



OFFICE OF THE SECRETARY

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To : Executive Directors and Alternate Executive Directors
From : Secretary

Maldives: Country Operational Strategy Study

Attached for information is a copy of "Country Operational Strategy Study - The Republic of Maldives", prepared by Programs Department (west).

STS MLD 95017

ASIAN DEVELOPMENT BANK

COUNTRY OPERATIONAL STRATEGY STUDY

THE REPUBLIC OF MALDIVES

October 1995

CURRENCY EQUIVALENTS
(As of 30 September 1995)

Currency Unit	—	Maldivian Rufiyaa (Rf)
Rf 1.00	=	\$0.08496
\$ 1 .00	=	Rf 11.77

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

ABBREVIATIONS

BML	Bank of Maldives Ltd.
DMC	Developing Member Country
DWA	Department for Women's Affairs
ESAF	Enhanced Structural Adjustment Facility
IMF	International Monetary Fund
GDP	Gross Domestic Product
MEB	Maldives Electricity Board
MHW	Ministry of Health and Welfare
MMA	Maldives Monetary Authority
MPA	Maldives Ports Authority
MOE	Ministry of Education
NGO	Nongovernment Organization
OPEC	Organization of Petroleum Exporting Countries
RTM	Round Table Meeting

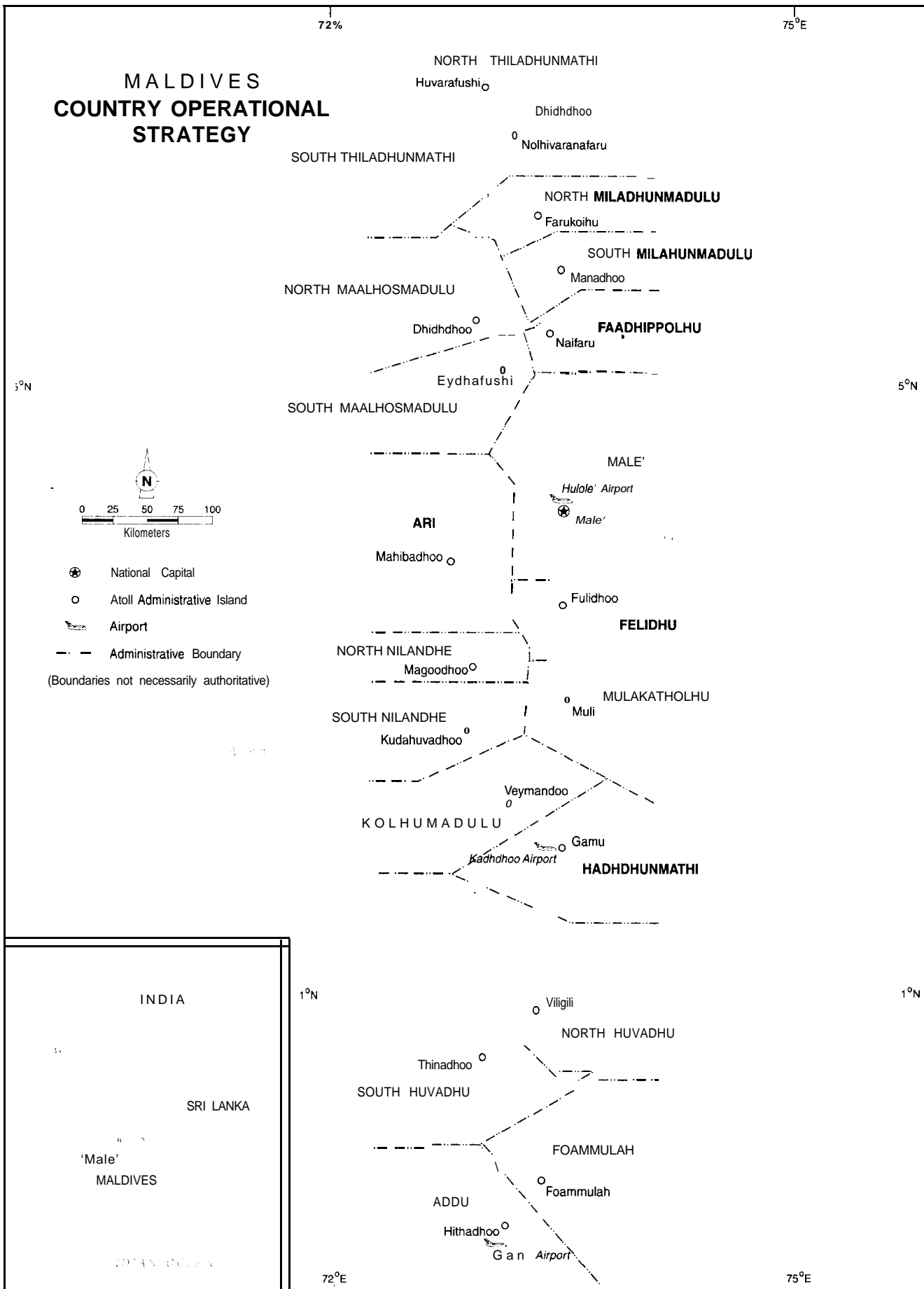
NOTES

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

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EXECUTIVE SUMMARY

A. Economic and Social Overview

1. Maldives is a narrow archipelago with nearly 1200 tiny coral atolls in the Indian Ocean. With a total area of 90,000 square kilometers (sq km), Maldives has a land area of only 298 sq km. Only 200 of the islands are populated; about 26 per cent of the population (238,363 in 1993) is concentrated in the capital, Male.

2. Maldives has no known mineral resources and its agricultural potential is limited. The small size of the domestic market rules out any major import substitution activities and the dispersed nature of the country exacerbates the difficulties of creating domestic industries and providing essential social services. Thus, Maldives faces the typical development constraints experienced by small atoll economies.

3. Despite these constraints, Maldives has been developing an open economy based on the comparative advantage of its small resource endowment. The economy is predominantly based on tourism and fisheries; the combined total production of these two sectors accounts for about one third of gross domestic product (GDP). By concentrating its development efforts on these export-based sectors, the country's average real GDP growth rate has been about 10 per cent annually since the mid-1970s.

4. Although Maldives has achieved significant improvements in several key social indicators during the last decade, compared with other similar developing member countries (DMCs), its performance needs to be improved. It ranks only 118 among 173 countries according to the Human Development Index. Maldives' population has grown at an average annual rate of 3.4 per cent recently, life expectancy is only 63 years, infant mortality is still high at 61 per 1000 live births, maternal mortality is about 3 per 1000 births, and child nutrition is inadequate in some parts of the country. Although adult literacy is high at 98 per cent, skill shortages exist and the quality of education is a concern. Women enjoy equal status with men in Maldives and there is no obvious discrimination against women. Women's issues tend, therefore, to be dominated not by a struggle for equal rights but by efforts to increase the awareness of women of the rights that already exist and to encourage them to take fuller advantage of these rights.

5. The nation depends on the ocean and its resources. The economy depends on the marine environment directly through the fishing industry and indirectly through tourism. Therefore, a viable marine environment is necessary for to the continued physical and economic existence of the country.

B. Key Issues

6. **Fiscal Management.** Maldives' immediate developmental concern relates to fiscal management. Budget deficits averaged about 15 per cent of GDP during 1991-I 993; inflation accelerated from 3.6 per cent in 1990 to 20 per cent in 1993, while the external current account moved from a small surplus in 1990 to a deficit of 21 per cent of GDP in 1993. These high levels of deficits are not sustainable and threaten to undermine Maldives' economic growth prospects,

7. **Domestic Resource Mobilization.** The tightly regulated financial sector has introduced serious distortions into the economy, discouraged saving, and impeded mobilization

of domestic resources, thus restraining the development of the private sector. The Government's inability to finance its budget deficit from domestic savings and its recourse to central bank financing indicates that domestic resource mobilization is inadequate. Measures are required to deregulate the financial sector to mobilize domestic resources to finance private sector investment and the budget deficit.

8. **Regional Development.** A wide disparity in average per capita income exists between Male, the resort, and the industrial islands on the one hand, and the remainder of the islands on the other. There is also a marked discrepancy in the availability of social amenities such as health and education services; and energy, sanitation, and water supplies. The concentration of economic growth in Male and in the surrounding regions has benefited only a small proportion of the population and has encouraged migration to the already overpopulated Male.

9. **Demographic Trends.** The population of Maldives has been growing at an average annual rate of 3.4 per cent recently. This high population growth rate is putting pressure on the land available for residential and development purposes, and has major implications for public expenditure in the social sectors, for the potential growth in per capita income, and for the environment. Although the Government views the rate of growth in the population as an important development issue, its efforts to reduce the birth rate through family planning have not been successful.

10. **Human Resource Development.** Although literacy rates are high and primary school coverage is extensive, several major issues face the education sector. The cost of education is rising rapidly, education opportunities are not distributed equitably, and the quality of education is a serious concern. In addition, substantial progress has been achieved in reducing the incidence of disease in Maldives. However, financial constraints have prevented the achievement of targets for the preventative and curative health programs. Furthermore, the delivery of health services is constrained by organization, managerial, and financial issues,

11. **Women in Development.** Women's rights are guaranteed under the country's constitution. Even though there is no obvious discrimination against women, there are many examples of subtle inequities in the organization of social and economic relations in the country. The labor force participation rate of women is low by international standards, primarily because of the displacement of women's traditional involvement in fish-preservation activities as a result of the shift from processed fish to raw fish as the country's main export.

12. **The Environment.** Preservation of the environment is critical to the long-term sustainability of the economy. The major environmental problems include the quality and availability of water supply, the depletion of fuelwood supplies, and the damage to coral reefs caused by sand and coral mining (for building materials). The country faces potentially catastrophic impacts from tidal surges and needs to invest heavily in breakwaters and other coastal defense systems. The population level is rising rapidly and the demands on the natural resource base are increasing.

C. The Strategy

13. The key issues to be addressed by the Bank's operational strategy are (i) fiscal management, (ii) regional development, and (iii) the environment. Focusing on these three issues will ensure sustainable long-term economic growth, and the equitable distribution of the benefits of growth and social services to the population as a whole. The strategy is summarized below.

Table: The Strategy in Brief

Strategic Priorities	Objectives	Means
Fiscal Management	<ul style="list-style-type: none"> enhance domestic resource mobilization ensure sustainable provision of social services 	<ul style="list-style-type: none"> move the monetary system toward indirect controls remove legal and regulatory impediment to financial sector development promote more effective bank regulation and supervision rationalize public sector expenditure on education and health
Regional Development	<ul style="list-style-type: none"> ensure more equitable distribution of economic benefits and social services reduce population pressures on Male 	<p>Education</p> <ul style="list-style-type: none"> improve the quality of education broaden access to secondary education rationalize public sector expenditure on education <p>Health</p> <ul style="list-style-type: none"> devolve health care services to the atolls improve population planning train health care workers rationalize public sector expenditure on health
Environment	<ul style="list-style-type: none"> ensure sustainable long-term economic development protect and preserve the natural resource base 	<ul style="list-style-type: none"> provide water supply and sanitation infrastructure provide coastal defense systems increase awareness of environmental issues

14. The main fiscal challenge for the Government will be to provide adequate infrastructure and social services, however, the achievement will be jeopardized by the adverse consequences of large budgetary deficits on economic growth. Although the Government has already initiated a stabilization and structural reform program with assistance from the International Monetary Fund (IMF) and the World Bank, additional measures need to be taken such as deregulating and liberalizing the financial sector to promote domestic resource mobilization and to develop the private sector. The Bank's assistance will focus on developing a framework for restructuring the financial sector and providing direct support to implement the sector reforms. On the fiscal front, assistance will be provided to rationalize public expenditure in the education and health sectors.

15. A longer term development issue relates to regional development. The decentralization of economic activity is hampered by the lack of physical and social infrastructure and the high cost of providing these services to a widely dispersed population. The Bank's support for regional development will initially comprise technical assistance for regional planning studies followed by assistance for the preparation of investment projects in social infrastructure in the regional growth centers. The Bank will also assist in the **sectoral** planning of human resource development (education, health, and population) to maximize the effectiveness of new investments in these sectors and to increase the availability of these services throughout the country.

16. To assist in environmentally sound economic and social development, the Bank's assistance will focus on providing water supply and sanitation infrastructure, as well as coastal defense systems where coastal erosion is a problem. The Bank will also provide support for strengthening and enforcing national environmental laws, environmental education, vocational training in environmental disciplines, and environmental research; and for studies to establish a database as the basis for developing sound and sustainable management policies for the environment.

I. COUNTRY SETTING

A. Overview of the Economy and Recent Developments¹

17. The economy of Maldives is predominantly based on tourism and fisheries; the combined total production of these two sectors accounts directly for about one third of the country's gross domestic product (GDP) and two thirds of its foreign exchange earnings. Maldives has no known mineral resources and its agricultural potential is limited because arable land is scarce and the soil has a high alkaline content, a low nitrogen content, and does not retain water. The small size of the domestic market rules out any major import substitution activities and the dispersed nature of the country exacerbates the difficulties of creating domestic industries and of providing essential social services. Maldives faces the typical development constraints experienced by small island economies.

18. Despite these constraints, Maldives has been pursuing, with commendable success, the development of an open economy based on the comparative advantage of its small resource endowment. By concentrating its development efforts on two export-based sectors — tourism and fishing — Maldives has generated average real GDP growth of 10 per cent annually since the mid-1970s. Real GDP growth averaged about 9 per cent between 1986 and 1989, expanded by an exceptional 16.2 per cent in 1990, but then decelerated to a still rapid average of 6.3 per cent during 1991-1993. GDP per capita was estimated to be \$944² in 1993.

1. The Structure of Output

(a) Tourism

19. Tourism is the most important sector in the Maldivian economy; it accounts for about 17 per cent of GDP in 1993 and more than 60 per cent of foreign exchange receipts. Table 1 below provides a sectoral distribution of GDP. This sector employs approximately 11 per cent of the labor force and about 35 per cent of the foreigners in the country. By 1993, there were 69 operating resorts with a total capacity of over 9,000 beds. The Government has restricted the tourism industry to the Male and Ari Atolls and it has been developed entirely by the private sector, although the Government has invested heavily in basic infrastructure, training facilities, and marketing in support of the industry. The growth prospects for this sector are good, however, future growth will depend on maintaining a high standard of service at the existing resorts, on preserving the environmental integrity of atolls, and on continued expansion in resort capacity to meet the future growth in tourists.

¹ For more detailed discussion, see *Economic Review and Bank Operations*, Report No. EBO MLD 94020, November 1994.

² Because of the large deficit in factor incomes, gross national product per capita was estimated to be \$853 in 1993.

Table 1: Percentage GDP by Sector, 1988-1993

Sector	1988	1989	1990	1991	1992	1993
Tourism	17.4	17.5	18.1	17.4	17.7	17.1
Fisheries	16.1	15.7	15.1	15.1	13.5	12.5
Agriculture	10.4	9.8	8.9	8.6	8.4	8.2
Transport	5.3	5.3	5.8	6.4	6.6	6.6
Manufacturing	5.7	5.7	5.7	5.8	5.9	6.1
Construction, Real Estate and Mining	14.5	14.6	14.5	14.8	15.1	15.3
Distribution	16.7	17.1	17.0	17.4	18.1	19.2
Other Services	13.9	14.3	14.9	14.6	15.9	15.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

(b) Fisheries

20. Fishing is an important traditional activity in Maldives; it involved over 20 per cent of the labor force in 1990. Its contribution to GDP (12.5 per cent in 1993) remains significant despite the emergence of the tourism sector. Skipjack and other tuna varieties dominate the fish catch in Maldives, but diversification into nontuna sectors is being studied. The reef fish industry, which produces about 5,000-10,000 metric tons of fish per annum as part of the traditional activity on some islands, is becoming an important supplier for local and tourist consumption. Fishing is predominantly a private sector activity, with the exception of the canning and freezing of tuna for export, which is handled by the public sector.

21. The growth in fish exports has been on a downward trend since 1990. The value of fish exports peaked in 1991, but fell sharply in 1992 and 1993 because of the decline in fish export prices, weak demand in major export markets, and problems in the operation of the tuna cannery. Exports of frozen fish recorded the sharpest decline, falling from 10,100 tons in 1991 to 6,200 tons in 1992 and to 7,000 tons in 1993. Exports of canned fish also remained weak reflecting the difficulties experienced by the Government-owned Maldives Industrial Fisheries Company in securing adequate fish supplies.

(c) Transportation and Communication

22. The activities in this sector are dominated by public entities. The Maldives National Ship Management Limited operates mainly charter and tramp steamer services in the third country cargo trade. The Maldives Transport and Contracting Company's (60 per cent Government-owned and 40 per cent privately-owned) activities are primarily shipping, land and sea transportation within Maldives, but it is also involved in the sale and repair of engines, construction, metal works, and waste disposal. Air Maldives operates an interatoll air service with two small aircraft and is the handling and general sales agent for all airlines operating in Maldives. Telecommunications activities are carried out by Dhiraagu, a joint venture company owned by the Government of Maldives and Cable and Wireless (UK).

(d) Agriculture and Industry

23. Agricultural activity in Maldives is constrained by the poor soil and the limited availability of cultivable land. Of the labor force, less than 5 per cent, most of whom are women, is involved in agriculture. Nevertheless, agriculture contributes a little over 8 per cent to GDP. Coconut and banana are the main crops grown in Maldives; but other fruits, vegetables and tubers are also produced.

24. The manufacturing sector in Maldives is small, it consists mainly of garment production mostly for export, boat building, and some handicrafts. The sector contributes an estimated 6 per cent to GDP. Major constraints to the development of the sector are the shortage of labor, the limited domestic availability of other inputs, the small size of the domestic market, and the high cost of transportation.

(e) Energy

25. All commercial energy in Maldives is imported and total energy demand was estimated to be 92,000 tons of oil equivalent or 430 kilograms of oil equivalent per capita in 1990. The Government-owned State Trading Organization is the major importer of petroleum products, although recently the Government allowed the private sector to import petroleum products. The Maldives Electricity Board (MEB) is also a Government entity and provides power supplies to Male and several other islands. The private sector supplies power to resort island and other islands not served by MEB. All the power is generated by diesel.

26. Maldives has no know petroleum or coal resources and hydropower is not feasible because of the topography. The abundant solar energy is used in traditional ways (e.g. for fish drying) and more recently, for water heating in resorts. It is also harnessed for limited applications in remote area telecommunications, navigational aids, and lighting, but major expansion in its use is still constrained by the high cost of photovoltaic technology. Other renewable sources of energy (e.g. wind, tide, and waves) have also been investigated, but they are less promising than solar electricity generation using photovoltaic technology.

2. Economic Management

27. During most of the 1980s, the high economic growth was accompanied by a stable macroeconomic environment. The budget deficits were small relative to GDP and in 1987 and 1988, the budgets generated surpluses. However, fiscal policy eased significantly from 1989 to 1993 and budget deficits reemerged. Despite a substantial acceleration in the growth of revenue, the budget registered a deficit (excluding grants) of 17.7 per cent of GDP in 1989, which ballooned to 26.7 per cent in 1991, and subsequently fell to 19.2 per cent in 1993. The increases in the wages and salaries of Government employees and a Government undertaking to provide physical and social infrastructure throughout the country were the major contributors to the rapid acceleration in Government expenditures.

28. The expansionary fiscal policy was accompanied by an accommodating monetary policy to finance the deficits in the budgets. Over the period 1989-1 993, the broad money supply increased by an average of 22 per cent per year. However, as growth of the economy

slowed in 1991-1993, the high growth rate of money supply accelerated inflation from 3.6 per cent in 1990 to 20.2 per cent in 1993.

29. The excess demand as a result of the expansionary fiscal policy was met in part through a rise in imports. Thus, domestic imbalances caused a deterioration in the balance of payments. In 1989 and 1990, there was a modest surplus in the external current account with the large increase in the services account (primarily tourism) offsetting the increase in imports. However, in 1991, the external current account moved into a deficit (5.5 per cent of GDP) for the first time since 1986 as a result of the fall in exports and the rise in imports. In 1992, the external current account deficit deteriorated further to 10.2 per cent of GDP and in 1993 to an estimated 21.2 per cent of GDP as exports continued to fall, imports continued to rise and official transfers to Maldives were reduced. Strong inflows of both official and private capital helped to keep the overall balance of payments in surplus until 1992. As the overall balance of payments showed a large deficit in 1993, the Government borrowed \$15 million at commercial rates to bolster foreign exchange reserves.

30. Despite sustained official intervention to support the exchange rate, the rufiyaa has been subject to strong downward pressure recently. The nominal effective exchange rate appreciated in 1988-1989 following the large increases in official reserves, but it depreciated rapidly thereafter as financial policies were eased. The real effective exchange rate moved broadly in line with the nominal rate until 1990. Since then, as inflation accelerated and the rate of depreciation of the rufiyaa was restrained by official intervention, the real effective exchange rate appreciated sharply. Between 1988 and 1993, the real effective exchange rate appreciated by a cumulative 10.5 per cent, while the nominal rate depreciated by 25 per cent.

B. The Social Perspective

31. The population of Maldives has been growing rapidly recently. The growth rate is among the highest in Asia. Between the two census years of 1985 and 1990, the population increased from about 180,000 to more than 213,000 people, an increase of about 18 per cent or 3.4 per cent annually. This compares with an annual growth rate of 3.2 per cent during 1980-1985. The acceleration in the rate of growth of population is due primarily to the reduction in the crude death rate that resulted from the improvements in primary health care. The population is also very young with 47 per cent of the population below age 15 (see Table 2).

Table 2: Population Statistics

Year	1985	1990	1991	1992	1993
Total population	180,088	213,215	223,273	230,818	238,363
Male population	93,482	109,336	114,418	118,231	122,045
• age 14 and under	41,550	51,113	53,603	55,330	57,058
• age 15-64	49,034	54,577	56,998	58,878	60,759
• age 65 and over	2,898	3,646	3,817	4,023	4,228
Female population	86,606	103,879	108,855	112,587	116,318
• age 14 and under	39,702	48,855	51,199	52,855	54,513
• age 15-64	45,211	52,707	55,188	57,083	58,978
• age 65 and over	1,693	2,317	2,468	2,649	2,827

Source: Government of Maldives

32. The past ten years have witnessed a remarkable growth in education. During 1982-1992, total enrolment doubled and enrolment in Government schools trebled. Females now benefit from education in virtually the same numbers as males. In 1993, expenditure on education accounted for 18.3 per cent of total Government expenditure, which is high in comparison with other countries. The dispersed nature of the country is the major factor that contributes to the high cost of providing education. As a result of Government efforts in the education sector, the adult literacy rate is about 98 per cent and the primary school enrolment as a proportion of the 5 to 14 age group is 90 per cent, while the secondary school enrolment is of about 36 per cent. Nevertheless, skill shortages exist and education quality remains a concern.

33. The Government's policy of developing health services through the primary health care approach has been one factor that contributed to the improved health status in Maldives. In addition, nearly all the children are immunized against five infectious diseases; clean water supplies are available to all the population of Male and to over 80 per cent of the population outside the capital; malaria has been eradicated; and a system of health care has been established with a referral network that consists of family health workers and trained traditional birth attendants (*foolhumaas*) on the islands and community health workers at the atoll health centers as well as four regional hospitals and a central referral hospital.

34. While substantial progress in improving health services has been achieved, numerous problems remain. Life expectancy in Maldives is only 63 years, infant mortality is 61 per 1000 live births and maternal mortality remains high at 250 per 100,000. Although information is incomplete, on one atoll, 50 per cent of the children checked were two standard deviations below the normal weight for the age. Health expenditure has maintained its share of total Government expenditure and real inflation-adjusted expenditure has grown faster than the

population over the past five years. Nevertheless, financial constraints have prevented the achievement of targets for the preventive and curative health programs,

35. Women comprise about 48 per cent of Maldives' population and about a third of the workforce. Women enjoy equal status with men and the Government ensures that women are treated equally by according them equal access to education, vocational and professional training, participation in community development, and equal opportunities in employment, remuneration, promotion, and commercial, social, and cultural activities. Even though there is no obvious discrimination against women, there are many examples of subtle inequities in the organization of social and economic relations in the country. Factors such as parental ignorance and the rigid adherence to some traditional cultural values prevent some women from taking full advantage of existing opportunities,

36. While the total labor force participation rate is estimated at 50 per cent, the female participation rate has fallen from 62 per cent in 1977 to 32 per cent in 1992. This is a result of diminishing opportunities for atoll-based cottage employment following the introduction of the tuna freezing and canning technology in the 1980s, the lack of opportunities for higher education in atolls outside Male, and the tendency for tourism resorts to use all male residential staff. Nevertheless, the number of female school leavers is rising rapidly, and unlike previous generations, many of these school leavers will aspire to join the labor force.

37. According to the 1994 Human Development Report of the United Nations Development Programme, 40 per cent or about 85,000 persons live in absolute poverty. However, poverty is not as serious a problem in Maldives as in other countries because basic social services are provided by the Government and traditional economic activities such as fishing provide an acceptable standard of living for most of the population, Unemployment is virtually nonexistent. The labor force participation rate is approximately 50 per cent and the excess demand for labor is met by foreign labor. In 1992, it was estimated that foreign labor accounted for about 25 per cent of the labor force. About three quarters of foreign labor, the majority of which comes from neighboring countries such as Bangladesh, India, and Sri Lanka, is employed in the private sector. Nevertheless, underemployment is prevalent, particularly in the atolls and the more remote regions.

C. Regional Disparities

38. There are no reliable per capita regional income statistics. However, if the sector sources of GDP are examined, and considering that about 72 per cent of the population (excluding those living in resorts and industrial islands) live outside of Male and depend upon agriculture, fisheries, services and coral and sand mining for their livelihood, the per capita income generated in the islands was about Rf 2,000 in 1990 compared with Rf 11,000 in Male. This gap would be reduced by the remittances from islanders working in the resorts, in Male and on ocean going ships. However, the income disparities remain substantial.

39. The Government's decentralization and regional development program to reduce income disparities has had limited success. Although the rate of growth has slowed down, the population of Male continues to grow rapidly. Furthermore, there are very large differences between Male and the outer atolls in the commodities available for purchase, in recreational facilities, in health and education services, in the provision of utility services such as energy, sanitation, sewage, and water supplies and in general social amenities.

II. DEVELOPMENT ISSUES AND CONSTRAINTS

A. Fiscal Administration

40. The Government budget is highly sensitive to external developments. The Maldives' tax system has a narrow base and provides for only a limited number of taxes and import duties, which are levied on all but a few essential imports. Hotel and airport taxes are imposed on all foreign tourists and other visitors, Personal and business incomes, except for bank profits, are not taxed. A general sales tax does not exist. Given the importance of imports and tourism in the economy, about 90 per cent of tax revenues are derived from import duties and tourist-related taxes (see Table 3). **Nontax** revenues, mainly comprising profit transfers from public enterprises and rental income from Government-owned resorts, also depend to a significant extent upon external factors including export performance, tourist arrivals, and shipping activity. Tax and **nontax** revenues amounted to about 32 per cent of GDP in 1993.

Table 3: Government Revenue Sources
(million rufiyaa)

Year	1988	1989	1990	1991	1992	1993 (provisional)
Tax revenue	205.0	266.2	193.8	374.2	460.6	475.7
import duty	137.3	153.8	162.4	220.8	274.7	278.1
Tourism tax	40.6	78.3	95.1	108.1	129.1	135.8
Other	27.1	34.1	36.3	45.3	56.8	61.8
Nontax revenue	132.4	164.4	209.8	244.1	276.3	333.9
Transfers from state-owned enterprises	57.8	59.9	87.8	93.4	91.5	88.0
Lease/rents from Government property	33.8	43.7	52.6	63.4	84.1	106.2
Other	40.8	64.8	69.4	87.3	100.7	139.7
Grants	101.3	165.7	85.0	226.2	151.4	91.3
Total revenue and grants	438.7	596.3	588.6	844.5	888.3	900.9

41. On the expenditure side, current expenditures in 1993 amounted to just under 30 per cent of GDP (see Table 4). Wages, salaries, and other employee allowances, which have in recent years tended to increase faster than other items of expenditure, accounted for about 45 per cent of current expenditures. Much of the increase in current expenditure is attributable to spending directed towards social services such as health, education, social security, and community programs, which accounted for about 42 per cent of current expenditure in 1993. Public administration accounted for another 24 per cent of current expenditure in 1993, while expenditure on public order and security accounted for 16 per cent of current expenditure or 4.7 per cent of GDP.

Table 4: Government Expenditure
(million rufiyaa)

Year	1988	1989	1990	1991	1992	1993
Current expenditure	211 .0	279.6	376.4	438.0	601.4	735.0
Wages, salaries, other benefits	76.2	97.2	128.9	188.4	223.4	332.7
Other goods and services	116.0	165.1	229.7	268.4	347.8	356.8
Interest payments	15.2	8.6	12.5	21.4	21.4	37.9
Subsidies and transfers	3.6	8.7	5.3	4.8	8.8	7.6
Capital expenditure	194.8	354.6	370.8	585.4	635.1	568.4
Total expenditure	405.8	634.2	747.2	1,068.4	1,236.5	1,303.4

Source: Government of Maldives and IMF

42. The share of capital expenditures as a percentage of GDP has fluctuated from 20 to 35 per cent, and reflects the lumpiness in the availability of financing for projects from external sources. **Capital** expenditure continues to account for about a half of total expenditures, although this proportion is likely to fall in the near term as the Government attempts to contain overall spending.

43. Between 1988 and 1993, the revenue raised by the Government remained fairly stable in relation to GDP. However, the ratio of grants to GDP has declined substantially and the ratio of expenditure to GDP has increased considerably. As a result, the budget deficit (including grants) as a percentage of GDP rose from 3.3 per cent in 1989, to 11.4 per cent in 1990, to 13.3 per cent in 1991, to 16.8 per cent in 1992, but declined to 15.5 per cent in 1993.

44. An increasing share of these deficits has been financed by borrowing from the domestic banking system. As a percentage of GDP, credit received from the banking system to finance the budget deficits amounted to 6.1 percent, 5.6 percent in 1991 and 8.5 per cent in 1992, and then increased to 12.6 per cent in 1993. Most of this debt is owed to the Maldives Monetary Authority, which, as a result, had difficulties in restraining the growth of the money supply. Borrowing from the domestic banking system has contributed to inflation, to the balance of payments moving steadily into a deficit on the current account, and to the downward pressure on the exchange rate. Furthermore, it has squeezed the funds available for the development of the private sector.

45. The high level of budget deficits is clearly not sustainable. While the main fiscal challenge for the Government will be to provide the infrastructure and social services required for sound economic and social development, the achievement will be threatened by the adverse consequences of inflation, by balance-of-payments pressures, and by the inadequate access of the private sector to finance, unless the budget deficit is brought under control. Additional revenue measures, combined with spending restraints and the introduction of full or partial cost

recovery measures for public services will need to be considered to reduce this fiscal imbalance. Measures that should be considered include: (i) halting domestically **financed** capital investment, particularly construction activity on Male; (ii) a freezing the public sector wage bill, and increase efforts to train Maldivian nationals to replace high-cost foreign Government employees; (iii) halting direct and indirect subsidies to state-owned enterprises, and beginning a divestiture program for the commercial assets owned and operated by state-owned enterprises; (iv) tightening budgetary procedures; and (v) preparing a core public sector investment plan. Revenues could also be increased, to a modest degree, by: (i) improving cost recovery measures for scholarship training, tertiary health care, and processing labor permits; (ii) imposing a tax on urban property and taxes on income; and (iii) leasing islands for tourism and agricultural use for a long time at competitive market rates.

B. Domestic Resource Mobilization

46. Closely related to the issue of fiscal management are issues related to the financial sector. Although no data exists, the Government's inability to finance its deficit from domestic savings and its recourse to central bank financing indicates that domestic resource mobilization is inadequate.

47. The banking system in Maldives consists of the central bank, Maldives Monetary Authority (MMA), one domestic commercial bank, the Bank of Maldives Ltd. (BML), and three foreign commercial banks, the State Bank of India, the Bank of Ceylon, and Habib Bank Limited (Pakistan). The Government controls savings and lending rates of interest, imposes a high reserve requirement on commercial banks (35 per cent in 1993), and directs credit to specific sectors through a credit approval system implemented by MMA. The Government also controls the operations of BML through its 75 per cent equity interest.

48. The low deposit rate and high inflation recently have ensured negative real rates of interest on bank savings. There is anecdotal evidence that a "curb" market has developed in Maldives outside of the banking system where money is lent at higher interest rates. There is also evidence that money has moved outside Maldives in search of higher rates of interest, although it is not possible to quantify the amount.

49. The Government does not issue treasury bills nor longer term debt securities and thus there is no market for public or private debt in which interest rates could be determined. The companies law in Maldives provides for the formation of public companies, which can sell shares to the public. However, to safeguard the public interest, the law requires a Government shareholding in such companies, but the extent of this shareholding is not defined. This requirement creates uncertainty for investors and, as a result, impedes raising equity financing by issuing shares.

50. The tightly regulated financial sector has introduced serious distortions into the economy, discouraged saving, and impeded mobilization of domestic resources, thus restraining the development of the private sector. Measures are required to liberalize the financial sector such as establishing market-determined interest rates, rationalizing the regulations to improve domestic financing of private sector investment, and providing an alternative to central bank financing of the budget deficit.

C. Regional Development

51. One of the highest priorities of the Third National Development Plan, 1991-I 993, was the continued development of the outer atolls and islands to secure more equitable distribution of the benefits of development and to curtail the rate of growth of population on Male. However, in terms of the key elements of the program for decentralization and development set out in the Third National Development Plan, the Government's strategy has had limited success. Although the rate of growth has slowed down, the population on Male continues to grow alarmingly. The development of **Vilingilli** Island as a satellite community to Male has been slow; of the two new fisheries development projects in the southern atolls, the project based in Laamu will come on stream only in the fourth development plan period, 1994-1996. Furthermore, there has been no significant progress in the implementation of integrated rural development projects, or in the development of the contemplated regional growth centers and of the industrial promotion zones in three atolls.

52. Moreover, the wide disparity in average per capita incomes between Male, the resort, and the industrial islands on the one hand, and the remainder of the islands on the other remains very large. There are no regional income statistics, but analysis of production and population statistics suggest a difference in average per capita incomes of about five or four to one. There is also a marked discrepancy in the availability of social amenities. Television services are broadcast only within a 40 mile radius of Male. There are very large differences in the range of commodities available for purchase; in recreational facilities; in health and education services; in utility services such as energy, sanitation, and water supplies; and in general social amenities.

53. There appear to be several reasons that the regional growth centers did not develop. First, the regions serviced by the growth centers must potentially be economically viable. To illustrate, the Male region developed because the Government opened the region to tourism. However, these same Government policies have restricted the development of the tourism industry in other regions. Fishing is another example; traditionally it is undertaken by the labor-intensive pole-and-line method, but the Government has not permitted the introduction of the more capital-intensive purse-seining technology. As a result, fishing has been limited to the coastal zones that extend 75 miles offshore, although, by international agreement, Maldives' exclusive economic zone extends 200 miles. Consequently, the supply of fresh fish has been inadequate and that has been an impediment to the establishment of fish processing plants in the outer atolls.

54. Second, even where there are opportunities for development, there are two requirements to exploit them. These are: (i) an adequate stock of capital, including human capital, and (ii) a transparent and predictable policy regime that provides a hospitable environment for the development of the private sector. Private investment in the outer atolls has been hampered by gaps in the commercial law dealing with companies, foreign investment, and land tenure as well as restrictive regulations. In addition, infrastructure in the outer atolls has not been well developed, particularly transport and communications. Furthermore, restrictive regulations have precluded the private sector from participating in providing of infrastructure services.

55. Finally, physical and social infrastructure investments by Government, while large, have been spread too thinly throughout the country to provide the necessary complementary thrust to private sector development in any single region and for an urban growth center to emerge. In the past, Government investments have been ad hoc, focused in Male, and not allocated on the basis of economic criteria. As a result, the benefits of these investments have not been maximized.

D. Demographic Trends

56. The Government's Third National Development Plan, 1991-1993, viewed the rate of growth in population "as a matter of considerable concern" and aimed at a "reduction in the rate of population growth through more active promotion of population control and education programs . . . as a priority..." It observed that the population growth rate was 3.4 per cent in 1990 and in 1991 estimated that it would decline to under 3.1 per cent in 1995 and to an average 2.2 per cent during 1995-2000. The Government was very concerned when recent population projections indicated that the annual rate of growth in population would rise from 3.4 per cent in 1990 to 3.5 per cent in 1995 and thereafter slowly decline to only 3.4 per cent in the year 2000 and to 3.3 per cent in **2005**. The more recent population projections estimate that the population of Maldives will increase from 213,215 in 1990 to about 356,100 in 2005 or by 67 per cent. Such rapid rate of growth in population will have major implications for public expenditure in the social sectors such as education and health, for the potential growth in per capita income, and for the environment.

57. At a time when the quality of education and the need for more high school, tertiary education, and vocational training is being stressed by the Government, the rate of growth in the number of students enrolling between the ages of 5 and 14 is well in excess of 3 per cent per year, with an additional 40,000 students expected to enroll between 1990 and 2005. While seeking to extend the coverage and quality of secondary education, the numbers in the 15 to 19 year age group will increase by more than 4 per cent per year or by an additional 15,300 between 1990 and 2005. These latter numbers are a function of past birth rates rather than the new projected rates. Nevertheless, the higher growth rates of student enrolment at all levels will put additional pressure on the Government's budget.

58. Health care is affected in particular by the requirements of the very young and elderly. Between 1990 and 2005, there will be an additional 24,400 children added to the population in the age group 0 to 1. Furthermore, the "dependency ratio", the numbers of those less than 15 years of age and those 65 years or over in relation to the 15 to 64 year age group, is presently about 0.9 and will decline in 2005 to only 0.8. This is very high compared with a ratio of about 0.5 in countries with older population profiles, a slower population growth rate, and relatively fewer people in the younger age cohorts. As with education, the provision of health services to a faster than expected growing population will also have major budgetary implications.

59. The high population growth rate will also increase the pressure on the land available for residential and development purposes. The existing water supplies may not be adequate in some areas and there will be continued pressure to migrate to Male, unless incentives to migrate

to other urban locations are developed. The land area of Maldives is currently being reviewed and may be reduced by about one third.¹

60. Although the Government views the rate of growth in the population as a key development issue, its efforts at family planning to reduce the birth rate have not been successful. The Government's child spacing program has achieved little success. The target set in the Third National Development Plan, 1991-1993 for the use of contraceptives was 30 per cent, however, in 1993, the estimated contraceptive prevalence rate was only about 10 per cent compared with 5 per cent in 1989. Nevertheless, the availability of contraceptives has increased in the atolls, although cultural attitudes and psychological factors still hamper their wider use. Further liberalization of the availability of contraceptives is needed if fertility patterns are to be affected significantly. Measures that could help reduce high birth rates include: (i) broadening family planning information campaigns to include both men and women; (ii) abolishing prescription requirements for contraceptives; (iii) allowing the private sector to distribute contraceptives; and (iv) providing health workers with key technical and communications skills through in-service training.

E. Human Resource' Development

1. Education

61. The growth in education in Maldives has been the result of combined efforts of the Government, communities, private initiatives and foreign aid agencies, with the Government playing the key role. Primary school coverage is nearly complete and progress has been made recently to increase access to junior and senior secondary schools. Although the number of schools has not grown appreciably during 1982 to 1992, total enrolment doubled, while enrolment in Government schools trebled.

62. The rising cost of education is one issue that needs to be addressed urgently. In 1992, 46,000 students were enrolled in grades one to five. Recent population projections indicate that this number could increase by 57 per cent by the year 2005. If universal primary education is extended to grade seven, the number of students in 2005 would be about 98,000, more than double the current enrolment. In 1993, only 36 per cent of students in the 15-19 age group were enrolled in secondary school. The population in this age group is expected to expand by 15,300 by 2005. Even if the proportion of students receiving secondary education remains the same, student numbers will increase by about 3,200 in 2005. In addition, the Government's aim is to increase further the relative number of students receiving secondary and vocational training and to improve generally the quality of education and training.

63. During 1988-1993, Government expenditure on education rose by 27 per cent annually in real terms and the share of current expenditure on education in the Government's budget rose from 7.5 per cent in 1988 to 12.8 per cent in 1993. This rapid growth in education spending was due to an expansion in universal primary education coverage from 5 years to 7 years of study, an improvement in the terms and conditions of employment for teachers, the

¹ The reduction in land area is a result of improved aerial photography and more accurate techniques in calculating land areas.

large investments in new facilities, an accelerated program of overseas fellowship training, and a near doubling in employment of (high cost) foreign teachers. Furthermore, as the focus of Government education programs expanded beyond primary school training, unit costs have registered a significant increase. With a rapidly increasing projected student population over the next ten years, the Government's funding of education is expected to continue to grow in real terms. Thus, there is a need to check the growth in education expenditures, and at the same time to improve the quality and to expand the access to postprimary education.

64. The equitable provision of education is also an important issue. Standards of education and educational opportunities vary between Malé and the outer atolls, between rich and poor households, and between males and females. Because of cultural concerns, there is a general reluctance to send daughters from their island homes to other islands for education unless arrangements can be made for them to stay in the households of relatives or family friends. This reduces the average level of education that females receive. Until the recent opening of the Southern Secondary School in Addu Atoll, all secondary schools were located in Malé.

65. English is the major language of instruction from preschool to the tertiary level in Malé, while Dhivehi, the national language, is used primarily in the outer islands. A capability in English broadens the choice of a career and potential remuneration because competence in English is required for entry to secondary education.¹ Children who come from bilingual homes will always have an advantage over those who do not. Furthermore, the cost of supplying teachers who can instruct in English on a country wide basis is expensive.

66. The calibre of teachers is the primary determinant of the quality of education. In 1992, in the primary schools, there were 1925 teachers of whom 31 per cent were untrained and the majority lacked competence in English. Of the untrained teachers, 94 per cent worked in the outer islands. The poor quality of the teachers contributes to the poor standards, to the high failure rates in examinations, and to the need to repeat classes. The number and size of classrooms in the outer atolls and the quality of the appointments is inadequate. Moreover, students outside of Malé have to be taught in shifts, which strains teachers and adversely affects the quality of the education provided.

67. Education and training need to be improved to increase the productivity of the workforce and to enable people to apply modern technologies. It is also required on equity grounds to raise the living standards of the people in the outer atolls and of women. The issues of cost, equity, and quality of education will need to be addressed to meet these objectives.

2. Health

68. While substantial progress in reducing the incidence of disease has been achieved, there are still numerous problems which remain. There is still a high prevalence of worm infestation. In Laamu and Vaavu Atolls, the incidence rate was 66 per cent compared with the

¹ The entrance examination to the two Government secondary schools in Malé is in English, which places outer island students at a disadvantage. The alternative for these students is to attend the two private secondary schools on a fee paying basis.

target of 25 per cent. Maternal mortality rates remain high at 250 per 100,000. The information about child nutrition is incomplete. In Laamu Atoll, 50 per cent of the children monitored were two standard deviations below the normal weight for their ages. The mortality rate for acute respiratory diseases of 18 per cent exceeds the target of 10 per cent set in 1993. However, progress has been made in reducing positive cases of tuberculosis sputum. The prevalence rate was 1.52 per cent in 1990, but it fell to 0.57 per cent in 1993 compared with the target of 0.30 per cent.

69. Public expenditures on health care have varied considerably during the past decade, rising from a low of 5 per cent of total public expenditures in 1985 to a high of 15 per cent of public expenditures in 1990 and 1991. Following the completion of the capital works for the Central Hospital project and the Male water supply and sewerage projects, public expenditures on health fell to 8 per cent of total public spending in 1992 and 1993. The level of cost recovery in health care services is very low, although charges for pharmaceutical products have been introduced and pharmaceuticals are available from private sources licensed to operate in Male.

70. The main issues concerning improvements in the delivery of health services involve the organization, management, and financing of the health sector. The population growth rate expected over the next ten years will place an increasingly heavy burden on all levels of the health service. Furthermore, communities throughout Maldives are demanding improvements in the quality and quantity of the health services available to them. One response to this demand has been the construction of the Indhira Ghandi Memorial Hospital in Male, which was opened in October 1994. It has been estimated that the running costs of the new hospital will increase the health sector's current expenditures by 70 per cent. Therefore, further improvements in the health services at the island and by atoll levels will not be possible unless additional Government resources are made available or alternative methods of funding health services are used.

71. Until recently, health services in Maldives were managed centrally. However, it was recognized that a central management approach did not provide adequate support to the health workers based on the atolls. The Ministry of Health and Welfare (MHW) has recognized this weakness and, as an interim measure, is in the process of establishing a more fully devolved and decentralized management structure. It has posted supervisors to work at the regional level, thus bringing management and professional support closer to the points of service delivery. This initiative has met with limited success so far because of human and other resource constraints as well as poorly identified goals. As a result, decentralization within the MHW has occurred in only five regions so far.

72. The health sector is generally heavily dependent on large numbers of qualified health workers. Island nations such as Maldives have a higher demand for qualified health workers because the population is scattered in small isolated communities. Maldives has achieved considerable success in providing simple curative and preventive services at island and atoll level, but at the regional and central levels, there are still considerable shortages of skills and a dependence on foreign workers. Several factors have contributed to the shortage of Maldivian health workers — inadequate numbers of suitably qualified school leavers available for training; poor financial terms and work conditions; and competition from other sectors for school leavers.

73. Properly functioning health information systems are essential for the effective planning and management of a health network. While the level of information available on some preventive health programs is quite satisfactory (for example, on the expanded program of immunization, tuberculosis and leprosy), the information available about several of other programs is limited. The level of involvement of health workers at atoll or regional level in the analysis of health information is also limited and feedback from existing information flows is poor. With the anticipated changes in disease patterns, as well as the modifications in the role of Government health services over the next ten years, an improved capacity to monitor the incidence of diseases, financial information, and health service activity statistics will be essential to allow MHW to evaluate service performance and respond to changes.

F. Women in Development

74. Maldivian women traditionally played a key role in the country's economy. The time spent by Maldivian men at sea meant that many land-based activities became the responsibility of women. These responsibilities included fish processing, agriculture, and handicrafts production, as well as caring for the family. Women's rights are guaranteed under the country's constitution. Women receive equal pay and, under the system of Sharia law, they are entitled to own, inherit, and manage property. Women's issues in Maldives tend, as a consequence, to be dominated not by a struggle for equal rights, but by efforts to increase the awareness of women of the rights that already exist and to enable them to take fuller advantage of the rights.

75. Education in Maldives is not differentiated along gender lines. The enrolment of females in grades 1 to 10 approximates that of males and there is no sex discrimination in the school curriculum. However, the proportion of females who go on to upper secondary schooling -- grades 11 to 12 — drops by almost 50 per cent, reflecting not only social norms, but also the disparities in the availability of upper secondary facilities outside of the capital. The percentage of young men who go on to study abroad is also higher because women tend to marry at an earlier age than men. Among the women who enter higher education, the most popular fields are health and education.

76. The 1991 national survey on women showed that the median age of marriage for women was between 15 to 16 years of age. Although the age of marriage is rising in Male, teenage marriages remain the norm. Besides the custom, the early marriages by women have been attributed to the lack of educational and economic opportunities in the atolls earlier, which left women with no alternatives except early marriage and young motherhood. Survey and census data show that by the time a Maldivian woman reaches the age of 50, she will have been married four times, and will have given birth to about seven children in the atolls, while her counterpart in Male will have an average of five to six children.

77. The Government recognizes the importance of developing the role of women in Maldives and of recruiting them into the workforce. Consequently, the National Women's Council was created in the late 1970s by the Government as means to systematically promote the rights of women. The Council has been progressively enlarged and its responsibilities increased, culminating in the decision taken in July 1986 to establish a special Department for Women's Affairs (DWA), which today is the key Government institution for the advancement of women. The National Women's Council is the advisory body of DWA. Island Women's Committees have been established in all inhabited islands, as well as in the four wards in Male.

78. The present labor force participation rate of females in Maldives is very low by international standards. Maldivian women's involvement in economic activities, however, has been on a downward trend, mainly because of the reduction in their traditional involvement in fish-preservation activities, as a result of the shift in the country's main export from processed fish to raw fish. Because of the decline in the female labor force participation rate, the 1990 Census show that men account for 80 per cent of total employment. Thus, there are more male than female workers in all occupational classifications in Maldives, In the atolls, the few women in the labor force are found mostly in processing fish, agriculture, and making crafts. The concentration of development and economic activity in Male, the resorts and a few industrial islands, has not increased women's employment primarily because of cultural traditions that prevent women from leaving their families and islands to seek employment in Male or elsewhere.

G. The Environment

79. Maldives is a narrow archipelago with nearly 1,200 tiny coral atolls in the Indian Ocean. With a total area of 90,000 sq km, Maldives has a land area of only 296 sq km of which only 10 per cent is arable. Furthermore, only 200 of the islands are populated; about 26 per cent of the population is concentrated in the capital, Male.

80. Historically, Maldives has been important in maritime trade and the country is extremely dependent on the ocean and its resources. The economy has a narrow base and is dependent on the direct exploitation and export of fish and indirectly on tourism because of the natural beauty provided by the coral reefs and surrounding environment. Hence, a healthy marine environment is fundamental to the continued physical and economic existence of the country. Therefore, its available marine resources will influence its development prospects for the foreseeable future.

81. The most serious problems facing the environment in Maldives are:

- (i) The degradation of freshwater and land resources, including the nonsustainable use of aquifers and fuel wood, as well as the contamination of aquifers by sewage, which has imposed severe constraints on the quality of life and development. The rapid growth in population has been the principal cause, particularly in Male, but also on other atolls and islands such as Addu and Thulhaadoo.
- (ii) The capacity of some reefs to act as natural sea defenses and as fishery areas and repositories of biodiversity in some areas has been severely impaired by coral and sand mining.
- (iii) While the disposal of solid waste and sewage appears to be under control in Male, there is a need to monitor the effectiveness of waste disposal practices on the resort islands and in other heavily populated areas. In-filling and reclamation for residential and **in other developments has been** extensive, resulting in loss of natural habitat and an increase in the danger that the ground water will be polluted.
- (iv) The coastal erosion from coral and sand mining, dredging, and coastal construction has altered the movement of the water and site planning on the islands is poor. When extensive, these practices undermine the coast's

- capacity for natural defense. This exacerbates the impacts from natural events such as wave damage and flooding.
- (v) The impact of expected sea level rise resulting from climatic changes will continue to be viewed seriously by Government, in particular, the potential threat to urban centers, populated atolls, and tourist islands.
 - (vi) The unconstrained land development on certain atolls is also becoming a serious problem.

82. In Male, where a quarter of Maldives' population lives, the underground aquifer — once the major source of water for all purposes — has been depleted of fresh water, which has been displaced by brackish or salt water. Thus, this ground water can no longer be used safely for drinking or cooking purposes nor for washing or bathing. There is also evidence to suggest that the rising salinity of the ground water is damaging tree roots and vegetation. The collection of rainwater from roofs, although a source not fully utilized yet, can no longer meet the normal demands for safe water for cooking and drinking and, as a result, the costly process of desalination has been introduced. Male has suffered a severe shortage of fresh water for some years: and this condition is already beginning to be prevalent in the other islands. This lesson from Male, which needs increasing supplies of expensive desalinated water, must be borne in mind to avoid similar problems elsewhere.

83. Until comparatively recently, the life styles of Maldivians had little direct impact on the environment. The main impacts included deforestation induced by the need for fuel wood and mining the coral and coral sand in the absence of other building materials. These activities were generally sustainable because the population was relatively small and stable. However, this situation is rapidly changing. The population is rising dramatically and the demands on the natural resource base are increasing. Substitutes for indigenous fuel supplies and building materials will need to be found in addition to promoting environmentally sound management of industrial wastes, solid wastes, and sewage disposal.

84. The Government is aware of these issues and has taken steps to strengthen the environmental institutions. These measures have helped improve understanding of the population about both the fragility of an atoll-state and the seriousness of the environmental damage that has already occurred. In such areas as coral mining and sewage disposal, a combination of strong regulatory control, heightened enforcement, and improved public awareness is required to reverse harmful environmental practices that threaten to jeopardize the country's prospects for growth and development in its main production sectors.

H. Government Priorities

85. The Government recognizes that the issues of fiscal management, domestic resource mobilization, regional development, population growth, the status of women, and the environment are major constraints to economic and social development. These issues were identified in the Government's Perspective Plan 2000¹, which provides the longer-term planning guidelines for the Government's three-year national development plans.

¹ Financed by the Bank under TA No. 1813-MLD: Perspective Plan 2000: Maldives, for \$600,000, approved on 22 December 1992.

86. The Government considers the issue of fiscal management of paramount importance in the short term. Economic growth has begun to be adversely affected by the large budgetary deficits, thus reducing the Government's ability to provide basic social services in health and education, particularly in the outer atolls and in the more remote regions. Women will be especially affected by any reduction in the availability of education because it will diminish their opportunities to advance economically and by a reduction in health services because it will adversely affect the Government's goal of reducing the population growth rate. The Government has requested the assistance of the IMF to address the fiscal management issue.

87. Over the longer term, development of the regions will be required to ensure a more equitable distribution of the benefits of economic growth and to reduce the population pressures on Mali?. The Government recognizes that regional development will succeed only if constraints to private sector development are removed and domestic resource mobilization is enhanced through liberalization and deregulation of the financial sector.

88. The economy of Maldives is primarily dependent on the exploitation of marine resources and tourism. The Government is aware that a healthy environment is essential for the continued economic existence of the country and that there is a need to maintain a balance between the environment and development. The Government considers population growth to be a key issue for sustainable economic development.

III. EXTERNAL ASSISTANCE

A. External Assistance and Aid Coordination

89. Maldives' external financing requirements will be about \$63 million per year over the medium term. About 42 per cent of the funding is expected to be in the form of concessional financing from multilateral and bilateral aid agencies (including about 5 to 10 per cent from the Bank), 36 per cent as direct investment, and 22 per cent as official grants. This level of assistance is equivalent to about 7 per cent of GDP in 1993, and will require a high degree of aid coordination to ensure that it is used effectively. The biennial Round Table Meetings (RTM) organized by the UNDP since 1985 have provided an opportunity for the Government to discuss with external aid agencies the nation's performance and its future development policies and priorities.

90. The Bank, the World Bank, the United Nations agencies, and Japan have been providing substantial support to help the Government meet its development objectives. Since 1981, the Bank has provided six loans to Maldives for a total amount of \$33.9 million, primarily in the power and ports subsectors. The World Bank has provided five loans, mainly in the fisheries sector, but also for airports and the education sector, while the United Nations agencies have provided assistance for agriculture development and credit schemes on the outer atoll groups and for health, women in development, and population planning. The World Bank has not defined its lending strategy at this time, however, its assistance to the education sector at the secondary and tertiary levels is expected to continue. The United Nations agencies are expected to continue the same activities as in the past.

91. During 1994, the Government began discussions with the IMF and the World Bank to develop a medium-term macroeconomic strategy under a Policy Framework Paper (1995-1997). The primary objectives of the strategy are to reestablish macroeconomic stability, implement structural reforms by reductions in public sector expenditures, deregulate the financial sector, and reduce the Government's direct involvement in the economy. The Bank participated in the formulation of the Policy Framework Paper and the Government has requested the Bank to support the medium-term macroeconomic strategy by providing a program loan.

92. Bilateral aid has also played an important role in Maldives. Japan is Maldives' largest donor and provides about \$10 million annually for fisheries, power supply in the atolls, and various infrastructure projects. India has provided assistance in the education sector, but also in the health sector and donated the 200-bed Indhira Ghandi Memorial Hospital in Male. Australia, Peoples Republic of China, Kuwait, Norway, and Saudi Arabia have provided smaller amounts of assistance for a wide range of sectors.

93. No international nongovernmental organizations (NGOs) operate in Maldives. Several local NGOs provide varied assistance for the social sectors and for the environment. The Society for Health Education under the auspices of the International Planned Parenthood Federation is the most active NGO in Maldives in population planning.

94. For the most part, the Government has effectively and prudently absorbed aid assistance and has implemented the projects satisfactorily. Nevertheless, there is some concern about the capacity of the Government's administrative structure to absorb more aid because of a shortage of skilled workers and the present project formulation, screening, and implementation procedures are not coordinated with the budgetary process. The issue of budgetary control will be addressed under the Government's Policy Framework Paper, however, longer term plans will need to be developed to overcome skill shortages. The World Bank has provided funding for fellowships for Maldivians to study at postsecondary institutions overseas, but the Government has indicated that additional support in this area is required and has requested assistance from the Bank.

95. Although tourism is a major economic activity in Maldives, no multilateral or bilateral assistance has been provided to that sector. Since the 1970s, tourism has been developed entirely by the private sector and it is expected that future growth of the industry will proceed in a similar manner. Nevertheless, the Government with the assistance from multilateral and bilateral aid agencies may finance some infrastructure in support of the private sector efforts in the industry. The fisheries sector is also predominantly private sector-oriented. However, the Government has been successful in attracting significant multilateral and bilateral support for fisheries projects in the past and bilateral donors have expressed interest in continuing to provide financial support to this sector in the future. Thus, there is little scope for Bank operations in the tourism and fisheries sectors.

96. Foreign investment has had a limited role in the economic development of Maldives because of the tightly regulated financial sector and the lack of a comprehensive legal framework for business activities. To date, the inflows of private capital have been related to foreign investment in the garment industry and to the development of several new tourist resorts. Although still limited, an increase in foreign investment could be expected with an expansion of the tourism sector.

B. Past Bank Operations

97. The Bank has never had a formal lending strategy for Maldives. In the past, the Bank's assistance focused on the energy and transport sectors with specific projects being selected in accord with the Government's priorities.

98. The Bank has provided six loans from its Special Funds resources to Maldives as of 31 December 1994. The first loan, for the Interisland Transport Project,¹ was for \$1 .0 million as well as \$0.88 million in cofinancing from the Organization of Petroleum Exporting Countries (OPEC) Fund. The two vessels procured under the project incurred considerable losses after completing only seven voyages because the fuel consumption was much higher than previously assumed and vessels in the private sector were more competitive. In 1985, the Bank provided an advisory technical assistance (TA)² to consider whether the vessel's operations could be made viable and to advise on the options available to the Government for alternative use of the vessels or for their disposal. Following the findings of the TA study, the Government decided to dispose of the vessels. Neither the Bank nor the OPEC Fund objected to the Government's decision.

99. The second loan for a multiproject³ included five subprojects for harbor, power, and meteorological development. One subproject, phase I development of the Male commercial harbor, was financed and implemented by the Government itself and was therefore deleted from the project. The loan proceeds were transferred to another subproject, widening of priority atoll harbors.

100. The third loan for the Power System Development Project⁴ included the construction of a new diesel power station with two 2.7 MVA generating units and the expansion and rehabilitation of the power distribution system in Male. The fourth loan for the Male Port Development Project⁵ consisted of the rehabilitation and expansion of existing lighterage-based import handling facilities at the Commercial Harbor, and the development of improved port management and financial systems. The fifth loan for the Second Power System Development Project⁶ included the supply and installation of a 2.7 MVA generating unit, the extension of the power station, the supply and installation of a 6 MVA generating unit, and the expansion of the distribution system. The sixth loan for the Second Male Port Project⁷ included the construction of an alongside berth and the provision of ancillary civil works and cargo handling equipment.

101. The first three Bank loans have been post-evaluated. The loan for Interisland Transport Project was deemed unsuccessful because it did not meet its main objective of setting up a regular interisland shipping service. However, the loan for the Multiproject was successful because it met its primary objectives of deepening priority island harbors, providing

¹ Loan No. 513-MLD(SF): Interisland Transport, for \$1.0 million, approved on 18 June 1981.

² TA No. 679-MLD: Interisland Transport Operations Review, for \$200,000, approved on 25 April 1985.

³ Loan No. 681-MLD(SF): Multiproject, for \$2.38 million, approved on 29 March 1984.

⁴ Loan No. 848-MLD(SF): Power System Development, for \$6.1 million, approved on 27 October 1987.

⁵ Loan No. 911-MLD(SF): Male Port Development, for \$6.4 million, approved on 20 October 1988.

⁶ Loan No. 1121-MLD(SF): Second Power System Development, for \$9.2 million, approved on 19 November 1991.

⁷ Loan No. 1226-MLD(SF): Second Male Port, for \$8.8 million, approved on 1 April 1993.

meteorological equipment, upgrading Male power supply and electrifying two atoll islands. The loan for the Male Port Development Project was also successful because it met its objectives of rehabilitating and expanding the facilities at the Commercial Harbor.

102. In addition to the six loans, the Bank has provided sixteen advisory **TAs** for a total amount of \$4.75 million, and six **TAs** for the preparation of loan projects for \$0.87 million and a TA for the preparation of an environmental management strategy. The Bank-financed **TAs** have also provided assistance to the Government in economic and social planning. In October 1979, the Bank provided a TA to the Government to prepare a five-year development program'. This work formed the basis for the Maldives' First National Development Plan (1985-1987) and the Second National Development Plan (1988-1990). In June 1990, the Bank provided another TA for the preparation of the Third National Development Plan (1991-1993)² and, in December 1992, a TA was provided for a longer term Perspective Plan for Maldives, and for the Fourth National Development Plan (1994-1996)³. The Perspective Plan 2000 provided the Government with a longer term planning guide for the economic and social development of the country as well as a consistent policy framework for formulating development priorities.

103. Bank assistance for physical infrastructure in Maldives has in general supported economic growth. The Bank's three loans to the power subsector financed investments that eliminated power shortages in Male and established the Maldives Electricity Board (MEB) on a sound financial footing. The assistance to the ports subsector has improved the cargo handling capacity of Male's port and has eliminated bottlenecks that delayed the transshipment of goods between Male and the outer regions. The investments in power and ports have generally contributed to the development of Male and the tourism industry around Male, and promoted international trade. Nevertheless, the Bank's exclusive focus on Male has contributed to the income disparities between those who live in Male and the surrounding areas, and those who live in the atolls and more remote regions.

104. Although there have been difficulties in implementing and operating some management systems in MEB, MEB and the Maldives Ports Authority (MPA) are technically and financially viable. MEB and MPA are revenue-generating, commercially-viable institutions and, as mature enterprises, should be encouraged to seek financing of future investments from commercial sources. Consequently, the Bank will withdraw from funding investments in these two sectors and will support the diversification of sources for financing of investments in the energy and transport sectors. However, the Government feels that a too rapid withdrawal of Bank support from the power subsector could leave MEB without a source of finance in the short term. Therefore, the Bank may provide some support to this subsector under certain conditions. First, it needs to be determined **whether** MEB can obtain financing from other sources, including through the privatization of MEB. Secondly, if an additional loan to the power subsector was deemed necessary, then this loan would be the last loan to MEB and would aim to maximize cofinancing from other sources.

¹ TA No. 309-MLD: Project Identification, Programming and Planning, for \$170,000, approved on 25 October 1979.

² TA No. 1328-MLD: Project Identification and Planning, for \$305,000, approved on 27 June 1990.

³ TA No. 1813-MLD: Perspective Plan 2000: Maldives, for \$600,000, approved on 22 December 1992.

IV. THE BANK'S MEDIUM-TERM STRATEGY

A. Strategic Considerations

105. Maldives' immediate developmental concern is fiscal management. Although the country's prospects are good and economic growth is projected to increase by 5-6 per cent per annum during the 1990s, prudent management of the country's fiscal affairs will be an important factor in the rate of economic and social development of Maldives. Furthermore, the main fiscal challenge for the Government will be to finance infrastructure and social services, however, the achievement will be jeopardized by the adverse consequences on economic growth of large budgetary deficits. Thus, it will be necessary for the Government to bring overall expenditures under control and to institute measures to recover at least some of the costs of services provided by the Government.

106. The Government has already initiated a stabilization and structural reform program to reverse the weakening economic performance. The centerpiece of the program is a substantial reduction in the fiscal deficit, coupled with supportive monetary and external sector policies and market-oriented reforms. One key element of this program is the redirection of budgetary resources and external assistance toward the development of the social sectors. Steps will also be taken to deregulate and liberalize the financial sector to promote domestic resource mobilization and to develop the private sector. However, because of the need to ensure that appropriate reforms in the financial sector are undertaken, the Bank has an important role to play in support of the Government's stabilization efforts.

107. A longer term development concern is regional development. Although Maldives has experienced impressively high rates of economic growth over the past ten years, the benefits of growth have not been equitably distributed to the population at large. The decentralization of economic activity away from Male is hampered by the lack of infrastructure, the poorly developed interisland transportation system, the repressed financial system, and the legal and regulatory barriers. The quality of social services, particularly health, education, and water supply and sanitation, provided by the Government is also significantly lower in the outer atolls because of the high cost of providing these services to the widely dispersed population.

108. Furthermore, the population of Male has increased fourfold in the past 20 years to about 66,000 today according to some estimates. The present population density of Male is among the highest in the world at about 41,000 per square kilometer. With a high population density and a finite amount of land, housing conditions have deteriorated substantially and the quality of the urban environment has declined. A more balanced approach to economic and social development is required to provide a higher standard of living for the population as a whole and to reduce the incentive for migrate to Male.

109. The protection and preservation of Maldives' natural environment is essential for the long-term growth and development of the economy. In the past, however, there has been a

trade-off between environmental preservation and economic growth. Two examples are the loss of reef habitats because the coral was mined for construction purposes and the depletion of fresh water supplies in heavily populated Male. The degradation of the country's natural resources imposes serious constraints on the quality of life and on future development. The special vulnerability of a nation comprised of atolls to even modest changes in environmental conditions underscores the need to minimize the adverse effects of growth on the ecosystem.

B. The Strategy

110. Therefore, the key issues to be addressed by the Bank's operational strategy are (i) fiscal management, (ii) regional development, and (iii) the environment. To ensure prudent fiscal management, the Bank will provide assistance to the financial sector to support the Government's stabilization and structural reform program which will ensure the sustainable provision of social services to the population, and to promote private sector activities in the atolls by removing impediments to the mobilization of domestic resources. Close coordination with the IMF will ensure achievement of these objectives.

111. The Bank's support for regional development will initially comprise technical assistance for regional planning studies followed by assistance to prepare future investment projects in the social infrastructure in the identified regional growth centers. The Bank will also assist in the sectoral planning of human resource development (education, health, and population) to maximize the effectiveness of new investments in these sectors and increase the availability of services throughout the country. The identification of investment needs in social infrastructure will focus on public health and environmental protection aspects such as water and sanitation in atoll communities.

1. Fiscal Management

112. The Bank fully supports the proposed policy reforms under the Policy Framework Paper. These measures will stabilize the economy, will restore the conditions for sustainable economic and social development, and will increase the availability of credit to the private sector. The financial sector reforms will improve the efficiency of the sector, will move the monetary system towards indirect controls, and will promote more effective bank regulation and supervision and thus, enhance domestic resource mobilization.

113. The Bank has a strategic interest in promoting macroeconomic stability and ensuring appropriate conditions for economic development. Only a stable economic environment with an efficient financial sector will ensure growth of the private sector throughout the country, and a fiscal environment for the sustainable provision of social services by the Government. While the IMF's focus is on fiscal, monetary, and exchange rate policies, the Bank's assistance will support measures in the financial sector that include: (i) development of market-determined interest rates; (ii) removal of restrictions on private sector debt and equity financing; (iii) provision of institutional support to the Maldives Monetary Authority and the Bank of Maldives Ltd.; and (iv) strengthening of bank prudential regulations and bank supervision.

2. Social Infrastructure for Regional Development

(a) Education

114. In the education sector, the Bank will support improvements in the quality of primary and secondary education including in the teachers and in the standard and number of schools as well as improvements in the curriculum, especially in the teaching of the English language. The Government has made a major effort to upgrade the quality of primary schools by providing in-service training to over 1100 teachers at the institute for Teacher Education, by establishing a curriculum development center, and by providing teachers with opportunities for distance English language and science courses. However, with a large share of atoll-based primary school teachers still classified as unqualified, further investments in in-service training will be needed to overcome the quality deficiencies.

115. While most of the junior and senior secondary school placements continue to be in Male, the recent establishment of the Southern Secondary School has considerably improved access to postprimary education in the south. Further investments will be required to broaden the range of postsecondary education opportunities in the atolls and to improve female education. In the face of parental pressure, the Government has added junior secondary school grades to a number of primary schools. However, in most instances, the quality of the junior secondary schooling provided does not meet minimally acceptable education norms. This is a cost inefficient strategy in that the school leavers from these institutions will not possess the skills needed either to enter the work force directly or to pursue further education. Broadening access to secondary school training should be based on the development of a cluster of junior secondary schools that service a sufficiently large population. The establishment of a bridging-year of English language instruction, as has been successfully tested at the Southern Secondary School, may help to ease the transition between local-language based primary schooling and English-medium secondary schooling.

116. Urgent attention is needed to check the growth in education expenditures, and at the same time to improve the quality, and to expand the access to postprimary education. The Bank's assistance will address the issue of the rapid growth in education expenditures and will pay special attention to the impact of expanding education opportunities on the Government's budget. Key measures to be considered include: (i) increasing the pupil/teacher ratio to international norms to reduce the cost of teachers; (ii) consolidating the number of subjects offered in secondary schooling, again to reduce the cost of teachers; (iii) introducing student fees for secondary and vocational training to recover a portion of the costs; (iv) substituting lower-cost, well-trained Maldivian teachers for high-cost foreign teachers; (v) concentrating postsecondary fellowships in regional institutions of higher education; and (vi) raising private contributions to cover the cost of training. In addition to reducing the fiscal burden, these measures may induce the education system to be more responsive to the needs of the labor market, and thereby better prepare Maldivian students for future employment.

117. The Bank's assistance will also support a thorough review and streamlining of the Ministry of Education (MOE) to rationalize and integrate all major functions. This will permit MOE to formulate, implement, and monitor a coherent education masterplan and a long-term strategy for the expansion of education in the atolls. After the review, MOE will determine priorities in such areas as curriculum, teacher training, monitoring and evaluation, book production, nonformal

education, and school location. The review will also address the issues of vocational and technical training.

(b) Health

118. In the health sector, the Bank will assist in the devolution of health care service management from Male to atoll and island-based health care workers and in the improvement of the skills of nurses and family health care workers. The Bank will support MHW's investment plans to upgrade regional hospitals and health centers by establishing simple examination and operation facilities. Better regional health screening facilities will reduce health care costs and long-distance medical evacuation. With more than half of the care workers classified as untrained and unqualified, Bank assistance will support in-service training programs in the atolls for nurses, midwives, and mother-and-child health care workers.

119. Preliminary estimates suggest that the cost of operating the new Indhira Ghandi Memorial Hospital will be equivalent to 70 per cent of all the Government recurrent outlays on health care. Despite possible offsets from lower health care costs, the additional recurrent costs associated with staffing, operating, and maintaining the new hospital will require more than a doubling of the existing health care budget and the training of close to 40 additional medical doctors. Cost recovery measures for curative medical services are needed to recover 30 to 40 per cent of curative care costs over the next two to three years if health expenditure is to be kept under control and health services expanded in the atolls. The Bank will provide assistance to formulate a cost recovery and pricing strategy for health services to ensure the development of the health system is sustainable.

(c) Population Planning

120. At 3.5 per cent per annum, the population growth rate in Maldives is among the highest in Asia. The contraceptive prevalence level in the country is approximately 10 per cent of the target adult population and one of the lowest levels in the region. While solutions to the high population growth rate are complex, experience elsewhere has indicated that if women are provided an opportunity to obtain more education and to participate in the labor force, the marriages are delayed, family size is decreased, and the population growth rate declines. The Bank's support for social infrastructure in the atolls will ensure that women have access to educational facilities and health services, which should promote regional development and generate employment.

121. The Bank's assistance will also include support for a plan to raise contraceptive prevalence through a combination of programs about spacing births and mother-and-child health care, better training of health workers, improved availability of contraceptives, and more active outreach efforts. These measures will be implemented through women's centers associated with hospitals and health care centers in the atolls. Other measures that will be considered to help reduce the high birth rates include: (i) broadening family planning information campaigns to include men as well as women; (ii) abolishing prescription requirements for contraceptives; (iii) allowing the private sector to distribute contraceptives; and (iv) providing health workers with key technical and communications skills through in-service training.

3. Environment

122. Protection and preservation of the environment will not only ensure that Maldives' economic base (tourism and fisheries) is maintained, but also that the quality of life to which Maldivians are accustomed does not deteriorate. Bank assistance will therefore focus on the provision of water supply and sanitation infrastructure to preserve underground fresh water aquifers and to promote environmentally sound management of solid wastes and sewage disposal. Where coastal erosion is deemed a problem, Bank assistance will finance investments in breakwaters and other coastal defense systems. The Bank will also provide support for strengthening and enforcing the national environmental laws, environmental education, vocational training in environmental disciplines, environmental research and for studies to establish a database as a basis for sound and sustainable management policies for the environment.

C. Performance Review Framework

123. A performance review will serve two purposes. First, it will provide an assessment of the efficacy of the Bank's programs and help identify the means of strengthening those programs. Second, it will identify improvements required in the data bases for monitoring, planning and policy formulation and will constitute a key element in the Bank's capacity building efforts in Maldives.

124. The framework for assessing macroeconomic performance by the Bank is essentially in place in the Policy Framework Paper (1995-I 997) to which the Government agreed with the IMF and World Bank. The macroeconomic targets for 1995-I 997 are (i) maintaining average real economic growth at 6 to 7 per cent per annum; (ii) reducing inflation to a rate comparable to trading partners' inflation (4 to 5 per cent per annum); (iii) reducing the external current account deficit gradually to 9 per cent of GDP in 1997; and (iv) strengthening the official reserve position to 2.5 months of imports. These targets will be compared annually with economic indicators found in the Appendix. To the extent possible, however, economic performance will be assessed not only in terms of meeting the numerical targets set in the Policy Framework Paper but also in terms of its impact on the outer atolls and the distribution of income.

125. The review will include an assessment of sector performance to determine the sources of overall growth and employment and of Government efforts at restructuring the key sectors,' through such measures as providing incentives for private sector development, opening the economy to greater competition, and addressing environmental concerns. It will also analyze Government expenditure patterns to assess the appropriateness of the fiscal resources allocated to the social services and the financial sustainability of the health and education programs. Moreover, an important part of any review must assess to the extent possible the effects of changing policies and economic circumstances on the population and on gender issues.

¹ Especially tourism, fisheries, and finance.

126. The review will also include an assessment of progress made in meeting the policy reforms and covenants agreed with the IMF, the World Bank, and the Bank, and assess the capacity of Maldives to absorb external assistance effectively. Commitments in terms of loans, technical assistance and other grants received will be compared with annual and cumulative disbursements.

127. The primary purpose of the review will be to determine the future lending levels and shifts in the operational focus. While the capacity of Maldives to absorb Bank assistance is not a serious issue, any delay in the implementation of significant policy reforms or in the restructuring efforts in key sectors might signal a need to shift the strategy's focus and to reallocate resources to other sectors.

128. In undertaking such a review, however, there will probably be data limitations, thus some of the assessments may be in qualitative terms. While economic data in Maldives are usually available on an annual basis, social data are generally collected as part of a census or special survey and are updated only on an intermittent basis. Moreover, social indicators — as well as indicators on cross-cutting issues generally — change only slowly over time, thus they usually require relatively long period for significant trends to emerge. Nevertheless, the review should attempt to use whatever economic and other data there are and to draw qualitative inferences to the extent possible.

THE REPUBLIC OF MALDIVES
SELECTED DEVELOPMENT INDICATORS

A. Economic Indicators

		1988	1989	1990	1991	1992	1993 ^a
GROSS DOMESTIC PRODUCT (Rf million)	GDP at Current Market Prices	988.3	1,148.0	1,393.4	1,686.5	2,028.7	2,465.2
	GDP at Constant 1985 Prices	771.6	843.3	980.0	1,054.8	1,121.1	1,181.6
	Growth Rate (%)	8.7	9.3	16.2	7.6	6.3	5.4
GROSS DOMESTIC PRODUCT at Constant 1985 Prices (Percentage Share by Industry)	Fisheries	16.1	15.7	15.1	15.1	13.5	12.5
	Tourism	17.4	17.5	18.1	17.4	17.7	17.1
	Agriculture	10.4	9.8	8.9	8.6	8.4	8.2
	Transport	5.3	5.3	5.8	6.4	6.6	6.6
	Manufacturing	5.7	5.7	5.7	5.8	5.9	6.1
	Construction, Real Estate, and Mining	14.5	14.6	14.5	14.8	15.1	15.3
	Distribution	16.7	17.1	17.0	17.4	18.1	19.2
Other Services	13.9	14.3	14.9	14.6	15.0	15.0	
GROSS DOMESTIC PRODUCT at Constant 1985 Prices (Growth Rate by Industry)	Fisheries	6.5	6.9	11.2	7.8	-6.1	-3.0
	Tourism	9.4	10.0	20.7	3.2	8.0	2.0
	Agriculture	2.6	3.0	5.8	3.8	3.8	3.8
	Transport	10.0	10.3	26.7	16.3	8.1	8.1
	Manufacturing	9.8	10.6	15.4	10.1	8.7	8.7
	Construction, Real Estate, and Mining	9.2	9.6	16.4	9.2	8.8	7.0
	Distribution	11.5	11.9	15.8	10.0	10.5	11.8
Other Services	10.7	11.5	20.0	6.6	7.6	6.0	
GNP at Current Market Price (Percentage Share by Expenditure)	Private Consumption	..	..	...	...	...	..
	Government Consumption	..	..	...	...	...	..
	Gross Fixed Capital Formation	...	..	..	...	..	..
	Increase in Stocks	.	.	...	..	..	...
	Exports of Goods and Services	.	.	...	..	..	...
Less Imports of Goods and Services	.	.	...	..	..	...
RESOURCE GAP at Current market Price (Percentage)	Gross Domestic Savings/GDP	...	...	...	..	..	...
	Gross National Savings/GNP	...	...	...	..	..	...
	Gross Domestic Investment/GNP	...	..	..	..	..	..
	Gross National Savings-Investment Gap/GNP	..	...	...	..	..	...
PRICE INDEXES	Wholesale Annual Change (%)	...	..	..	..	..	..
	Consumer Annual Change (%)	6.5	7.2	3.6	14.7	16.8	20.2
MONETARY SURVEY (Rf million)	Net Foreign Assets	70.6	38.8	62.5	184.2	189.5	33.5
	Domestic Credit	417.2	574.5	680.0	790.5	904.2	1,369.5
	Other Items (net)	109.0	159.9	204.3	302.5	344.7	367.7
	Money Supply (M2)	378.7	453.4	538.1	672.1	759.4	1,035.3
	Annual Change (%)	14.3	19.7	18.7	24.9	13.0	36.3

^a provisional.

		1988	1989	1990	1991	1992	1993 ^a
GOVERNMENT FINANCE (Rf million)	Current Revenue	337.4	430.6	503.6	618.3	736.9	809.6
	Current Expenditure	211.0	279.6	371.5	467.2	576.7	720.1
	Current Account Surplus/Deficit (-)	126.4	151.0	132.1	151.1	160.2	89.5
	Capital Expenditure	194.8	354.6	375.7	601.2	651.9	562.8
	Overall Surplus/Deficit (-)	-68.4	-203.6	-243.6	-450.1	-491.7	-473.3
	Financed by:						
	Domestic Borrowings (net)	-28.9	-5.6	85.1	96.4	173.3	392.0
	Foreign Borrowings (net)	-4.0	43.5	73.5	127.5	167.0	-10.0
	Foreign Grants	101.3	165.7	85.0	226.2	151.4	91.3
BALANCE OF PAYMENTS (\$ million)	Exports, f.o.b.	44.6	51.3	58.1	59.2	51.1	38.5
	Imports, F.o.b.	-87.3	-111.3	-121.2	-141.8	-167.9	-177.8
	Trade Balance	-42.7	-60.0	-63.1	-82.6	-116.8	-139.3
	Other goods, services and income	45.2	57.4	67.9	68.1	101.8	103.4
	Credit	65.3	102.6	124.4	128.9	171.2	181.2
	Debit	-40.1	-45.2	-56.5	-60.8	-69.4	-77.8
	Unrequited Transfer	6.5	13.2	3.8	5.5	-4.6	-11.7
	Private	-5.0	-5.1	-7.4	-16.6	-18.9	-20.0
	Official	11.5	18.3	11.2	22.1	14.3	8.3
	Current Account Balance	9.0	10.6	8.6	-9.0	-19.6	-47.6
	Non-Monetary Capital (net)	5.2	-14.7	-7.0	20.2	20.8	31.7
	Official long-term capital	-2.2	1.0	5.1	11.5	17.1	2.2
	Private Capital	...	..	..	...	17.5	20.7
	Errors and Omissions	7.4	-15.7	-12.1	8.7	-13.8	8.9
Overall balance	14.2	-4.1	1.6	11.2	1.1	-15.9	
LEADING EXPORT COMMODITIES (\$ million)	Domestic Exports	40.2	44.7	52.1	53.6	39.7	34.6
	Fish	24.2	30.9	33.1	33.0	28.3	25.9
	Frozen	13.2	14.3	13.1	7.9	3.6	7.4
	Dried Skipjack	2.9	4.1	4.4	6.1	6.9	6.4
	Salted dry fish	0.8	1.3	2.3	3.5	2.5	2.7
	Canned	7.3	11.2	13.3	15.5	15.3	9.3
	Garments	10.0	10.0	14.3	16.2	8.1	5.5
	Others	6.0	3.8	4.7	4.4	3.3	3.2
Re-exports	4.4	6.6	6.0	5.5	11.4	3.9	
TERMS OF TRADE	(per cent change)	-14.3	-8.0	-4.4	7.9	-8.5	-16.5

^a provisional.

		1989	1990	1991	1992	1993
EXCHANGERATE	(end of Calendar Year)	9.355	9.620	10.320	10.530	11.105
	Total (end of Calendar Year)	24.81	24.42	23.51	28.23	29.83
INTERNATIONAL RESERVES (\$ million)	Gold (National Valuation)	0.04	0.04	0.04	0.04	...
	Foreign Exchange Reserve Position in IMF	24.74	24.35	23.44	26.97	28.59
	SDRs	...	..	.	1.21	1.21
		0.03	0.03	0.03	0.01	0.03
	Ratio to Merchandise Imports (months)	2.6	2.4	2.0	1.9	1.8
	Outstanding (end of Calendar Year)	84.0	96.0	96.6	115.5	130.1
	Medium and Long-term	55.4	67.8	78.6	93.2	111.4
	Short-term	28.6	28.1	18.0	22.3	18.7
EXTERNAL DEBT	Transactions (during Calendar Year)				23.0	...
(\$ million)	Disbursements	3.3	13.0	16.8	7.1	9.1
	Medium and Long-term	a.4	7.3	7.4	5.6	6.2
	Principal Repayments	7.1	6.0	6.0	1.5	2.9
	Interest Payments	1.3	1.3	1.4	1.3	1.2
	Short-term interest payments ^a	2.0	2.5	1.1		
	Debt Service Ratio ^b	6.9	5.5	4.5	3.7	4.7

^a External monetary liabilities of the banking system.

^b Ratio to exports of goods and services.

B. Social Indicators

		1970	1980	Latest Estimate
POPULATION	Total (thousands)			238
	Annual Growth Rate (%)		3.1"	3.3
SOCIAL DEVELOPMENT INDICATORS	Lie Expectancy at Birth (years)	...	46"	63"
	Infant Mortality (per 1,000 live births)	..	120"	56^a
	Access to Safe Water (% of population)	..	7"	51^b
	In Urban Areas			100^b
	In Rural Areas	..	..	35^b
	Access to health services (% of population)	.	40"	75^b
	In Urban Areas	...	100"	100^b
	In Rural Areas		24"	67^b
	Access to sanitation (% of population)			31^b
	In Urban Areas	...	...	95^b
	In Rural Areas			4^b
	Daily Per Capita Calorie Supply (cal.)	...	..	2400^b
	Daily Per Capita Protein Supply (gm.)	.		60^c
	Persons Per Physician		16,000"	6,034
	Gross Primary School Enrollment (%)	..	27"	36^d
Adult Literacy Rate (%)	..	81^e	92"	
Energy Consumption Per Capita (kg oil equivalent)	...	...	430	
Income Dist'n: % of Income Received by:				
Highest 5% of Households				
Highest 20% of Households	..	..	..
Lowest 20% of Households				
Lowest 40% of Households	.	.		
LABOR FORCE	Total (thousand)		61"	56^a
	Participation rate (%)	...	...	49.7
	— male	...	...	68.1
	— female	...	...	32.4
	Employed			
	Agriculture (%)	...	...	4.7"
	Fishing (%)	...	...	20.6^b
	Manufacturing (%)	...	...	15.1^b
	Tourism (%)	...	...	10.6^b
	Others (%)	...	...	49.0^b
Unemployed and/or Underemployed (thousand)	...	...	0.0	
Unemployed/Underemployed Rate (%)	...	...	0.0	

^a 1992

^b 1991

^c 1980

^d 1976-1979 Average.

^e 1977