADB will be adopting a multimodal approach for the sector.

11. Impact of ADB Assistance. In summary, over a period of nearly two decades, ADB assistance has made important contributions to economic development and poverty reduction in the Maldives. ADB's Operations Evaluation Department (OED) noted that contributions to the country's development results were particularly noticeable in terms of stewarding the Government in developing its development plans and setting strategic paths. Sector outcomes were effectively achieved in the transport and energy sectors, which accounted for about half of total ADB lending during the review period. But increasingly, implementation capacity constraints hamper ADB's ability to contribute to development results in a timely manner. The tsunami and the ensuing relief effort, while handled courageously, have placed a heavy burden on the already over-stretched and fragmented civil service and on the nascent domestic construction industry. Although the economy is recovering, the large backlog of unfinished development projects and reconstruction initiatives, and the large buildup of public debt especially in the last few years, requires that ADB support for new public investments be phased-in gradually and judiciously.

ADB Support to Policy Development in the Maldives Power Sector

Policy dialogue in the power sector began in 1987 with the approval of a TA to support the then Maldives Electricity Board (MEB). Incorporating MEB was identified by the TA as critical in promoting efficient and independent management, and in enabling the board to operate commercially. Subsequently, the Government recognized the need for improved sector efficiency and committed itself to further reform of the power sector. ADB continued to facilitate policy dialogue on reforming MEB and supported the capacity development of other sector entities. Pursuant to the detailed power sector reform developed under the TA, the Government converted the utility part of MEB into the State Electricity Corporation in 1997 under the new Companies Act, and converted the regulatory part into MEB in January 1998.

Overall, ADB's policy dialogue has helped to focus attention on meeting the demand for electricity in Malé and the outer atolls in a cost-effective and environmentally friendly manner. The impact of its assistance on policy and institutional changes has been significant in the areas of financial management, operational efficiency, and productivity of the sector institutions.

Currently, the principal areas of policy dialogue between ADB and the Government focus on providing the outer island populations with electricity supply in a sustainable and affordable manner, promoting private sector participation and cost recovery, and encouraging the use of renewable sources of energy to protect the environment. Such dialogue will continue to be pursued in the context of regional development, to ensure a more equitable distribution of economic benefits through broad-based inclusive and environmentally sustainable growth. ADB will also assist with the structuring of public-private partnerships in the sector.

Equitable and Balanced Economic Growth through Maritime Transport Sector Support

Maritime transport in the Maldives best compares to that of a road network in land-based countries. Well-developed maritime transport infrastructure and capable sector institutions are fundamental to sustained social and economic development in the country. Earlier ADB assistance to the sector focused on improving the “services” aspect of the sector, as well as infrastructure improvements. It has been useful in reducing isolation and transport costs—two factors that contribute to inequity and inequality of opportunity in the outer atolls.

In 2002, ADB provided a TA to develop an overall master plan for the sector. This was the first-ever attempt to segregate sector policy and regulatory framework from sector specific investments.

Building on this, ADB’s planned assistance for the sector will help ensure sustained, equitable, and regionally balanced economic growth by providing enhanced access to markets and social services for the outer atoll population. This will be attained by improvements to the country’s main inter-atoll transport hub—considered as the highest ranked

land and sea infrastructure investment priority in the current national development plan—and supported by institutional and capacity building initiatives in the domestic maritime transport sector. The expanded capacity of Malé North Harbor will improve connectivity, reduce transport cost, and facilitate interisland trade. The increase in interisland trade is expected to result in a 10% volume increase in key outputs of domestic agricultural produce sold in Malé North Harbor markets by 2014.

Capacity building within the Ministry of Transport and Communication will focus on the areas of (i) strategic planning and policy analysis, (ii) establishment of harbor usage charges, (iii) maritime safety regulations and vessel inspection and registration procedures, and (iv) project performance and impact monitoring. Capacity building within the Ministry of Construction and Public Infrastructure will focus on enhancing its ability to manage, operate, and maintain maritime transport infrastructure in Malé in a sustainable manner through harbor management and financial management training.

ADB’S AGENDA FOR ENHANCING PARTNERSHIPS AND AID EFFECTIVENESS

Current ADB Portfolio and Assistance Pipeline

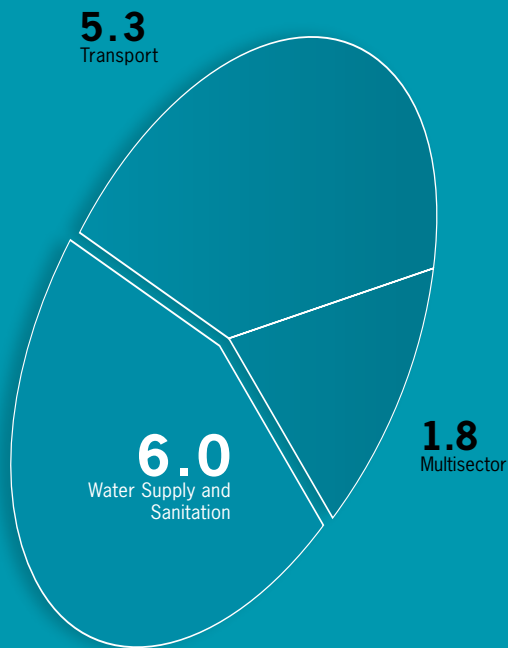
12. ADB’s Board recently endorsed the Maldives’ CPS for the period 2007–2011. In agreement with the Government, ADB’s future engagement in the Maldives will be increasingly selective and focused. In addition to providing much-needed assistance for capacity development, ADB’s investment operations will be limited to three sectors: energy, transport, and private sector development, with an emphasis on micro, small, and medium-sized enterprises (figures 5 to 8). Eight loans are currently under implementation, of which 7 are rated satisfactory and 1 partly satisfactory (figure 9).

Ownership, Alignment, and Managing for Results in ADB Operations

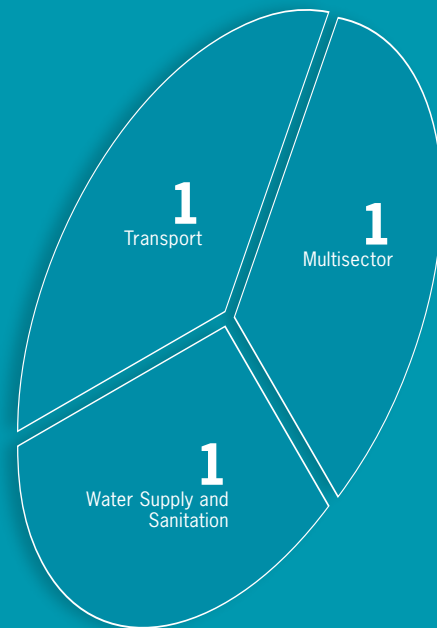
13. **Lessons from Past Assistance.** A Country Strategy and Program (CSP) completion report was undertaken to take stock of lessons learned from the Country Operational Strategy 1995–2000, the 2000-2002 CSP, and its subsequent updates. The report concluded that ADB assistance has become increasingly aligned to the NDP’s policies and strategies. Project implementation, however, has been hampered by limited absorption capacity and human resource constraints. These issues have been exacerbated by weak internal coordination mechanisms

Figure 5

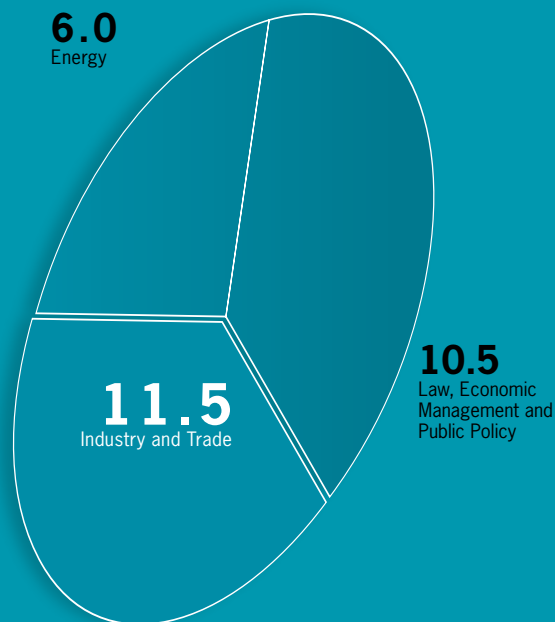
Approvals, 2005–2007 (\$ million)

**Figure 6**

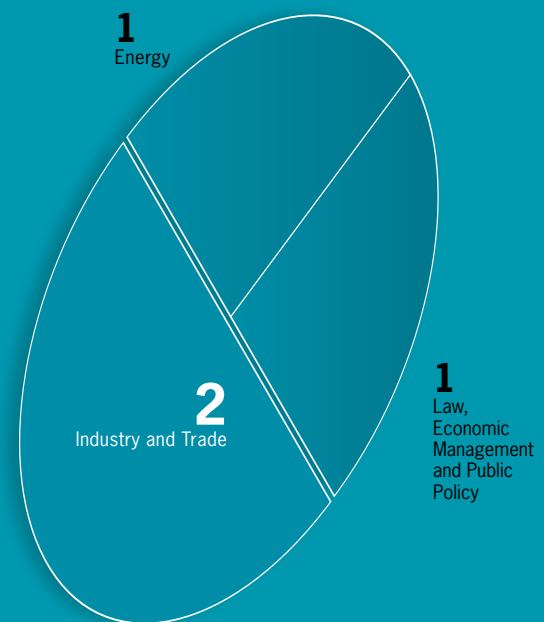
Approvals, 2005–2007 (number of projects)

**Figure 7**

Projected Approvals, 2008–2010 (\$ million)

**Figure 8**

Projected Approvals, 2008–2010 (number of projects)

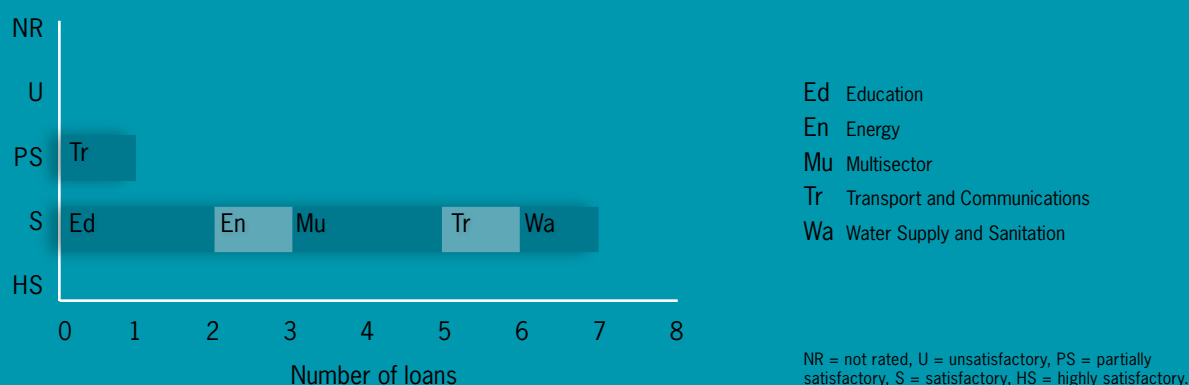


between Government agencies, frequent changes in the structure and mandates of ministries, a legislative backlog in the Attorney General's office, and weaknesses in the oversight capacities of the Ministry of Finance and Treasury as executing agency. All projects acknowledged the risk of skills shortage at the preparatory

phase, however, measures undertaken to address this were insufficient to prevent delays in project implementation. The CSP completion report highlighted the need to enhance the capacity of the Government to implement projects and to develop programs that are more amenable to timely implementation.

Figure 9

Project Performance Report Ratings (current)



14. OED generally validated the findings of the CSP completion report. While there was a mismatch between the 1995 operational strategy and program delivery, the degree of alignment of the 2002 CSP with the NDP was significantly stronger. OED recommended (i) the consolidation of assistance programs before considering additional lending; (ii) a more integrated and holistic cross-sectoral approach; (iii) thorough assessments of institutional capacities and human resource management systems, together with assistance to address the noted deficiencies and weaknesses; and (iv) regular training of government agency staff on ADB's procedures and portfolio management. Given weak implementation capacities, OED also suggested there was a need for the Government to establish a strong project management unit to manage ADB assistance programs.

15. **Alignment of ADB's Operational Strategy.**

The Maldives CSP (2002–2004) and its subsequent updates were consistent with the strategic thrust and priorities of the Government's Sixth National Development Plan (6NDP), and were anchored in the three-pillar framework of ADB's Poverty Reduction Strategy. The Government developed the 7NDP with ADB assistance, following a managing for development results (MfDR) approach.

The 7NDP is also the Government's Poverty Reduction Strategy. ADB's new CPS focuses on developing capacities for managing the development process. It places a new emphasis on public private partnerships and private sector operations. The envisaged assistance focus is summarized in the table on page 11.

16. The 2007–2011 CPS recognizes that if ADB is to make a meaningful contribution, it must be in areas where the Government is clearly demanding reform, where ADB has core competence, and where effective partnerships and synergies can be forged with other development assistance partners. Ensuring that the ongoing portfolio is implemented well is also a priority. Simultaneously, support is needed to build institutional capacity to set sustainable and inclusive economic policies; to improve the planning and execution of public expenditures; and to boost the transparency, accountability and professionalism of the public service. In this approach, consideration should be given to resuming lending in key sectors once the reconstruction process is nearing completion; ADB's ongoing assistance portfolio matures; and institutional capacity is built for using aid resources in a prioritized, efficient and effective manner. While it is recognized that institutional capacities cannot be fully

developed quickly, it is suggested and agreed to by Government that there be a pause of at least 2 years in lending for new investments. During this time, only capacity development and analytical work would be supported by ADB. Thereafter, lending should be concentrated in a small number of key sectors which are vital to the success of the 7NDP; are in areas in which ADB has a strong track record; and are areas where ADB, as a multilateral financier, can provide long-term finance to augment productive assets while contributing to improved public policies and institutional capacities.

effectively by establishing a National Disaster Management Centre. This has fostered cooperation among development partners in all areas, from planning and information sharing, to staffing and training, to logistical arrangements. The UNDP's aid coordination project that was established following the tsunami laid the groundwork for more effective management of government funds. The project arrangements have now been incorporated into UNDP's governance program and will continue to be used to foster improved communication and greater transparency in the handling of external assistance.

ADB's Role in Donor Coordination and Harmonization Initiatives

17. New Opportunities for Aid Coordination.

Aid coordination has been less important in the Maldives than in other countries because of the small number of development partners providing assistance. A biannual United Nations Development Programme (UNDP) Roundtable was held in the past, which helped to disseminate information among the donor community. The tsunami relief experience has triggered a substantial increase in aid inflows, as well as a considerable improvement in aid coordination efforts. Immediately after the tsunami, the Government managed relief operations promptly and

18. In 2006, the Government established an annual Development Partnership Forum process. The first forum was used to apprise development partners of its strategy in selected areas, including governance and democratization. The second forum, held in June 2007, focused on strategies for overcoming climate change and promoting private investment. The forum has provided an opportunity for all the development partners, including donors, financial institutions, civil society representatives, and the private sector to discuss key development issues with senior Government officials in a frank and open atmosphere.

19. **Enhanced Donor Specialization.** The Government has embarked on a new strategy of engaging with its development partners. This strategy envisages that

Energy	Electrification of outer islands with emphasis on renewable energy, sector reforms, institutional strengthening, and capacity development
Public sector economic and financial management	Overall emphasis on capacity development by addressing key constraints in fiscal planning, forecasting and debt management, audit, multiyear fiscal framework, strengthening tax collection, and strengthening project implementation
Small and medium-sized enterprises/private sector operations development	"Structuring" of private sector micro and SMEs in the outer atolls, facilitating business development services, facilitating financial access and marketing links, and assisting with the privatization of state-owned enterprises
Transport	Sector reforms and selected infrastructure investment to enhance connectivity, reduce transportation costs, and improve livelihood opportunities in the atolls

development partners will specialize in providing assistance in certain sectors or thematic areas to reduce duplication and overlap, and to minimize aid transaction costs. ADB will focus on capacity building in public sector financial management, and support for transport, power, and SMEs. The World Bank will remain engaged in governance, tertiary education, fisheries, and environment management. The UN system will remain involved in various aspects of governance (including assistance for the Human Rights Commission of the Maldives), environmental management, and disaster management. The Islamic Development Bank will provide assistance for selected atoll infrastructure, as well as for housing development. The Government of Japan will remain engaged in assistance for port, harbor, sewerage, and housing.

20. In this context of increased donor specialization, ADB's new CPS has been prepared in close consultation with the UN, World Bank, and other development partners. A development partner coordination matrix has been prepared, showing how ADB, the World Bank, and other development partners have positioned their assistance to complement one another, and to provide cohesive support to the Government, particularly in the challenging areas of policy reform and institutional capacity building. In addition, as part of the CPS preparations, the World Bank and ADB participated as observers in the International Monetary Fund Article IV consultation with the Maldivian authorities in April 2007. This has helped to ensure that multilateral development banks support for macro, structural, and sector assistance is consistent and complementary.

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