

**ASIAN DEVELOPMENT BANK**

**COUNTRY ASSISTANCE PLAN  
(2000-2002)**

**MALDIVES**

**December 1999**

## FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank (ADB) for Maldives covering the three-year period 2000-2002. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 1999, in close consultation with the Government of Maldives, and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 1999. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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**CURRENCY EQUIVALENTS**  
(As of 30 November 1999)

Currency Unit	-	Rufiyaa (Rf)
Rf 1.00	=	\$ 0.08857
\$ 1.00	=	Rf11.29

The exchange rate of the rufiyaa is determined under a system of managed float.

**ABBREVIATIONS**

ADB	Asian Development Bank
COS	Country Operational Strategy
EA	Executing Agency
GDP	gross domestic product
GNP	gross national product
MMA	Maldives Monetary Authority
NDF	Nordic Development Fund
OECD	Organization for Economic Cooperation and Development
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Area
UNDP	United Nations Development Programme

**NOTES**

- (i) The fiscal year of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollar.

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## MALDIVES

### I. Country Performance Assessment

#### A. Economic Performance Assessment

1. Maldivian economic development has been constrained by its limited agricultural and mineral resources and the small size of its domestic market.<sup>1</sup> These factors have resulted in a high dependence on two sectors, fisheries and tourism, which account for more than two thirds of foreign exchange earnings and one fourth of Government revenue. In the early 1990s, these factors triggered macroeconomic instabilities, with high budget and balance of payments deficits accompanied by double-digit inflation. The Government adopted a macroeconomic stabilization package in 1994 centered on tightening fiscal and monetary policies. Assisted by a rebound in the tourism and the fisheries sectors, the economy recovered rapidly.<sup>2</sup> The economy has grown at an annual average rate of 6.7 percent during the period 1994/1998. Per capita gross domestic product (GDP) at 1998 current market prices was estimated at \$1,377. Defence expenditures continue to account for negligible portion of overall fiscal expenditures.

2. The overall performance of the economy has not been significantly affected by the Asian economic crisis. The tourist arrivals grew by 8.3 percent in 1998, fish exports by about 2 percent. The reduction in tourist arrivals from Asian countries was offset by steady growth of tourist arrivals from European countries that accounted for 77 percent of total arrivals. Increased fish production and reduced international prices of imports from crisis-hit countries contributed largely to the lowering of domestic inflation from 7.6 percent in 1997 to about -2.2 percent in 1998. While the current account deficit was estimated at 6.3 percent of GDP, this was more than offset by strong capital inflows, and resulted in a comfortable external position with reserves equivalent to over 4 months of imports.

3. The economic outlook for the remainder of 1999, and 2000 remains bright. Growth is expected to be in the 6-7 percent range, mainly underpinned by the continued increase in tourist arrivals. However, given the possible decline in external assistance and increasing demand for social sector expenditure, the country will need to continue the process of fiscal consolidation, enhance the efficiency of the public sector and the financial system, encourage the diversification of the economy, and reduce the direct role of the public sector in economic activity. In recent years, tariff reform and partial liberalization of Rufiyaa interest rates were introduced. In order to streamline tax collection, the Government established the Department of Inland Revenue in 1996 and a Revenue Board in 1997. As for the financial sector, there have been several significant policy developments to improve supervision of the banking sectors. Changes to the legal environment to support further development of the banking system are in process. The introduction of new measures for monetary management are still under consideration.

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<sup>1</sup> Appendix 1 provides information on key economic, social and environmental indicators.

<sup>2</sup> Overall fiscal deficit including grants has been narrowed from over 9 percent in 1995 to about 5 percent in 1998.

## **B. Assessment of Socio-Environmental Performance**

### **1. Poverty Issues**

4. Despite strong economic growth in the last two decades, poverty still exists in Maldives. Although an official poverty line has not yet been established for Maldives, a recent Vulnerability and Poverty Assessment Survey by the Government indicated that 22 percent of the population has a daily income of less than Rf10 (equivalent to \$0.84).<sup>3</sup> The Survey also indicated that the average daily income for the Malé region has been estimated to be about three times as much as the average of the outer atolls. This indicates that wide income inequalities still exist and that the economic benefits of development have not reached the majority of the population. Vulnerability measured by access to economic and social infrastructure is found to be highest in the more remote atolls and tends to be highest in the small islands. Child labor is nonexistent in Maldives.

### **2. Gender Issues**

5. As the economy has modernized in the past two decades, the role of women in the economy has also changed substantially. While women lost employment opportunities in artisanal fishing when modern fishing techniques were introduced, new employment opportunities have gradually emerged, especially in the areas of public administration, tourism and manufacturing. However, women's access to higher education, necessary to respond to these changes (especially in the outer islands), is still limited. Maldivian women generally marry young and most are divorced and remarried several times, each marriage resulting in one or two children. It has been estimated that one-third of all households are headed by women and that the incidence of female household heads does not vary significantly between Malé and the atolls.

### **3. Human Development**

6. Human development in Maldives has undergone substantial improvement in the last two decades. The attainment of nearly universal literacy (98 percent), the elimination of malaria and the dramatic reduction in infant mortality, which now stands at 27 per 1,000 live births (1997) compared with 120 in 1977, are significant, especially considering the large distances between the 200 populated islands. Sound progress has also been achieved in the maternal mortality rate that declined from 451 per hundred thousand live births to about 236 in the period 1990-1996. Consequently life expectancy at birth increased from 52 years in 1982 to 70 years in 1997. These improvements are reflected in the rising human development ranking of Maldives. It was ranked 95th in the 1998 United Nations Development Programme (UNDP) Human Development Report, a remarkable jump of 16 places from its ranking in 1997. The annual population growth rate in recent years is estimated to have been about 2.8 percent, which is lower than in the 1980s when it grew at about 3.2 percent per annum. However, the continued relatively high population growth rate is a major concern, given the scarcity of land and other resources in the country. Water supply and sanitation facilities have improved in Malé, but are less prevalent in the outer islands. Wells are becoming polluted from poor sanitation practices and pose a health threat to those who still use these sources for potable water. Child malnutrition, as evidenced by stunted growth, anemia, and wasting remains a matter of concern.

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<sup>3</sup> *Vulnerability and Poverty Assessment*, Ministry of Planning and National Development in cooperation with UNDP, Malé, Republic of Maldives, 1998.

#### 4. Environment

7. The country has limited terrestrial resource endowments. Rich marine life and beautiful settings are important for the development of the fishing, tourism sectors and the sustainable livelihood of the Maldives population. Like many other small island countries, Maldives faces serious environmental problems which include declining freshwater quantity and quality, coastal erosion and pollution, and degradation of coastal resources and the coral reef ecosystem. These problems are aggravated by the pressure of increasing population. The vulnerability of the small island ecosystems is compounded by the threat of the rise in the sea level due to global warming. Most islands are low-lying and about 80 percent of the land area is less than one meter above sea level. The coral growth rate is 3-5 mm per year and has the potential to mitigate some of the effects of sea level rise. However, a recent study showed that a serious coral bleaching occurred in Maldives in 1998 and caused a significant level of damage to the reefs in the Maldives. The Government, with the assistance of UNDP, is monitoring the coral reefs to identify the best approach to manage this fragile ecosystem. In addition, environmental problems associated with improper sanitation practices and over exploitation of the fresh water sources seriously threaten the populated islands.

8. In 1990 the Government prepared the National Environmental Action Plan recognizing the growing environmental problems facing Maldives and the high dependency upon the environment and natural resources for economic development. Although several donors assisted the Government to implement the Plan, inadequate funding and limited human resources resulted in slow progress. In 1998, the Plan was revised to address recent needs for managing natural and environmental resources and UNDP has taken a coordinating role to mobilize resources to assist the Government to implement it. The challenge for the Government now is to balance the need for improved living standards while protecting the natural resources from which much of the country's employment and income are derived. The ADB has identified critical natural resources and environmental issues to be considered when undertaking development projects in Maldives<sup>4</sup>.

#### C. Governance: Sound Development Management

9. The National Development Plan (1997-1999) has "governance" as one of its six development objectives. In recent years, the Government has initiated and is implementing a wide range of measures towards good governance. These include civil service reform, public administration reform, financial sector restructuring and liberalization, and the promotion of private investment and entrepreneurship. The Government has also taken steps to strengthen the country's legal framework. In 1994 the Government established the Law Commission to accelerate the process of modernization of legislation. The Commission has already made a significant contribution in the drafting of public laws, particularly in the transport and financial sectors. In 1991, the Government established the Anti-Corruption Board to investigate corruption complaints in Government Departments and state-owned corporations.

10. In spite of the above initiatives and measures in achieving good governance, numerous challenges remain of which two in particular have been considered by the Government as demanding particular attention. First, Maldives must continue with the progressive redefinition of the role of the state as one of enabler and facilitator of development rather than as a provider of development. This would require further removal of legislative and regulatory impediments to the private sector so that it can consolidate its position as the main engine of growth and the

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<sup>4</sup> *Environmental Management of the Republic of Maldives: An Overview*, Asian Development Bank, 1999.

reform of the public sector aimed at increasing its overall efficiency. Additionally, it would require the upgrading of human resources to fill the skill gaps that have been recognized as the key constraints to the modernization and improved performance of the public and private sectors. Second, there is a formidable challenge of decentralizing some responsibilities for the planning and management of development to the atoll and island levels and of building the institutions that facilitate the participation of the atoll population in decision-making affecting their livelihood and development of their communities.

## **D. Implementation Assessment**

### **1. The Portfolio**

11. To date, the ADB has approved nine loans from Special Funds resources to the Maldives for a total of \$55 million, mainly focusing on improvement of power supply and port facilities in Malé. Three loans have been provided in each of the transport and the energy sectors, and one loan each for the education, regional development and multi (mainly energy and ports) sectors. Of the six completed projects, four have been post-evaluated. Three were rated generally successful due to good project design and the technical assistance which were provided for institutional strengthening of the concerned executing agencies (EAs). The one unsuccessful project was Loan 513-MLD: Interisland Transport Project, approved in 1981 for \$1 million. It suffered from major project design flaws. The 34 TAs (\$10.5 million) provided by the ADB have had a wider sectoral coverage than the loan program, and included assistance for national planning, financial sector improvement and strengthening of the public sector. Ten TAs were for the preparation of loan projects and 24 TAs were for advisory activities. Overall, the Maldives has made good use of ADB assistance and has satisfactory absorptive capacity. (See Appendix 2).

12. Past ADB lending operations have been instrumental in the development of high priority infrastructure, i.e. power supply and ports. ADB assistance enabled a reliable electric power supply and significantly improved port operations in Malé. ADB assistance has also supported human development and institutional capacity building in these two sectors, as the shortage of technical experts in engineering, finance, accounting, planning and management has been a key constraint. The corporatization of the public power utility (State Electric Company Ltd.) in 1997 was a sign of institutional maturity. Recent ADB lending operations put emphasis on more equitable growth across atolls through the promotion of regional development.

13. ADB technical assistance has also been provided in the area of development planning and this has helped the Government identify key development issues and formulate medium- and long-term national plans. These plans have guided economic and social development planning and have also provided a consistent policy framework for identifying development priorities. In recent years the ADB's TA program has been effective in assisting the Government to: (i) formulate a regional development plan; (ii) strengthen the bank supervision capacity of the Maldives Monetary Authority (MMA); (iii) develop national accounting skills; (iv) strengthen the operational efficiency of the Audit Office; and (v) improve institutional arrangements for the postsecondary education system.

### **2. Issues in Project Implementation**

14. The ADB's loan portfolio in Maldives comprises only two active loans, as a result of which disbursement ratios are less meaningful in assessing portfolio performance. However, past implementation experience indicates that: (i) most of the line ministries continue to have insufficient absorptive capacity due to the relative scarcity of skilled and experienced staff; and

(ii) delays have occurred primarily in the initial phases of project implementation in the appointment of consultants and award of contracts. Continued ADB assistance for capacity building is therefore crucial for optimizing the development impact of ADB operations. Similarly, experience has demonstrated the importance of maintaining an appropriate degree of flexibility to respond to changed circumstances during implementation.

## II. Country Operational Strategy

15. The current Country Operational Strategy (COS) was prepared in 1995 when macroeconomic instability, regional disparities, environmental vulnerability and skill shortages were the major concerns. Accordingly, they were the principal areas of focus in the COS. As the macroeconomic position improved, the Government advised the ADB and the IMF that it would no longer need external assistance to implement a program of macroeconomic reforms and that it would proceed with the reforms using its own resources. The Government, accordingly, requested the ADB to redirect assistance to support improvements in public sector management and human development. Regional development across atolls remains a high priority for ADB assistance to achieve a more equitable and cost-effective distribution of basic economic and social services and to ease the development pressures on Malé. Similarly, the need for ADB support for human development has remained a high priority. A sustained effort is required to raise the education and skills level of the population to meet the demands of a rapidly modernizing economy and to reduce the heavy reliance on expatriate workers. The ADB assisted in the preparation of the Education Sector Master Plan<sup>5</sup> and is currently assisting to restructure and strengthen the postsecondary education system to improve the quality and quantity of skilled manpower in the country.<sup>6</sup> Success in regional development and the upgrading of human resources will call for strong and sustained commitment and appropriate budget allocations from the Government. Investments in regional development activities will require careful screening to ensure that they are environmentally friendly and cost-effective. With respect to the environment, the Government had been able to mobilize grant assistance from bilateral and multi-lateral sources to address its main concerns. Accordingly, ADB operations do not include stand-alone environment projects, but address key environmental issues in the context of the specific focus of the ADB's projects. Given the logistical challenge of monitoring 200 inhabited and 1,000 uninhabited islands, over a vast stretch of ocean, the ADB's approach is realistic and practicable.

16. A new COS for Maldives will be prepared in 2000 and initial work has begun. To facilitate a productive dialogue on the COS, the Government has set up an Advisory Committee to interact with ADB staff. In the formulation of the new COS, particular attention will be given to exploring the potential role of the ADB in the areas of public sector management, regional development, environment, private sector development, and financial sector development.

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<sup>5</sup> TA 2324-MLD: *Education Master Plan*, for \$300,000, approved on 26 April 1995.

<sup>6</sup> Loan 1637-MLD: *Postsecondary Education Development Project*, for \$6.3 million, approved on 30 September 1998.

### **III. Sector Strategies**

#### **A. Infrastructure**

##### **1. Energy**

17. The ADB has made a significant contribution through its loan and TA programs to help meet the electricity requirements in Malé and to undertake institutional development of power sector. The Third Power System Development Project approved in 1997<sup>7</sup>, is geared to improving the reliability of the power supply in Malé. However, in the outer islands, economic and social development is constrained by the limited quantity and quality of electricity supply. Although most of the people in these islands have recently gained access to some electricity supply, the hours of operation are often very restricted, the quality is poor, the costs usually high and the environmental concerns often neglected. Therefore, in line with the strategic objective of supporting balanced regional development, the ADB approved in 1999 a Project Preparatory Technical Assistance for Outer Islands Electrification to assist develop an appropriate strategy for improved electrification of these islands and associated enhanced O&M and pricing policies. The TA will also evaluate the feasibility of adopting renewable energy sources for electricity generation, such as photovoltaic power, solar thermal and wind power.

##### **2. Industry and Finance**

18. One of the major constraints in the financial sector is non-availability of long-term finance. Lending capacity of domestic commercial banks is not adequate to meet the financial needs of the private sector; especially the resort development projects and tourism sub sectors, which have to import top end goods and materials from outside of Maldives. To facilitate meeting these financial needs, the ADB has provided several TAs recommending policy developments in supervision of the banking sectors, legal reforms for supporting further development of the banking system and the introduction of new measures for monetary management through market mechanisms to substitute for direct credit controls. The ADB will continue to monitor policy development in these areas. Additionally, the importance of capital market developments as an alternative measure to mobilize medium and longer-term savings from the domestic population for longer-term financing of capital investment, has been recognized. Setting up of the Capital Market Development Unit at MMA is under consideration and that capacity building assistance is needed. Moreover, the study of Government employees' provident fund aiming at transferring this provident fund to an institutional investor, is in the ADB's TA pipeline for the year 2000.

#### **B. Social Infrastructure**

##### **1. Education**

19. Rapid economic development based on an open and service-based economy, together with limited higher education and skills training facilities have caused a critical shortage in the supply of skilled Maldivians to meet the need for such jobs in key economic and social sectors. As a result, the number of expatriate workers has rapidly increased from about 8,600 in 1990 to about 21,000 in 1998. They account for more than 20 percent of the present total labor force. Over time this could lead to an erosion of social stability given the rapid growth in the supply of

<sup>7</sup> Loan 1532-MLD: *Third Power Systems Development Project*, for \$7 million, approved on 9 September 1997.

Maldivian labor. Accordingly, the systematic improvement in the quality and quantity of Maldivian skilled labor and the corresponding reduction in the heavy reliance on expatriate workers is a crucial development issue.

20. The Government has taken steps to strengthen the education system, with particular emphasis on improving the capacity of the postsecondary system to address this issue. In support of this, the ADB approved a project in 1998 which aims to strengthen the management and expand the output of the postsecondary system by improving the seven existing technical institutes within the umbrella of the recently established Maldives College of Higher Education. It is envisaged that additional donor support, including from the ADB, will be required in the future to fully develop the postsecondary education system.

## 2. Regional Development

21. Regional disparity between Malé and the outer islands has continued to be a key development issue. The average per capita income differential between the Malé region and poorer outer islands has recently been estimated at 3:1. In addition, there is also a marked discrepancy between Malé and the outer islands in the availability of physical and social infrastructure such as schools, markets, health care facilities, sanitation and energy. The rapid growth in the population of Maldives has increased the urgency for the provision of a broad range of economic and social infrastructure in the outer islands. The wide dispersal of the population inevitably raises the costs in providing these services. However, it is recognized that an excessive development focus on the Malé region will constrain future growth. Therefore regional development is considered to be a key factor in easing the development pressures on Malé and at the same time addressing equity concerns. Past ADB technical assistance for the preparation of regional development plans for Maldives also endorsed this approach.<sup>8</sup> At the same time, attention should be paid to population distribution, since it might have a significant effect on the sustainability and viability of the balanced regional development, given the small population of Maldives.

22. The Government is presently implementing a Population and Development Consolidation Strategy in order to improve the social and economic infrastructure in focus islands and island groups and to rationalize investment costs and promote regional economic growth and productivity. The Government has taken measures to align development projects in the Public Sector Investment Programmed of the year 2000 with the strategy of development consolidation.

23. With ADB assistance, the Government prepared a program to promote a Northern Development Region (in the far north) and a Southern Development Region (in the far south) that will enable more Maldivians to have cost-effective access to basic economic and social infrastructure. The ADB's loan for Regional Development Project<sup>9</sup> will support this program. Considering the substantial investment needs to achieve the objectives of regional development, a single project intervention by the ADB will probably not be sufficient and further ADB assistance is envisaged; in 2002 a PPTA is scheduled, which will lead to a Second Regional Development Program in 2003.

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<sup>8</sup> TA 2159-MLD: *Regional Development Planning*, for \$600,000, approved on 21 September 1994.

<sup>9</sup> Loan 1695-MLD: *Regional Development Project*, for \$8 million, approved on 2 September 1999.

### **C. Governance Dimensions of ADB Operations**

24. The Government continues to make progress in improving public sector management with assistance by external funding agencies, including the ADB. This has helped modernize the public sector and address skills shortages in the public administration system. The ADB's operational program has assisted in: (i) strengthening of the Audit Office; (ii) corporatization and improvement of financial management of the public power utility; (iii) strengthening of the Statistics Section of the Ministry of Planning and National Development; and (iv) establishing the Maldives College of Higher Education and improving management and efficiency in the postsecondary education system.<sup>10</sup> The ADB has also recently provided advisory services on the judicial system and legal education.<sup>11</sup> Further ADB assistance is being considered to: (i) strengthen the capacity of the public accounting system; and (ii) strengthen the capacity of the judicial system. Improvements in both these areas would enhance public sector accountability and management.

### **D. Gender Dimensions of ADB Operations**

25. The Government has recently taken steps to mainstream gender issues to ensure a balanced development. It initiated workshops promoting awareness and legal literacy among women and increasing their participation in the decision making process in the community and the public and private sectors. In the outer Islands, the ADB's operational program has been assisting through increasing women's access to education and training. The 1999 Regional Development Project is also expected to mitigate the pressure on male out-migration to the Malé region that has resulted in a high incidence of female-headed households in the outer islands. A ADB study entitled "Maldives: Human Development Issues for the 21<sup>st</sup> Century" has been prepared. The study examines human and social development issues including poverty and gender. The proposed new COS will closely examine gender issues and further define the role of the ADB in its future operations.

### **E. Private Sector Operations**

26. Maldives' private sector plays an important role in its economic development. One of the key constraints for the growth of the private sector is access to long-term finance, particularly for tourism and fisheries related development. The Government has been implementing administrative and legislative reforms in the financial sector, although the progress seems to have slowed in recent times. Because of the country's small size, the ADB to-date has not funded any private sector operations. However the ADB's public sector Loan and TA program has been assisting in creating a suitable environment for the expansion of private participation in the economy. In 1998 the ADB approved a TA for Private Sector Participation in the Maldives Ports, which will also assist to develop a mechanism for systematic setting of public enterprise objectives, monitoring of performance and evaluation of results.<sup>12</sup> As part of the formulation of the new COS, the ADB has recently initiated the preparation of a Private Sector Development Strategy for Maldives.

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<sup>10</sup> Loan 1637-MLD: *Postsecondary Education Development Project*, for an amount of \$6.3 million, approved on 30 September 1998.

<sup>11</sup> TA 2896-MLD: *Strengthening Maldivian Legal System*, for \$150,000, approved on 17 October 1997.

<sup>12</sup> TA 3099-MLD: *Private Sector Participation in the Maldives' Port*, for \$400,000, approved on 20 November 1998.

#### **IV. Regional Cooperation**

27. As a small island country with limited domestic resources, regional activities such as SAARC (South Asian Association for Regional Cooperation) could prove crucial to the future development of Maldives, particularly in the areas of trade, commerce and tourism. Intra-regional trade constitutes a significant proportion of Maldives imports and exports. The Government recognizes that Maldives could eventually be a beneficiary from intra-regional trade liberalization, including South Asia Free Trade Area (SAFTA), that is being pursued within SAARC. However, the net impact of SAFTA on Maldives needs to be considered against the background that: (i) the national budget revenue structure is highly dependent on import duties; (ii) exports (fish and fish products) are mainly directed to outside the region (Europe, Japan and South East Asia); and (iii) top-end imported products (resort development related items, fishing boat engines and parts, generators, automobiles, construction machinery etc.) are imported mainly from Organization for Economic Cooperation and Development (OECD) countries. The Government is considering these issues and has welcomed the ADB's proposal to assist in fostering regional cooperation.

#### **V. Donor Activities and Aid Coordination**

28. The Maldives received official development assistance, both grants and concessional loans, on average about \$35 million per year during 1995-1998. The major external funding agencies are Japan, the World Bank and the ADB. In recent years, there has been a noticeable decline in sources of bilateral assistance and this is of concern to the Government. Japan has been the country's largest grant aid donor. It has provided support for seawall construction, fisheries, island electrification and other infrastructure projects. The World Bank has provided assistance for fisheries and education. India, Australia and Norway have provided project and technical assistance for a range of sectors, including human development. In addition, the OPEC Fund, Islamic Development Bank, Nordic Development Fund (NDF), Saudi Fund and Kuwait Fund for Economic Development are important sources of concessional loan finance for the Maldives, particularly for social and physical infrastructure in the outer islands. See Appendix 3 for details on the level of recent donor assistance to the Maldives.

29. In recent years the Government and the ADB have accorded priority to closer coordination with other donors in the formulation of the ADB's loan and TA programs and also in the design of specific projects. Continued efforts will help to ensure the optimum allocation and utilization of external assistance. It will also facilitate the identification of projects that the donor community could successfully cofinance, particularly where the financial requirements are too large for a single donor to accommodate. Cofinancing has been a feature of ADB lending in recent years and opportunities are being explored for the proposed Outer Islands Electrification Project (2001).

30. In 1997 the Committee for Development Planning of the General Assembly of the United Nations reviewed the classification of the Maldives as a "Least Developed Country" and recommended that in the year 2000 it should graduate from this category. If this recommendation is adopted, it may lead to a change in the amount and terms of development assistance available to the country, particularly grant assistance. The Government is contesting this recommendation in light of the country's continuing vulnerability to external shocks, both economic and environmental. In May 1999 at the UNDP Roundtable Meeting on the Maldives, there was unanimous support from the donors for the Government's position that the Maldives should not be graduated at this time from the Least Developed Country status because of the vulnerability of the economy and the need for continued assistance to consolidate the impressive development gains made in recent years. The Government has informed donors of

its intention in 1999 to commence holding annual Donors Meetings in the Maldives, to enable donors to better understand the development needs and constraints faced by the country.

## **VI. Cofinancing and Catalyzing External Resources**

31. In recent years the Government and the ADB have accorded priority to closer coordination with other donors in the formulation of the ADB's loan and TA program and the design and the financing of specific projects. In the last three years (1997-1999) the ADB lending attracted cofinancing for a total of \$9.6 million at a leverage ratio of 0.45:1. These were from NDF, Australia and the Islamic Development Bank. In the next three years (2000-2002) the ratio is expected to be similar to the recent level.

## **VII. ADB's Operational Program**

32. Since ADB operations began in the Maldives in 1981, a loan has been provided about every second year and the average annual assistance has been about \$3 million.<sup>13</sup> Taking into account the substantial unmet investment requirements, the vulnerability of the Maldives economy and the sound macroeconomic management of the country, continuation of ADB concessional lending is warranted. A loan of about \$8 million every second year would be appropriate in light of the country's absorptive capacity and its institutional structure.

33. For the period 2000-2002, one loan is currently programmed: the Outer Islands Electrification Project (2001).<sup>14</sup> In the areas of regional development and postsecondary education, much remains to be done and additional loan assistance will be considered, subject to the successful implementation of ongoing ADB loans in these areas. Specific loan amounts will be determined during the detailed project formulation process and will take into account ADF resource constraints, project financing needs and the availability of cofinancing resources. The focus of the program (outer islands, human development and environmental management) is closely aligned with the strategic objectives of ADB operations in the Maldives. The program also takes into account the Government's development priorities, the ADB's role as a long-term development partner, and the assistance provided by other donors.

34. The ADB's TA program in recent years has averaged about \$1.5 million per annum. Considering that capacity building is one of the most important and urgently needed areas for development, it is proposed that the TA program continue to focus on strengthening the institutional capacity of key Government agencies and also undertake priority economic and sector analysis related to ADB operations. It is proposed that the TA program remain at the current level over the next three years. Details of the Loan and TA program are provided in the table below and Appendix 4.

35. The ADB's project implementation experience in Maldives has been generally positive. Of the six completed projects, four have been postevaluated. All, except the first project, Interisland Transport,<sup>15</sup> were rated generally successful. In order to maintain and further improve this satisfactory implementation performance, the ADB will adopt a strict performance-based lending approach in determining the level of new ADB assistance to the Maldives.

<sup>13</sup> The average loan size for the last five loans has been about \$8 million.

<sup>14</sup> This would result in an average lending level of \$4.4 million in the period 1997/2002.

<sup>15</sup> Loan 513-MLD: *Interisland Transport*, for \$1 million, approved on 1 June 1981. This Project had major flaws and was rated unsuccessful.

**Table 1: Lending and Technical Assistance Program, 1998-2002****MALDIVES****A. Public Sector Lending Program**

	1998 (Actual)		1999		2000		2001		2002	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program <sup>a/</sup>	1	6.3	1	8.0	0	0	1	10	0	0
ADF	1	6.3	1	8.0	0	0	1	10	tbd	tbd
OCR	-	-	-	-	-	-	-	-	-	-
Lending Pipeline <sup>b/</sup>			1	8.0	0	0	1	10	0	0
ADF	-	-	1	8.0	0	0	1	10	tbd	tbd
OCR	-	-	-	-	-	-	-	-	-	-

**B. Technical Assistance Program**

	1998 (Actual)		1999		2000		2001		2002	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program <sup>a/</sup>	3	1,500.0	3	1,805.0	2	950.0	1	600.0	1	600.0

<sup>a/</sup> The Program includes firm projects only and will be subject to further revision.

<sup>b/</sup> The Pipeline includes both firm and standby projects.

**VIII. Economic and Sector Work Program**

36. To underpin the preparation of the new COS and the loan and TA operations, the ADB's Economic and Sector Work is focused on the provision of advisory services in support of institution building and public sector management, the assessment of electrification needs in the outer atolls, examination of private participation in port operations and management, investigation of the feasibility of establishing a social security system in Maldives, and examination of the scope for improving the enabling environment for private sector development.

**IX. Local Cost Financing**

37. The Government has made progress in reducing the budget deficit and introducing measures to broaden the tax base and improve the tax collection system. The Government is currently examining the feasibility of introducing a business profit tax and a property rental value tax. Through these actions the Government is attempting to reduce the vulnerability of the Maldivian economy and national budget to the destabilizing impact of external shocks such as occurred in the early 1990s. The measures being taken also have the aim of developing a more equitable and sustainable tax base that will reduce the substantial reliance on import duties as a revenue source.

38. However, there are indications of emerging macroeconomic imbalance in the fiscal accounts. The fiscal deficit (including grants) in 1998 was 5.3 percent GDP against the original target of 2 percent GDP for the year. This was mainly the result of unexpected increases in the general administration and public and internal security expenditures. There was also a shortfall in grant receipts in 1998. The fiscal situation worsened in the first half of 1999, with the Government's decision to increase public sector wages by about 35 percent on average, an increase not envisaged in the 1999 budget. The planned public sector wage increase is expected to cost about 1 percent of GDP in the remainder of the year, bringing the projected fiscal deficit for 1999 to over 5 percent of GDP against the originally targeted 4.2 percent of GDP in the 1999 budget. In the period 2000-2002, it is proposed that local cost financing of projects in Maldives will be assessed on a case by case basis, taking into account the type of project and the prevailing economic circumstances.

**MALDIVES**  
**COUNTRY PERFORMANCE INDICATORS**

Item	1994	1995	1996	1997	1998 <sup>a</sup>
<b>Economic Indicators</b>					
<b>I. Income and Growth</b>					
GDP per Capita (\$, current prices)	983	1,107	1,208	1,333	1,377
GDP Growth (%)	6.6	7.2	6.5	6.2	6.8
Primary Sector	2.6	1.6	1.7	1.3	2.9
Secondary Sector	6.3	8.6	9.0	9.7	12.3
Tertiary Sector	8.1	8.7	7.4	6.8	6.6
<b>II. Saving and Investment</b> (percent of GDP)					
Gross National Saving	33.1	41.4	43.5	na	na
Gross Capital Formation	37.5	47.5	42.7	na	na
<b>III. Money and Inflation</b> (Annual percentage change)					
Consumer Prices	3.4	5.5	6.2	7.6	-2.2
Money Supply (M2)	24.2	15.6	26.0	23.1	22.8
<b>IV. Government Finance</b> (percent of GDP)					
Revenue <sup>b</sup>	41.0	44.2	44.1	43.5	45.7
Expenditure	48.4	53.6	47.9	48.0	47.8
Overall Surplus/Deficit (-)	-7.4	-9.4	-3.7	-2.0	-5.3
<b>V. Balance of Payments</b>					
Merchandise Trade Balance (% of GDP)	-49.7	-55.6	-61.2	-62.7	-58.1
Current Account Balance (% of GDP)	-4.6	-6.7	-2.3	-10.6	-6.3
Export (\$) growth (%)	43.1	12.7	-6.0	15.8	3.3
Import (\$) growth (%)	9.7	20.9	12.6	15.6	1.5
<b>VI. External Payments Indicators</b>					
International Reserves (\$ million)	32.0	49.3	77.6	99.7	119.9
(months of imports)	1.8	2.2	3.2	3.4	4.1
External Debt Service (% of exports of goods and services)	3.9	3.9	3.5	7.2	3.6
External Debt (% of GDP)	59.0	63.6	58.4	49.4	51.5
<b>Memorandum Items:</b>					
GDP (current prices, \$ million)	240.8	270.9	303.4	342.1	368.2
Exchange Rate (Rf per \$)	11.6	11.77	11.77	11.77	11.77

<sup>a</sup> Provisional estimates.

<sup>b</sup> Including grants.

Source: The Government of Maldives.

**MALDIVES**  
**COUNTRY PERFORMANCE INDICATORS**

<b>Population Indicators</b>	<b>1980-85</b>		<b>1999 (est.)</b>	
Total Population (thousands)	0.18		0.28	
Annual Population Growth Rate (%)	3.4		2.8	
<b>Social Indicators</b>	<b>1987-92</b>		<b>latest year</b>	
Total Fertility Rate (births per woman)	6.0		5.8 (1995)	
Maternal Mortality Rate (per hund. thous. live births)	480		178 (1997)	
Infant Mortality Rate (per 1,000 live births)	55		27 (1997)	
Life Expectancy at Birth (years)	62		70 (1997)	
Female	-		71 (1997)	
Male	-		69 (1997)	
Adult Literacy Rate (%)	na		98.82 (1997)	
Primary School Enrollment Rate (% of school age pop)	na		98 (1998)	
Secondary School Enrollment Rate (% of school age pop)	na		50 (1998)	
Child malnutrition (% of under age five)	56.1	(1980-85)	39	(1990-97)
Population below poverty line (%)	na		40 (1994 est)	
Population with access to safe water (%)				
Rural	58	(1980-85)	77	(1987-92)
Urban	12	(1980-85)	68	(1987-92)
Population with access to health care (%)	25	(1980-85)	75	(1987-92)
Public Education Expenditure as % of GDP	4.4	(1985)	11	(1998 est)
Public Health Expenditure as % of GDP	na		6	(1998 est)
Human Development Index	0.497	(1990)	0.683	(1995)
Human Development Index Rank	112/173	(1990)	95/174	(1995)
<b>Environmental Indicators</b>	<b>1980-95</b>		<b>latest year</b>	
Total dry land area (thou. Ha.)	na		30 (1995)	
Per capita CO <sub>2</sub> Emissions (metric tons)	na		0.7 (1995)	
Per capita Commercial Energy Consumption (KOE)	89	(1980)	139	(1994)

*na - not available*

Note: 1995 Census Data are not yet available. Human Development Index in the 1998 UNDP Report is based on 1995 data.

Sources: 1998 Human Development Report, UNDP, 1997 World Development Report, World Bank and Social Sector Profile, Maldives PW1, ADB.

## MALDIVES

## PORTFOLIO PERFORMANCE

**Table 1 : Implementation, Disbursement Performance and Postevaluation Results  
Public Sector Projects only  
(as of 31 December 1998)**

A. Project Portfolio	Net Loan Amount \$ million %		Rating (No.) <sup>a</sup>											
			Total		Implementation Progress				Development Objectives					
			No.	%	HS	S	PS	U	HS	S	PS	U		
Agriculture and Natural Resources	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0	
Energy	7.1	51.9	1	50	0	1	0	0	0	0	1	0	0	
Finance and Industry	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0	
Social Infrastructure	6.6	48.1	1	50	0	1	0	0	0	1	0	0	0	
Transport and Communications	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0	
Others/Multisector	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0	
<b>Total</b>	<b>13.7</b>	<b>100.0</b>	<b>2</b>	<b>100</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	
<b>B. Disbursements</b>			<b>OCR</b>		<b>ADF</b>				<b>Total</b>					
(1) Total funds available for withdrawal (\$ mn, active loans only)			0.00		13.70				13.70					
(2) Disbursed amount (\$ mn, cumulative, active loans only)			0.00		0.12				0.12					
(3) Percentage disbursed [(2)/(1)] (%)			0.00		0.90				0.90					
(4) Disbursements (\$mn, active loans only, latest year)			0.00		0.12				0.12					
(5) Disbursement ratio (%) <sup>b</sup>			0.00		5.67				5.67					
<b>C. Net Transfer of Resources<sup>c</sup> (\$ million)</b>			<b>OCR</b>		<b>ADF</b>				<b>Total</b>					
Net transfer in 1995			0.00		4.30				4.30					
Net transfer in 1996			0.00		5.70				5.70					
Net transfer in 1997			0.00		2.50				2.50					
Net transfer in 1998			0.00		-0.10				-0.10					
<b>D. Post-Evaluated Projects</b>			<b>1968 - 1977</b>		<b>1978 - 1987</b>		<b>1988 - 1998</b>		<b>1968 - 1998</b>					
<b>1. Postevaluation Rating (as of 31 December 1998)</b>			No.	%	No.	%	No.	%	No.	%	No.	%		
Rated Generally Successful (GS)			0	0	2	67	1	100	3	75				
Rated Partly Successful (PS)			0	0	0	0	0	0	0	0				
Rated Unsuccessful (US)			0	0	1	33	0	0	1	25				
No Rating			0	0	0	0	0	0	0	0				
<b>Total</b>			0	0	3	100	1	100	4	100				
<b>2. Postevaluation Rating by Sector</b>			<b>GS</b>		<b>PS</b>		<b>US</b>		<b>NR</b>		<b>Total</b>			
1968-98 (as of 31 December 1998)			No.	%	No.	%	No.	%	No.	%	No.	%		
Agriculture and Natural Resources			0	0	0	0	0	0	0	0	0	0	0	0
Energy			1	33	0	0	0	0	0	0	1	25		
Finance and Industry			0	0	0	0	0	0	0	0	0	0		
Social Infrastructure			0	0	0	0	0	0	0	0	0	0		
Transport and Communications			1	33	0	0	1	100	0	0	2	50		
Others/Multisector			1	33	0	0	0	0	0	0	1	25		
<b>Total</b>			3	100	0	0	1	100	0	0	4	100		

<sup>a</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

<sup>b</sup> Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

<sup>c</sup> Includes private sector projects for countries with private sector operations.

**MALDIVES  
PORTFOLIO PERFORMANCE**

**Table 2: Status of Project Implementation  
(As of 31 December 1998)**

Sector/ Subsector	Loan No.	Project Name	Net Ln Amt ADF (\$Mn)	Loan Approval Date	Loan Effectivity Date	Loan Closing Date		Physical Progress (%)	Cumulative Disburse- ments (\$million)	Cumulative Contracts Awards (\$ million)	Project Performance Rating	
						Original	Revised				Implement Progress	Development Objective
Energy	1532	1 Third Power System Development	7.13	Sep-97	Apr-98	Jun-01	-	3	0.12	0.94	S	S
Social	1637	2 Postsecondary Education Development	6.61	Sep-98	-	Jun-04	-	0	0.00	0.00	S	S
<b>TOTAL</b>			<b>13.74</b>					<b>3</b>	<b>0.12</b>	<b>0.94</b>		

Note: A loan is considered closed when the loan account is closed.

Source: CIRC Country Detail as of 31 December 1998.

**MALDIVES**  
**OVERALL EXTERNAL ASSISTANCE**  
(In US\$ Million)

External Resource <sup>a</sup>	Past 3 Years (1995/97) (Annual Average)		1998 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
<b>A. Multilateral Assistance</b>				
ADB	2.33	0.87	6.30	1.50
Asia Foundation	-	-	-	-
CTFC	-	-	-	0.49
European Union	-	-	-	-
FAO	-	1.18	-	-
GEF/UNDP	-	0.33	-	0.15
IDA/World Bank	4.47	-	-	-
IDB	3.64	-	-	-
IFAD	0.97	-	-	-
NDF	0.94	-	5.56	-
OPEC Fund	1.33	-	-	-
Other	-	0.13	-	0.01
UNDP	-	0.87	-	0.31
UNFPA	-	0.84	-	2.48
UNICEF	-	0.43	-	-
<b>Subtotal (A)</b>	<b>13.68</b>	<b>4.65</b>	<b>11.86</b>	<b>4.94</b>
<b>B. Bilateral Assistance</b>				
Australia	-	1.05	-	1.86
Bank of Ceylon / CMB	2.67	-	-	-
Canada	-	0.02	-	-
China, People's Republic of	-	0.40	-	0.60
Denmark	-	1.07	-	-
Egypt	-	-	-	-
Export finance / Norway	0.58	-	-	-
Germany	-	-	-	-
Japan	-	7.27	-	22.83
Korea	-	0.05	-	0.05
Kuwait Fund	-	0.17	10.30	-
New Zealand	-	0.02	-	1.22
Norway/NORAD	-	0.58	-	-
Other	-	0.01	-	-
Pakistan	-	1.22	-	-
Sweden/BITS	-	-	-	-
United Kingdom	-	0.59	-	0.41
USA	-	0.01	-	-
<b>Subtotal (B)</b>	<b>3.25</b>	<b>12.46</b>	<b>10.30</b>	<b>26.97</b>
<b>Total (A + B)</b>	<b>16.93</b>	<b>17.11</b>	<b>22.16</b>	<b>31.91</b>
<b>Memo Items:</b>				
Total External Assistance as % of Total Current Expenditures was 44% in 1998.				
Total External Assistance as % of Total Capital Expenditures was 69% in 1998.				
<i>Note:</i> Current Expenditure was \$107.5 million and Capital Expenditure was \$69.4 million in 1998.				

<sup>a</sup> commitment base.

Source: Information provided by the Ministry of Finance and Treasury & Department of External Resources.

**MALDIVES**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**

Sector/Project Name	Strategic Dev't Objectives <sup>a</sup>		Responsible Division	Year of PPTA	PROJECT COST (\$ million)					
	Primary	Secondary			TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
<b>2000 FIRM LOANS</b>										
None										
<b>2001 LOAN PIPELINE</b>										
<b>Energy</b>										
Outer Islands Electrification	ECO	ENV/HD	IWEN	1999	11.5	0	10.0	10.0	1.5	tbd
<b>Subtotal</b>					11.5	0	10.0	10.0	1.5	
<b>Total</b>					<b>11.5</b>	<b>0.0</b>	<b>10.0</b>	<b>10.0</b>	<b>1.5</b>	
<b>2002 LOAN PIPELINE</b>										
To be determined										

<sup>a</sup> ECO = Economic Growth; ENV = Environment Protection; and HD = Human Development.

**MALDIVES**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
<b>2000 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Finance and Industry</b>					
1 . Capacity Building for the Maldives Public Accounting System (Phase II)	IWFI	AD	800.0	-	800.0
2 . Analysis of Social Security System	IWFI	AD	150.0	-	150.0
	<b>Subtotal</b>		<u>950.0</u>	-	<u>950.0</u>
<b>Total</b>			<b>950.0</b>	-	<b>950.0</b>
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Social Infrastructure</b>					
3 . Second Postsecondary Education	AWEH	PP	600.0	-	600.0
	<b>Subtotal</b>		<u>600.0</u>	-	<u>600.0</u>
<b>Total</b>			<b>600.0</b>	-	<b>600.0</b>
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Social Infrastructure</b>					
4 . Second Regional Development	AWWU	PP	600.0	-	600.0
	<b>Subtotal</b>		<u>600.0</u>	-	<u>600.0</u>
<b>Total</b>			<b>600.0</b>	-	<b>600.0</b>

**MALDIVES**  
**LENDING PROGRAM BY TYPE AND SECTOR, 2000-2002**

Classification	2000		2001-2002	
	No.	%	No.	%
<b>I. By Type</b>				
A. Economic growth	-	-	-	-
B. Projects directly aimed at social concerns	-	-	-	-
C. Projects directly aimed at environmental concerns	-	-	-	-
D. Economic growth-oriented projects with social and/or environmental concerns	-	-	1	100
<b>Total</b>	-	-	<b>1</b>	<b>100</b>
<b>II. By Sector</b>				
A. Agriculture and Natural Resources	-	-	-	-
B. Energy	-	-	1	100
C. Industry	-	-	-	-
D. Finance	-	-	-	-
E. Transport and Communications	-	-	-	-
F. Social Infrastructure	-	-	-	-
G. Others/Multisector	-	-	-	-
<b>Total</b>	-	-	<b>1</b>	<b>100</b>

**Asian Development Bank**

**Country Assistance Plan  
(2000-2002)  
Pipeline Update**

**MALDIVES**

**June 2000**

**MALDIVES**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**

Sector/Project Name	Strategic Dev't Objectives <sup>a</sup>		Responsible Division	Year of PPTA	PROJECT COST (\$ million)					
	Primary	Secondary			TOTAL	Bank		Gov't	Cofinancing (Others)	
						OCR	ADF			Total
<b>2000 FIRM LOANS</b>										
<b>2001 LOAN PIPELINE</b>										
<b>Energy</b>										
Outer Islands Electrification	ECO	ENV/HD	IWEN	1999	11.5	0	10.0	10.0	1.5	tbd
<b>Subtotal</b>					11.5	0	10.0	10.0	1.5	
<b>Total</b>					<b>11.5</b>	<b>0.0</b>	<b>10.0</b>	<b>10.0</b>	<b>1.5</b>	
<b>2002 LOAN PIPELINE</b>										
To be determined										

<sup>a</sup> ECO = Economic Growth; ENV = Environment Protection; and HD = Human Development.

**MALDIVES**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
<b>2000 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Finance and Industry</b>					
1 . Capacity Building for the Maldives Customs Service	IWFI	AD	700.0		700.0
<b>Subtotal</b>			<u>700.0</u>	-	<u>700.0</u>
<b>Social Infrastructure</b>					
2 . Science and Technology Masterplan	AWEH	AD	600.0		600.0
<b>Subtotal</b>			<u>600.0</u>	-	<u>600.0</u>
<b>Total</b>			<b>1,300.0</b>	-	<b>1,300.0</b>
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Social Infrastructure</b>					
1 . Postsecondary Education Development (Phase II)	AWEH	PP	600.0		600.0
<b>Total</b>			<b>600.0</b>	-	<b>600.0</b>
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Social Infrastructure</b>					
1 . Second Regional Development	AWWU	PP	600.0		600.0
<b>Subtotal</b>			<u>600.0</u>	-	<u>600.0</u>
<b>Total</b>			<b>600.0</b>	-	<b>600.0</b>

\* Approved.