

**IsDB**   
البنك الإسلامي للتنمية  
**Islamic Development Bank**



SCUBA DIVERS FOR THE REPUBLIC OF MALDIVES (2022-2025): A RESILIENT AND SUSTAINABLE FISHING COMMUNITY FOR MALDIVIANS

# MEMBER COUNTRY PARTNERSHIP STRATEGY FOR THE REPUBLIC OF MALDIVES (2022-2025)

A RESILIENT AND SUSTAINABLE LIFE, AND DIVERSIFIED  
ECONOMY FOR MALDIVIANS

MAY 2022





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# ACKNOWLEDGEMENTS

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## EXECUTIVE SUMMARY

Maldives, an upper middle-income country, has achieved an annual average growth of 6.3% during the period 2015-2019. With the highest nominal per capita income of US\$15,056 in 2019 in South Asia, the country's recent strong economic expansion was propelled by expansion of high-end tourism, and non-tradable tourism related industries, including construction, transport and communications. However, the COVID-19 pandemic left with a heavy toll on the Maldivian economy, which contracted by 33.5% in 2020, but rebounded strongly by 33.4% in 2021. Accordingly, nominal per capita GDP also dropped to US\$9,883 in 2020 and sharply increase to US\$13,190 in 2021. With 21.5% share in GDP in 2019, which dropped to only 12.1% in 2020 due to adverse impact of the COVID-19, the tourism sector remains the main pillar of the economy, driving overall economic growth along with non-tradable tourism related activities. Although the fisheries sector's contribution to GDP is low at only 6.4% of GDP in 2020, it remains one of the biggest sources of employment, and 'fish and fish products' account for almost 98% of Maldives exports.

The country has also moved from low to high human development category aided by improvements in life expectancy, increase in mean years of schooling, and rapid increase in per capita GNI. However, despite the developmental gains, Maldives remains vulnerable to external economic shocks and the adverse impacts of climate change. The population of Maldives is dispersed across small islands, making service delivery challenging and limiting opportunities for job creation and economic diversification. The higher than national average of youth unemployment at 15.0% is a source of concern. In addition, the rapid public debt buildup, a widening current account deficit, and low international reserves are the key economic risk factors.

Maldives suffers from major development challenges including low level of investment outside the tourism sector, inadequate connectivity among outer islands to facilitate the movement of people and goods, greater reliance on fossil fuels for electricity generation, weak waste management, water supply and sanitation. In addition, low access and quality of education, skills and health care services results in low human capital development in outer islands. Risks from climate change, disaster resilience and environmental vulnerability are high, coupled with rising volumes of solid waste.

The tourism as the main industry of the country relies heavily on foreign supply chains to meet its demand for food, fuel, and labor, thereby creating a balance of payment pressure. Traditional agriculture is not a very competitive option for a Maldives. With low domestic value addition, the fisheries sector has been heavily affected by the recent decline in skipjack tuna catches. Big governance losses happened in the areas of regulatory quality and government effectiveness, resulting in less business opportunities and therefore low economic diversification.

Upon the request of the Government of Maldives (GoM), the Islamic Development Bank (IsDB) Group has prepared a Member Country Partnership Strategy (MCPS) for the period of 2021-2025 in April 2021. However, in responding to the requests made by the IsDB's Governors during the 2021 Annual Meeting, IsDB undertook a major bank-wide Strategy Realignment Exercise geared towards reviewing its strategic orientation (Boosting COVID-19 recovery; Tackling increasing poverty and building resilience; and driving green economic growth in MCs), to best align its support over 2023-2025 to the critical needs and priorities of MCs. In view of these, Maldives MCPS has been aligned with IsDB's Strategic Realignment 2023-2025 while considering updated development challenges of Maldives and country priorities set at its national development strategies: Strategic Action Plan (SAP) 2019-2023 and National Resilience and Recovery (NRR) Plan 2020-2022.



This MCPS aims to provide broad strategic directions and sectoral focuses for the IsDB Group's engagement in Maldives during the period of 2022-25. The preparation of the MCPS Document is based on four strategic documents: (i) MCPS Strategy Document; (ii) New Strategic Directions; (iii) Maldives's Strategic Action Plan (SAP, 2019-2023); and (iv) Maldives' National Resilience & Recovery Plan (NRR, 2020-2022). In addition, the updated views and inputs from the thematic sectors of the Global Practice (GP) Departments and the IsDB Group Entities are duly considered. The MCPS Pillars identified are closely aligned with identified Pillars of Strategic Objectives under IsDB's Strategic Realignment 2023-2025 and the priorities laid out in the Strategic Action Plan (SAP) 2019-2023 and National Resilience and Recovery (NRR) Plan 2020-2022 of the Government of Maldives (GoM).

The overall objective of the MCPS is to make a resilient and sustainable life and diversified economy for Maldivians. To achieve the objective, the MCPS 2022-2025 identified three MCPS Pillars as areas of cooperation with Maldives: (i) **MCPS Pillar 1: Strengthen local economies and empower communities;** (ii) **MCPS Pillar 2: Ensure environmental sustainability and promote resilient society;** and (iii) **MCPS Pillar 3: Improve quality of Island life and enhance business environment.** These MCPS Pillars are designed relying on development challenges of Maldives, and IsDB's comparative advantage in supporting the country to tackle those development challenges, in alignment with the strategic objectives and pillars of the **IsDB's Strategic Realignment 2023-2025** and Maldives' national development strategies (SAP 2019-2023 and NRR 2020-2022). Under each MCPS Pillar, all relevant sector focuses have been identified to guide the IsDB's project level interventions during 2022-2025.

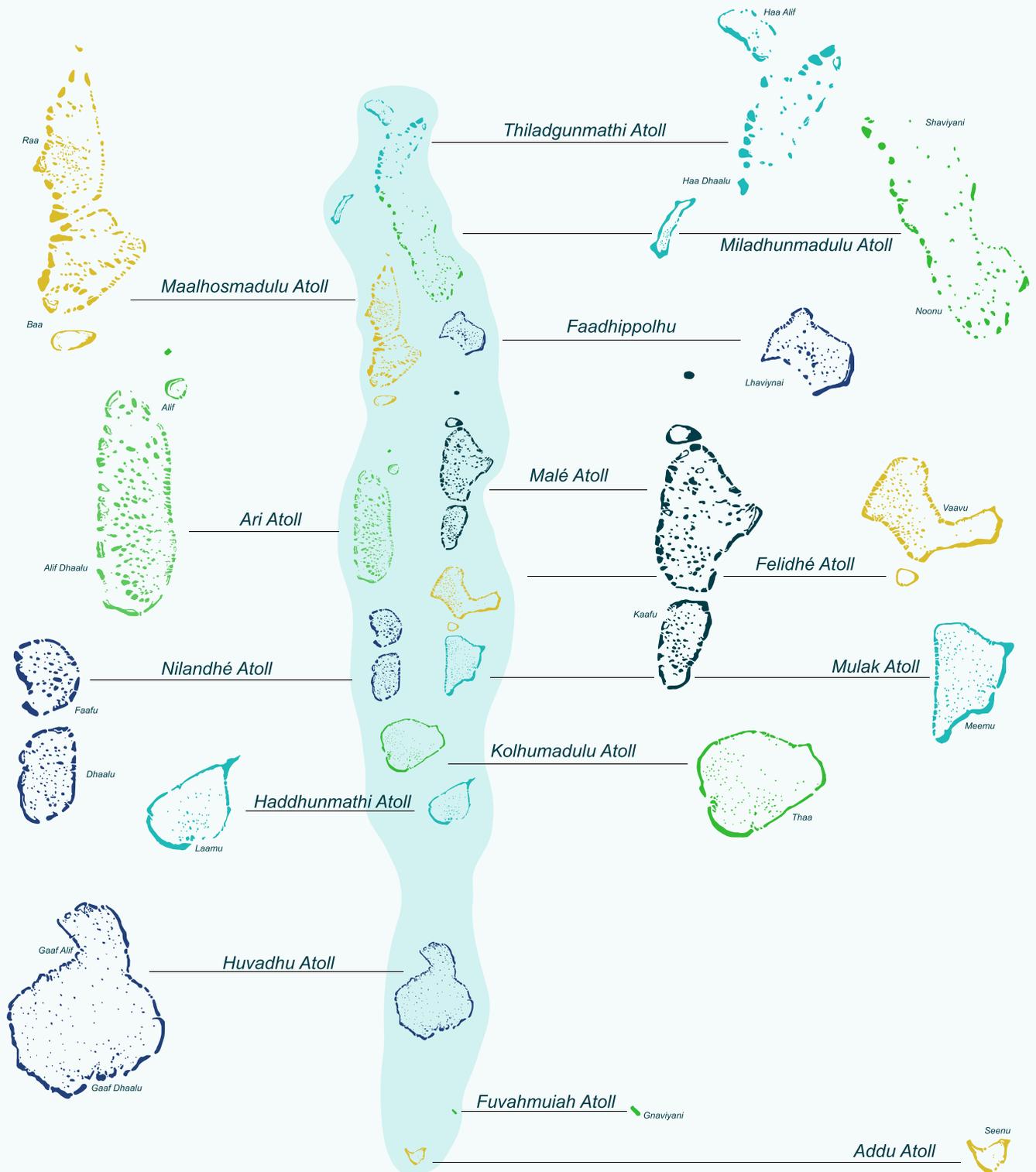
At 123.4% of projected public debt to GDP in 2022, the Maldives is considered as a 'country under severe debt distress'. Moreover, because of World Bank's IDA conditionalities, both World Bank and Asian Development Bank are mainly extending 50% Grants and 50% Loans financing to Maldives in supporting project approval and implementation. Therefore, it becomes imperative for the IsDB Group to work closely with GoM in monitoring the debt situation to provide a sound basis for prudent management and delivery of development assistance under the MCPS over the period 2022-25.

Given the projected Maldives macroeconomic vulnerabilities, the delivery of MCPS programs over the period 2022-2025 will be implemented considering strategic issues like, among others, IsDB's OCR exposure capacity and available headroom for Maldives and its borrowing capacity and appetite. For the implementation of the MCPS during 2022-2025, the indicative financial envelope of IsDBG will feature a mix of instruments drawing on the strengths of IsDB-OCR, LLF-Grant, PPP, ISFD, IFSD, ICD, ITFC and ICIEC. The actual financing amounts of MCPS 2022-2025 will be determined later during the programming and implementation stage in close consultation with the GoM. A detailed programming exercise through extensive consultation with focal ministries and agencies will result in an array of bankable projects to be identified for implementing during the MCPS period.

# ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
CIF	Cost, Insurance and Freight
DVA	Domestic Value Added
FDI	Foreign direct investment
GDP	Gross Domestic Product
GoM	Government of Maldives
GWh	Gigawatt hours
HDI	Human Development Index
ICD	The Islamic Cooperation for the Development of the Private Sector
ICT	Information and Communications Technology
IMF	International Monetary Fund
IsDB	Islamic Development Bank
kWh	Kilowatt hour
MC	Member Country
MCPS	Member Country Partnership Strategy
MW	Megawatt
NDC	Nationally Determined Contribution
PPP	Public–Private Partnership
PV	Photovoltaic
RSD	Resilience and Social Development Department
SAP	Strategic Action Plan 2023-2019
SDGs	Sustainable Development Goals
WB	World Development Bank

# MAP OF COUNTRY



The boundaries and names shown and the designations on this map do not imply official endorsement or acceptance by the Islamic Development Bank Group.

# INTRODUCTION

1. **Upon the request of the Government of Maldives (GoM), the Islamic Development Bank Group (IsDB Group), as part of its integrated approach to strategic programming, has prepared the Maldives Member Country Partnership Strategy (MCPS) for the period of 2021-2025, which was approved by the IsDB Board of Executive Directors in April 2021.** The overall MCPS engagement process with the country authorities and stakeholders aimed at boosting value-added competitive industries through easing critical infrastructure and connectivity constraints in identified industry champions, developing appropriate skills of their workforce, and creating an enabling environment for private sector development.

2. In order to ensure impactful delivery and its sustainability, the MCPS also identified needs for industry- and sector-specific institutional strengthening, including cross-cutting thematic areas such as access to finance, gender mainstreaming, and alleviating environmental and climate change-related risks through disaster preparedness. In addition, the MCPS validated IsDB Group supporting the achievement of the Sustainable Development Goals (SDGs), especially SDG9 that focuses on building resilient infrastructure, promoting inclusive and sustainable industrialization, and fostering innovation as well as all the pillars of Maldives' Strategic Action Plan (2019-2023).

3. At the Governors' Roundtable during the IsDBG Annual Meetings held on September 2021 in Tashkent, Uzbekistan, the IsDB member countries (MCs) shared renewed economic and social challenges, particularly in view of the adverse impact of the COVID-19, and suggested efforts to address them. In specific, the IsDB's Governors requested the Bank to review and realign its strategy to meet the aspirations of its MCs and respond to their critical and evolving needs. In response, IsDB undertook a major Strategy Realignment Exercise geared towards reviewing its strategic orientation ((i) boosting COVID-19 recovery; (ii) tackling increasing poverty and building resilience; and (iii) driving green economic growth in MCs), to best align its support over 2023-2025 to the critical needs and priorities of MCs.

4. In view of these, Maldives MCPS has been realigned with the new strategic directions of IsDB and the new priorities of GoM in close coordination with respective authorities and focal ministries/agencies of GoM and the IsDB Group entities. Specifically, the Maldives MCPS 2022-2025 aims to identify strategic areas in line with focuses of the **'IsDB Strategic Realignment 2023-2025: Promoting Comprehensive Human Development and Sustainable Infrastructure'**, and new sector and thematic priorities of Maldives. As the realigned MCPS captures common agreement at the strategy level between the IsDBG and the GoM, MCPS programming has been unbundled to ensure adequate individual project level due diligence, ownership, effective preparation, alignment with the IsDB's Comprehensive Results Based Management Framework and ultimately, efficient implementation and impact delivery as espoused in IsDB's Strategic Realignment 2023-2025. A detailed exercise on programming of projects will be followed through extensive consultation with focal ministries and agencies which is expected to result in an array of bankable projects to be identified for implementing in the rest of the MCPS period until 2025.

5. **Maldives, an upper middle-income country, has achieved an annual average growth of 6.3% during the period 2015-2019.** With the highest nominal per capita income of US\$15,056 in 2019 in South Asia, the country's recent strong economic expansion was propelled by expansion of high-end tourism, and non-tradable tourism related industries, including construction, transport and communications<sup>1</sup>. In 2019, the tourism sector grew by 13.2% and transport and communication growth was robust at 6.7%<sup>2</sup>. However, the COVID-19 pandemic left with a heavy toll on the Maldivian economy, which contracted by 33.5% in 2020, with strong rebound by 33.4% in 2021. Accordingly, nominal per capita GDP dropped to US\$9,889 in 2020 before climbing up again to US\$13,189.6 in 2021.

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<sup>1</sup> According to the World Economic Outlook, IMF

<sup>2</sup> Statistical Yearbook of Maldives 2020.



6. **With 21.5% share in GDP in 2019, which dropped to only 12.1% in 2020 due to adverse impact of the COVID-19, the tourism sector remains the main pillar of the economy**, driving overall economic growth along with non-tradable tourism related activities. Although the fisheries sector's contribution to GDP is low at only 6.4% of GDP in 2020, it remains one of the biggest sources of employment, and 'fish and fish products' account for almost 98% of Maldives exports. In terms of human and social development, the country moved from the low human development category to the high human development category aided by improvements in life expectancy, increase in mean years of schooling, and rapid increase in per capita GNI.

7. **However, Maldives is extremely vulnerable to external economic shocks and adverse impacts of climate change. The population of Maldives is dispersed across small islands, making service delivery problematic and limiting opportunities for job creation and economic diversification.** Although overall unemployment rate is 5.3% in 2019, the higher-than-national average of youth unemployment at 15.0% is a growing source of concern<sup>3</sup>. Moreover, female labor force participation is lower than that of men across all age groups, standing at 56.2% in comparison to male labor force participation of 64.5% in 2019<sup>4</sup>. While the economy has been still struggling to recover from damages caused by the COVID-19, the ongoing Russia-Ukraine war puts additional stresses on it as more than 10% of tourist arrived in Maldives in 2020 was from the Russian Federation. The rapid public debt buildup, a widening current account deficit, and low international reserves may further leave the country in a vulnerable situation with limited policy space.

8. **Despite significant progress, Maldives still suffers from an inadequate and inefficient transport connectivity between atolls and high transport costs**, limiting basic connectivity, mobility of people and growth of businesses, and raising the cost of doing business. Heavy reliance on imported fossil fuels, and lack of single national grid are major energy sector constraints, resulting in costly electricity services. Limited availability of freshwater, inadequate water supply networks, high water degradation, untreated wastewater pose a serious challenge. Lack of sustainable solid waste management practices result in a significant threat to the environment.

9. **This MCPS Document aims to provide broad strategic directions and sectoral focuses for the IsDBG's engagement in Maldives through the period of the Maldives MCPS (2022-25).** The preparation of realigned MCPS Document is based on four strategic documents: (i) MCPS Strategy Document; (ii) New Strategic Directions; (iii) Maldives's Strategic Action Plan (SAP, 2019-2023); and (iv) Maldives' National Resilience & Recovery Plan (NRR, 2020-2022). In addition, the updated views and inputs from the thematic sectors of the Global Practice (GP) Departments and the IsDB Group Entities are duly considered.

10. **The strategic and sectoral focuses of MCPS are closely aligned with the priorities laid out under the Government's SAP 2019-2023 and NRR Plan 2020-2022** for addressing country's developmental challenges and key impediments and achieving a broad-based, inclusive and sustainable growth in Maldives. A deepen coordination activities with other development partners for ensuring adequate resource mobilization is envisaged.

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<sup>3</sup> Household Income and Expenditure Survey 2019, Maldives.

<sup>4</sup> Household Income and Expenditure Survey 2019, Maldives.



## 2 COUNTRY CONTEXT-COUNTRY DIAGNOSTICS

11. **Maldives, a home to around 515,696 people in 2019, is comprised of 1,190 small islands, of which only 188 are inhabited.** Tapping of marine resources is a major contributor to the country's economic and social development, with nature-based tourism and fisheries being the two major sectors of the economy. Maldives' strategic geographical location in one of the densest trade routes in the world can enable it to emerge as a regional trade hub and create enormous opportunities for rapid economic transformation and diversification. However, none of the coral islands is more than 1.8 meters above the sea level, making the country vulnerable to the sea level rises associated with global warming.

12. **Owing to the high pace of economic growth over the past three decades, Maldives progressed from low income to lower-middle income and now to upper-middle income country.** It also graduated from the UN list of Least Developed Countries in 2012 and became a Small Island Developing State. The nominal GDP increased from US\$4.4 billion in 2016 to US\$5.6 billion in 2019, dropped to US\$3.7 billion in 2020 before rising to US\$5.1 billion<sup>5</sup>. The inequality of the country has worsened, with its HDI deteriorating from high HDI at 0.740 in 2019 to a low HDI at 0.584 (inequality adjusted value) in the same year<sup>6</sup>. Its overall HDI loss was 15% in 2010, rising to 21.1% in 2019. As a result, the country's human development index when corrected for inequalities falls from the high to the low human development category.

13. In moving forward, with the implementation of the reform agenda, it is critical that the country authorities, the private sector, and development partners remain cognizant of major binding constraints, both macroeconomic and structural, to achieving sustainable and inclusive growth.



<sup>5</sup> According to the World Development Indicators, World Bank.

<sup>6</sup> Source: UNDP Human Development Report 2020, <https://hdr.undp.org/sites/default/files/Country-Profiles/MDV.pdf>

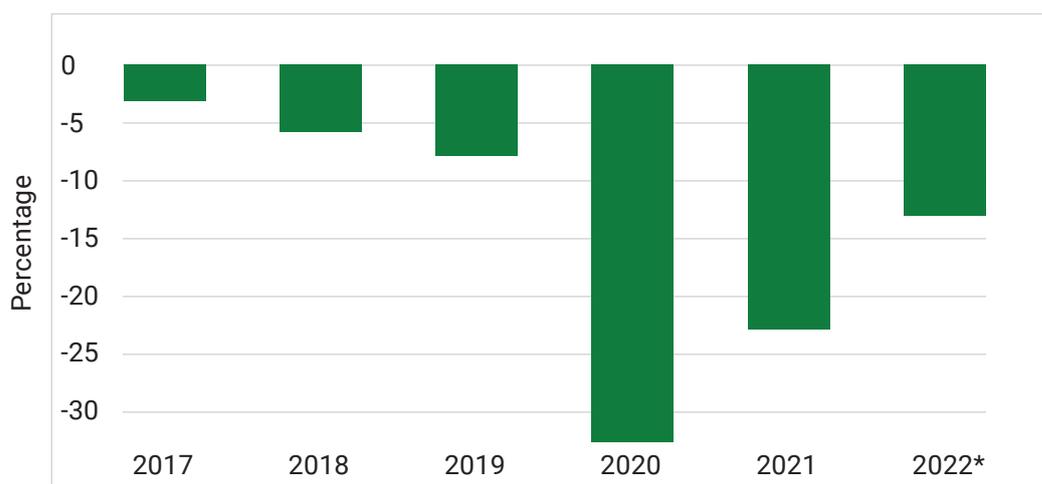
## 2.1 MACROECONOMIC OVERVIEW

### 2.1.1 Recent Macroeconomic Trends

14. **Real GDP grew strongly at 7.0% in 2019 led by strong investment in tourism, commerce, and construction.** However, this strong growth was preceded by a more sluggish performance, with real GDP growing by 2.5% in 2012 and 2.9% in 2015, which contributed to the widening of macroeconomic imbalances manifesting itself in the form of twin fiscal and current account deficits. The significant contraction of real GDP growth by 32% in 2020 due to an unprecedented pandemic-induced fall in tourism was a real setback for the economy and added to the continuing macroeconomic and external vulnerabilities<sup>7</sup>. However, the economy was rebounded with strong growth of 33.4% in 2020, propelled by strong recovery in tourism.

15. **Fiscal expenditure continued to grow at a faster pace than revenue,** even before the pandemic, resulting in widened fiscal deficit reaching 5.1% in 2018 and 6.6% of GDP in 2019 (**Figure 1**). The widening was largely driven by spending related to public sector wage bill, pensions, subsidies for food and electricity, transfers to state-owned enterprises and large public investment projects. Due to pandemic related sudden expenditure upsurge with significant curtail in the level of revenue, the fiscal deficit skyrocketed to 27.6% of GDP in 2020 before coming down to 18.1% in 2021.

Figure : 1 Overall Fiscal Balance (% of GDP)



Source: WEO Database, IMF, April 2022

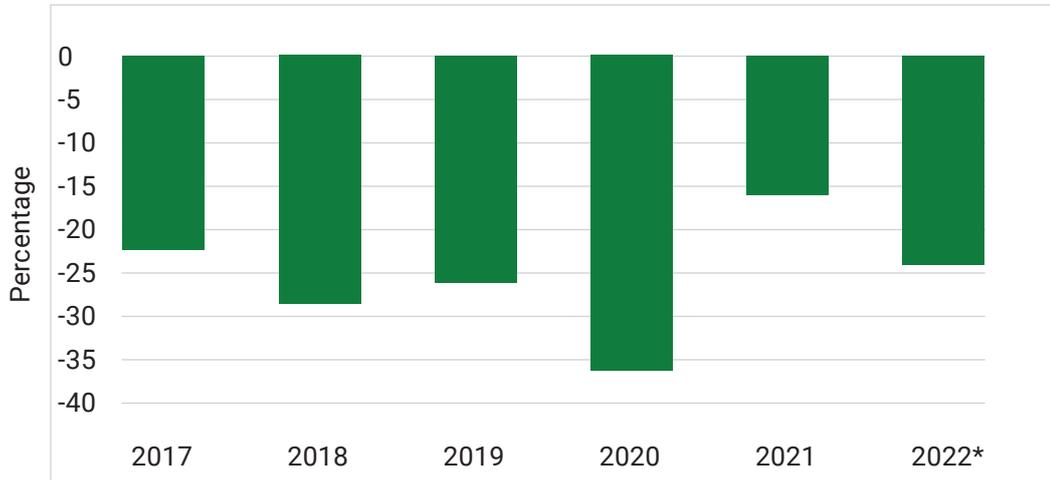
16. **Inflation has remained low** at 1.3%, annual average, in 2019, benefiting from the global decline in commodity prices and the pegged currency regime. In 2020, the inflation declined by 1.6%, but rose slightly by 0.2% in 2021, caused by low aggregate demand, low oil prices and continuing price subsidies on utilities. To sustain price stability, GoM periodically intervenes through the imposition of price cuts and controls on major staples, cuts on import duties on fuel to counter higher global prices and fixing lower prices for utilities and transportation.

17. **Despite the lower global commodity prices, the associated decrease in the import bills and higher tourism receipts, the current account deficit remains high at 26.6% of GDP in 2019,** mainly due to the imbalance between tourism-driven imports and fishery-driven exports, and higher imports

<sup>7</sup> Only 555,494 tourists visited in 2020, a third of the 2019 level.

associated with both public infrastructure projects and new resort investments (Figure 2). However, the current account deficit further deteriorated to 35.5% of GDP in 2020 due to larger drop in exports compared to imports before recovered to 15.6% of GDP in 2021.

Figure 2: Current Account Balance (%of GDP)

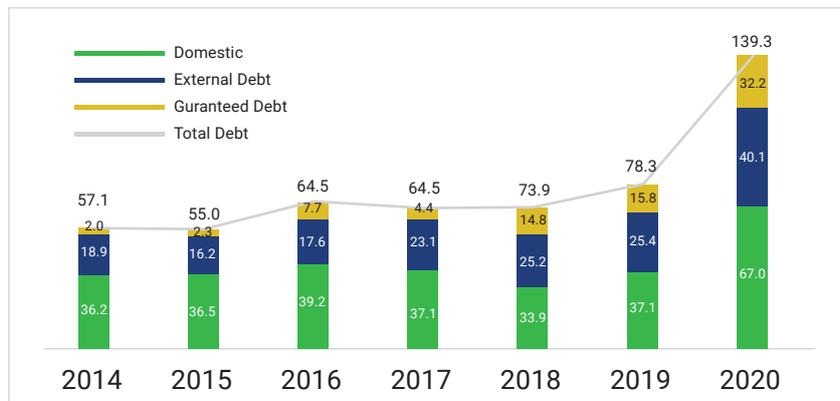


Source: WEO Database, IMF, April 2022

## 2.1.2 Debt Sustainability Analysis

18. **A high and rising public debt has been a key structural weakness in the Maldives’ economy.** Total public and publicly guaranteed (PPG) debt was about 78.8% of GDP in 2019, well above the 60% limit specified in the Fiscal Responsibility Act (FRA)<sup>8</sup>. The higher current spending on wages, social welfare, and subsidies and recent scale-up in capital spending on infrastructure assets have added to rising public debt. However, the COVID-19 triggered the public debt situation significantly worse with PPG debt-GDP ratio mounting to 146.1% in 2020, reflecting mostly the contraction in nominal GDP, but also an expansion in nominal debt (Figure 3)<sup>9</sup>. In 2021, PPG debt-GDP ratio also remained high but reduced to 123.4% of GDP.

Figure 3: PPG Debt (as % of GDP)



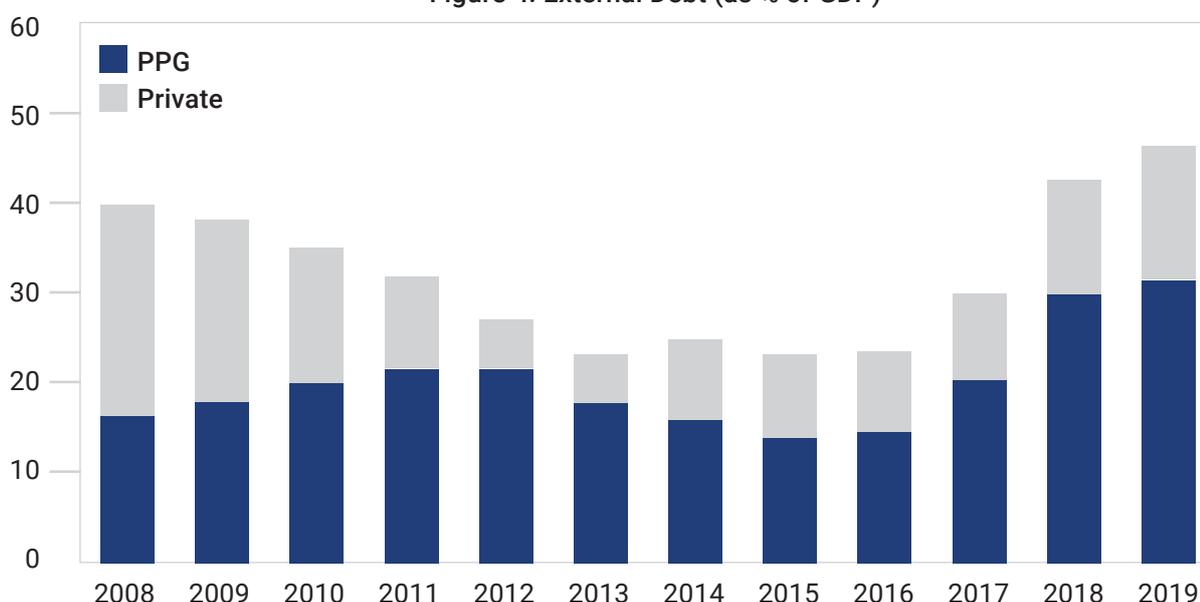
Source: IMF Country Report, April 2020 & Maldives Systematic Country Diagnostic Update, World Bank, 2021

<sup>8</sup> International Monetary Fund. 2019. 2019 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Maldives. Washington.

<sup>9</sup> Source: <https://www.imf.org/en/News/Articles/07/10/2021/pr-21287maldives-imf-executive-board-concludes-2021-article-iv-consultation>

19. **The country faces debt stress related challenges, and remains at a high risk of external debt distress and a high overall risk of debt distress.** According to the recent IMF assessment, the external debt (including PPG) is projected to rise from 50.4% of GDP in 2018 to 65.3% in 2021 and 61.5% in 2022 (Figure 4). External financing needs have been large and dollar shortages have persisted, as reflected in large spreads in the parallel foreign exchange market. This rise in external debt is mainly accounted by the need to finance large infrastructure projects and refinancing of the bond issuance of US\$350 million in 2017. Also, the recent USD 200 million Sukuk bond issuance in September 2021 covers unsecured financing needs for 2021. With rising debt levels, greater reliance on external financing and tighter limits on capacity to repay, the country continues to be rated at ‘high risk of external debt distress’.

Figure 4: External Debt (as % of GDP)



Source: IMF Country Report, April 2020 & Maldives Systematic Country Diagnostic Update, World Bank, 2021

20. **The Government is cognizant of the need to adopt corrective policies to address large fiscal and external imbalances as well as long-term development challenges.** A more balanced approach between constructing large public investments and managing the rapid accumulation of public debt is under consideration by the Government.

### 2.1.3 Structure and Drivers of Economic Growth

21. **Over the past 15 years, the country’s economic structure has not experienced major transformation in its tradeable sectors.** In fact, between 2003-2006 and 2015-2019, the average share of fisheries (in primary sector), manufacturing (including fish preparation in the secondary sector) and tourism (in the tertiary sector) experienced a decline. However, during the same period, average share of the construction sector increased from 4.6% of GDP in 2003-2006 to 7.7% in 2016-2020 while the average share of transportation and communication sectors rose from 8.7% of GDP to 11.2%. In order to build a resilient and competitive economy, these relative growth shares of the non-tradeable sectors compared to declining shares of tradeable sectors need to be reversed.



22. **The country's economic growth has been largely driven by its services sector while the contribution of other economic activities has been limited.** Growth performance was mainly underpinned by the expansion of the high-end tourism industry, and non-tradable tourism-related activities including construction, transport and communications. Economic growth has also been supported by capital accumulation through investment in resorts, and by an increase in labor force (World Bank, 2016). The potential for private sector led growth outside of the tourism and construction sectors is limited. While the country benefits from access to high quality fisheries stocks, this sector is constrained by productivity bottlenecks. Growth in the agriculture sector is constrained by the availability of arable land, and soil that is not suitable for growing a wide range of agricultural crops and vegetables.

23. **In terms of growth drivers, the tourism sector continues to be the main pillar of the economy and the variability of tourist arrivals accounts for major part of volatility in real GDP growth.** The tourism sector, as the most important sector of the economy, contributes 40% of government revenues, and supported 37.4% of the economy's total employment and tourism revenues (in nonfactor services) accounted for 56.4% of GDP. During 2016-2020, the average share of tourism sector in GDP stood at 18.9%, followed by transportation and communication at 11.2%, wholesale and retail trade at 8.2%, construction at 7.7%, and financial services at 5.3%<sup>10</sup>. Despite 4.5% share of GDP during 2016-2020, the fisheries sector is considered the second most important industry, as it is the largest export earner and has traditionally played an important role in providing employment and livelihoods, especially among the poorest people of Maldives. However, the food and fisheries industries are facing productivity bottlenecks with fishery per capita production falling from 569 metric tons in 2006 to 298 metric tons in 2016.



<sup>10</sup> Source: Statistical Yearbook of Maldives, 2021

## 2.1.4 Recent Social and Political Developments

24. **The rapid growth in per capita GDP has raised living standards for the people of Maldives** in terms of increased life expectancy, high educational attainment and a structural shift of employment from informal to formal sectors. As a result, human development soared from low (HDI value of 0.539 in 1995) to high (HDI value of 0.740 in 2019). Between 1990 and 2019, Maldives' life expectancy at birth increased by 17.4 years, mean years of schooling increased by 3.0 years and expected years of schooling increased by 4.2 years.

25. **Employment in Maldives is mainly concentrated in the services sector** accounting for 74% of employment in 2019, followed by 18% in the industrial sector and 7% in the agriculture sector<sup>11</sup>. Public sector jobs account for 43% of employment for women and 38% of employment for men<sup>12</sup>. Public employment ensures large wage premiums and other benefits which partly disincentivize the youth to seek jobs in the private sector. The overall unemployment rate is 5.3% and youth (aged 15 to 29) unemployment is higher at 14.3%. With 45.6%, female labor force participation in 2019 is alarmingly low compared with the male labor force participation of 77.1%. The main industries of employment for young Maldivian men aged 15 to 34 include: fishery workers (10%), hunters and trappers (9%), protective service workers (8%), and domestic hotel and office cleaners and helpers (6%). Males predominantly work for private sector (34%). On the other hand, young Maldivian women tend to cluster in private household employment, in education (24%), as shop salespersons (10%) and general office clerks (10%), and they are more likely to work for government sectors or independent organizations (34%). The COVID-19 outbreak has had a damaging effect on tourism, with tourists' arrivals fell by 67.4% in 2020 (year-on-year), and revenues by 34.2% as tourist-related revenues shrank drastically, further squeezing employment opportunities for the youth.

26. **Maldives adopted a new Constitution in 2008 and underwent a challenging period marked by a complex transition to a multi-party-political system.** The political environment has experienced periodic volatility and instability. However, the more recent resounding mandate received by the governing coalition in 2018 elections has motivated the incumbent GoM to chart the roadmap for a promising economic & policy reform agenda through the Maldives SAP 2019-2023. In addition, GoM also prepared the NRR Plan 2020-2022 in order to address pressing economic and social challenges exposed by the COVID-19 pandemic. Challenging tasks remain ahead to consolidate macroeconomic stability and lay down the

foundations for strong, sustainable and inclusive growth. Besides promoting export-oriented tourism and fisheries sectors, key structural reforms are critically needed to diversify the economy, improve women and youth participation, and generate other significant economic activities in the country. Against this backdrop, encouraging crowding-in private sector investment to help improve the quality of growth is high on the agenda.

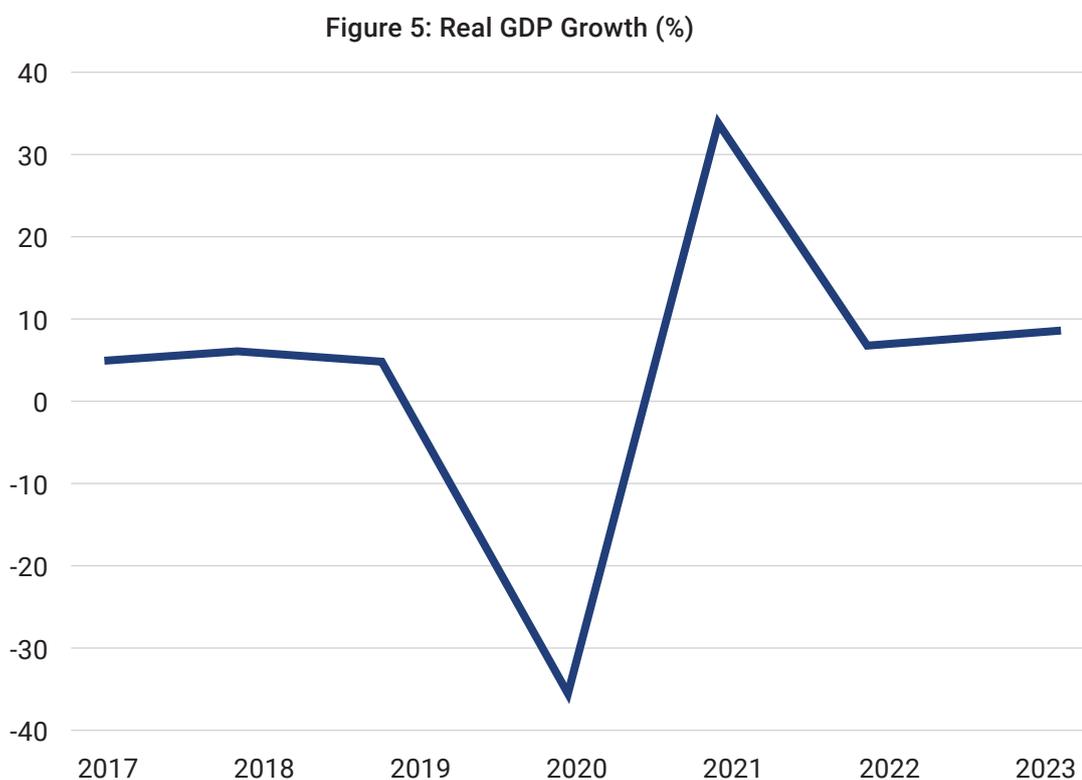


<sup>11</sup> Household Income and Expenditure Survey 2019, National Bureau of Statistics

<sup>12</sup> Maldives Systematic Country Diagnostic Update, World Bank, 2021

## 2.1.5 Economic Outlook

27. **Despite abrupt contraction of GDP growth by 32% in 2020, in the medium-term, real GDP growth was recovered strongly by 33.4% in 2021 and is projected to grow by 6.1% in 2022 (Figure 5).** Following the COVID-19 related lockdown, the sharp contraction in tourist arrivals, and associated disruptions in domestic activity, particularly construction, manufacturing, transport and wholesale and retail trade led to sharply decline in the 2020 GDP growth. Responding to those, Maldives took necessary precautionary measures including a rapid nationwide vaccination campaign which supported a stronger recovery in tourism in the second half of 2021, with total arrivals reaching 1.3 million by the end of the year, rose from only 555,494 tourists visited in 2020. Tourism could be adversely impacted by a persistent reduction in tourists from Russia – which comprised about 10% of tourists’ arrivals in 2020 - and new waves of COVID-19 infections. However, there is some upside potential for increasing tourist arrivals from traditional markets such as China and Western Europe. With gradual progress in economic recovery, the government’s continued support for infrastructure development, stable FDI, especially in the tourism sector, and smooth credit flow are expected to contribute to higher growth in the medium term. Over the medium term, inflation is projected to subside due to policy changes which are likely to reduce prices of staples and utilities.

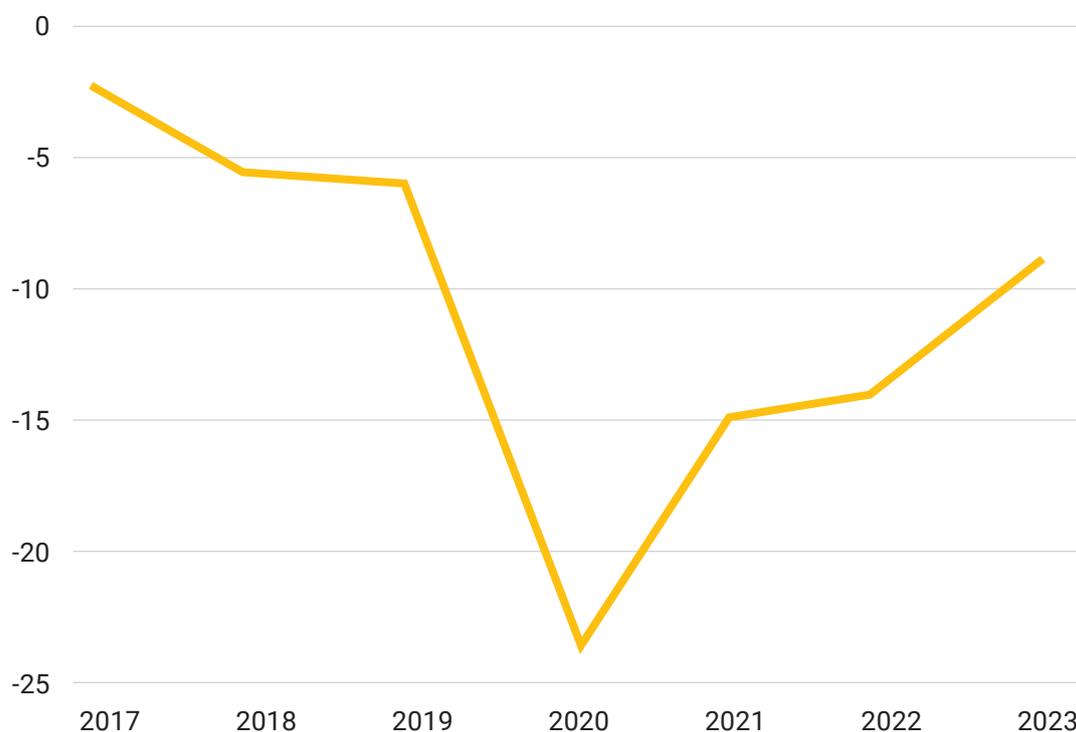


Source: IMF’s World Economic Outlook Database, October 2021

*With gradual progress in economic recovery, the government’s continued support for infrastructure development, stable FDI, especially in the tourism sector, and smooth credit flow are expected to contribute to higher growth in the medium term.*

28. **Without sustained fiscal consolidation, stress on sustainability of public debt will further pile up.** According to the IMF estimates<sup>13</sup>, the overall fiscal deficit is projected to remain high at 10.5% of GDP in 2022, a decline from 18.1% of GDP in 2021, and expected to narrow steadily in the medium term as revenue improve because of tourism growth (**Figure 6**). Despite that, fiscal deficit, in absolute sense, will remain high in the medium term, which further reinforces concerns regarding medium-term sustainability of elevated levels of public debt and repayments capacity. Public debt is projected to rise further with the inclusion of large multi-year infrastructure investment projects and unrestrained current expenditure including costs associated with new policy initiatives (i.e., student loan schemes, higher domestic air fares subsidy and food subsidies).

**Figure 6: Fiscal Balance (% of GDP)**



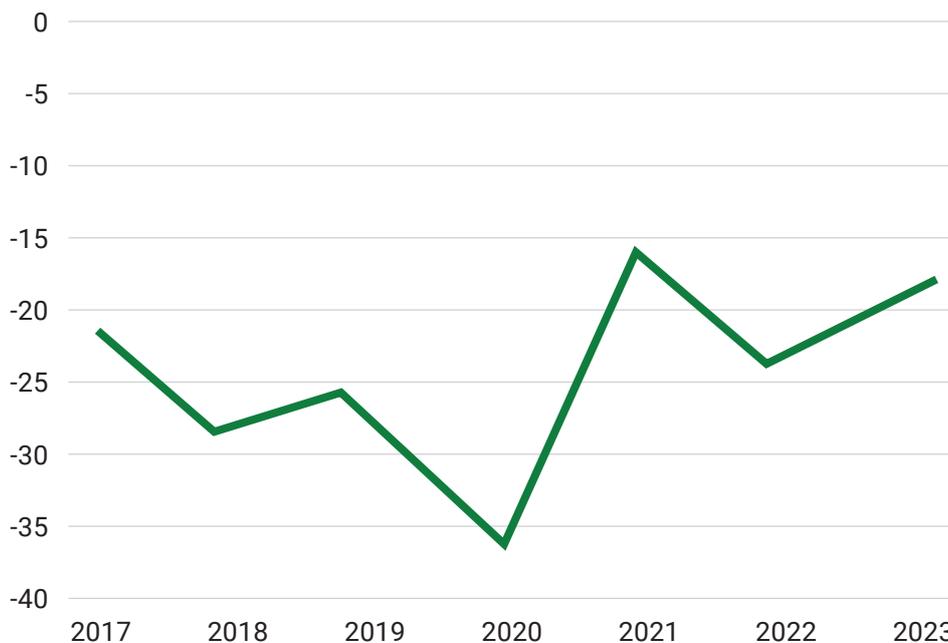
Source: IMF’s World Economic Outlook Database, October 2021

*Public debt is projected to rise further with the inclusion of large multi-year infrastructure investment projects*

<sup>13</sup> Source: <https://www.imf.org/en/News/Articles/07/10/2021/pr-21287maldives-imf-executive-board-concludes-2021-article-iv-consultation>

29. **Though improving over the medium-term, the projected elevated levels of current account deficits will continue to require large external financing.** The current account deficit is expected to deteriorate from 15.6% in 2021 and 24.2% in 2022 with the unwinding of large infrastructure projects and growing tourism proceeds (**Figure 7**). The current account deficits are expected to be financed with project-related external debt and foreign direct investment.

**Figure 7: CA Balance (% of GDP)**



Source: IMF’s World Economic Outlook Database, October 2021

30. **Key risks and vulnerabilities include slower than projected current account deficit reduction, elevated public debt and higher credit growth.** External shocks could be associated with rising international oil prices, lower than expected tourists’ arrivals due to continued Russia-Ukraine war, slower global growth and tighter financial conditions resulting in increased borrowing costs. Disruptions stemming from the pandemic and shocks due to the Russia-Ukraine war further highlight the risks associated with reliance on a single economic sector, i.e., tourism. Nevertheless, policies are needed to address external imbalances and contain fiscal pressure while safeguarding financial stability.

## 2.1.6 Green Growth Prospects

31. **As a highly vulnerable country to climate change and environmental degradation, Maldives could be an exemplary nation to promote green growth and sustainable development.** While the country is heavily dependent on fossil fuels for electricity generation and transportation, moving away from that toward a more diversified electricity matrix is key to ensure sustainable development from more economic and environmental perspectives. As the transport sector generates about 255 of emissions in Maldives, exploring sustainable modes of transportation through utilizing e-mobility technologies will also improve the country’s sustainability through lower CO2 emissions and reduced dependency on fossil fuels. Greening of resort islands and electric mobility through installing solar power also present significant opportunities for reducing fossil fuel dependence. Finally, ensuring sustainable solid waste management in islands in a more efficient and environmentally friendly manner will ensure maintaining Maldives’ position as a premier tourist destination.

## 2.1.7 Poverty Analysis

32. **Maldives has been in the middle-income bracket for the past 25 years**, reflecting moderation in economic growth which could be illustrative of a middle-income trap. Nevertheless, the country's continuous focus on regional development have helped to reduce poverty substantially across most islands. The official poverty headcount ratio stood at 8.2% in 2016, which is one of the lowest poverty rates in the South Asian region. Though poverty increased sharply due to the COVID-19 in 2020, it is expected to come down gradually with the economic recovery, and to return to pre-pandemic levels by 2023. Poverty is unequally distributed across the Maldives with higher poverty rates in the Atolls outside of Male; over 90% of poor Maldivians are living in Atolls. The uneven distribution and delivery of social safety support persists as the average expenditure of the bottom 40% of the population is 2.5 times lower compared to the average of the top 60% of the population, suggesting relatively high inequality.

## 2.2 SDG PROFILE

33. **In terms of SDG current assessment of 2021, Maldives has an overall score of 69.3 out of 100, placing in the rank of 79 out of 165 countries.** Currently, Maldives is maintaining SDG achievement SDG 1 (No Poverty), SDG 4 (Quality Education), and SDG 7 (affordable and clean energy). Challenges remain for SDG 8 (Decent Work and Economic Growth) and SDG 11 (Sustainable Cities and Communities). Significant challenges remain for SDG 3 (Good Health and Well-being), SDG 6 (Clean Water and Sanitation), SDG 9 (Industry, Innovation and Infrastructure), SDG 10 (Reduced Inequalities), SDG 13 (Climate Action), SDG 15 (Life on Land), SDG 16 (Peace, Justice and Strong Institutions), and SDG 17 (Partnerships for the Goals). Finally, major challenges remain for SDG 2 (Zero Hunger), SDG 5 (Gender Equality), SDG 12 (Responsible Consumption and Production), and SDG 14 (Life below Water).

Figure 8: SDG Dashboard and Trends



Source: UNDP 2021 (<https://dashboards.sdgindex.org/profiles/maldives>)

34. Regarding SDG trends, SDG 1, SDG 4, SDG 6, SDG 7, SDG 11 and SDG 16 are on track. Progresses toward six more, SDG 2, SDG 3, SDG 9, SDG 13, SDG 14 and SDG 17 are moderately improving. Stagnation is being observed for two of SDGs (SDG 5 and SDG 8). And progress for SDG 15 is trending downwards.

## 2.3 SECTOR ANALYSES

### 2.3.1 Human Capital Development

35. A persistently high economic performance of Maldives has resulted in substantial improvements in human capital development through improved level of education and health outcomes. Despite those, residents in outer islands suffer from access to better quality of education and health services. To improve further human capital development and people's access to productive employment opportunities, equitable access to upgraded education, skills enhancement and improved health facilities need to be ensured.

#### 2.3.1.1 Health

36. **Maldives has a strong track record in achieving good health outcomes (life expectancy, under-five mortality, infant and maternal mortality rates). Due to dispersed geographical location and transportation difficulties, people in Maldives suffer from lack of health services and unavailability of essential medicines.** Though the GoM's health spending more than doubles in real terms in the recent past, advanced health facilities are still available only in the capital Malé, hindering reduce spatial disparities and foster inclusion in the health sector. High cost of medicines and over reliance on the expatriate health workforce are major bottlenecks for continuities of quality service delivery. As non-communicable diseases—such as cardiovascular diseases, cancer, diabetes, and renal failure has been growing, the capacity of the current health system, as capacity to address these is weak. The COVID-19 pandemic provided opportunities to upgrade the health care system in Maldives, through improving health infrastructure and utilizing telemedicine services. Various inefficiencies in the health sector remain, such as excessive care-seeking at hospitals in Malé due to underfunded, low-quality services in the atolls, and high rents in the pharmaceutical sector leading to wasteful spending on drugs. In addition, pandemic preparedness needs to be addressed through continued investment in emergency health services.

#### 2.3.1.2 Education

37. **The current education system in Maldives, especially at secondary and tertiary levels, lacks match of the professional skills required by the labor market.** Graduates are often ill prepared to meet the demands of the work environment, and sometimes are reluctant to engage in semi-skilled and unskilled jobs. The skills shortage has a direct link with low education attainment and persistent inequity in the delivery of education services. Distance and cost are serious barriers to widening access to higher secondary education for students from outer islands.

38. **Educational attainment is relatively low in Maldives, with three-quarters of the population ages 15 and above having achieved only to lower secondary education) or below,** limiting employment opportunities. These challenges are exacerbated by transportation challenges and limited education opportunities available outside the greater Malé area, leading to widening regional disparity in employment between Male and atolls. Access to higher education is limited to Maldivians who can afford to travel to and stay in Malé or overseas.

39. Currently, the GoM's education expenditures have been largely allocated for primary and lower secondary levels to achieve the goal of universal primary education and quality lower secondary education, leaving limited resources for higher secondary and tertiary education and skills development for those who just complete mandatory schooling.

## 2.3.2 Infrastructure

### 2.3.2.1 Energy

40. **Maldives predominantly relies on imported fossil fuels to meet its energy demands, especially for transport and electricity generation, while renewables sources remain largely untapped.** Due to the dispersed nature of the islands, Maldives does not have one single national grid. Each island has its own electricity generation and distribution facility resulting in costly electricity service. At present, renewable energy in the Maldives only amounts up to approximately 2.8% of the country's energy supply. Although Maldives achieved universal access to electricity, the electricity demand is projected to grow at a rate of about 8.5% a year, led by an increase in tourism.

41. **In 2018, the country imported 643,964 metric tons of fuel (about 15% of total CIF value of goods imports, or 6.6% of GDP in 2018).** Out of this, 521,598 metric tons were diesel (11.8% of total CIF value of goods imports), of which approximately 75% were for electricity generation. Electricity consumption has been growing steadily across the country, increasing from 550 GWh in 2015 to 704 GWh in 2017 on the inhabited islands. In 2018, the country has the total electricity generation capacity of 391MW which includes about 380MW of diesel generators (i.e., 240MW for inhabited islands, 120MW for resort islands and 20MW for industrial islands), and 11MW of solar photovoltaic (PV). The current electricity tariff approved by the Maldives Energy Authority for diesel-based generation is in the range of US 14-50 cents. The high production costs require government subsidies to the utility companies. High electricity prices are linked to volatile diesel imports and the inefficiency of most installed diesel generators.

42. **Under current policies, fossil fuel imports are likely to grow further to meet expanding demand and continued dependency on fuel for electricity production.** This has significant fiscal and external sustainability implications, in addition to adverse climate change impacts<sup>14</sup>. Although electricity subsidy (for diesel being used for electricity generation and end-user electricity tariff) was 1.7% of GDP in 2014, it came down below 1% of GDP in 2019 because of electricity subsidy reform in 2016<sup>15</sup>. In general, the current tariff rates of Maldives, roughly US 28 cents on average, for all categories of customers are the highest cost of electricity generation across the South Asia.

43. **Diversifying the energy mix towards renewables by reducing the dependency on diesel with more efficient energy consumption would ensure sustainable development, reduce external vulnerabilities and improve fiscal position.** The main challenge of the energy sector is to reduce the dependency on imported fossil fuel while meeting the ever-increasing energy demand for electricity. Maldives has significant untapped potential for renewable energy, particularly solar photovoltaic (PV). Supporting innovative solutions such as floating solar facilities including PV could provide opportunities for hybrid electricity for small islands.

44. **Availability of affordable financing is a key constraint on meeting country's target for power generation from renewable energy sources.** Exploring how to de-risk and attract private investments to support both renewable energy and energy efficiency would remain one of the key challenges for the country. The GoM looks for concessional financing from MDBs, co-financing and alternative funding resources such as private investment.

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<sup>14</sup> In the past, Maldives had a uniform flat subsidy for electricity consumers. However, the 2016 reforms focused on decreasing support for large consumers while maintaining low energy prices for poorer households.

<sup>15</sup> The World Bank's 2018 logistics performance index ranks Maldives 86 out of 160 countries and second in South Asia, just behind India.

### 2.3.2.2 Transport

45. **Maldives suffers from an inadequate and inefficient transport network despite continuous efforts made by the GoM to address the transport bottlenecks<sup>16</sup>.** Connectivity between atolls remains a huge issue for majority of the population, and therefore maritime transportation is critical for the movement of people and goods in the Maldivian archipelago. Insufficient sea transport services and harbor facilities limit connectivity, constrain the mobility of people, and increase the cost of doing business.

46. **For an island nation, upgraded air linkages and facilities are critical to Maldives,** particularly for the tourism industry through catering the growth in tourist arrivals and helping improve mobility across the various islands. Most international tourist traffic arrives at Velana International Airport in the Male which is operating near or at its maximum capacity<sup>17</sup>. Seven regional airports and a few domestic airports are mainly used to transport tourists to resorts, while cargo is transferred by sea transport.

47. **The use of land transport in Maldives is very limited and most roads on the islands are coral sand roads.** Despite the limited use and availability of land transport, traffic congestion is rising in the capital Male. Public transportation systems are inadequate due to high operational costs, and private sector investment is discouraged by the low passenger numbers and high costs of importing fuel.

48. **Transport costs are high due to the long distances between islands and atolls, underinvestment in critical sea transport infrastructure, and heavy reliance on imported fuel.** The high cost of moving goods domestically has been a major concern of entrepreneurs from the atolls, adding to the commodity prices. Infrequent sea transport service delays the transport of goods, thus constraining the growth and profitability of enterprises in the islands and discouraging new investments in potentially profitable areas.

49. **The current transport infrastructure development focuses largely on shipping and civil aviation such as upgrading international and regional airports.** Domestic sea transport is based on small vessels (50 ton - 250 ton capacity) for providing service to outer islands. The GoM continues to provide incentives to private transport service providers, such as exemption from fuel duties, to expand the transport services.

### 2.3.2.3 Affordable Housing

50. **Being a nation of very small islands, Maldives' major social vulnerability lies with acute shortage of affordable housing,** particularly in the Capital Male. Such problems include the increasing scarcity of land, high costs of construction and reclamation, and accommodating more users with population growth. The housing crisis in Male has worsened over the years by internal migration from smaller, poorly developed islands for better education, employment and healthcare in Male. It has been estimated that, 61.5% of households in Male are in rental accommodation paying on average 53.3% of their household income on rent. This not only depresses disposable incomes, but adversely impact the income inequality, national savings rate, fiscal revenues and the financial sector.

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<sup>16</sup> The World Bank's 2018 logistics performance index ranks Maldives 86 out of 160 countries and second in South Asia, just behind India.

<sup>17</sup> A new runway for the Velana International Airport in Male has been constructed, and construction of a new passenger terminal is under way.

### 2.3.2.4 Water

51. **Freshwater resources in Maldives are scarce.** The main natural freshwater resources available in the islands are shallow groundwater aquifers. Freshwater is usually concentrated in lenses lie at an average depth of 1–1.5 meters below the ground surface. Over-extraction, sea level rise and other climate hazards has significant adverse impact in terms of saltwater intrusion and degradation and contamination of fresh groundwater resources.

52. **Maldives depends heavily on water desalinated from seawater, rainwater harvesting and shallow wells for freshwater.** Among the 188 inhabited islands, only 34 have full water supply networks. The remaining islands (with 28% of the population) lack access to piped water network facilities. As the quality of groundwater has been degraded, rooftop rainwater harvesting is widely practiced in the atolls, mainly for potable purposes. Though rainwater is the major source of drinking water for many islands, failure of monsoon leads to drought-like conditions in those Islands. The shallow wells and freshwater aquifers are also being threatened by land degradation and salinization, especially in low-rainfall areas.

### 2.3.2.5 Urban Development

53. **Solid waste management.** The Greater Malé capital region and its outer islands suffer from severe environmental pollution and deteriorating livability because of the inadequate collection and haphazard disposal of solid waste. The Greater Malé and its inhabited outer islands lack an organized and sustainable waste management system for the 800 tons per day (tpd) of mixed solid waste they generate. Because of rapid urbanization and tourism development in the region, waste generation is expected to grow to 924 tpd by 2022. The increasing pressure on an already stressed waste management system poses a significant threat to tourism and fisheries, both of which rely heavily on the country's pristine environment and are cornerstones to the Maldives' economy. Poor communities on the outer islands suffer from accumulated garbage as they have limited awareness and capacity to manage solid waste effectively.

54. **Sanitation and Sewerage.** Currently, about 75 percent of Maldivian households are served through sewer networks, yet wastewater is often not treated. With respect to sewerage networks, only 66 islands have complete proper effluent collection including onsite household sewage collection tanks and piping. Of the established 66 sewer systems, 23 include sewage treatment plants (STPs) before release to the ocean. However, operational constraints mean that the STPs installed in almost all these islands remain unused. The wastewater produced remains untreated, bypassing the STP and directly discharging to the sea, creating sustainability risks to the tourism and fisheries industries and potential health risks to the population and leading to negative environmental impacts on coral reef ecosystems.

### 2.3.2.6 Information and Communication Technology (ICT)

55. **The Maldivian ICT sector is fragmented and only partly developed. Apart from the two large telecommunications providers, most actors from the private sector are small and medium-sized businesses.** Maldives is highly dependent on foreign supply chains and ICT experts for the acquisition of ICT products and service, more favorable ICT infrastructure and cheaper labor costs. Government schools are suffering from the lack of ICT and STEM education. In terms of local ICT human skills, there is a lack of plans to develop ICT experts. Redundant IT infrastructures could lead to major internet breakdowns. Also, the connections between the islands need to be modernized and improved. The dispersed geographic conditions in Maldives pose some challenges for the ICT sector, particularly development and modernization of ICT infrastructure, leading to existing inequalities in internet coverage and subsequently, a high concentration of businesses and workers in and around the Male.



56. **The ICT infrastructures including reliable broadband access should be improved and costs to internet access be reduced.** A faster, unlimited Internet connection would reduce substantial barriers for local companies. Improved access to finance by Maldivian companies would have greater potential to innovate and develop new technologies and digital processes.

### 2.3.3 Agriculture and Fisheries

57. **In Maldives, the fisheries sector constitutes more than 80% of agriculture sector and forms the most important primary economic activity and source of employment in almost all inhabited islands.** Fisheries sector is pivotal for an important source of employment (roughly about 30% of the total labor force) for men with lower levels of education, rural livelihoods and income for the inhabited outer atolls, and critical for food security and nutrition<sup>18</sup>. Currently, fisheries provide about 80% of export revenue. Also, the Maldives was the main exporter of fresh or chilled Yellowfin tuna worldwide in 2018.

58. **The fisheries sector can be divided into tuna fisheries (Skipjack and Yellowfin tuna), reef fisheries and a just emerging mariculture sub-component.** Due to limited canning capacities and oligopolistic structures favoring large-scale producers and limiting purchase of raw material for smaller producers, about 50% of current Skipjack tuna catch is exported frozen in bulk to competing industries in Thailand for processing. Maldivian chilled Yellowfin tuna products are considered high-end products and command premium prices on international markets. Most yellowfin tuna exports are distributed to limited markets. Reef-based fisheries have expanded to cater to increased demand from export and local tourism markets, but remain in small scale.

59. **Improper handling of fish on board fishing vessels without proper cold storages (or, applying refrigerated sea water (RWS) technologies) leads to significant damages of fish catches and therefore increases losses.** Improved handling of fish and their preservation on board fishing vessels through injecting RWS using solar energy will bolster the quality of raw materials and reduce post-harvest losses and promote environmentally friendly fishing activities.

### 2.3.4 Trade, Insurance, Private Sector Development and PPPs

#### 2.3.4.1 Trade Finance

60. **Though Maldives is not a member of the International Islamic Trade Finance Corporation (ITFC), the country continues to receive the trade finance services from it.** Since its inception in 2008, ITFC's focus on Maldives was to deliver trade financing for the energy sector through closely engaging with the State Trading Organization (STO), Maldives, a state-owned entity, mainly for the importation of petroleum and its refined products. Given the catalytic role of the energy sector to the economy, ITFC has been successful in ensuring continued energy supply for Maldives at competitive prices through its financing. In 2020, ITFC extended supports to the country in tackling the COVID-19 related trade emergencies.

61. **In the past, ITFC has successfully raised the largest Islamic Trade Finance syndication for STO.** This syndication has raised the awareness of Maldives in the debt market and with STO's strong track record, the perception of Maldives risk profile is expected to improve over the years.

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<sup>18</sup> As a food import dependent country, any adverse impact of ongoing Russia-Ukraine war on availability and prices of food may put danger in food security in Maldives.

62. **With signing of a Framework Agreement for \$1.5 billion with Maldives over a period of 5 years, ITFC enhanced collaboration with the country** in the trade financing and trade development space for mobilizing financial resources on: (i) Importation of fuel, staple food, medicine & medical equipment; (ii) Financing the fisheries sector; (iii) Supporting the SMEs through Lines of Financing with local banks; and (iv) Trade facilitation support for the fisheries and agricultural sector.

#### 2.3.4.2 Islamic Insurance

63. **As a trade dependent country, Maldives could seek opportunities of Islamic insurance in terms of getting export credit insurance and also investment insurance to foreign investors/lenders for attracting FDI** especially into tourism and digital infrastructure sectors. In general, ICIEC has trade credit insurance and investment insurance services targeted for banks/financial institutions, corporates/exporters and Export Credit Agencies (ECAs). Trade Credit Insurance covers the commercial and political risks borne by the exporters protecting their export receivables from non-payment while Investment Insurance covers the political risks borne by the foreign investors/lenders protecting their investment.

#### 2.3.4.3 Private Sector Development

64. **Despite being a higher middle-income country, total investment in Maldives is stagnant at only 20% of GDP in 2020, hindering further private sector development and diversification of economic based beyond tourism.** Growing debt-finance fiscal deficits, weak governance, and regulatory bottlenecks limit private investment opportunities.

65. **The dominant role of 34 state-owned enterprises (SOEs) operating in almost all economic sectors is absorbing market space and financial resources** that in other countries support private sector development and thus constrains efforts to diversify sources of growth through private sector development. Weak business environment and substantial barriers persist that reduce the ease of doing business in Maldives<sup>19</sup>.

66. **There are significant obstacles to trade as trade processes are constrained by several procedural and organizational bottlenecks, which hamper the efficient flow of trade transactions.** Despite recent government initiatives, limited access to credit continues to be a key bottleneck, especially to SME businesses. The cost of finance in Maldives is generally high due to weak and inefficient financial intermediation and large public sector borrowing from the domestic financial market.

67. **To meet targets set in NDP and NRR in unlocking the private sector, Maldives will need to improve the overall business environment in attracting private investments so that scarce public resources can be used for other productive sectors, and existing fiscal constraints can be properly tackled.** In this regard, GoM needs to create better investment climate for improving ease of doing business, ensure access to credit, financial inclusion and capacity building of SMEs, address infrastructure bottlenecks and provide necessary risk mitigation solutions to the private investors for reducing perceived risks and effectively mobilizing investment in critical sectors such as clean and renewable energy, ICT and affordable housing.

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<sup>19</sup> According to the World Bank's Doing Business Report 2020, Maldives ranking in overall ease of doing business was 147th in 2020 out of 190 economies, dropped from 139th in 2018 and 79th in 2014.



#### 2.3.4.4 Public Private Partnerships

68. **Perceived weak investor protection in Maldives is further exacerbated by negative market precedents that would require meticulous financial arrangements** backed by MDB/GoM guarantees to ensure investor interests for large infrastructure projects. The country lacks experience in PPPs with just two registered PPP deals, one of which has been cancelled. Maldives does not employ a PPP framework or strategy that would lay out the rules governing the PPP process and the responsibilities of involved stakeholders.

69. **Rising levels of external debt leaves limited space for providing sovereign support via guarantees that might be needed to ensure bankability of projects.** An entrenched culture of GoM subsidies and precedence of ‘loan write-offs’ by the GoM have resulted in population’s high sensitivity towards user-pay public service provisions which will need to be considered in PPP project structuring

70. **Fisheries projects financing are likely to face several barriers as the sector is broadly unregulated and extensively unbanked.** The lack of legal framework required at MSMEs level to link these firms to the financial sector does not allow for easy provision of financial services and for funding of large-scale infrastructure.



## 2.4 THEMATIC ANALYSES

### 2.4.1 Women and Youth Empowerment

71. **Youth are increasingly losing out in realizing their socio-economic potentials<sup>20</sup>.** A higher number of youths are ending schools without certificate; at ages 25 to 34, 29% of males and 24% of females are without certificate. A blend of high unemployment and limited job opportunities for youths adds to growing youth unemployment which is limiting the inclusion and productive participation of the youth in the economy.

72. **Maldives relies heavily on foreign labor, roughly 25% of total population, to run its economy, indicating a shortage of technically skilled local human resources.** Industries demand expatriate workers for low skilled jobs (construction industry) and for skills not found in local employees (tourism industry). The availability of foreign human resources makes local human capital not a binding constraint in the short run to investment flows into the country, although it is a critical challenge to fostering inclusive and sustainable development. The economy needs to generate enough well-paid jobs for its citizens, especially for women and young people, to secure high living standards and improve the future quality of life. Targeted vocational training programs for young men and women will equip them with job market skills and expand employment opportunities available in the identified high potential industries.

73. **With about 36% of total resident population including foreign nationals, women in the Maldives face severe social and economic constraints, impeding their further empowerment.** The country's Gender Inequality Index (GII)<sup>21</sup> value of 0.369, ranks 82 out of 162 countries in the 2019 index. The Maldives has particularly strong performance on female educational attainment, particularly at the primary level, however, girls' access to tertiary and professional education is hampered by girls' and women's inability to move easily and freely, and primacy of household roles over others.

74. **Women, especially in the islands, are primarily engaged in home-based income generating activities** and hence are found at the lowest end of the value chain. For young women on the islands, lack of information regarding professional options, and employment opportunities and availability of vocational training are specific barriers to seeking employment.

75. **High unemployment among women makes them economically vulnerable.** Since women dominate the informal sector and work from home, there is an opportunity to improve their entrepreneurship skills and move them up the value chain by providing them with technical and financial resources, as well as linkages to markets and market information. Women could also be targeted to enter sectors of high growth potential, such as tourism and fishery, by taking into account their specific needs, as well as developing necessary skills that will enable them to find jobs in such sectors.

### 2.4.2 Fragility and Resilience

76. **Fragility risks include vulnerabilities to climate change, marginalization, weak social accountability and transparency, inequitable access to services, and youth exclusion** due to high youth unemployment rate, leading to bring negative implications for the country's growth and development.

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<sup>20</sup> According to the Maldivian Government, youth is defined as the age group of 18 to 34, and they make up about %35 of the Maldivian population.

<sup>21</sup> The GI is an inequality index. It shows the loss in potential human development due to disparity between female and male achievements in three dimensions, reproductive health, empowerment and economic status.



77. **The geographical and physical characteristics of the Maldivian islands such as small size, low elevation and wide spatial distribution of islands adds to the existing high vulnerability to climate change.**

As islands are all small in nature, all of the country's critical infrastructures and human settlement are located within 100 meters of the coastline. Erosion is often reported as the most significant environmental concern threatening the existence of islands. Climate induced extreme weather disrupts regular supply of essential commodities to remote islands. Climate induced vulnerabilities are extremely high, especially due to natural habitat loss, depletion of water resources, and issues related to food security. The capacity of the islands to respond locally to disasters is very low, owing mainly due to the lack of human and technological capacity.

78. **Over-centralization of public services lead to inequitable distribution of resources, resulting in less economic opportunities,** marginalization, growing socio-economic disparities, driving of migration, less jobs for youth and women and low education and health outcomes.

### 2.4.3 Mainstreaming Climate Change and Disaster Mitigation Measures

79. **Maldives' development challenges are partly related with risks from climate change, disaster resilience and environmental vulnerability coupled with rising volumes of solid waste.** Being a low-lying island nation, Maldives islands are at risk to rising sea levels, which may cause acute stress on water resources and infrastructure. Maldives' two main economic sectors, tourism and fishery, are also extremely climate sensitive. With fishery being the great nutritional source for Maldivians, climate change may severely affect fishing industry and is likely to increase food insecurity in the country. Also, a population scattered across 188 islands makes disaster management and food distribution extremely difficult. In addition, lack of proper waste management facilities in inhabitant islands with their weak capacity in managing waste disposal is underlining the necessity of placing a comprehensive waste management for sustainable tourism sector.

80. **In terms of vulnerability and readiness index, Maldives scored 47.0 on the ND-GAIN index, placing it as the 53rd most vulnerable country and the 82nd most ready country.**<sup>22</sup> The GoM recognizes the need to build its capacity to ensure a safe, sustainable and resilient and prosperous future, and put forward plans for adaptation and mitigation activities under the Paris Agreement. In order to prevent and respond to the risks and shocks pose by the natural disasters, the GoM has introduced SAP for Disaster Risks Reduction (DRR, 2010-2020). The New Strategy calls for introducing an integrated approach to DRR and climate change adaptation tackling the critical climate risks, and proposes the following four actions: (i) enabling environment for good democratic governance; (ii) empowered and capable communities; (iii) resilient communities with access to technology, knowledge and other resources; (iv) risk-sensitive regional and local development.

81. **The following critical challenges are there:** (i) not enough structural reforms needed to improve long terms economic and social resilience to risks and shocks of the natural disasters; (ii) limited resources for the disaster risks financing to introduce effective early warning system and to mitigate the negative impact of natural disasters when they occur; (iii) weak mainstreaming of the DRRs in the key sectors infrastructure, transport, education and agriculture sector to provide safer facilities; (iv) inadequate national disaster responses capacity; and (v) the need for strong disaster risks management systems. Given the special case of Maldives as small Islands frequently affected by natural disasters, there is a need to build resilience, develop medium- and long-term effective prevention and response mechanisms to have better recovery, rehabilitation and reconstruction.

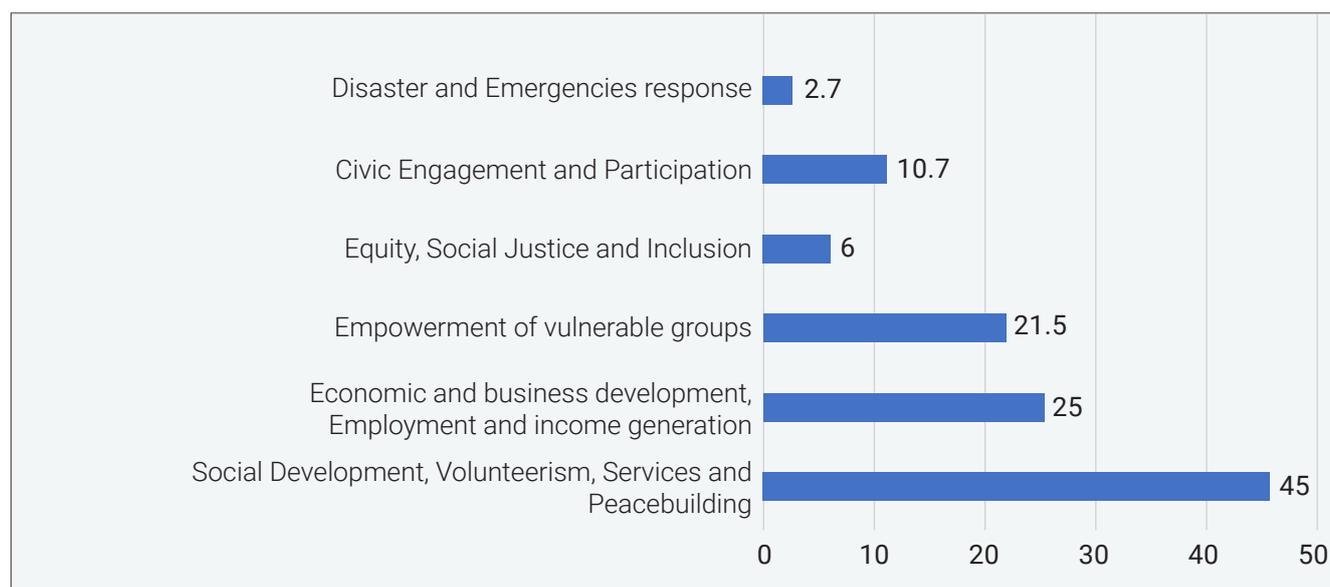
<sup>22</sup> Source: <https://gain-new.crc.nd.edu/country/maldives>

## 2.4.4 Fostering Partnerships with the Civil Society Organizations

82. **Maldives has gone through major democratic change that has transformed the socio-cultural fabric of the country which created the space for civil society through explicit guarantee of the rights of freedom of expression and association (UNDP Maldives, 2010).** Indeed, the SAP 2019-2023 of the GoM guarantees that space will be allowed for individual freedoms and the civil society to thrive.

83. **The Maldives has over 1100 registered civil society organizations**, 40% of which are based in Male (FJS Consulting Pvt. Ltd, Male' Maldives, 2011). There are 25 main areas of work which CSOs in Maldives focus on. Most organizations worked in more than one area, showing high levels of multi-sector engagement amongst CSOs. Forty-five percent of CSOs in Maldives work in social development, volunteerism, services and peacebuilding as shown in Figure 9.

**Figure 9: CSOs Areas of Engagement in Maldives**



84. **In the current context of new challenges for the country, it is vital that the civil society sector is strengthened to fulfil their developmental role in the social and economic sectors of the country.** The civil society is needed to generate and complement existing human and capital resources required in the process of Maldives national development, provide a consultative role, policy dialogue and give voice to marginalized, particularly in ensuring women and youth are shared beneficiaries in developmental outcomes.

## 2.4.5 Regional Cooperation and Integration

85. **Maldives is strategically located in one of the densest trade routes in the world. Using its geographical advantage and appropriate infrastructure in place, the country has the potential to become a regional trading hub through building effective economic linkages with its neighboring countries, Southeast Asia, and Middle Eastern Countries.** With a trade to GDP ratio of 143%, Maldives is strongly dependent on international trade. However, the lack of land connection with neighboring countries and associated transport infrastructures limit opportunities for further trade and regional cooperation and integration. The country is a core member of the South Asia Association for Regional Cooperation (SAARC), the Association of Small Island States (AOSIS) and South Asia Sub-regional Economic Cooperation (SASEC). Taking advantage of these initiatives, the country can further strengthen its new areas of competitiveness through building connectivity with neighboring countries and the rest of Asia.



## 2.4.6 Reverse Linkage

86. **The IsDB Reverse Linkage (RL) is a cross-sectoral mechanism to enhance South-South and Triangular Cooperation focusing on capacity development. Through the RL, Maldives can capitalize on potential opportunities to strengthen its capacity in the priority areas** identified in the MPCS, receiving relevant knowledge and experience coming from provider stakeholders. The Bank's role is to facilitate the identification of these provider stakeholders that may be interested and willing to share their expertise with recipient stakeholders from Maldives.

87. **RL potential provider stakeholders include those from the public sector, private sector or the third sector. The RL is also an opportunity for Maldives to exports its knowledge and expertise in its mature sectors to other MCs.** Already developed sectors in Maldives may have willing and interested partners among the member countries to learn from the experience of Maldives. Such a dual role positions the IsDB RL as a strategic mechanism of developing partnership and creating business opportunities for Maldives both as recipient and provider of knowledge and expertise.

## 2.4.7 Science, Technology & Innovation

88. The use of technology is minimal in basic sectors in Maldives such as agriculture and fisheries. Both agriculture production and profitability of fisheries can be expanded through advance technology support. A large number of students follow business stream due to unavailability of science stream in their residential islands, and as such the percentage of students going on to higher education in Science, Technology, Engineering and Mathematics (STEM) subjects is low, although there is a higher demand for STEM educated graduates in the local industries. Similarly, health sectors have been suffering due to lack of access to relevant services to remote islands. SMEs have low levels of productivity, with obstacles to the use of technology and innovation stemming from low level of capital investment.

## 2.4.8 Economic Empowerment

89. Micro, small and medium enterprises (MSMEs) in Maldives, which make up over 93% of all private sector businesses in the Maldivian economy, face a credit gap, which is holding back the development of local businesses and employment. High collateral requirements and interest rates of banks for loans constrain access to finance for MSMEs. Collateral requirements for business loans are usually 130%–180% of the loan value. From the supply side, MSMEs have few alternative nonbank and equity financing options. Furthermore, MSMEs continue to be constrained by insufficient skills and training opportunities coupled with a lack of a robust start-up culture in Maldives. In terms of women economic empowerment in Maldives, high level of women informal employment and unpaid domestic work makes women less economically empowered.

## 2.4.9 Promoting Financial Inclusion through Islamic Finance

90. **Low capital and financial market development contribute to poor financial intermediation which in turn constrains investments in Maldives.** Maldivian Stock Exchange is highly concentrated, and this severely limits the investor choices. Also, the financial sector has not been developing adequately as reflecting in the low level of domestic credit supply which is still largely absorbed by the public sector. The high levels of public borrowing could be crowding out the private sector from the credit market. With high interest rate spread and substantial nonperforming loans, banks are not physically accessible and found to be largely inefficient.

91. **Starting in 2003, Islamic finance sector in Maldives is relatively new and quite small. In 2017, the total shares of Islamic bank assets and deposits in the banking sector assets and deposits reached 5.8% and 9.2%, respectively.** Islamic Treasury bills and Sukuk issuances by Maldives Housing Development Finance Corporation (HDFC) have started trading on the capital and money markets. The country also modernized and integrated Zakat collections into its Internal Revenue Authority.

92. **Demand for Islamic finance exists at many levels. Further expansion in Islamic finance is needed for the country to diversify its financial market.** It will also enable people access to riba-free financing in place of interest-based financing. Islamic finance would contribute to economic development, improve financial inclusion, and help the GoM reduce excessive debt through asset-backed financing instruments.

93. **There are strong linkages between Islamic finance instruments and how their transactional characteristics can help to solve some of the barriers which prevent women and youth from having access to finance.** The IsDB can help in developing the capacity of financial institutions to better engage and support female clients and young people that will help in generating Islamic financial products for women and young people which is underlined as a long-term driver to support women and young people's financial inclusion.

## 2.4.10 Capacity Development

94. **In Maldives, the uptake on technical and vocational education and skills development program is low,** limiting necessary skills needed for upgraded labor market and entrepreneurship. The country also lacks in capacities for tackling challenges related to climate change and environmental degradation, particularly at the local level. Capacity shortage in public sector constrains necessary public service delivery.

95. **Providing essential capacity development for enhancing entrepreneurship, human capital development, productivity, and technology adoption and innovation, along with increasing market access opportunities, will be key to supporting MSME development.** Further action to strengthen coping and adaptive capacity at the local levels will help mitigate the impacts of climate change. Increased human resource capacity building through technology application and management tools will improve public service delivery. Executing and implementing agencies of critical projects need improved capacity to deal various project implementation challenges such as procurement and disbursement.

*Increased human resource capacity building through technology application and management tools will improve public service delivery*



# 3 NATIONAL DEVELOPMENT PRIORITIES

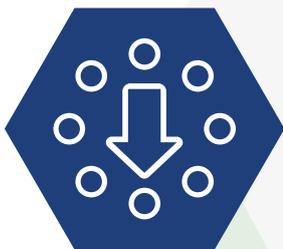
## 3.1 DEVELOPMENT CHALLENGES AND BINDING CONSTRAINTS

96. **Maldives aspires to graduate from the upper middle-income country to a high-income country.** However, the country is faced with the following major development challenges centering inclusiveness, resilience and sustainability:



### HEAVY RELIANCE ON FOREIGN SUPPLY CHAINS

- Tourism sector largely relies on foreign-supply labor, materials and services, leading to high export earning leakages.
- Downward pressures on Maldives' current account balance due to high dependence on foreign energy supplies and food imports.
- Skills shortage of local job seekers, including in IT services creates demand for skilled workers in high-end tourism.



### LOW ECONOMIC DIVERSIFICATION

- More than 70% of all economic activities relies on tourism sector.
- Traditional agriculture is not a very competitive as it lacks land and fresh water.
- The fisheries sector has been heavily affected by overfishing, higher fuel costs, temperature rise, and lack of coordinated ecosystem management.
- Weak processing capacity in the fisheries sector leads to lower value added.



### UNBALANCED INFRASTRUCTURE DEVELOPMENT

- High urban concentration and economic activities in terms of resource demands lead to high cost of real estate rentals and living.
- Across atolls, weak inter-connectivity due to underdeveloped harbors and sea carriers are major transport challenges.
- Islands suffer from low connection by bridge or sea transport; weak management of waste and wastewater; and lower IT connection for better service delivery.
- Airport expansions are required to respond adequately to its ever-increasing tourist arrivals.
- Greater reliance on electricity generation from fuel generation higher costs for widely dispersed Islands.

97. **Outside the tourism sector, low level of investment is a major binding constraint of Maldives to build sector or industry specific infrastructures in order to create inclusive and sustainable growth.** According to the World Bank's Doing Business Survey, the top three constraints as well as primary institutional and physical factors contributing to Maldives' business and investment climate are registering property, getting electricity and trading across borders. While the country ranks 176 out of 190 in registering property, trading across borders and within islands, and energy supply to islands, without land connectivity, are costly and hamper business climate. Islands require connection by bridge or sea transport to facilitate the movement of people and goods. Both from the fiscal and climate mitigation perspectives, greater reliance on electricity generation from solar and sea waves sources could be a better alternative solution for widely dispersed Atolls and Islands.

98. **Traditionally, Maldives has had low rate of domestic savings, which is inadequate to finance investments in the non-tradeable sector.** The empirical evidence suggests that investment in Maldives is more sensitive to raising labor productivity than changing interest rates. In addition, the low returns to economic activity are related with drastically falling levels in good governance. Recently, big governance losses happened in the areas of regulatory quality and government effectiveness. Investors that look for sound institutional arrangements for the protection and safety of their investments will hesitate to venture into a country where good governance is fast declining. Good governance in Maldives can be strengthened by using information and communication technologies (ICT) in public administration and service delivery and increasing the utilization of e-procurement applications.

99. **The tourism as the main industry of the country relies heavily on foreign supply chains to meet its demand for food, fuel, labor, materials and services, thereby creating a balance of payment pressure through increasing bills and income transfers in the face of dwindling exports.** Traditional agriculture is not a very competitive option for a Maldives that lacks the rudiments for agricultural production: land and fresh water. The fisheries sector has been heavily affected by the recent decline in skipjack tuna catches, partly owing to overfishing, higher fuel costs, temperature rise, and lack of coordinated ecosystem management of the regional skipjack tuna stock.

100. **Inadequate connectivity and relatively higher electricity costs give rise to structural competitiveness challenges for investors.** Across atolls, underdeveloped harbors and sea carriers are major transport challenges in Maldives. Airport expansions are required to respond adequately to its ever-increasing tourist arrivals in the form of more inter-island connectivity. The energy sector relies largely on imported fossil fuels to power multiple electric generators for islands and resorts. The fragmentation of power generators prevents scale efficiency and hence increases operating costs.

## 3.2 ELEMENTS OF THE NATIONAL VISION

101. **Maldives aims to graduate from an upper-middle income to a high-income nation. The highest priority of GoM is to help all Maldivians live a dignified life.** Its vision is to establish a Jazeera Raajje (Island Nation), which promises to include providing affordable housing, protecting and preserving the environment, and improving the quality of governance. The broader vision of Maldives is to promote blue-economy, renewable energy, green urban infrastructure solutions in water and sanitation and archipelago-wide decentralization with an aim to facilitate investments in the larger islands and make a resilient and sustainable Maldives. At the same time, building on existing strengths, especially in the tourism sector, Maldives aspires to improve job markets, major social outcome and governance reform in enhance inclusive development. By embracing innovative and sustainable strategies, the Maldives is well on its way to creating a more prosperous future for its citizens.

102. **To ensure that national development is conducted holistically in an organized and time-bound manner, the GoM launched the Strategic Action Plan (SAP) 2019-2023 in October 2019.** In addition, the Government formulated the National Resilience and Recovery (NRR) Plan 2020-2022 in an effort to tackle challenges exposed by the COVID-19, leading to resilient and inclusive development.

## 3.3 NATIONAL DEVELOPMENT STRATEGY

### 3.3.1 Overview

103. **Strategic Action Plan.** Maldives is on the verge of graduating from an upper-middle income to a high-income nation. With an overarching mission of transforming Maldives to an equitable, prosperous, inclusive and connected island nation, the GoM launched the Strategic Action Plan (SAP) 2019-2023 which is the central policy framework and planning document of Maldives and guides the overall development direction of the country. The SAP consolidates the current GoM's manifesto pledges with existing sectoral priorities. The GoM aims to institutionalize the SAP into a five-year planning cycle that lays out implementation priorities, and eventually converging to a long-term development vision. Through the SAP, the GoM aims to achieve the transformation on areas such as blue economy, climate resilience and sustainability and good governance through a long-term process. Finally, the SAP will also be a key policy document towards the Maldives' efforts to achieving the Sustainable Development Goals (SDGs).

104. **National Resilience and Recovery Plan.** In view of the pressing challenges regarding the COVID-19 faced by Maldives to revive the economy, boost economic growth and relieve the social sector, the GoM moved to formulate the National Resilience and Recovery (NRR) Plan for the period of 2020-2022. The NRR Plan are divided in **three broad sectors** (economic, social and governance), under which **25 sub-sectors** are identified. Though NRR Plan doesn't have any numeric targets, it basically acts as the urgent priorities of the GoM, to build a Resilient Maldives in a more comprehensive and inclusive manner.



### 3.3.2 Pillars and Key Features of the National Strategy

105. The SAP 2019-2023 lays out holistic strategy and programs delivering in 33 subsectors under 5 high-level priority sectors, with time-bound prioritization of actions and measurable targets (Table 1).

5 Sectors	Focus	33 Subsectors
1. Blue Economy	It outlines economic priorities, focusing on economic expansion and diversification; promotion of MSMEs; and employment creation.	i. Tourism ii. Small and Medium Enterprises iii. Fisheries and Marine Resources iv. Agriculture v. Labour, Employment and Migration vi. Economic Diversification
2. Caring State	It outlines priorities relevant to social progress, promoting inclusive delivery of preventive health care, vocational and higher education, and social protection.	vii. Health viii. Education ix. Higher Education x. Social Protection xi. Prevention of Narcotics and Drug Rehabilitation
3. Dignified Families	It outlines priorities relevant to social progress, supporting family life, youth training and employment, housing, community empowerment, sports, and Islamic faith.	xii. Housing xiii. Youth xiv. Community Empowerment xv. Islamic Faith xvi. Sports xvii. Family
4. Quality of Island Life	It outlines priorities relevant to community infrastructure and services, improving decentralization and water supply, sanitation, waste management, and transport and community infrastructure to upgrade island environment.	xviii. Clean Energy xix. Waste as a Resource xx. Environment Protection and Preservation xxi. Resilient Communities xxii. Information, Communication, and Technology xxiii. Water and Sanitation xxiv. Transport Network xxv. Arts, Culture & Heritage xxvi. Decentralization
5. Good Governance	It outlines key governance reforms, enhancing transparency and accountability, anticorruption measures and institutions, gender equality, international cooperation, and sound macroeconomic policy including public debt management.	xxvii. National Security and Public Safety xxviii. Accountable State xxix. Independent Institutions and Public Service Reform xxx. Rule of Law and Judicial Reform xxxi. Gender Equality xxxii. Foreign Affairs xxxiii. Eliminating Corruption

**Table 1: Priority Sectors and Sub-sectors under SAP 2019-2023**

106. The NRR Plan 2020-2022 was developed in response to COVID-19, prioritizing key elements of SAP and identifying sector-specific strategies to diversify the economy, decentralize government and build resilience, as designed in **3 broad sectors** (economic, social and governance), under which **25 sub-sectors** (Table 2).

**Table 2: Priority Sectors and Subsectors under NRR Plan**

Sectors	Sub-sectors
Economic Sector	(i) <b>Fisheries:</b> Investing in food Security, sustainability, self-sufficiency, and sector growth; (ii) <b>Agriculture:</b> Strengthening food security, diversification, sustainability, and sector growth; (iii) <b>Tourism:</b> Upskilling and Rights Protection, Sector Growth, and Sustainability; (iv) <b>Transport:</b> Integrated Transportation Linkages, Emission Reductions, and Easing Congestion; (v) <b>Housing:</b> Affordable Housing and Finance Schemes; (vi) <b>Environment &amp; Energy:</b> Energy Security, Efficient Waste Management, and Conservation; (vii) <b>Trade and Economic Development:</b> Employee Rights Protection, Ease of Doing Business, and Sustainability; (viii) <b>Infrastructure Development:</b> Economic Diversification, Resilient Infrastructure, & Enhanced Connectivity; and (ix) <b>ICT:</b> Digitization of Services, Economic Diversification, and Accessibility and Affordability of Internet Services.
Social Sector	(i) <b>Islamic:</b> Strengthening Islamic Faith, Tackling Extremism and Strengthen Islamic Welfare and social protection system; (ii) <b>Education:</b> Quality and Inclusive school system, institutionalization of remote learning and improve education access; (iii) <b>Higher Education:</b> Enhanced youth employability, Decentralization of HE institutes and easy accessibility to HE opportunities; (iv) <b>Social Protection and Social Services:</b> Gender Equality, Social Welfare, Enhanced services to the vulnerable population; (v) <b>Health:</b> Access to affordable and quality health care services in regions and Strengthening Public Health Systems; (vi) <b>Youth, Sports &amp; Community Empowerment:</b> youth development and empowerment, sports infrastructure and promoting water and beach sports; (vii) Prevention of Narcotics and Drug Rehabilitation; and (viii) Arts, Library and Archives.
Governance Sector	(i) <b>Rule of Law &amp; Judicial Reform:</b> prison reform, juvenile justice and judicial administration; (ii) <b>National Security &amp; Public Safety:</b> inter-agency coordination, border security, countering terrorism and violent extremism, crime prevention and protecting people’s lives; (iii) <b>Eliminating Corruption:</b> transparency in public finances; (iv) <b>Accountable State:</b> SOE governance reforms and transparency in government; (v) <b>Public Service Reform:</b> Modern public administration system; (vi) Decentralization; (vii) <b>Resilient Communities:</b> increased efficiency, preparedness, coordination and disaster risk reduction; (viii) <b>Foreign Affairs:</b> international engagement, economic and trade diplomacy, professional service and standards



107. **Key Sectoral Features of National Strategies (SAP 2019-2023).** Under the **Blue Economy**, sustainable fisheries through utilizing modern fishery approaches, diversification and higher value-addition of fisheries, and strengthening institutional capacity are major policy priorities. Also, promoting agricultural productivity, food safety and food security, and sustainable agricultural practices will be in the priority agenda. Maldives aspires to maintain its premium tourism position in world markets and penetrate new niche markets through expanding and diversifying tourism facilities, increased partnerships between hotels and local communities and expanding the emerging guest house tourism. Expanding and strengthening of existing SME development support services including training and entrepreneurship skills development, more financing opportunities such as setup of a SME bank and creating SME opportunities within government services will be an integral part of the blue economy. Increasing employability of youth and women through creating upskilling opportunities and strengthening labor governance will ensure high utilization of Maldivian labor force. Finally, creating new economic sector through facilitating a conducive business environment and necessary legislative reforms and developing strategic infrastructures will help badly needed economic diversification in Maldives. The SAP also prioritizes to stimulate the private sector participation—especially by MSMEs—in leading sectors and FDI in strategic development initiatives and overall economic growth.

108. Under the **Caring State**, as part of policy priorities, a key focus would be on primary healthcare and preventive care, enforcing an appropriate quality assurance to ensure patient and provider safety, provide access to affordable, inclusive and quality health care services, and modernize health services through ICT. In education sector, key policy priorities include provision of equitable access and completion of secondary education, reducing the learning gap, integrating vocational education in the school system, expanding higher education opportunities, increasing access to student finance, and delivering quality vocational education. For enhancing social protection, policy priorities would be ensuring quality and efficient provision of social protection services and strengthening the sustainability of social protection programmes.

109. Under the **Dignified Families**, expanding modern services to the island communities for reviving the island economy through decentralization would be a major aim of the Government policies. To address the current housing crisis and limited housing affordability, key policy priorities include improving accessibility to housing through increasing the housing supply, and provision of social housing, and improving affordability of housing through access to finance and saving schemes. For youth development, policy priorities would be ensuring youth access to education, health, employment, and economic opportunities. In community empowerment, priorities include encouraging community participation and engagement in social activities and creating spaces for civil society development to enable local and community level development. As a country formed on the principles of Islam, Maldives aspires to strengthen Islamic faith through strengthening halal certification mechanisms and promoting Islamic welfare through improved zakat management.

110. Under the **Quality of Island Life**, effective decentralization through expanding the provision of infrastructure, fiscal decentralization and empowerment of local councils is a major objective. To address critical transport sector challenges and bottlenecks, the SAP lays out ambitious targets to improve maritime infrastructure, public transportation, and connectivity and attract private sector participation given the fiscal constraints of the public sector. To protect and preserve country's unique and pristine natural environment, policies will focus on addressing issues of natural resource management, pollution, and protection of natural resources. In adopting clean energy holistically, the GoM aims to reverse its imported fossil fuel dependence by increasing electricity generation from renewable sources to tackle increasing energy demand. As part of waste management, the strategy is to recognize waste as a valuable resource through integrating international waste management practices in a cradle-to-grave approach, and establishing extended producer responsibilities, and polluter pay principles.

111. Under the Good Governance, key focuses include fostering greater accountability, transparency and integrity in state institutions, eliminating avenues for corruption, legal and judicial reforms and introduction of transitional justice mechanisms. Reforms to overall civil service and public service through increased human resource capacity building, technology application and management tools would be priorities. To ensure gender equality, the strategy is to increase women participation in decision making and in public life, minimize sexual harassment, and domestic violence, eliminate barriers for women to participate in economic activity.

### 3.3.3 Implementation of the Strategic Action Plan

112. **The SAP 2019-2023 serves as the main implementation and monitoring tool to track the progress of the delivery of the Government's policies and development priorities. It has been rolled out into the line ministries' day to day operations from October 2019.** The SAP will be monitored mainly at the subsector level. Each subsector has a results matrix which will be the main monitoring tool of the SAP. The subsector will be monitored against two measures: (i) at action level, implementation will be monitored against the timeline provided; and (ii) at policy level, implementation will be monitored against the targets in the subsector. To drive the overall effectiveness of the GoM's development agenda and promote achievement of results, an independent mid-term review and final evaluation of the SAP are planned.

113. **As far as the financing of the SAP is concerned, based on targeted indicators as set in the SAP, individual ministries and implementing agencies provide budget proposals for new projects and programs** through prioritizing and explicit linking with national policy priorities as set in the SAP. The SAP also provides opportunities to improve the alignment of external assistance to national priorities and will therefore be used a tool for improving aid coordination and in leveraging external assistance for complementing with domestic resources to finance the SAP.

## 3.4 DEVELOPMENT PARTNERS' ENGAGEMENT IN MALDIVES

114. **Maldives has been a recipient of aid from many bilateral and multilateral development partners (Table 3).** In 2020, the total foreign loans disbursed in Maldives equaled \$199.7 million, and total foreign grants of \$65.0 million<sup>23</sup>. Currently, development partners provide a wide range of support to various sectors including infrastructure including transport and energy, solid waste management, climate change adaptation and disaster risk management, health and education, public financial management and private sector development.

115. **Despite having a higher middle-income country status, the country has a narrow resource base and thus still requires significant external financing for achieving its development targets. Maldives seeks assistance to invest on interisland transportation, efficient port management, appropriate skills development for expanding sources of income.** As being one of the most climate-vulnerable countries, Maldives is also actively seeking to attract foreign assistance to implement climate mitigation and adaptation measures. The Government is also seeking technical assistance to improve public services including public financial management and procurement systems. Given these realities, the Government is expected to increase the size of concessional external financing from both bilateral and multilateral sources. However, with outstanding external debt of 53% of GDP in 2020<sup>24</sup>, worsening current account position and weakening foreign reserves, further heavy borrowing poses a threat to Maldives' fiscal and public debt sustainability.

<sup>23</sup> Source: <http://www.mma.gov.mv/documents/Annual20%Report/2020/AR2020.pdf>

<sup>24</sup> Source: <http://www.mma.gov.mv/documents/Annual20%Report/2020/AR2020.pdf>

**Table 2: Development Partners' Matrix**

Development Partners	Current and Future Interventions												
	Energy including renewables	Infrastructure including communication and housing	Climate change adaptation and disaster risk management	Solid waste management	Public Financial Management and Governance	Fisheries	Microfinance	Water & Sanitation	Private sector including microenterprise	Budget and BOP Support	Health and education	Regional Cooperation and Integration	Youth and Gender
Abu Dhabi Fund for Development (ADFD)		X								X			
Asian Development Bank	X	X		X			X		X			X	
AIIB				X									
Australia					X						X		
China		X											
European Investment Bank	X												
Green Climate Fund			X										
India		X							X				
Islamic Development Bank Group		X					X	X	X		X		
Japan/JICA	X	X		X									
Kuwait Fund for Arab Economic Development			X										
OFID		X				X		X			X		
Saudi Fund for Development		X									X		
UN Agencies			X		X								X
World Bank Group	X		X	X	X	X							

Source: IsDB Staff's Analysis



# 4 ISDB GROUP STRATEGY 2022-2025

## 4.1 OBJECTIVE

116. The main objective of IsDBG's MCPS with Maldives is to support the country reach the goals of its SAP 2019-2023 and NRR 2020-2022 through close alignment with focuses on **IsDB's 2023-2025 Strategic Realignment: Promoting Comprehensive Human Development and Sustainable Infrastructure**. The specific objective of the MCPS is to make a resilient and sustainable life and diversified economy for Maldivians. To this end, IsDBG aims to strategically undertake projects interventions that promote and help develop the country's aspiration toward a resilient and diversified economy. This strategy will be underpinned by targeted interventions in key selected sectors as identified in MCPS, to help tackle major development challenges and capacity gaps elaborated earlier. These interventions will consider two key aspects of the country's profile: (i) existing projects from the government and other development partners, and (ii) the financing bankability of potential projects. A mapping of strategic objectives/pillars of IsDB Strategic Realignment 2023-2025 with country's major development challenges and the pillars of the SAP 2019-2023 is presented in **Annex 2** that leads to the close alignment of the objectives and pillars of IsDB's Strategic Alignment and focuses of the GoM's SAP.

## 4.2 ISDB GROUP PORTFOLIO PERFORMANCE

117. **As of March 2022, the IsDB Group has approved total financing of about US\$1.6 billion for Maldives.** This includes US\$165.9 million project financing by IsDB; US\$43.4 million approved by ICD; US\$1.3 billion trade operations by ITFC; and US\$37.8 million by other IsDB Group funds and operations. In addition, ICIEC has so far provided the cover for US\$131 million as business insured in Maldives.

118. **Project financing represents 5.0% (US\$79.2 million) of total financing, while trade financing represents 87.4% (US\$1.4 billion), and concessional financing is 7.6% (US\$120.9 million).** Sectoral breakdown of the IsDB Group operations in Maldives is as follows: the sector with highest share is Energy at 83.2% (about US\$1.3 billion) followed by Finance at 5.7% (about US\$91 million), and Transportation at 3.9% (about US\$62.3 million).

119. **The IsDB Group total disbursement reached US\$1.4 billion comprising US\$105.3 million (7.7%) by IsDB, US\$1.2 billion (89.2%) by ITFC, and US\$41.4 million (3.0%) by ICD.** The total Repayment is US\$1.2 billion comprising US\$62.3 million (5.1%) by IsDB, US\$1.1 billion (92.8%) by ITFC, and US\$26.3 million (2.1%) by ICD.

120. **Groupwide active portfolio stands at 33 operations with a total amount of US\$1.3 billion which represents 80.7% of total portfolio.** A total of 41 operations are completed with an amount of US\$307.0 million, representing 20.8% of total portfolio.

121. **There was no implementation review of Maldives MCPS till now. However, a detailed Country Portfolio Performance Review (CPPR) was conducted in 2018,** with some recommendations for improving portfolio performance. The CPPR suggested the need for: (i) developing a member country partnership strategy for creating a strong pipeline of projects that ensure high government ownership; (ii) assuring quality at entry through systematic actions in reducing low readiness for implementation; (iii) assuring quality at implementation through intense follow-up including monitoring procurement and disbursement processes.

## IsDB Group Delivery of Development Results in Maldives

The IsDB Group financing has contributed to 10 SDG goals pursued by the country: Goal 1: No poverty, Goal 3: Good health and wellbeing, Goal 4: Quality of education, Goal 6: Clean water and sanitation, Goal 7: Affordable and clean energy, Goal 8: Decent work and economic growth, Goal 9: Industry, innovation and infrastructure, Goal 10: Reduced inequalities, Goal 11: Sustainable cities and communities and Goal 13: Climate action. In addition, the Bank's financing assisted the country to reach the following socio-economic results:

- In the Education sector, about 31,000 students were benefited.
- In the Health Sector, about 129,324 patients received treatment each year, in addition, 15 Health facilities were constructed or upgraded.
- In the Transport Sector, annual passenger capacity at airports was increased by 1.7 million people/ cargo, while maritime capacity was increased by 4.4 million people and vehicles. 10 harbors have been reconstructed for improved transport and commercial fishing activities.
- Water and Sanitation related support has benefited about 688 households with access to potable water. Furthermore, potable water treatment capacity was increased by 21,486 m<sup>3</sup> per day. The 'Sanitation In 5 Islands Project' and 'Greater Male Waste Management Project' are currently active, and addressing sewage treatment, and chronic waste management issue faced by Maldives.
- As part of IsDB support to GOM's COVID-19 responses, five out of six regional critical health facilities were equipped across the country with 42 medical-grade ventilators, 60 cardiac monitors, 4 dialysis machines and providing 150,000 COVID-19 personal protective kits to frontline medical workers. The overall IsDB's intervention would render the provision of improved COVID-19 related healthcare access to an aggregate population of 245,616 or about 47% of the total 516,000 population of the country. The original scope of the project was completed in June 2021.

### Source: IsDB Country Brief, December 2021

122. **For improving portfolio performances, the CPPR identified following specific counterpart institutional issues:** (i) establish a direct channels of communication between EAs/PMUs and IsDB in future for minimizing delays; (ii) provide greater autonomy to line ministries/executing agencies in procuring resources needed for projects in reducing procurement shortfalls; (iii) ensure high government ownership and accountability for future projects in abolishing overlapping mandates of ministries and realizing continuity management; and (iv) confirm strong donor coordination, preferably in the form of signing MOUs between donors beforehand in avoiding substantial delays during project implementation.

123. In terms of overall assessment of development impact of past IsDB interventions, the following major highlights may be noted:

- IsDB has established a long record of intervention in transport sector (sea and airports construction or rehabilitation) which has resulted in enhancing the connectivity and movement of people across islands through construction or rehabilitation of harbors.
- IsDB's intervention in the part of post-tsunami and earthquake rehabilitation has resulted in improving living conditions through construction of social infrastructure mainly sanitation, health (hospitals) and housing facilities.
- IsDB's support for microenterprises development helped promotion of Islamic finance through capacity building for financial institutions.

## 4.2.1. IsDB Portfolio

124. **Since inception in 1975, cumulative commitments of IsDB to Maldives amounts to US\$165.9 million.** Over the years, IsDB supports focused on transportation and social infrastructures, water and sanitation, health, finance and education. The country has been benefited from an array of financing modes: ordinary capital resources; Istisna, leasing and installment sale, and non-ordinary capital resources (loan and grant). In the decade before 2020, the annual lending to Maldives has been modest

125. **However, since 2020, the lending to Maldives experienced a gradual rise. First, IsDB has quickly responded to the country's need in tackling the COVID-19 related health challenges and approved two projects [(i) Emergency Response to COVID-19 Pandemic in Maldives-Phase (1)- US\$ 0.6 million. and (ii) Emergency Response to COVID-19 Pandemic in Maldives-Phase (2)-US 20.0 million] in May 2020 under the Strategic Preparedness and Response Program (SPRP) for US\$20.6 million consisting of soft loans and ordinary resources.** In addition, the 'Greater Male Waste Management Improvement and Waste to Energy Project' for US\$20 million loan was approved in February 2021. Additionally, IsDB is currently working to approve the Support People's Livelihoods in the Fishery Sector in Maldives through Sustainable Energy Project in April 2022 for US\$13.5 million [35% of which are grant from Live and Livelihood Funds (LLF)] under SPRP initiative.

126. **Before having MCPS, the IsDB Group support to Maldives was entirely annual request-based lending (demand driven), and the technical assistance provided to the country- mainly on Islamic Finance-has been an ad-hoc and a one-off activity.**

127. In terms of implementation experiences, overall IsDB's projects in Maldives have been suffering from long implementation delays. The following are lessons learned from PCRs and PIASRs as part of the CPPR exercises for Maldives:

- i. **Poor quality at entry:** On average, projects took 28 months from the date of approval to initial disbursement, violating the Board guideline on project processing that requires a project to start disbursing within 18 months after approval. Low readiness for implementation reflects weak structural and institutional issues such as long absence of PMU, high turnover of project staff, long delay in getting government counterpart budget approval, long delay in commencement of civil works, and lack of follow-up and support by IsDB.
- ii. **Poor quality at implementation:** According to PIASR, overall projects portfolio is rated only lightly above 'partially satisfactory' (or, rated 2.5 out of 4). While procurement dimension receives highest rating, all projects received lowest rating regarding disbursement. The poor disbursement rating reflects slow physical progress of projects.
- iii. **Ageing cumulative undisbursed commitments (CUCs):** A high CUCs (US\$15.7 million before CPPR or US\$6.7 million after CPPR) of old projects aged six years or above after approval reflects acute implementation issues.

128. The decentralization of IsDB operations through the Regional Hub of Dhaka has been helping: (i) establishment and recruitment of PMU staff; (ii) preparation of complete implementation plan (including procurement and disbursement plan); (iii) capacity building for the PMU officials; and (iv) devise a tool to monitor the procurement and disbursement process.

## 4.2.2. ITFC

129. **Since its inception in 2008 and until March 2022, the International Islamic Trade Finance Corporation (ITFC) has approved around \$1,362 million of trade financing for Maldives. An overwhelming share of financing of around \$1,301 million was directed towards the energy sector followed by US\$ 30m to finance the procurement of staple food.** This financing was extended to State Trading Organization (STO) Plc, Maldives, the state-owned entity, for the importation of refined petroleum products and staple food. Given the catalytic role of the energy sector to the economy, and in particular to the tourism and fisheries sectors, ITFC has been successful in ensuring continued energy supply for Maldives at competitive prices through its financing. ITFC's financing also supported STO to procure staple food from the international market at a competitive price which they sell to the local market at a subsidized rate. ITFC financing directly helping the Govt. of Maldives to reduce their subsidy on staple food sale in the local market. In 2020, ITFC provided a trade finance facility of US\$15.0 million and a grant of US\$ 50k to Maldives to support its COVID-19 emergency requirement.

130. **It is also noteworthy to highlight that ITFC has successfully raised the largest Islamic Trade Finance syndication for STO, Maldives in the debt market for around \$150 million annually.** This syndication has raised the awareness of Maldives in the debt market and with STO's strong track record, the perception of Maldives risk profile is expected to improve over the years.

131. **In October 2019, ITFC signed a Framework Agreement for \$1.5 billion with Maldives for enhancing collaboration in the trade financing and trade development space.** Over a period of 5 years, the Framework Agreement will mobilize financial resources up to \$1.5 billion to focus on the following areas: (i) Importation of fuel, staple food, medicine & medical equipment; (ii) Financing the fisheries sector; (iii) Supporting the SMEs through Lines of Financing with local banks; and (iv) Trade facilitation support for the fisheries and agricultural sector.

## 4.2.3. ICD

132. **Since its inception in 1999, ICD has approved to finance about \$43.4 million investment for 5 projects in Maldives and has disbursed about \$41.4 million.** In terms of sector specific support, specifically, in the financial sector, ICD provided \$13.4 million institutional equity to Maldives Islamic Bank, and in the agriculture sector, ICD provided \$20.0 million in term finance to Horizon Fisheries. In 2020, ICD provided private sector finance of US\$ 10 million in helping the country's private sector to tackle the COVID-19 related challenges.

133. **In March 2021, Maldives has successfully placed its debut sovereign US\$200 million 5-year Sukuk issuance, for which ICD as the Joint Lead Managers and Joint Bookrunners for the issuance along with Credit Suisse, Emirates NBD Capital and HSBC.** This issuance was part of a greater mandate for ICD to advise the Maldives on setting up a US\$1.0 billion Sukuk Program. In late April 2021, ICD successfully closed a US\$100 million tap sale for Maldives. Then in September 2021, the sovereign managed to raise another \$200 million from a second sukuk tap. The ICD are discussing with the GoM the possibility of issuing another US\$250 million Sukuk in the Q4 of 2022.

134. **In the MCPS, given its comparative advantage and the minimum threshold for project finance (Term Finance) requirements, ICD may focus on supporting the private sector and any other infrastructure financing for the private sector, when needed.**

#### 4.2.4. ICIEC

135. **Maldives became a new member country of ICIEC last August 2021 with capital subscription of ID 0.25 (or, 0.08% of total capital subscription).** Accordingly, Maldives made the payment of the first installment and ratified the Articles of Agreement of ICIEC. The country is now eligible to benefit from ICIEC insurance services for trade credit and foreign investments. During the MCPS implementation, ICIEC is interested to explore the opportunities in terms of providing export credit insurance to exporters in Maldives particularly MIFCO, and also investment insurance to foreign investors/lenders attracting FDI, especially into tourism, housing, fisheries, renewable energy, ICT, and infrastructure sectors of Maldives. As of December 2021, ICIEC has provided insurance cover for a total of US\$131 million to support the import of fuel by STO in Maldives.



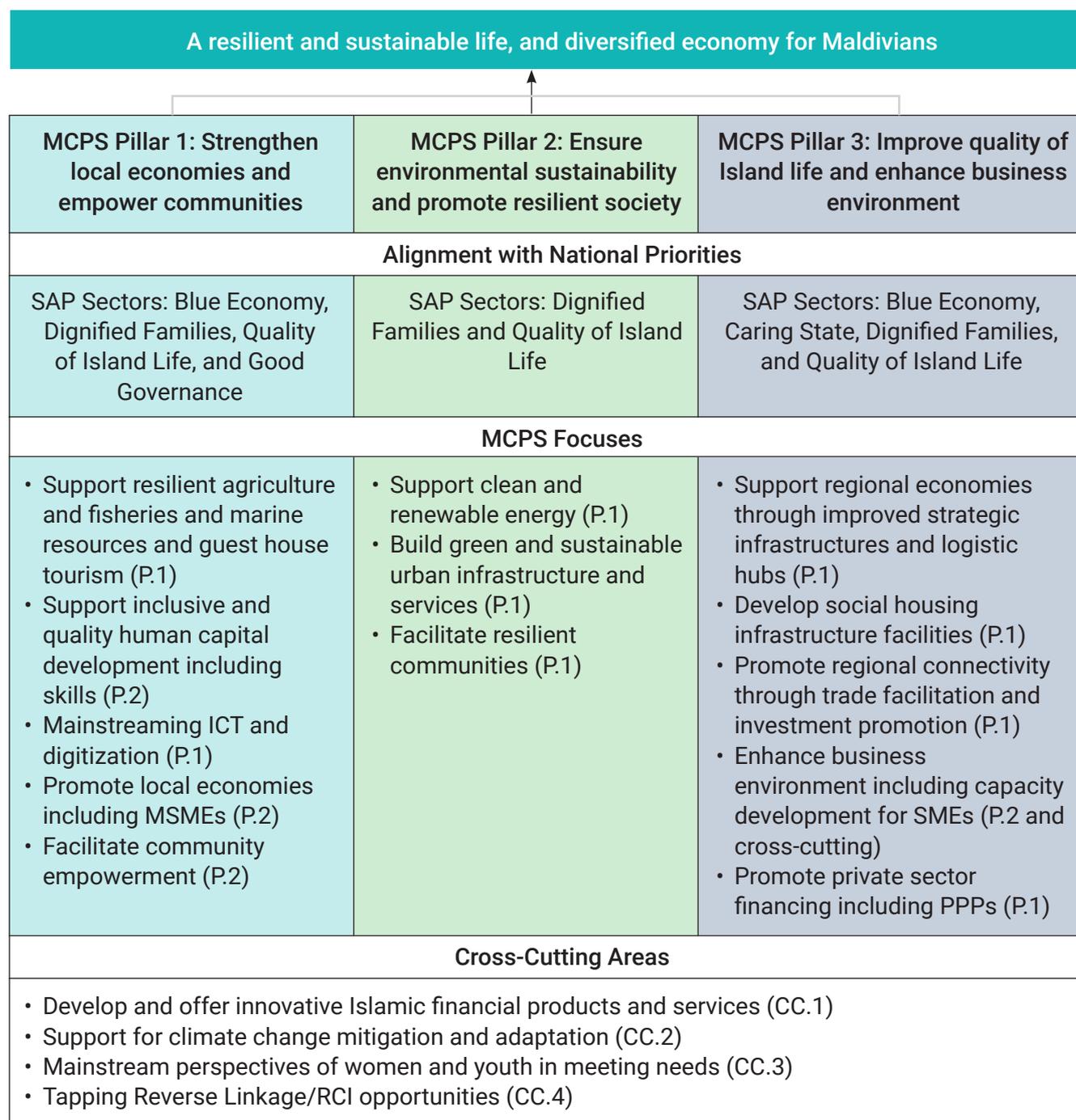
*As part of the “One Bank, One Group” group synergy agenda of the IsDB Strategic Realignment 2022-2025, the financing and programming of IsDBG will feature a mix of instruments drawing on the strengths of IsDB-OCR, LLF-Grant, PPP, ISFD, IFSD, ICD, ITFC and ICIEC as one holistic group financing package, as well as pursue joint-programming for Maldives.*



## 4.3 PILLARS OF THE MCPS AS AREAS OF COOPERATION

136. The pillars of the MCPS 2022-2025 are designed relying on development challenges of Maldives, and IsDB's comparative advantage in supporting the country to tackle those development challenges, aligning with strategic objectives and pillars of IsDB's 2023-2025 Strategic Realignment and Maldives' national development strategies (SAP 2019-2023 and NRR 2020-2022). The below pillars will provide guidance on IsDB's strategic engagement with Maldives with specific focus areas and priorities for the period of 2022-2025 (Figure 11).

Figure 11: Pillars, Focuses and Cross-Cutting Areas of the MCPS, 2022-2025



Note: P.1, P.2, and CC.1-4 refer to: Pillar 1 – Develop Green, Resilient & Sustainable Infrastructure; Pillar 2 – Support Inclusive Human Capital Development; Islamic Finance; Climate Change; Women & Youth; and Capacity Development under IsDB Strategic Realignment 2023-2025



137. **MCPS Pillar 1: Strengthen Local Economies and Empower Communities.** The objective of MCPS Pillar 1 is to help Maldives build a resilient state through strengthening supports for local economies and empowering communities. In particular, IsDB support will focus on higher productivity of agriculture, fisheries and marine resources to improve food and nutritional security and contribute to the development of relevant agriculture and fishery business and expansion of guest house tourism as part of extending benefits to the local communities. In this regard, strengthening rural infrastructure and market connectivity will be explored. Improving human capital development will enhance the capacities local communities in contributing more to local economies and IsDB will support to deliver inclusive and quality vocational and tertiary education, preventive health care services and skills that match labor market demand.

138. **The Bank will mainstream the deployment of ICT and digitization in sector and project interventions in Maldives, whenever feasible,** to empower people, scale-up efforts in human capital and skills development, help higher productivity and achieve greater development impact. In promoting local economies, IsDB will support MSMEs in agriculture and fisheries, ICT and others by providing necessary financing, skills and capacity development to MSMEs.

139. **As part of facilitating community empowerment, the Bank will foster discussions with community representatives, benefit from the opportunities of work with CSOs to improve services to under-served populations.** CSOs would ensure the inclusive pens and participation of local and disadvantaged communities to benefit more from the Bank's interventions notably in the NGO Empowerment for Poverty Reduction Program (mapping exercise, capacity development, promote community resilience through grassroot interventions).

140. **MCPS Pillar 2: Ensure Environmental Sustainability and Promote Resilient Society.** The objective of MCPS Pillar 2 is to make the lives of Maldivians sustainable through developing resilient and sustainable infrastructures and facilitating community development. In supporting progress towards Maldives' Nationally Determined Contributions (NDCs) and delivering its annual climate action target of 35% of commitments by 2025, the Bank will (i) provide sustainable clean and renewable energy infrastructure through ramp up necessary financing and private sector participation; and (ii) make sustainable cities through investing in waste management, water supply and sanitation.

141. **Developing resilient communities would require investment in climate-proofing of existing and planned infrastructure, coastal protection, transition to renewable energy, and enhancing human capacity to respond to climate emergencies.** IsDB will consider the necessary measures toward that through incorporating such aspect in project interventions.

142. **MCPS Pillar 3: Improve Quality of Island life and Enhance Business Environment.** The objective of MCPS Pillar 3 is to improve the quality of life of Maldivians and economic diversification through improved strategic infrastructure and enhanced conducive business environment. To promote economic diversification, IsDB will support (i) expanding regional economies in Maldives through facilitating the development of strategic infrastructures such as island roads, airports, ports and logistic hubs; and (ii) building social and affordable housing infrastructure facilities in addressing acute housing crisis. In supporting local businesses and further expansion of trade and businesses, IsDB will promote regional connectivity through trade facilitation and investment promotion measures. In fostering efforts of Maldives to strengthen RCI, the Bank will explore cooperation areas such as supporting the development of Islamic (Halal) tourism, enhancing Islamic Finance through financing intra-trade flows and promoting renewable energy, and will also closely coordinate with other development partners such as ADB in delivering RCI agenda.

143. **IsDB will support measures facilitating conducive business environment to promote trade, and private sector investment including financing, skills and capacity development for SMEs, and to tap into new economic sectors.** IsDB will also explore with the relevant authorities' areas to extend PPP investment and strengthen PPP capacity, including supporting the development of PPP laws, regulations and procedures manual.

144. **Mainstreaming perspectives of women and youth.** The MCPS support will be on integrating women's and youth's perspectives and needs by: (i) equipping women and young people with the necessary skills, technical and financial resources, therefore boosting their employment opportunities, and (ii) fostering discussions with women and youth organizations in key sector(s) to ensure adopting a women and youth lens and participation of local and disadvantaged communities to benefit more from the Bank's interventions.

145. **Support for climate change mitigation and adaptation.** In mainstreaming climate change and disaster mitigation measures, IsDB will consider the following critical measures: (i) strengthening disaster risks management capacity of Maldives to have better and effective early warning systems; (ii) mainstreaming the disaster risks reduction in the different sectors such as agriculture, housing, water, education and others to have safer environment and mitigate negative impact of the natural disasters; (iii) building community resilience to support community disasters reduction strategies to cope with risks and shocks posed by manmade and natural disasters through the active civil society organizations; (iv) reduce community vulnerabilities through livelihoods development and social protection program; (v) reduce insurance protection gap by helping Maldives integrate risk insurance in national disaster risks financing; and (vi) strengthen institutional capacity of the GoM to have better post disaster assessment; contingency planning and recovery systems.

146. **Develop and offer innovative Islamic financial products and services.** The Bank will support: (i) developing a better Islamic finance ecosystem in Maldives through offering innovative Islamic financial instruments, products and services including green sukuk, Islamic insurance facilities; (ii) the deepening of the Islamic financial sector and markets in Maldives through regulatory reforms and capacity development; and (iii) Islamic Finance Sector development through the provision of a diversified and complete tailored package including Equity contribution, Lines of Finance, and Guarantee Funds, if and when required.

147. **Tapping Reverse Linkage Opportunities.** The Reverse Linkage interventions will be mainstreamed and incorporated as a component in any of the MCPS projects focusing on the capacity development aspects. RL engagements will increase the number of such stakeholders in the development of the projects, while giving a ready platform that can foster long-term mutually beneficial relationship to be developed which can translate into positive spillover effect beyond the tenure of the projects identified.

148. **Alignment with IsDB Strategic Realignment 2023-2025.** The MCPS Pillars strongly align with focuses and priority areas of respective pillars under strategic objectives of IsDB Strategic Realignment 2023-2025 as shown in Table 11. Through sector and strategic level alignment, the MCPS Pillars will directly contribute to the achievements of Pillars under IsDB Strategic Realignment. The MCPS implementation through project interventions will contribute to the specific objectives of MCPS pillars and thus finally to the Bank-level objectives and pillars.

149. **Alignment with National Development Strategies.** The MCPS Pillars closely aligns with the priorities and focuses of SAP 2019-2023 and the NRR Plan 2020-2022 of GoM. In addition to alignment with sectors and sub-sectors of SAP 2019-2023 as shown in Table 11, MCPS project interventions will also prioritize sector focuses envisaged in NRR Plan 2020-2022 in close coordination with the GoM through making a close symmetry between SAP and NRR.

## 4.4 IMPLEMENTING THE PARTNERSHIP STRATEGY

150. **IsDB Group Indicative Financing. IsDB Group Indicative Financing.** As part of the “**One Bank, One Group**” group synergy agenda of the IsDB Strategic Realignment 2022-2025, the financing and programming of IsDBG will feature a mix of instruments drawing on the strengths of IsDB-OCR, LLF-Grant, PPP, ISFD, IFSD, ICD, ITFC and ICIEC as **one holistic group financing package**, as well as pursue **joint-programming** for Maldives.

151. The actual financing amounts of MCPS 2022-2025 will be determined later during the programming and implementation stage in close consultation with the GoM<sup>25</sup>. While doing so, actual lending volumes will depend upon a close balance among the borrowing capacity and appetite of the Government of Maldives, mutual concurrence between IsDB Group and the country on the choice of instruments and their respective leverage ratios, IsDB’s OCR exposure capacity and available headroom for Maldives, identification of OCR leveraging opportunities, resource mobilization by the IsDBG, and cofinancing opportunities from development partners.

**Table 4: IsDB Group Indicative Financing Package for Implementation of MCPS-focused Programs in Maldives, 2022-2025**

Financing by Entities	2022-2025 Financing (US\$ Million)
IsDB-OCR	140
ITFC*	1,200
ICD	20
ICIEC (Investment Insurance)**	102

*Note: (i) \* = Under the current framework agreement, ITFC indicative financing is until 2024, which may be extended under the new framework agreement later; and (ii) \*\* = A post membership mission of ICIEC is likely to happen soon and which will explicitly set out the next ICIEC strategy for Maldives in alignment with the Maldives MCPS 2022-2025 and more project specific visibility of ICIEC will be available.*

152. **During 2022-2025, the indicative OCR financing envelope from IsDB will be approximately US\$140 million** depending on the available headroom for Maldives and borrowing capacity of the Government.

153. **Under the signed Framework Agreement of ITFC with GoM, an approximately US\$1.2 billion for 2022-2024** (or, approx. US\$300 million per year) would be extended for enhancing collaboration in the trade financing and trade development space.

154. **The indicative envelope of ICD for Maldives MCPS is US\$20 million.** However, ICD will explore the ways and means of contributing to the MCPS agenda of Maldives through off balance sheet interventions such as issuing Sukuk, syndication or resource mobilization.

155. ICIEC conducted a due diligence mission to Maldives in March 2022 as it intends to support a project related to land reclamation and revetment works as a prerequisite of the international port development project, one of the strategic priorities of the Government of Maldives in Gulhifalhu island of

<sup>25</sup> It is important to note that while the IsDB team will work on realigning the MCPS, it will unbundle the realigned MCPS strategies from its programming. However, the RH Dhaka and MCPS team will also start a separate exercise on programming of projects. In this regard, right after the launching of MCPS during the 2022 Annual Meeting, IsDB team aims to complete the programming work through extensive consultation with focal ministries and agencies in a detail mission to Maldives. The exercise will result in an array of bankable projects to be identified for implementing in the rest of the MCPS period until 2025.

Maldives with an estimated insurance cover of EUR 50 million. ICIEC has got another pipeline transaction related to the development of 1,000 social housing units in Maldives with a request for providing the insurance cover for USD 50 million, where the borrower is state-owned Fahi Dhiriulhun Corporation (FDC). ICIEC is also willing to explore the opportunity of providing export credit insurance to state-owned MIFCO covering the risk of non-payment from the international buyers. Besides, ICIEC is interested to mobilize foreign investment into tourism, housing, renewable energy, ICT, and infrastructure sectors by providing insurance cover to foreign investors/ lenders.

156. **Partnerships.** In view of the high debt level, the IsDB will closely monitor the development of external debt situation and coordinate with other bilateral and multilateral development partners such as Asian Development Bank, Asian Infrastructure Investment Bank and UNDP in programing and implementing its projects and will explore opportunities for engagements on mutually agreed areas. While doing so, IsDB will actively work to minimize any overlapping in the country's development initiatives.

157. **Programming Approach:** The MCPS Maldives, as the first MCPS to be formulated in line with the Bank's Strategic Realignment 2023-2025 is designed to espouse strong Group Synergy, enshrine focus and selectivity in programming in line with the IsDB's core strengths and driven by national priorities, pilot programmatic and solution-centric pipeline building approaches, identify cooperation opportunities with developmental partners and welcome resource mobilization opportunities.

158. **Implementation Priorities.** IsDB, in close coordination with the Government of Maldives, will prioritize efforts in eliminating project startup and implementation delays for improving implementation pace and reducing the possibility of project cancellation. RHD will apply Bank's 'Qualification and Prioritization (QnP) mechanism' at the project programming stage and 'integrated quality assurance framework' at project design stage to improve quality at entry and portfolio management. Efforts will also be extended for preparing a better Project Concept Note so that the projects receive higher score in terms of their readiness and prioritization.

159. **RHD will update the existing dashboard regularly and generate periodic report, on 6-months basis, for the consideration of higher management of IsDB and relevant country authorities.** Tripartite reviews of the project implementation pace of all projects will continue, with conducting PIASR for well-defined problematic projects on a shorter time horizon. IsDB will continue to build capacities of officials from executing and implementing agencies on critical IsDB procurement and disbursement guidelines for improving project and agencies' performances. Wherever needed, IsDBG will use country procurement systems as part of faster project implementation. These issues, particularly relating to Public Financial Management, in addition to specific lessons learned from OED evaluations of projects will be key considerations in the design and implementation stage of the Maldives MCPS in order to safeguard implementation performance and results.

160. **MCPS Monitoring and Evaluation of Results.** At the MCPS level, the MCPS mid-term review, MCPS Final Review and individual PIASRs will be used as an input to report on actual progress against benchmark implementation timelines, report on output and outcomes set in the Results Matrix. The overall MCPS Results Framework focuses on strategic results and synergies among MCPS sector- and project-level strategies, which are closely aligned and consistent with the goals/strategies of the SAP of Maldives. IsDB will monitor the results and report on overall country portfolio progress, covering both active and pipeline projects. For this purpose, the annual Country Portfolio Review Note (CPRN) will report on progress as well as highlight major implementation challenges.

161. **In addition, the MCPS Coordination Team at the Country Programs will conduct the MCPS Mid-term Review which will document the progress on the MCPS Results Framework and, if warranted**



**by macroeconomic developments and prospects, propose adjustments in the indicative financial envelope as well as modifications in the Results Matrix.** The MCPS Mid-term Review report is expected to be shared with the GoM authorities and reflect their viewpoints for the consideration of the IsDB Management. In addition, MCPS Mid-term Review will also contribute to the conduct of the in-field Country Assistance Evaluation by the Group Independent Evaluation Department and the MCPS Completion Review by Country Programs Department at the end of MCPS implementation cycle. IsDB's standard evaluation approach combines and captures issues related to country portfolio performance, delivery envisaged under benchmarked MCPS Results Matrix and report on outputs and outcomes. For project level evaluation, the periodic reports uploaded in the dashboard will be relied upon to assess their corresponding evaluation indicators reported in respective project RRP.

162. **The overall MCPS Results Framework is a fluid framework that forms the basis for evaluating the progress of the MCPS.** The Bank has developed a Comprehensive Results Based Management Framework (CRBM) which will be used to develop results frameworks for each of the interventions under the MCPS during the MCPS programming phase. **The overall MCPS Results Framework is a live matrix that will be amended in real time based on project approvals for Maldives under the MCPS.**

163. **Public Financial Management & Procurement Systems. Maldives macroeconomic vulnerabilities play an onerous impact on the public financial management, which can be broadly categorized as follows: (i) lack of fiscal adjustment that encourages high public debt and low fiscal buffers; (ii) contingent liabilities associated with SOE's external borrowings guaranteed by the government; and (iii) external risks regarding tighter financial conditions and weaker global growth adversely affecting revenue growth in tourism sector.** Reforms and further strengthening in public financial management are needed for increasing spending efficiency, improving transparency and reducing opportunities for corruption, as recommended by the IMF 2016 Public Investment Management Assessment (PIMA). Limited capacity of line ministries in conducting a proper appraisal and selection of capital projects remains an issue. Through project specific interventions, IsDB can potentially help line ministries to improve their capacities for increasing efficiencies of project implementation.

164. **The GoM has recently initiated fiscal and macroeconomic reforms for improving public financial management. It has implemented measures to strengthen fiscal position and steps to improve budget credibility and transparency.** This included revision of the legal and regulatory framework for budget formulation, public investment management, budget execution, and financial reporting. However, according to WB (P164322), although an overall progress towards improving the efficacy of public financial management is made, government efforts to strengthen the efficacy of the internal audit function is yet behind track.

165. **To ensure better efficiency and sustainability of the PFM reform, assessment of some past and on-going WB projects in the country revealed that there is a need to strengthen capacity of the Internal Audit (IA) function through:** (i) aligning practices to international IA standards in the public sector; (ii) adoption of a coherent IA framework across the government; (iii) support the establishment of an accounting reform action plan; and (iv) results-based financing. These measures would increase transparency and external accountability of the public-sector finances if the external audit is also aligned with international standards for supreme audit institutions and international good practice.

166. **Although review of other MDBs appraisals indicates that overall fiduciary risk performance in the country is moderate, it could still entail some weaknesses in government systems that pose some critical risks.** Therefore, during implementation of MCPS projects, the Bank's PFM specialists will conduct reviews to ensure the adequacy of systems and capacity over the course of project implementation, provide advice and guidance on related PFM issues, and, where appropriate, recommend capacity strengthening.

167. **Accordingly, PFM arrangements will be designed to mitigate fiduciary risks through planning and regular financial reporting, following MDB's best practices taking into consideration coordination and synergies while leveraging investment.** To help reap the benefits of MCPS projects, specific financial management arrangements will be considered at individual project level. Among others, IsDB could also mitigate key fiduciary risks by tightening controls while avoiding complex arrangements through enforcing strict project implementation readiness, simplicity in project design and implementation arrangements while building capacity of key stakeholders on financial management and undertaking fiduciary follow up activities on the ground.

168. Audit arrangements for all development projects and interventions to be implemented under the MCPS will be subject to external independent audit with TORs acceptable to IsDB and strict adherence to submission of audited financial statements and annual financial audit reports - in compliance with 'International Standards on Auditing' - within 6-months after the end of each financial year.

169. **The procurement system is characterized by an inadequate policy and regulatory framework, the absence of a procurement performance and monitoring system and weak human capital and capacity to handle diverse tasks.** In view of these, IsDB will maintain dialogue with GoM and collaborate with other MDBs for providing support on procurement reform and capacity development and will continue to extend project-based assistance and hand holding support during the project implementation phase as and when required.

170. **With an aim to realize the key strategic objectives, it is necessary to support the country with developing and introducing environmental social and sustainable public procurement and gender consideration by preparing a detailed implementation road map on these aspects.** Similarly, in order to further support local market and domestic SMEs in the country it is essential to develop a preferential mechanism aligned with IsDB procurement rules and regulation.

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*With an aim to realize the key strategic objectives, it is necessary to support the country with developing and introducing environmental social and sustainable public procurement and gender consideration by preparing a detailed implementation road map on these aspects.*

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# 5 RISK MANAGEMENT AND MITIGATION

Risks	Mitigation
<p><b>Country policy &amp; regulatory environment.</b> Stringent regulatory policies can put unnecessary burden on investment without adding any benefit to the economy. In addition, weaknesses in government statistical and reporting capacity may hinder monitoring the results of interventions.</p>	<p>The MCPS fixes a set of targets in the Results Framework for delivering strategic investments into Maldives. Meanwhile, in order to ensure effective results monitoring, project design of interventions will include monitoring mechanisms built into each project's components.</p>
<p><b>Country Sovereign Risk.</b> Maldives public debt profile is in a precarious situation, particularly following the COVID-19 related disruptions to its major economic sectors including tourism. Changes to the sovereign rating and debt profile will influence the level of OCR exposure the MCPS can carry.</p>	<p>The IsDB fiduciary teams responsible for risk assessments and country allocations will closely monitor the progress of Maldives debt sustainability to assess the optimal level of OCR exposure for the MCPS and adjust the financial envelope accordingly.</p>
<p><b>Public Financial Management.</b> Lessons learned through the CPPR highlight weak PMU staffing and retention and procurement delays as major issues that contribute to weak project implementation.</p>	<p>At the implementation phase of the MCPS, RH Dhaka will consider recommendation and coordinate with PFM team on the PFM issues encountered in previous IsDB operations in the country and put safeguards in place within project design as well as monitoring to ensure PFM risks are mitigated.</p>
<p><b>External Shocks.</b> As an island nation with export concentration, import dependence as well as vulnerability to climate hazards, external shocks can have serious adverse consequences to interventions carried by development institutions.</p>	<p>The majority of IsDB's strategic focuses and priority areas in the MCPS are geared towards alleviating export concentration, reducing import dependence and protecting Maldives' natural ecosystems from pollution and inadequate waste management. The design of all projects will follow international standards, safe-guards and best practices to deter and minimize natural hazards.</p>

# 6 MCPS RESULTS MATRIX

## MCPS Pillar 1: Strengthen local economies and empower communities

**Overall Objective:** Build a resilient state through strengthening supports for local economies and empowering communities

SAP 2019-2023 Pillars	Blue Economy, Dignified Families, Quality of Island Life, and Good Governance	
Development Challenges addressed by MCPS	MCPS Outcomes, Indicators and Targets	
	Outcome	Targets/Indicators
Support resilient agriculture and fisheries and marine resources and guest house tourism (P.1)	<ul style="list-style-type: none"> <li>- Productivity of agriculture, fisheries and marine resources increased</li> <li>- Guest house tourism expanded</li> </ul>	<ul style="list-style-type: none"> <li>- Increase agriculture and fisheries production</li> <li>- Increase the country's canned tuna production capacity and quality</li> <li>- Increase in export revenues through export of processed fish waste products</li> <li>- Increase the country's exports of processed Skipjack tuna</li> <li>- Increase the number of Jobs created in the canning industry</li> <li>- Number of jobs created, with gender focus</li> <li>- Reduction in poverty levels</li> <li>- Increase in the number of tourists for both the resorts and the guesthouses operators.</li> <li>- Increase in the number of guesthouses refurbished or rehabilitated</li> </ul>
Support inclusive and quality human capital development including skills (P.2)	<ul style="list-style-type: none"> <li>- Inclusive and quality vocational and tertiary education delivered</li> <li>- Preventive health care services expanded</li> <li>- Skills training provided</li> </ul>	<ul style="list-style-type: none"> <li>- New education facilities and skills program in outer islands</li> <li>- New skills program developed</li> <li>- New skilled graduates</li> <li>- New health facilities in outer islands</li> <li>- Number of jobs created, with gender focus</li> <li>- Reduction in poverty levels</li> </ul>
Mainstreaming ICT and digitization (P.1)	<ul style="list-style-type: none"> <li>- Access to internet improved</li> <li>- Use of ICT and digitization increased</li> <li>- ICT and digitization skills increased</li> </ul>	<ul style="list-style-type: none"> <li>- Increase of Internet access coverage</li> <li>- Lower Cost of internet access</li> <li>- Increased in reliability of internet availability measured in terms of reduction in downtime.</li> <li>- Number of jobs created, with gender focus</li> <li>- Reduction in poverty levels</li> <li>- Increase the number of ICT training programs developed &amp; launched and delivered</li> </ul>

<p>Promote local economies including MSMEs (P.2)</p>	<ul style="list-style-type: none"> <li>- Agriculture and fisheries, and ICT MSMEs increased</li> <li>- Access to finance by MSMEs increased</li> <li>- Skills of MSMEs improved</li> </ul>	<ul style="list-style-type: none"> <li>-Number of local producers benefiting from better market access</li> <li>- Number of jobs created, with gender focus</li> <li>- Reduction in poverty levels</li> </ul>
<p>Facilitate community empowerment (P.2)</p>	<ul style="list-style-type: none"> <li>- Cooperation with CSOs improved</li> <li>- Services to under-served and disadvantaged populations increased</li> </ul>	<ul style="list-style-type: none"> <li>- Number of cooperation with CSOs</li> <li>- Number of people served by CSOs</li> <li>- Number of jobs created, with gender focus</li> <li>- Reduction in poverty levels</li> </ul>
<p>Mainstream perspectives of women and youth in meeting needs (Cross-cutting)</p>	<ul style="list-style-type: none"> <li>- Equipping women and young people with skills, technical and financial resources increased</li> <li>- Employment of women and youth increased</li> </ul>	<ul style="list-style-type: none"> <li>- Number of skills programs</li> <li>- Amount of financial resources for youth and women entrepreneurs</li> <li>- Number of jobs created, with gender and youth focus</li> <li>- Reduction in poverty levels</li> </ul>



## MCPS Pillar 2: Ensure environmental sustainability and promote resilient society

**Overall Objective:** Make the lives of Maldivians sustainable through developing resilient and sustainable infrastructures and facilitating community development

SAP 2019-2023 Pillars	Dignified Families and Quality of Island Life	
Development Challenges addressed by MCPS	MCPS Outcomes, Indicators and Targets	
	Outcome	Targets/Indicators
Support clean and renewable energy (P.1)	<ul style="list-style-type: none"> <li>- Clean renewable energy generated</li> <li>- Lower dependence on energy imports</li> </ul>	<ul style="list-style-type: none"> <li>-Number of megawatts of clean energy generated</li> <li>- Share of renewable energy in the national energy mix increased</li> <li>-Number of jobs created, with gender focus</li> <li>-Reduction in poverty levels</li> </ul>
Build green and sustainable urban infrastructure and services (P.1)	<ul style="list-style-type: none"> <li>- Better waste management, lower pollution and preservation of local ecosystems</li> <li>- Access to safe water supply increased</li> <li>- Sanitation network coverage expanded</li> </ul>	<ul style="list-style-type: none"> <li>- Number of metric tonnes of waste processed</li> <li>- Number of carbon ppm air pollution reduction in the Greater Male area</li> <li>- Increase of access to safe water supply</li> <li>- Increase in sanitation network coverage</li> <li>-Number of jobs created, with gender focus</li> <li>-Reduction in poverty levels</li> </ul>
Facilitate resilient communities (P.1)	<ul style="list-style-type: none"> <li>- Climate-proofing of infrastructure increased</li> <li>- Coastal protection improved</li> <li>- Local human capacity to climate emergencies rose</li> </ul>	<ul style="list-style-type: none"> <li>- Number of islands protected by coastal protection infrastructure</li> <li>- Number of trainings for local people on climate resilience</li> <li>-Number of jobs created, with gender focus</li> <li>-Reduction in poverty levels</li> </ul>
Support for climate change mitigation and adaptation (cross-cutting)	<ul style="list-style-type: none"> <li>- Strengthening disaster risks management capacity strengthened</li> <li>- Disaster risks reduction in different sectors mainstreamed</li> <li>- Better waste management, lower pollution and preservation of local ecosystems.</li> <li>- Community resilience built</li> </ul>	<ul style="list-style-type: none"> <li>-Number of carbon ppm air pollution reduction in the Greater Male area</li> <li>- Number of projects with environment, climate and/or disaster risk considerations</li> <li>-Number of jobs created, with gender focus</li> <li>-Reduction in poverty levels</li> </ul>

### MCPS Pillar 3: Improve quality of Island life and enhance business environment

**Overall Objective:** Improve the quality of life of Maldivians and economic diversification through improved strategic infrastructure and human capital development and enhanced conducive business environment

<b>SAP 2019-2023 Pillars</b>	Blue Economy, Caring State, Dignified Families, and Quality of Island Life	
<b>Development Challenges addressed by MCPS</b>	<b>MCPS Outcomes, Indicators and Targets</b>	
	<b>Outcome</b>	<b>Targets/Indicators</b>
Support regional economies through improved strategic infrastructures and logistic hubs (P.1)	<ul style="list-style-type: none"> <li>- Strategic infrastructures such as airports, ports and logistic hubs developed</li> </ul>	<ul style="list-style-type: none"> <li>- Number of regional cargo ports rehabilitated</li> <li>- Number of airports rehabilitated</li> <li>- Number of ferries acquired</li> <li>- Number of local producers benefiting from better market access</li> <li>- Number of jobs created, with gender focus</li> <li>- Reduction in poverty levels</li> </ul>
Develop social housing infrastructure facilities (P.1)	<ul style="list-style-type: none"> <li>- Social and affordable housing infrastructure facilities built</li> </ul>	<ul style="list-style-type: none"> <li>- Number of new housing units</li> <li>- Number of jobs created, with gender focus</li> <li>- Reduction in poverty levels</li> </ul>
Promote regional connectivity through trade facilitation and investment promotion (P.1)	<ul style="list-style-type: none"> <li>- Local businesses, and trade expanded</li> <li>- Regional cooperation increased</li> </ul>	<ul style="list-style-type: none"> <li>- Increase in local business expansion</li> <li>- Increase in trade activities</li> <li>- Number of RCI initiatives</li> <li>- Number of investment promotion events</li> </ul>
Enhance business environment for SMEs including capacity development (P.2 and cross-cutting)	<ul style="list-style-type: none"> <li>- Private businesses rose</li> <li>- Financing, skills and capacity of SMEs expanded</li> <li>- New economic sectors emerged</li> </ul>	<ul style="list-style-type: none"> <li>- Number of new private businesses and SMEs</li> <li>- Number of staff trained from SMEs and other relevant stakeholders</li> <li>- Number of jobs created, with gender focus</li> <li>- Reduction in poverty levels</li> </ul>
Promote private sector financing including PPPs (P.1)	<ul style="list-style-type: none"> <li>- PPP investment extended</li> <li>- PPP capacity strengthened</li> </ul>	<ul style="list-style-type: none"> <li>- Growth of private sector investment</li> <li>- PPP Framework developed</li> <li>- Number of jobs created, with gender focus</li> <li>- Reduction in poverty levels</li> </ul>
Develop and offer innovative Islamic financial products and services (cross-cutting)	<ul style="list-style-type: none"> <li>- innovative Islamic financial instruments, products and services delivered</li> </ul>	<ul style="list-style-type: none"> <li>- Number of Islamic financial products and services increase</li> <li>- Number of jobs created, with gender focus</li> <li>- Reduction in poverty levels</li> </ul>



# ANNEX 1: MALDIVES, SELECTED MACROECONOMIC INDICATORS, 2017-2026

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Actual				Projections					
	Prel.									
<b>Output and prices</b>	<b>(Annual percentage change)</b>									
Real GDP	7.2	8.1	6.9	-33.5	33.4	6.1	8.9	6.6	5.6	5.6
Inflation (period average)	2.3	1.4	1.3	-1.6	0.2	2.3	2.0	2.0	2.0	2.0
<b>Government finances</b>	<b>(In percent of GDP)</b>									
Revenue and grants	27.7	27.2	26.9	26.4	27.2	27.6	27.8	27.4	26.9	27.0
Expenditure	30.8	32.5	33.6	49.9	42.2	41.0	36.2	37.2	33.6	33.3
Overall balance	-3.1	-5.3	-6.7	-23.5	-15.1	-13.5	-8.5	-9.8	-6.6	-6.3
Primary balance	-1.7	-3.6	-5.1	-20.9	-12.4	-9.4	-4.3	-5.8	-2.7	-2.7
Public and publicly guaranteed debt	64.6	72.0	78.8	146.1	123.4	129.3	127.1	129.0	127.1	122.8
<b>Monetary accounts</b>	<b>(Annual percentage change)</b>									
Broad money	5.2	3.4	9.6	14.2	10.7	9	9.1	8	7.6	7.5
Domestic credit	1.7	5.2	5.6	35.6	11.2	8.5	6	6.2	5.9	7.7
<b>Balance of payments</b>	<b>(In percent of GDP)</b>									
Current account Of which:	-21.6	-28.4	-26.6	-35.5	-15.6	-24.2	-17.7	-14.3	-12.9	-10.5
Exports	6.7	6.4	6.4	6.9	6.7	6.4	5.9	5.4	5.3	5.3
Imports	-46.9	-52.2	-48.9	-45.7	-47.2	-43.7	-39.3	-39.5	-39.8	-40.2
Tourism receipts (in nonfactor services, net)	57.8	57.2	56.1	37.4	59.4	61.4	63.1	65.5	66.4	67.8
Gross international reserves (in millions of US\$; e.o.p.)	587	712	754	985	508	553	976	1,251	1,496	1,220
In months of GNFS imports	1.7	2.1	3.7	3.7	1.7	1.8	2.8	3.3	3.6	2.8
Exchange rate (rufyiaa/US\$, e.o.p.)	15.4	15.4	15.41	15.4	-	-	-	-	-	-
<b>Memorandum items:</b>										
GDP (in millions of U.S. dollars)	4,747	5,294	5,598	3,736	5,070	5,502	6,109	6,641	7,155	7,703
Tourism bed nights (000')	8,596	9,477	10,689	4,500	8,500	10,179	11,957	13,394	14,613	15,872
Tourist arrivals (000')	1,386	1,484	1,703	555	1,000	1,434	1,960	2,196	2,396	2,602
Tourism bed nights (% change)	10.6	10.2	12.8	-57.9	88.9	19.8	17.5	12	9.1	8.6
Tourist arrivals (% change)	7.8	7.1	14.7	-67.4	80	43.4	36.7	12	9.1	8.6

Sources: World Economic Outlook Database, International Monetary Fund, April 2022; and IMF 2021 Article IV Consultation Press Release, October 2021 (<https://www.imf.org/en/Publications/WEO/weo-database/2022/April>; and <https://www.imf.org/en/News/Articles/2021/10/07/pr21287-maldives-imf-executive-board-concludes-2021-article-iv-consultation>)

## ANNEX 2: DEVELOPMENT CHALLENGES ALIGNMENT MATRIX

Key Development Challenges	National Priorities/Agenda	IsDB Strategic Objectives/Pillars
<p><b>HEAVY RELIANCE ON FOREIGN SUPPLY CHAINS</b> (High export earning leakages from the tourism industry due to foreign ownership of services provision)</p>	<p><b>1. Blue Economy</b> (1.1 Fisheries and Marine Resources; 1.2 Agriculture; 1.4 SMEs; 1.5 Labour, employment and migration; 1.6 Economic Diversification)</p> <p><b>4. Quality of Island Life</b> (4.1 Decentralization; 4.6 Water and sanitation; 4.8 ICT)</p>	<p><b>P.1: Green Resilient &amp; Sustainable Infrastructure:</b> (Agriculture and rural development; urban development; ICT &amp; Digitization)</p> <p><b>P.2: Inclusive Human Capital Development:</b> (MSMEs &amp; Job Creation)</p> <p><b>Cross-cutting areas:</b> Capacity Development</p>
<p><b>LOW LEVEL OF HUMAN CAPITAL</b> (Low quality and access to education; Skills shortage of local job seekers, high demand for foreign skilled workers in high-end tourism; low access and quality of health services in outer islands; high youth and gender unemployment)</p>	<p><b>1. Blue Economy</b> (1.5 Labour, employment &amp; migration)</p> <p><b>2. Caring State</b> (2.1 Health; 2.2 Education; 2.3 Higher Education)</p> <p><b>3. Dignified Families</b> (3.3 Dignified Family; 3.4 Community empowerment)</p> <p><b>5. Good Governance</b> (5.6 Gender equality)</p>	<p><b>P.2: Inclusive Human Capital Development:</b> (Quality Education; Universal health care/ Health Services)</p> <p><b>Cross-cutting areas:</b> Women and Youth; Capacity Development</p>
<p><b>LOW ECONOMIC DIVERSIFICATION</b> (Substantial reliance on tourism sector; overfishing and high energy costs in fishery sector; weak processing capacity of fisheries; weak access to finance by SMEs)</p>	<p><b>1. Blue Economy</b> (1.1 Fisheries and Marine Resources; 1.2 Agriculture; 1.4 SMEs; 1.6 Economic Diversification)</p> <p><b>2. Caring State</b> (2.2 Education; 2.3 Higher Education; 2.4 Social Protection)</p>	<p><b>P.1: Green Resilient &amp; Sustainable Infrastructure</b> (Urban Development; Transport; Agriculture and Rural Development)</p> <p><b>P.2: Inclusive Human Capital Development:</b> (Resilience Education; Social Protection; MSMEs)</p> <p><b>Cross-cutting areas:</b> Islamic Finance Development; Capacity Development</p>



	<p>3. Dignified Families (3.6 Islamic Faith)</p> <p>4. Quality of Island Life (4.1 Decentralization)</p>	
<p><b>UNBALANCED INFRASTRUCTURE DEVELOPMENT</b> (high urban concentration of economic activities and services; weak inter-connectivity among islands; weak management of waste; high reliance on energy generation from costly fossil fuels; unavailability of affordable housing)</p>	<p><b>3. Dignified Families</b> (3.2 Housing)</p> <p><b>4. Quality of Island Life</b> (4.2 Transport network; 4.3 Clean energy; 4.5 Waste as a resource; 4.6 Water and Sanitation; 4.8 ICT)</p>	<p><b>P.1: Green Resilient &amp; Sustainable Infrastructure:</b> (Sustainable multi-modal Transport; Clean &amp; Renewable Energy; Urban Development, Water &amp; Sanitation; Social Infrastructure; ICT &amp; Digitization)</p>
<p><b>CLIMATE CHANGE MITIGATION AND ADAPTATION CHALLENGES</b> (Lack of capability in handling environmental issues, natural hazards and disaster)</p>	<p><b>3. Dignified Families</b> (3.4 Community Empowerment)</p> <p><b>4. Quality of Island Life</b> (4.3 Environmental protection and preservation; 4.4 Clean energy; 4.7 Resilient communities)</p>	<p><b>P.1: Green Resilient &amp; Sustainable Infrastructure:</b> (Clean Energy; Urban development, water and sanitation)</p> <p><b>Cross- cutting areas:</b> Climate Change; Capacity Development</p>

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