

# Maldives Systematic Country Diagnostic Update

Report number: 157675-MV

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## ABBREVIATIONS

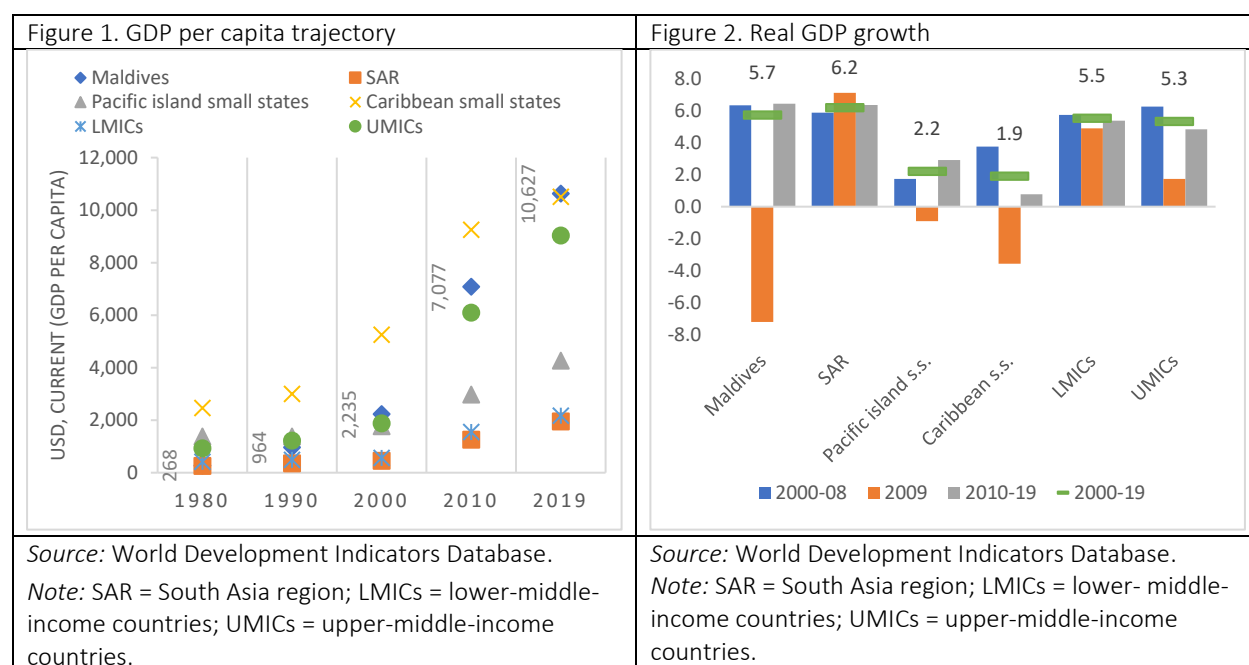
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|-----------------|--|
| AML/CFT         | Anti-Money Laundering and Combating the Financing of Terrorism |
| APG             | Asian Pacific Group on Money Laundering                        |
| BEPS            | Base Erosion and Profit Shifting                               |
| CCSA            | Cross-Cutting Solution Area                                    |
| CIF             | Cost, Insurance, and Freight                                   |
| EU              | European Union   |
| EV              | Electric Vehicle   |
| FATF            | Financial Action Task Force                                    |
| FGD             | Focus Group Discussion   |
| GDP             | Gross Domestic Product   |
| Gg              | Gigagram   |
| GST             | Goods and Services Tax   |
| GWh             | Gigawatt hour  |
| HDI             | Human Development Index  |
| HIES            | Household Income and Expenditure Survey                        |
| ICT             | Information and Communication Technology                       |
| IFC             | International Finance Corporation                              |
| IWMC            | Island Waste Management Center                                 |
| km              | kilometer  |
| km <sup>2</sup> | square kilometer   |
| kWh             | kilowatt hour  |
| m               | meter  |
| MCH             | Malé Commercial Harbor   |
| MG              | MegaWatt   |
| MSMEs           | Micro, Small and Medium Enterprises                            |
| MT              | Metric Ton   |
| MTI             | Macroeconomics, Trade and Investment Global Practice           |
| NRA             | National Risk Assessment                                       |
| NEET            | Not in Employment, Education, or Training                      |
| OECD            | Organization for Economic Co-operation and Development         |
| PFM             | Public Financial Management                                    |
| PMLFT           | Prevention of Money Laundering and Financing of Terrorism Act  |
| PPG             | Public and Publicly Guaranteed                                 |
| PPP             | Public-Private Partnership                                     |
| PV              | PhotoVoltaic   |
| SCD             | Systematic Country Diagnostic                                  |
| SOE             | State-Owned Enterprise   |
| WAMCO           | Waste Management Corporation                                   |

# 1 INTRODUCTION

With an estimated population of 530,953 in 2019 and a total land area of less than 300 km<sup>2</sup>, Maldives is the smallest yet most densely populated country in South Asia. The population is heavily concentrated around Malé, the capital city; this area accounts for about one-third of the total population. The rest is distributed across approximately 200 islands,<sup>1</sup> many of them inhabited by less than 1,000 people. Gross domestic product (GDP) and gross national income (GNI, Atlas method) per capita were respectively US\$10,627 and US\$9,680, far above the regional mean (figure 1).

Endowed with an extremely rich and diverse marine ecological system, Maldives has been able to develop a successful high-end tourism sector. This has helped sustain impressive economic growth and rapidly close the income gap with rich countries. Back in 1980, Maldives was among the poorest countries in the world, with a GDP per capita of US\$268 (or just 2.1 percent of U.S. per capita GDP). In a period of less than 40 years, sustained and fast growth has allowed the country to close this gap (at 16.3 percent of U.S. per capita GDP in 2019), reaching upper-middle-income status and on pace to become a high-income country within the next five years. Annual real GDP growth averaged 5.7 percent over 2000–2019, comparable to that of middle-income countries and ahead of other small island states (figure 2).

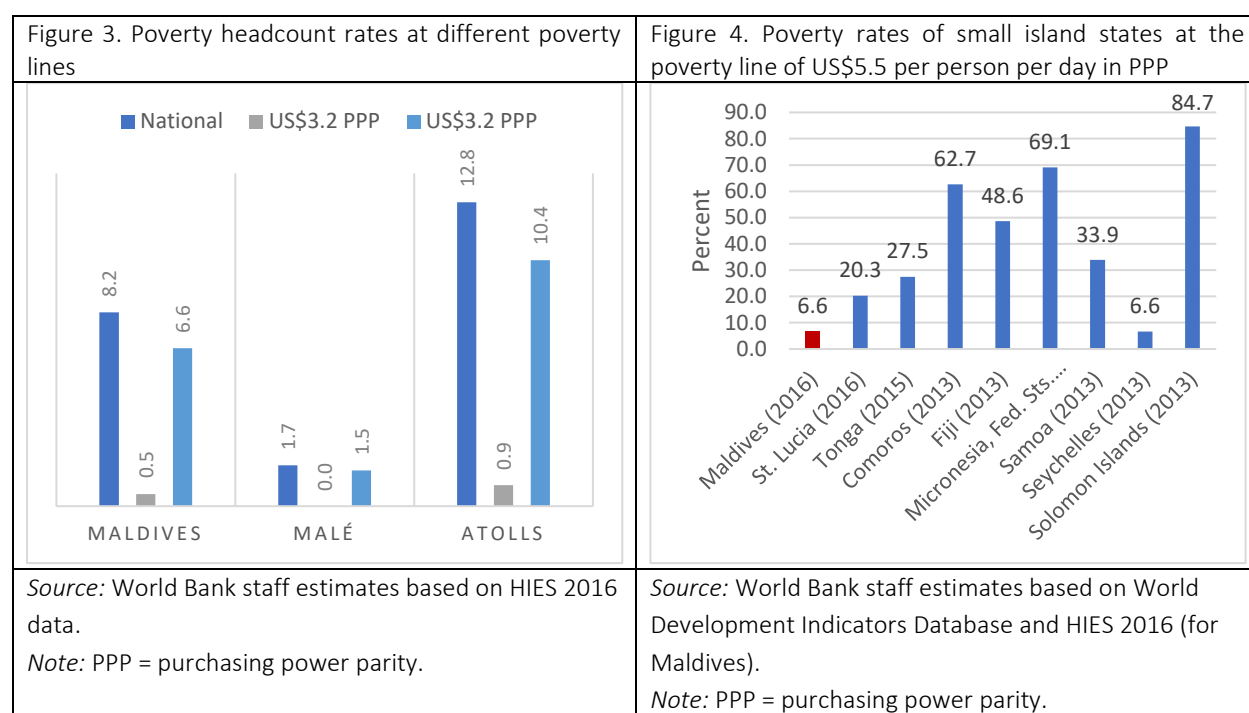


Tourism continues to be the main engine of growth, but there are limited interlinkages between the high-end tourism sector and the local economy. Both the development and operations of tourist resorts have relied heavily on foreign direct investment (FDI) and foreign labor, resulting in a disconnect between economic opportunities available for a young and expanding working-age population and drivers of growth. Maldives' tourism revenues have provided the basis for a reduction in poverty and steady rise in outcomes

<sup>1</sup> Maldives is an archipelagic nation comprising 1,192 islands spread over 26 atolls, divided into 20 administrative units, stretching over 800 km north to south and covering an area of 90,000 km<sup>2</sup>. Total land area represents less than 300 km<sup>2</sup>, and no island is larger than 10 km<sup>2</sup>. All islands with land area of 0.5 km<sup>2</sup> or more are fully occupied. Maldives is one of the world's lowest-lying nations with an average elevation of 1.7 m above sea level.

in human development. Maldives has been successful in terms of revenue mobilization compared to South Asian peers. Revenues from tourism, including income from resorts, tourism goods and services tax (GST), green tax, departure charges, and other tourism-related tax and nontax revenues, have financed public spending in education, health, food, and electricity subsidies, as well as a relatively large public sector and a sizable public investment program.

**Few Maldivians are poor according to the national and international poverty lines.** About 8.2 percent of Maldivians live below the national poverty line, and 6.6 percent live below the international poverty line for upper-middle-income countries (US\$5.5 per person per day) (figure 3). Maldives performs well on poverty outcomes compared to its regional, income, and small island peers (figure 4). However, poverty rates (based on the national poverty line) vary substantially between Malé (1.7 percent) and the atolls (12.8 percent) (figure 3). Over 90 percent of all the poor—or over 28,000 people—live in the atolls, even though the population share of the atolls is only 58 percent. Inequality is relatively low in Maldives, although per capita median expenditure in the top quintile is four times higher than in the bottom quintile.<sup>2</sup>



Central to Maldives' development agenda is how to sustain the remarkable gains from the past, while addressing some of the challenges emerging from the current development trajectory. Most of the constraints and challenges identified in the 2015 Maldives Systematic Country Diagnostic (SCD) (World Bank 2015) are still relevant. The current development model and inherent characteristics of small island states present important economic, social, and environmental challenges that threaten long-term sustainability. For Maldives (as for other small island states), small size, geographical isolation, and population dispersion limit agglomeration effects and economies of scale, resulting in a high cost of doing business (IPCC 2014). Economic activities are concentrated around a few key sectors, notably tourism, with

<sup>2</sup> For additional details, please refer to annex 1.

limited opportunities to diversify into other sectors. In addition, economic vulnerability is exacerbated by the dependence on a narrow range of exports and strategic imports such as food and fuel.

**The novel coronavirus (COVID-19) pandemic has exposed some inherent vulnerabilities of Maldives' development model.** At the time of writing, Maldives is expected to be the hardest hit economy in South Asia and the world. Current World Bank projections indicate a contraction of 28 percent or more in real GDP in 2020, subject to the yet unknown duration of the shock. Government's prompt and decisive actions likely helped preserve lives, restricting travel from affected areas, closing borders and imposing social distancing measures, while enhancing the preparedness of the health systems to respond to the outbreak. Such measures have had adverse and substantial impacts on Maldives' economy, given its high dependence on tourism and enclave economy characteristics.

**Maldives' real GDP is projected to contract by 28 percent in 2020.** Tourism, the most important sector of the economy, has come to a standstill in April 2020. The sector contributes directly to a quarter of GDP, 80 percent of exports and at least 40 percent of state revenue collections. The government has taken proactive steps to limit the spread of COVID-19, restricting the entry of passengers from affected countries since February 4, 2020, and closing the borders since March 27. These containment measures had significant adverse impacts on the economy, state revenues, and the livelihoods of many households whose income depend on the sector. Tourist arrivals fell by 63 percent in March 2020 and stayed at zero from April to mid-July. Borders reopened on July 15. Total arrivals in 2020 amounted to 555,494 (or some 67.4 percent below relative to 2019).<sup>3</sup>

**Employment shocks are expected to lead to sharp reductions in household income.** Services account for the bulk of employment in Maldives —72 percent of Maldivians work in the services sector (Census of 2014). The tourism industry employs the largest number of Maldivian workers outside the public sector, with about 8 percent of all the entire employed Maldivian labor force working on resort islands alone. A sharp contraction in tourism arrivals and virus containment measures have reduced significantly the turnover of the food and accommodation sector, retail stores, transport providers, and personal service providers, likely leading to significant job losses and reductions in income. COVID-19-induced layoffs are expected to be relatively small in the public sector, whereas a sharp contraction in private sector employment is expected in response to falling demand. Even with administrative protection for the labor force, the resort sector will undergo a deep contraction and Maldivians employed in tourism are likely to face job losses or prolonged pay cuts.

**The government has responded to the crisis through social and economic support measures.** In mid-March, the Ministry of Finance announced an economic recovery package of MVR 2.5 billion (about 2.9 percent of 2019 GDP). About MVR 1 billion of this comprised cuts to salaries of senior executives and political appointees, cancellation of non-essential travel, cancellation of renovation and maintenance work not already commenced, and postponement of some public investment projects. Additional pay cuts were announced in subsequent months. These expenditures were reallocated to health, economic and social support measures to address the fallout of COVID-19, including (i) reduction of electricity and water bills for the months of April and May; (ii) lower prices of petrol and diesel and; (iii) imposed price/quantity controls on food staples; (iv) introduction of a monthly allowance of MVR 5,000 (US\$324) to Maldivian citizens who have lost their jobs or have had their livelihoods affected due to the COVID-19 pandemic; (v) debt moratoria on student, housing and business loans until 31 December 2020; and (vi) extended special

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<sup>3</sup> Maldives received 1.7 million visitors in 2019.

financing facilities to affected businesses through the state-owned Bank of Maldives and the SME Development Finance Corporation.

**Fiscal and external imbalances have widened significantly in the aftermath of the COVID-19 pandemic.**

Preliminary estimates by the Ministry of Finance indicate that the state collected only US\$981 million in revenues and grants in 2020 (a reduction of 35 percent compared to 2019). Government expenditures declined by 4.6 percent in 2020 to US\$1.8 billion. The fiscal deficit widened from US\$374 million in 2019 to US\$815 million in 2020 (or from 6.6 percent of GDP in 2019 to an estimated 20.1 percent of GDP in 2020). Maldives' public debt increased rapidly in the aftermath of the shock. Total public and publicly guaranteed (PPG) debt rose to US\$5.6 billion as of end-2020 from US\$4.4 billion as of end-2019. Current World Bank estimates indicate that total PPG debt reached 139.3 percent of GDP in 2020. The decline in tourism receipts is also expected to widen the current account deficit, projected at 26.3 percent of GDP in 2020. The extent of such impact is expected to be countered by lower imports linked to the subdued activity of the tourism sector and remittances outflows from expat workers in the tourism sector and construction.

**The government has leveraged both domestic and external financing sources to close the large financing gap.** Budgetary support financing from international financing institutions and bilateral creditors have partially helped cover for the sharp fall in state revenues. The government has also tapped on domestic financing sources and fiscal buffers. In addition, with the temporary suspension of the Fiscal Responsibility Act in April 2020, the government has also resorted to advances from the Maldives Monetary Authority (MMA, Maldives' central bank). Such advances peaked in as of end-July at US\$262 million, to later recede to US\$214 million as of end-December.

**Notwithstanding Maldives' positive outlook for tourism and hence economic growth over the medium term, the shock is expected to be protracted.** Prospects for a quick recovery are unlikely. Under current projections, both real GDP and tourist arrivals are forecast to remain below the 2019 level until 2023. These projections are subject to significant downside risks, which largely depend on the recovery of tourism flows. The recovery of tourism is subject to many factors, including the evolution of the pandemic in other countries, the rollout of the COVID-19 vaccine and the normalization of international air travel. As such, state revenues are forecast to remain subdued.

**Implementation of a vaccination program for COVID-19, likely to start in early 2021, which jointly with an expanded testing capacity, is expected to support the recovery of the tourism sector.** The rollout of the COVID-19 vaccination in Maldives began on February 1, 2021. The government aims to inoculate the entire eligible population within the next 6 months and has extended the vaccination free of charge to all, including migrants. Maldives has secured over a million doses of vaccines thanks to donations from the governments of China and India, and allocations from the COVAX Facility. While the test, trace and treat program of Maldives shows good containment of the virus, the introduction of this COVID-19 vaccination program, in addition to an expansion of testing capacity (including exploring various strategies) and the ongoing roll-out of the COVID-19 vaccine globally, is expected to support the recovery of the tourism sector.

As the country recovers from the social and economic impacts caused by the pandemic, attention should gradually shift towards resolving structural challenges, which may have been aggravated due to the pandemic. Maldives' challenges can be grouped into three broad areas:

- ***Social sustainability:*** *Generating economic opportunities for a young and expanding workforce.* Maldives' successful high-end tourism sector has followed an enclave-based model, reliant on FDI



and foreign labor. While the distribution of rents from such a development model has helped achieve important development milestones, a rapidly expanding working-age population poses important challenges to the current development model, which might not be able to generate sufficient economic opportunities for a growing labor supply. The unprecedented challenges faced by the tourism sector in the wake of COVID-19, with the closure of resorts and guesthouses, and the overall uncertain economic outlook resulted in widespread job losses and will likely compound the jobs' challenge in the near term.

- **Environmental sustainability:** *Preserving Maldives' pristine environment while addressing current and future climate change-related threats and impact of natural hazards.* Given the rapidly growing tourism sector and an expanding population, Maldives must improve access to water and waste management and preserve the environmental and ecological uniqueness of the islands, which are the foundation of Maldives' success. Global mean sea-level rise, expected to accelerate in the medium to long term, in conjunction with natural hazards such as wave swells, tropical storms, and rainfall flooding, is expected to exacerbate Maldives' existing vulnerabilities (low elevation, limited land area, and narrow width and small size of islands). As coastal erosion, land reclamation, and pressure on scarce land resources increase, the physical vulnerability of island populations, infrastructure, and livelihood assets will increase as well. The recent population boom and a growing number of tourists have increased exposure to climate-related hazards and are contributing to higher levels of pollution and waste.
- **Fiscal sustainability:** *Balancing the large developmental needs and their impact on public finances.* The islands' small size and large geographical dispersion create a high cost of service delivery per capita and high overhead cost per capita for infrastructure projects. This effect is of major relevance to climate change adaptation, which often requires upgrades and redesign of island infrastructure; related physical investments generally require large up-front overhead costs that cannot be easily downscaled in proportion to the size of the population or territory. Altogether, this presents important challenges related to fiscal sustainability. Large public infrastructure projects, mainly concentrated in the greater Malé region, led to a sharp increase in the level of Maldives' indebtedness. The public and publicly guaranteed debt-to-GDP ratio rose rapidly, from 55 percent in 2015 to 78.9 percent in 2019. The global COVID-19 pandemic has heightened many of the existing vulnerabilities on the fiscal front. Public debt is projected to increase rapidly in the near term, with the sharp decline in government revenues expected in 2020, the widening of fiscal deficits, and the lower GDP relative to pre-pandemic levels. This underscores, more than ever, the importance to prioritize scarce fiscal resources moving forward.

**This document builds on the findings in the 2015 SCD (World Bank 2015), with some important differences. First,** new data have become available in the Household Income and Expenditure Survey (HIES) of 2016,<sup>4</sup> allowing for a more in-depth analysis of socioeconomic outcomes and atoll-level disparities. **Second,** there has been a gradual diversification of the tourism sector, with the rapid growth of the guesthouse segment in the past few years and important changes in the composition of tourists arriving to Maldives. **Third,** the fiscal landscape has deteriorated since, as the government's large public investment program has led to an important buildup of debt vulnerabilities. While many of these large-scale investment projects have the potential to be transformational, they also carry risks to the sustainability of the Maldivian development

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<sup>4</sup> The HIES is carried out by the National Bureau of Statistics. This SCD used the HIES 2016 microdata (<http://statisticsmaldives.gov.mv/datasets/>).

model. **Fourth**, important changes in the policy environment have been recorded recently. The government has finalized a Strategic Action Plan for 2019–2023 (President’s Office 2019), which sets its developmental targets and priorities, amendments to the Decentralization Act providing greater autonomy to local councils, and a National Spatial Plan, which focuses on a 20-year roadmap for infrastructure. The National Spatial Plan envisages the development of regional hubs and subregional centers, with basic services made available within proximity. Its focus is on development across all the islands and on reduction of overcrowding and congestion in the capital. Past administrations have focused on the development of the greater Malé region where about one-third of the population resides. **Finally**, the global COVID-19 pandemic will likely shape Maldives’ development trajectory and progress towards the twin goals in the near to medium term. The private sector is facing unprecedented challenges in the wake of the pandemic, especially around tourism-related activities and more so for the nascent guesthouse segment. Changes in household income from widespread job and livelihood losses, and wage cuts will result in an increase in overall poverty. In addition, the rapid accumulation of debt and deterioration of public finances will likely delay the government’s ambitious developmental agenda.

**Priority areas identified by the 2015 SCD—to promote growth, poverty reduction, and shared prosperity in a sustainable way in Maldives—have broadly remained.** Currently, the first priority is improving opportunities in tourism and fisheries for the local population. The second priority is enhancing the enabling environment, including the investment climate and access to finance and skills. The third is improving the efficiency and efficacy of public resource management and reducing macrofiscal risk. Cross-cutting priorities include supporting governance and labor market issues. Progress in these areas will likely be hindered by the overarching impact of the COVID-19 pandemic. In view of the evolving nature of the outbreak at the time of writing, a more thorough assessment is left as a knowledge gap.

## 2 EMERGING ISSUES AND OPPORTUNITIES AHEAD

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**To sustain growth and improve further on the twin goals of ending extreme poverty and promoting shared prosperity, Maldives needs to harness the potential from the ongoing demographic transition and strengthen its human capital.** Tourism should play a key role in the provision of jobs for Maldivians moving forward. The recent emergence of a buoyant guesthouse segment is promising. The country will also have to enhance its competitiveness by lifting constraints at the firm level, improving the business environment and investment climate, and strengthening the quality of institutions and the capacity and efficiency of the public sector for service delivery.

**The COVID-19 pandemic is having unprecedented and overarching economic and social impacts around the world. Maldives is not immune to these developments.** The extent of the contagion and loss of lives, and disruptions in economic activity have far surpassed any other pandemic in recent history. Maldives is not immune to such developments: while quick and prompt government actions have saved lives and contained the spread of the disease, travel restrictions and social distancing measures have resulted in a marked slowdown in economic activity, closure of businesses, and the loss of jobs and livelihoods. Given the importance of the tourism sector, Maldives is projected to be the hardest hit economy in the South Asia region. The outbreak will likely erase recent gains in poverty reduction and shared prosperity. The shock has led to a temporary halt in tourist arrivals, and the temporary closure of resorts and guesthouses. Maldivians employed in tourism are likely to face job losses or prolonged pay cuts. The tourism industry employs the largest number of Maldivian workers outside the public sector. The nascent guesthouse

segment is likely to be more severely afflicted than the more established resort segment, constraining economic opportunities in local islands. The fisheries sector forms the most important primary economic activity and source of employment in almost all inhabited islands. With COVID-19 severely impacting the exports of raw fish, incomes of those working in the sector are expected to decline.

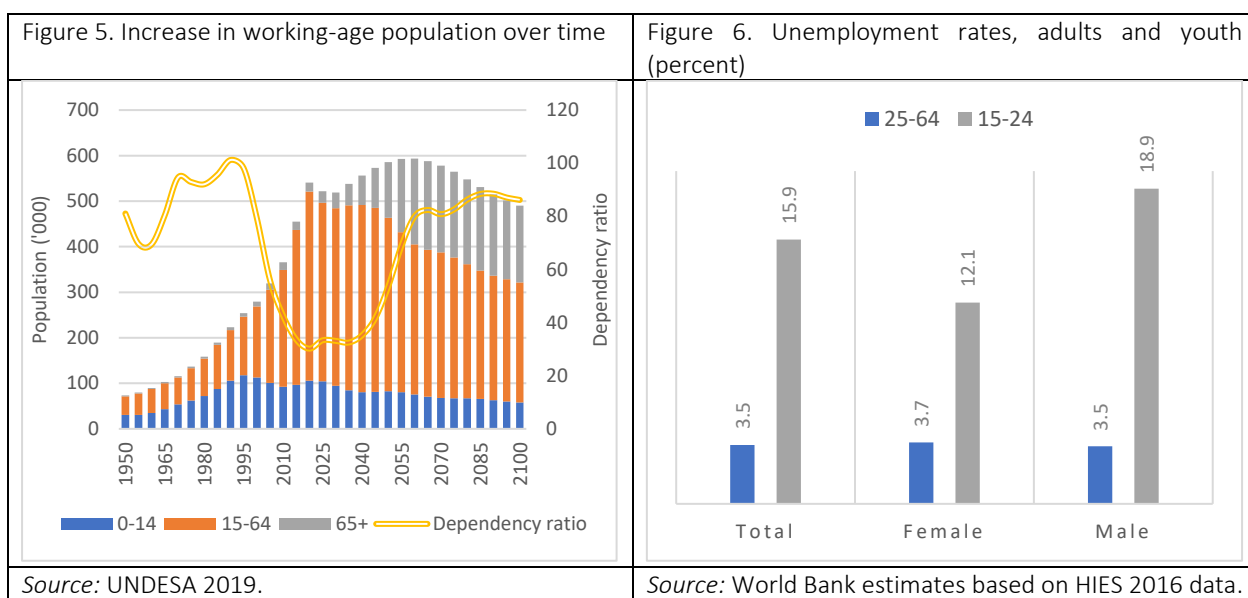
**This SCD Update provides an in-depth analysis on labor market outcomes and spatial disparities.** This Update is able to draw on the HIES 2016 to bring additional insights of labor market and socioeconomic outcomes at the atoll-level. New analysis on skills mismatches, challenges around labor market inclusiveness, and wage disparities is included. Labor market challenges, highlighted in the SCD of 2015, remain intact.

## **2.1 JOBS FOR AN EXPANDING WORKING-AGE POPULATION**

**Increased life expectancy and falling fertility rates have led to a sharp decline in the dependency ratio and an expanding working-age population.** Infant mortality rates are low and life expectancy is high compared to both regional and income peers. Maldives' dependency ratio (number of dependents relative to the working-age population) is projected to remain low over the next two decades. According to UN population statistics (UNDESA 2019), three out of four Maldivians will be of working age (15–64 years) in 2020. The expanding labor supply (figure 5) presents both opportunities and challenges in terms of growth, inclusiveness, and social sustainability. Should the economy be able to accommodate the increasing number of working age individuals in productive activities, this labor supply effect could help spur growth and further improve living standards of Maldivians. Job creation should be accompanied by improvements in educational attainment and a better match of the skills required by the labor market. Educational attainment is relatively low, with three-quarters of the population ages 15 and above (or approximately 202,000 people) having achieved only O levels (equivalent to lower secondary education) or below. These challenges are exacerbated by transportation challenges and limited education opportunities available outside the greater Malé area.<sup>5</sup> Near to medium term prospects for job creation have been hindered by the ongoing pandemic.

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<sup>5</sup> Some of these challenges have become more apparent during the COVID-19 pandemic. Internet connectivity has enabled distance education for students; however, challenges remain to deliver in far flung atolls where connectivity is limited.



**Maldives will have to create enough jobs for its expanding working-age population.** While unemployment is low, an expanding labor supply is expected to put pressure on job creation. According to the 2016 HIES, overall unemployment was 6.2 percent nationwide. Unemployment among youth, who account for 21 percent of the total labor force, was two and a half times higher at 15.9 percent. Whereas the unemployment rate is similar for men and women (6.4 versus 5.7 percent), discouraged workers (i.e., available to and wanting to work but not actively seeking) are more prevalent among women (figure 6). The broad unemployment rate (accounting for discouraged workers) is much higher for females (about 35 percent) than for males (13 percent). The overall labor force participation rate is 60 percent. This figure, however, masks a large gender gap, with participation rates of 80 percent for men and 44 percent for women. Addressing youth unemployment and reducing existing gender gaps would require more private sector jobs and a dynamic labor market.

**The government is the biggest employer in Maldives.** Public sector employment accounts for 43 percent of employment for women and 38 percent of employment for men. Preferred working conditions and benefits in the public sector have created distortions in the labor market. This is illustrated by the fact that young unemployed job seekers overwhelmingly wait for government or state-owned enterprise (SOE) jobs: almost two-thirds of young women and over half of young men would prefer such jobs rather than working elsewhere (HIES 2016).

**Jobs in tourism and fisheries account for an important share of employment outside the public sector.** More than two-thirds of employed Maldivians are in the service sector.<sup>6</sup> One-quarter of females and one-third of males work directly or indirectly in tourism, with minor differences for younger and older cohorts. Tourism, however, is dominated by male and foreign workers. The Census data for 2014 (NBS Maldives

<sup>6</sup> Employment statistics using HIES 2016 do not include people who live (and work) in resorts and industrial islands, as data collection took place only in administrative islands. Yet resort and industrial islands play an important role in the Maldivian labor market, given that almost one-fifth of all the employed are employed in resort or industrial islands. However, resorts and particularly industrial islands are more important for foreigners. According to data from the 2014 Census (NBS Maldives 2014), foreigners make up 56 percent of resort island jobs (approximately 26,800 people were employed in resorts, 11,700 of them Maldivians) and 83 percent of industrial island jobs. Annex 2 provides a detailed labor market analysis.

2014) show that almost 90 percent of all jobs in tourism are taken by male workers. Foreigners accounted for about half of all employment in tourism. The Resort Employees Survey (NBS Maldives 2019) shows that a total of 44,954 employees were working in resorts, with locals representing 47 percent of total employees. Only 3 percent of total employees were female Maldivians. The fisheries sector is critical for the country's national economy and forms the most important primary economic activity in many of the country's islands. Fisheries are also an important source of employment for men with lower levels of education living outside Malé.

**Despite strong economic growth, Maldives has fallen short in keeping up with the growing demand for jobs.** The construction and tourism sectors, the main drivers of growth, are in need of skills that Maldivians either do not have (high skills) or do not aspire to (low skills). The rapid growth of high-end tourism services has outpaced the capacity of the Maldivian labor market to provide internationally competitive skills required by employers—technical, vocational, and soft skills. Maldivians are often not equipped with the right skill sets to take up these jobs.<sup>7</sup> To overcome labor supply-side constraints at both ends of the distribution, employers often hire migrant workers:<sup>8</sup> highly skilled labor in tourism (particularly in resorts), education, and health care; and low-skill labor in construction. The demand for skilled labor in the broader services sector has also been met by migrant workers. Such skills mismatches have resulted in a growing gap between aspirations and opportunities for socioeconomic inclusion, and have contributed to fostering disenfranchisement among Maldivian youth. In addition, fiscal constraints limit the scope for increasing employment in the public sector further.

**Educational attainment in Maldives is low, particularly considering its income level (figure 7).** More than one-third of the population has only primary education or below based on the HIES 2016 across all generations. The country has taken steps to address this issue. Among the current school-age group, primary education enrollment among both boys and girls is nearly universal. A large proportion of Maldivians (40 percent) completes O levels (equivalent to lower secondary education), but very few (5 percent) go on to complete A levels (upper secondary education). This large share of school dropouts (the percentage of youth studying at age 17 drops off from 82 to about 40 percent) prevents young Maldivians from taking up available better-quality jobs. Compared to countries in South Asia and small island states for which data on educational attainment are available, Maldives performs much worse in terms of completed secondary and tertiary education (figure 8).<sup>9</sup> One of the reasons behind this trend is that education opportunities at the upper secondary and post-secondary level outside of Malé are extremely limited. Another key reason is that the quality of education at all levels is inadequate, so that many students are not able to qualify beyond lower secondary education to higher levels of education. However, more recently the country has sought to expand access to higher secondary and higher education by widening the network of schools offering higher secondary education across the atolls and through a program to facilitate free higher education to first-degree level in-country and a loan scheme for overseas university

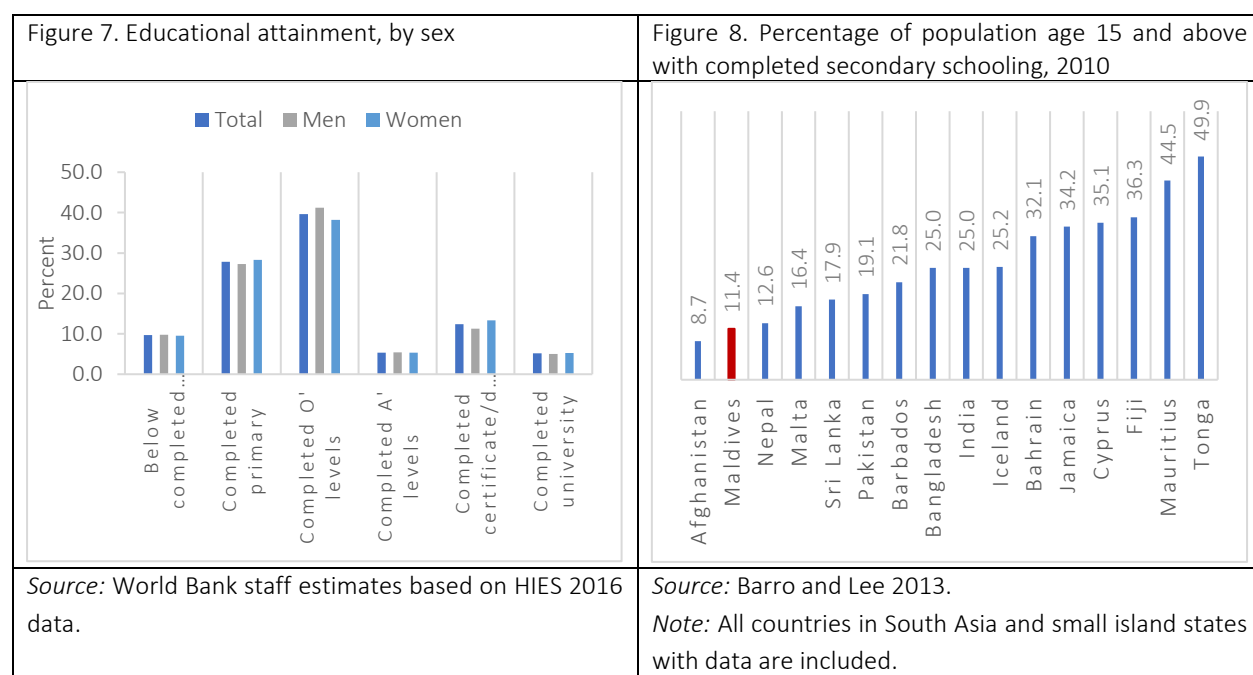
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<sup>7</sup> Tourism is the dominant sector of employment for male youth, but there is strong competition from foreign labor for both high- and low-skill jobs in resorts. More than half of all tourism jobs held by youth are held by foreign youth. About 22 percent of foreign youth working in tourism have completed A levels or above, compared to less than 3 percent of Maldivians (Wieser 2017).

<sup>8</sup> Migrants represent nearly one-third of the country's population (IOM 2018).

<sup>9</sup> Though still at a low level, educational attainment has improved over time: years of schooling is higher for younger than for older age cohorts.

education.<sup>10</sup> At the same time, school-to-work transition has become increasingly difficult, with increased competition from foreign labor at the high end of the skill distribution, and high reservation wages at the low end. Therefore, increasing learning outcomes and enhancing the socio-emotional skills of students is of vital importance to enable young Maldivians to obtain the types of jobs for which they aspire. Labor markets of small-island economies are mainly in need of generalists, rather than individuals who are too highly specialized. The technical and vocational training system and the higher education system need to focus on this requirement for gainful employment: individuals with broad and flexible skills and competencies rather than those who are narrowly specialized.



**A skill gaps analysis points to important mismatches<sup>11</sup> across all skill levels and age groups.** Based on individuals' educational attainment and occupations, 15 percent of women and 24 percent of men are overqualified for low-skill occupations. For medium-skill occupations requiring secondary education,<sup>12</sup> over half of all women and two-thirds of all men are underqualified. For high-skill occupations requiring above secondary education (such as technicians and associated professionals and managers), nearly 44 percent of women and 62 percent of men are underqualified. More men than women in each age group are underqualified. These figures show that it is challenging for employers to find workers with the right skill set. There are also strong mismatches in the skills of the unemployed and the jobs they seek. About one-

<sup>10</sup> In 2019, the Government launched a scheme to cover tuition fees for students pursuing first degrees at two public universities (Maldives National University and the Islamic University of the Maldives). It was also announced that it will cover a high-percentage of course fees for private colleges.

<sup>11</sup> Skill gaps are calculated by using the skill level based on educational attainment (using the International Standard Classification of Education, or ISCED) and comparing it to the skill level required for the occupation (using the International Standard Classification of Occupations, or ISCO) in which individuals are employed. On the classifications and methodology, refer to ILO (2018).

<sup>12</sup> These occupations are (i) clerical support workers; (ii) service and sales workers; (iii) skilled agriculture, forestry, and fisheries workers; (iv) craft and related trade workers; and (v) plant and machine operators and assemblers.

third of unemployed Maldivians seeking low-skill jobs are overqualified, whereas over 80 percent of unemployed Maldivians seeking high-skill jobs are underqualified.

**Young Maldivians who do not have a job seem to have unrealistic wage expectations and higher reservation wages compared to older cohorts.** Over 40 percent of young men in Malé and the atolls who do not work have declined job offers due to low pay. Over a quarter of young men in the atolls have declined a job offer in the past due to not liking the job. Almost 20 percent who do not work and have declined a job offer do not want to work. Of young females in the atolls, almost half indicated that they do not want to work (HIES 2016). About 27 percent of young men and 23 percent of young women are not in employment, education, or training (NEET). Among young men, common reasons cited for being NEET are lack of economic opportunities in the island of residence and inability to find suitable employment that matches their respective education or training, while young women often cite responsibilities for household chores and child care. For young males in Malé, low pay was the foremost reason, followed by transportation difficulties.

**Strong gender norms hinder women from exploiting the full range of employment opportunities available in the Maldivian labor market.** Young women are better educated than their male counterparts, yet participation rates for women of all ages are low, almost half those of men. The low rate of female labor force participation is likely due to the very young age at which women get married and have children.<sup>13</sup> Given the expectation that young women will prioritize household chores and provide child care within the family, and given limited child care facilities, women struggle to participate in the labor market and raise children.<sup>14</sup> Mainstreaming child care options for working women may ensure equal opportunities for women seeking to enter the labor market and use their higher levels of education and skills. Transportation challenges are reported to be more important for women than for men; almost half of young women who are not employed report having declined a job offer because of transportation difficulties. Gender and religious norms also prevent women from being employed in fast-growing sectors. Less than one-quarter of employed women work in jobs directly related to tourism. Resorts are not considered a “suitable” workplace for women, even though women ages 25–34 who work in jobs directly related to tourism (but outside of resorts) have higher wages than men, particularly in Malé.

## 2.2 UNLOCKING PRIVATE SECTOR-LED GROWTH

**Private sector-led growth outside tourism and related sectors has been limited, despite potential for diversification into other “blue” or “digital” economy sectors.**<sup>15</sup> Maldives’ small size, along with the distance to markets created by wide dispersion of islands, narrows the potential set of opportunities where the private sector can thrive. The small land area poses an important physical constraint in scaling up agriculture or manufacturing activities.

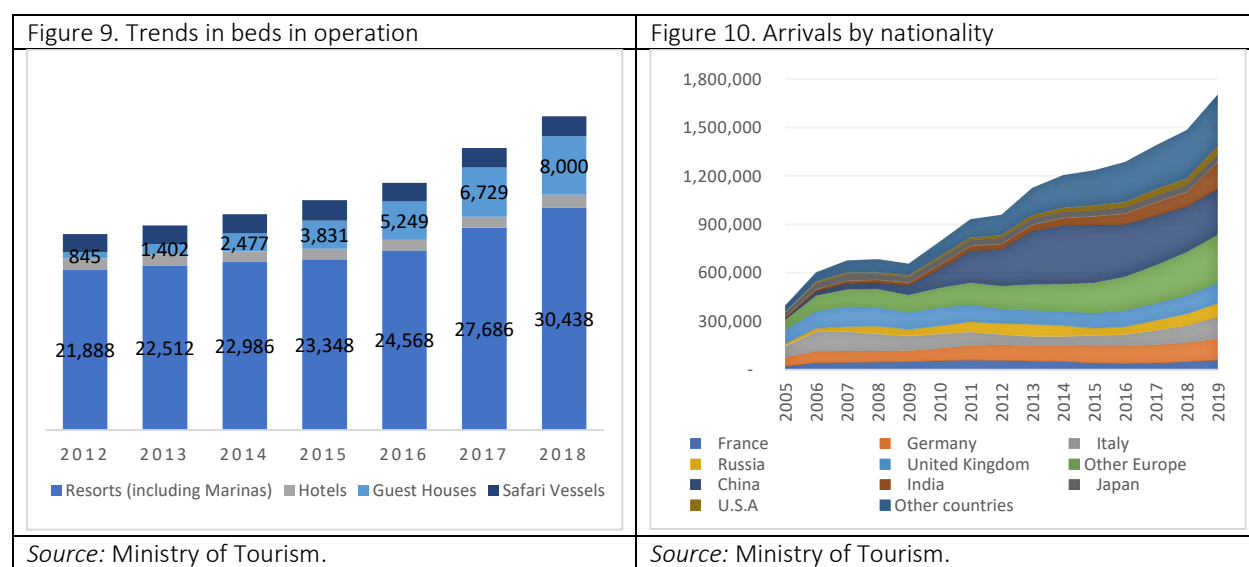
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<sup>13</sup> More than 50 percent of women marry under the age of 20 and more than 90 percent under the age of 25. Of women with children, 27 percent are under the age of 20 at first birth and almost 80 percent under the age of 25.

<sup>14</sup> SCD consultations confirmed that women play dual roles and noted the absence of arrangements to support women’s entry into paid labor, such as affordable child care facilities, flexible working hours, part-time work arrangements, and opportunities for home-based work. In addition, there is societal stigma around women working in certain jobs and industries (e.g., tourism and technology industry).

<sup>15</sup> Blue economy refers to the sustainable use of ocean resources for economic growth, improved livelihood and jobs, and ocean ecosystem health. Blue economy sectors include renewable energy, maritime transport, aquaculture businesses, and waste management.

The growth success of Maldives has been mainly driven by the development of a resort-based high-end tourism sector—the concept of one island, one resort—that has created few backward linkages with the local island economies,<sup>16</sup> uses a large share of foreign labor, and depends on private sector investments financed by FDI. The majority of the FDI in Maldives has been directed to the tourism sector. Tourism has been the main driver of Maldives’ success. Its share in nominal GDP was about 21.5 percent in 2019. Resorts accounted for 71 percent of beds in operation in 2018; the rest were accounted for by guesthouses, hotels, and live-aboard safari vessels (figure 9). Tourist arrivals more than doubled within a decade, from about 685,000 in 2008 to almost 1.7 million arrivals in 2019. Construction has also been a key contributor to economic growth in recent years, driven by the development of new resorts and the scaling up of the public infrastructure program.



Maldives has been able to gradually diversify away from European visitors. In 2005, about 78 percent of total tourist arrivals were from Europe. By 2019, Asia represented roughly 39 percent of total arrivals, with Chinese tourists accounting for 16.7 percent (figure 10). The number of visitors from India also increased rapidly, doubling between 2018 and 2019. In addition, other opportunities in the tourism sector can still be exploited. Thus far, Maldives’ enclave model of development has constrained backward linkages that could potentially catalyze job creation and growth, especially through strengthened domestic value chains between resorts and local enterprises. But linking local communities, for example providers of aquaculture products, with the tourism sector could help leverage tourism-led growth for development of other tradable sectors. Likewise, while limited in scale, linking tourism with cottage industries providing authentic cultural-based excursions and handicrafts could have significant economic impacts on local communities.

**Rapid expansion of guesthouses in local islands has provided new economic opportunities for these islands.** The guesthouse segment is targeted to a new customer base that is more price conscious. As restrictions<sup>17</sup>

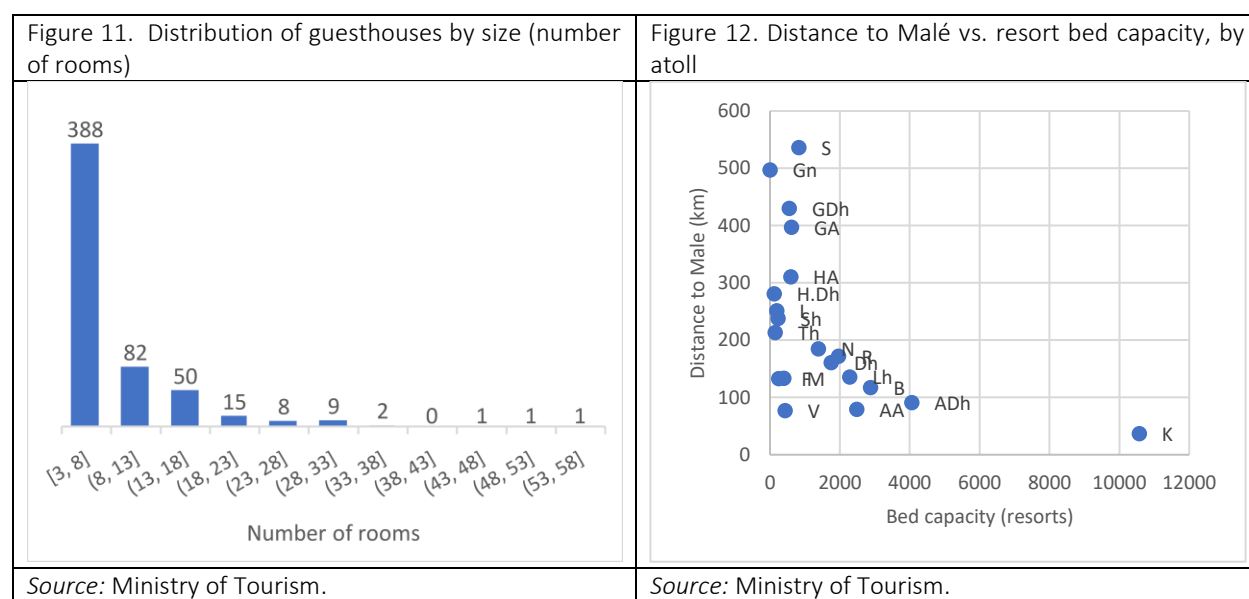
<sup>16</sup> Among the barriers that prevent higher levels of involvement in resort tourism from Maldivian local communities are these: (i) tourist resorts are developed on islands separate from local inhabitants; and (ii) resort islands are set up as all-inclusive, with limited possibilities for local people to run successful small tourism-related businesses, such as restaurants, tours, and handicrafts (Scheyvens 2011).

<sup>17</sup> Tourism was allowed to resort islands only. This rule was relaxed, catalyzing the growth of guesthouse tourism in many islands across various atolls.



pertaining to guesthouses were eased, their participation in the tourism sector rose. The number of guesthouses and beds in operation increased ninefold,<sup>18</sup> accounting for 44 percent of the increase in total beds in operation for 2012–18. The expansion of guesthouses to almost all atolls is a recent phenomenon (Shakoor 2019e). The guesthouse segment has significant potential for job creation and private sector–led growth with linkages to local communities, offering competitive rates for both accommodation and other services such as diving, snorkeling, and fishing trips. Most registered guesthouses are small: out of 557 guesthouses, about 76 percent have 10 bedrooms or less (figure 11).

**Transportation challenges, low utilization rates, and difficulty providing basic services—especially in some of the smaller inhabited islands—are important constraints for the guesthouse segment.** There is a lack of regulation and common standards for these smaller accommodations. While guesthouse bed capacity numbers have increased exponentially, utilization rates have been low. Lack of utility services, such as backup power, sewerage, and water, are often-cited constraints for the development of the sector in smaller islands. In addition, transport connectivity constraints may impose additional obstacles for atolls located away from Velana International Airport. Distance to the Velana International Airport and Malé is inversely related to resort and guesthouse bed capacity (figure 12). Most guesthouses remain in the close vicinity of Malé, highlighting the transportation challenges for far-flung islands. In addition, green tax data suggest that most tourists are limiting their choice to guesthouses closer to Malé.



**The COVID-19 pandemic led to a temporary halt in tourist arrivals, clouding the near-term prospects of the sector.** Tourist arrivals posted a strong start to 2020, growing by 14.4 percent in January (year-on-year). In February, arrivals dropped by 11.1 percent as the Government banned inbound travel from China. As entry restrictions intensified, tourist arrivals plummeted 63.4 percent in March and Maldives completely sealed its borders to incoming tourists on March 27, 2020. The sudden stop in tourism caused the temporary closure of resorts and guesthouses. Maldives reopened its borders on July 15, 2020. Total arrivals for 2020 stood at about 555,494, well below the 1.7 million arrivals in 2019. From January to March 15, 2021, Maldives welcomed 238,533 visitors (a contraction of 37 percent relative to 2020 arrivals), showing positive

<sup>18</sup> Total beds in operation grew by 60.2 percent over the 2012–18 period.

signs of a gradual rebound in tourist arrivals. The guesthouse segment is likely to be more affected by the outbreak. However, medium term prospects for the tourism sector remain strong.

**Leveraging Maldives’ pristine marine environment and identifying potential niche markets may also help propel growth and expand export receipts.** While its total land area is less than 300 km<sup>2</sup>, Maldives’ exclusive economic zone is vast (almost 1 million km<sup>2</sup>). Increased export-oriented production of aquaculture products has the potential to raise and diversify foreign currency earnings. This possibility is well illustrated by the evolution of the yellowfin fishery, which was traditionally a bycatch of the larger skipjack fishery. Yellowfin as a share of the larger catch averaged about 11.7 percent of total landings between 1971 and 1995. From 1995 onward, yellowfin landings have steadily increased, averaging 40 percent during the period 2014–17. Today both skipjack and yellowfin dominate a vibrant fishery industry, both in terms of landings and export earnings.<sup>19</sup> This trajectory points to the importance of further species diversification in the Maldivian fishery industry, which could develop into commercially viable activities and employment opportunities. Species of potential interest include diamondback squids, mahi-mahi, mushimas and rimmas, cuttlefish, billfish varieties, deep sea crabs, lobsters, and octopus, all of which are present in Maldivian waters. Further research on the stock size, location, depths, and sustainable mass is required. Increasing cannery capacity also holds potential. In addition, maintaining environmental sustainability and establishing appropriate linkages to value chains will be critical in developing high-value products supplied to the local tourism industry or niche international markets. The adoption of technology, proper fish handling techniques, and technical capacity on board vessels may increase opportunities for fisheries to access premium markets.<sup>20</sup>

**Opportunities presented in the digital economy are also significant.** Maldives could leverage its Internet penetration, which is currently the highest in the South Asia region (ITU 2018) with 63 percent internet users (compared to 54 percent in 2015). More than 90 percent of adults in Maldives have mobile phone subscriptions, of which over 70 percent is connected to 4G mobile broadband services (Telegeography, 2020). This high penetration has been boosted by private sector investments (by Dhiraagu and Ooredoo) in submarine cables between Maldives’ islands, fiber-to-the-home (FTTH) deployments, and mobile broadband infrastructure. In addition, about 85 percent of the population have a digital ID (ID4D 2018), and the country is paving the way in the design of multipurpose digital IDs (national ID, driver’s license, health card, insurance card, payment card, etc.). Despite the advancement, gaps remain for Maldives to fully exploit the promise of digital technologies. Internet services remain costly for the poor and smaller businesses.<sup>21</sup> There is also room to improve connectivity in the atolls, and support the integration of digital technologies in key sectors such as hospitality and tourism (e.g. e-commerce), health and education services, banking and financial services, trade and logistics, and emergency response and disaster risk management.

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<sup>19</sup> Maldives predominantly uses pole and line fishing, considered environmentally friendly due to low by-catch (World Bank 2015).

<sup>20</sup> For more information, see Shakoor (2019a, 2019b, 2019c, 2019d).

<sup>21</sup> The cost for the basic fixed broadband plan (5mbps, MVR 350 per month) is 2.9 percent of GNI per capita – above the global affordability target of 2 percent as adopted by the UN Broadband Commission for Sustainable Development (based on data from Dhiraagu and Ooredoo websites).

## 2.3 KEY CONSTRAINTS TO UNLOCKING THE PRIVATE SECTOR

**As a small island state, Maldives' development challenges are more acute than those of other developing countries; hence the need to improve its overall business and institutional environment.** Key steps that are expected to contribute to lifting constraints on the private sector and enabling it to flourish include strengthening institutions, reforming the public sector to make it more efficient, and improving business regulation and the investment climate, particularly in areas such as access to finance, efficiency of SOEs, quality of public service, and transport and connectivity (i.e. both physical and digital).

### 2.3.1 Overall Business Environment

**Maldives has generally open and liberal policies toward investment,** such as legally backed investment guarantees, provision for overseas arbitration of disputes, and no foreign exchange restrictions or restrictions on repatriation of dividends. Maldives also allows long-term lease of land; land can be leased to foreigners for up to 99 years. Most land is owned by the government and leased to private owners and developers. Maldives has been successful in attracting high levels of FDI, predominantly directed to the tourism sector.

**Improvements in the investment climate and business environment are needed.** According to the World Bank *Doing Business 2020* report, Maldives ranks 147 out of 190 economies in ease of doing business (World Bank 2019a). Maldives scores 53.3, below the regional average of 58.2. Key areas for improvement include protecting minority investors, resolving insolvency, getting credit, and registering property.<sup>22</sup> Maldives' Doing Business ranking has steadily deteriorated since 2011, possibly due to the absence of a planned and sequenced program of business regulatory reforms, periods of political volatility, and perceived corruption.<sup>23</sup> Changes in government and perception of policy inconsistencies reduce investor confidence. Participants in SCD consultations also noted that legal hurdles and bureaucracy in the government are challenges for businesses.

**The competition landscape in Maldives is skewed, with SOEs playing a dominant role in the provision of goods and services.** SOEs account for over 50 percent of GDP and 18 percent of the total workforce (IMF 2019). SOEs play a critical role in the country's socioeconomic development by (i) providing critical transport and network infrastructure, such as airports and ports, which are essential for trade, investment, and tourism; (ii) delivering backbone services for the entire economy, such as power, fuel, financial services, and telecommunications, which are essential factors of production; and (iii) providing essential public services, such as social housing, water and waste management, and sea, land, and air transport. In addition, major infrastructure projects are being carried out by SOEs (with the backing of sovereign guarantees).<sup>24</sup> Notwithstanding their key role in the economy, heavy presence of SOEs in some sectors may act as an implicit or explicit entry barrier for private sector participants.

**Given their large participation in the economy, further reforming and improving performance of SOEs would be critical.** This would strengthen competitive neutrality and help level the playing field for the private sector to enter such markets and produce positive externalities for private sector development and

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<sup>22</sup> See World Bank, Doing Business database, <https://www.doingbusiness.org/en/data/exploreeconomies/maldives>.

<sup>23</sup> Weak transparency and accountability and prevalence of corruption were also identified as major challenges to development by participants of the SCD consultations.

<sup>24</sup> The rapid increase in public and publicly guaranteed debt in the recent past was driven mainly by the issuance of sovereign guarantees.

competitiveness in general. It is also expected to reduce fiscal risks linked to SOEs.<sup>25</sup> The fisheries sector is an example of one of the areas in which an uneven playing field for the private sector exists. Development and operations of fisheries was exclusively dominated by the state-owned Maldives Industrial Fisheries Company (MIFCO) until the early 2000s. In 2016, MIFCO was acquired by another large SOE, State Trading Organization, in an effort to mitigate MIFCO's significant financial losses and debt accumulation. Currently, MIFCO has a license to operate in the Exclusive Economic Zone area and own two out of the four fishing zones in Maldives. In the skipjack tuna segment, MIFCO still remains the key market player and private sector entry and FDI are still largely restricted, with purchasing, processing, and export of the fish ring-fenced from FDI. SOEs play a dominant role in the financial sector as well, with Bank of Maldives, an SOE, accounting for over 50 percent of the market share in the country. As a result, private players are largely crowded out of the financial sector. Going forward, the Government should consider divesting its ownership in non-strategic SOEs in areas which may be commercially viable for the private sector, such as fisheries and the financial sector.

**Maldives lacks a robust public-private partnership (PPP) framework, legislation, or strategy.** Given the high level of public expenditure and the country's challenging fiscal environment, alternative investment instruments such as PPPs could be considered. While Maldives' PPP capital stock remains well below that of regional peers and other emerging market economies, there are some PPPs and/or contractor-financed projects mainly in infrastructure development and sectors such as health, housing, energy, and tourism. However, information on PPP liabilities is not readily available. There is limited fiscal oversight and technical support to PPPs and no dedicated PPP unit within the government. No PPPs have been agreed or initiated since 2016.

### 2.3.2 Access to Credit, Financial Inclusion, and Capacity Building of MSMEs

**Micro, small and medium enterprises (MSMEs) make up over 93 percent of all private sector businesses in the Maldivian economy and will be critical for future growth (figure 13).** While current data on lending to MSMEs is not explicitly available, it is widely understood that MSMEs in Maldives face a credit gap, which is holding back the development of local businesses and employment. Maldives ranks 144 out of 190 economies in getting credit according to the 2020 Doing Business rankings, the lowest in South Asia.<sup>26</sup> Domestic credit to the private sector remains significantly lower than in peers, especially for Maldives' income level (figure 14). Nearly three-fourths of total loans and advances to the private sector were directed to tourism (38 percent), construction (18 percent), and wholesale and retail trade (15 percent).

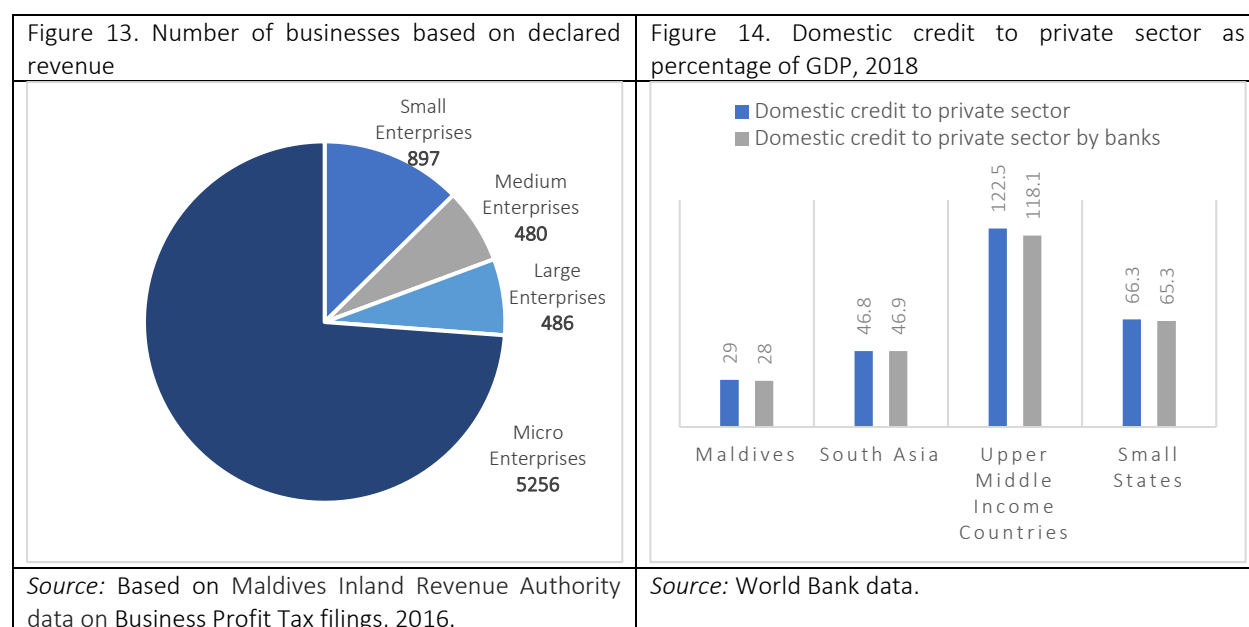
**With COVID-19, private sector credit is expected to decline sharply in 2020.** The financial sector remains relatively healthy, with banks in good standing. Non-performing loans are relatively low and well-provisioned. Challenges faced by the private sector in the wake of the COVID-19 pandemic are expected to result in the rapid increase in non-performing loans. The Government has instituted several policy measures to support the private sector, including special financing facilities for fisheries and tourism (i.e. an MVR 100 million loan facility for fish exporters, a short-term facility up to US\$ 2 million by Bank of Maldives to operational resorts and guesthouses, an interest rate cut of 4 percent, and a 6-month debt

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<sup>25</sup> Recently, the government has taken important steps to improve the monitoring, oversight, and performance of SOEs with the adoption of the Code of Corporate Governance.

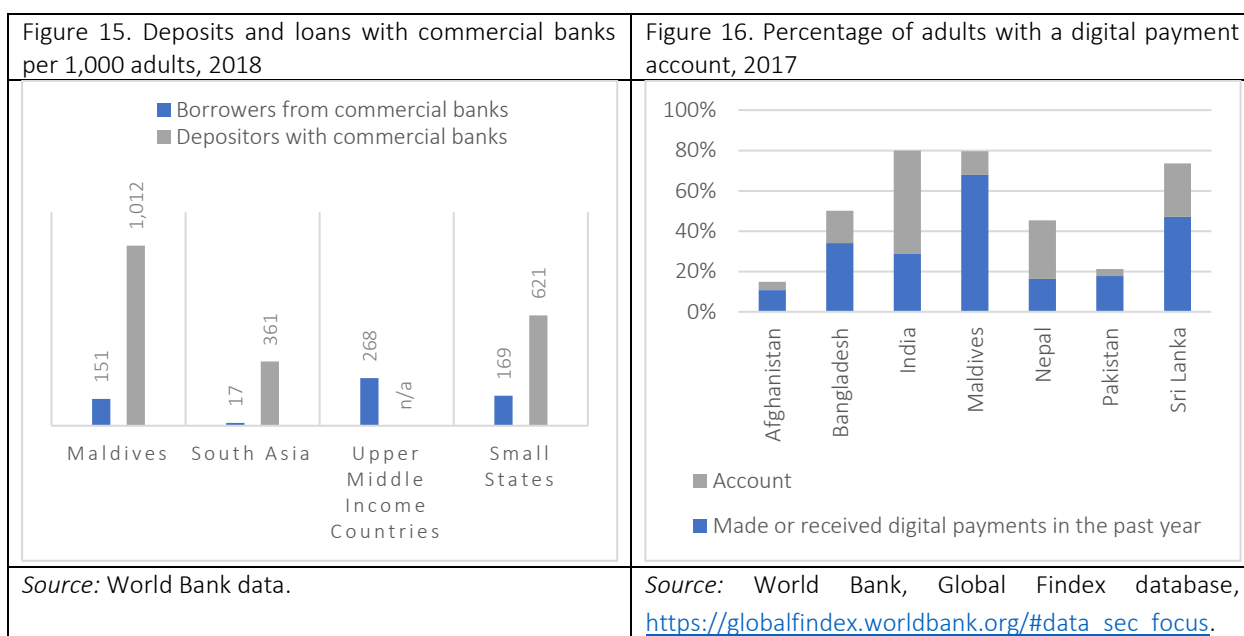
<sup>26</sup> World Bank, "Ease of Doing Business Rankings," <https://www.doingbusiness.org/en/rankings#>.

repayment extension to small and medium enterprises (SMEs) by the SME Development Finance Corporation).



**MSMEs face important challenges accessing credit.** The number of commercial bank depositors in Maldives far surpasses that in regional peers, but the number of borrowers is lower than in other upper-middle-income countries and small states (figure 15). This suggests that fewer MSMEs obtain loans from commercial banks than is the case among peers. High collateral requirements and interest rates for loans constrain access to finance for MSMEs, with banks often requiring real estate or vessels as collateral. Collateral requirements for business loans are usually 130–180 percent of the loan value (FSAP 2016). MSMEs that do not have real estate tend not to be served. Larger private corporations are not subject to this constraint, as they can easily raise cheap finance from overseas and local banks (FSAP 2016). From the supply side, MSMEs have few alternative nonbank and equity financing options. Capital markets in Maldives remain nascent. From the demand side, access to finance is constrained by low financial literacy and lack of awareness regarding financial assistance by banks and financial institutions.<sup>27</sup>

<sup>27</sup> Participants in the SCD consultation process also identified MSMEs as the backbone of the economy, particularly in the island economies. Weak support to MSMEs was identified by focus group participants as one of the challenges to equality and shared prosperity. Challenges to MSMEs include access to finance, an unfavorable tax regime (i.e., lack of a fair tax policy for MSMEs, poor education about and awareness of the tax system), and market access dependent on a poor transport system. Discussion in Kulhudhuffushi particularly highlighted that existing loan financing is shunned because of high interest rates and because revenues earned by small businesses in the local communities are not sufficient to repay loans. The limited availability of sharia-compliant loan facilities is also a deterrent to loan seekers.



**Enhancing financial inclusion and capacity of MSMEs is critical.** Maldives Credit Information Bureau (MCIB), the only credit reporting system in the country, was launched in 2011. However, targeted data collection on MSMEs remains weak, with credit registry coverage of only 22 percent of adults in Maldives.<sup>28</sup> The limited coverage of credit registries hampers the ability of banks to identify credit records of borrowers, leading to higher risk aversion, less credit, and higher interest rates. Furthermore, MSMEs continue to be constrained by insufficient skills and training opportunities coupled with a lack of a robust start-up culture in Maldives. The uptake on technical and vocational education is low, limiting entrepreneurial skills. Enhancing entrepreneurship, human capital development, productivity, and technology adoption and innovation (figure 16), along with increasing market access opportunities, will be key to supporting MSME development.<sup>29</sup>

### 2.3.3 Transport and Connectivity

**In recent years, Maldives has completed important infrastructure projects aimed at easing bottlenecks in transportation.** A new runway for the Velana Airport has been finalized, and construction of a new passenger terminal is under way. The China-Maldives Friendship Bridge opened a corridor for ground transport of goods and persons between Malé, Hulhulé, and Hulhumalé, providing a viable alternative to maritime transportation.

**Domestically, maritime transportation is critical for the circulation of people and goods in the Maldivian archipelago.** Limited island transport facilities continue to constrain connectivity in Maldives, which affects economic and social inclusion prospects for the population, especially for those living in the outer islands. Limited connectivity, including internet connectivity, also reduces opportunities for Maldivian businesses to compete in international markets. Transport and logistics service deficiencies have created a major

<sup>28</sup> World Bank, Doing Business database, [https://www.doingbusiness.org/en/data/exploreconomies/maldives#DB\\_gc](https://www.doingbusiness.org/en/data/exploreconomies/maldives#DB_gc).

<sup>29</sup> Some government initiatives in these areas include the SME Development Finance Corporation and the Business Center Corporation. The latter is a 100 percent government-owned SOE that provides business advisory and support services to MSMEs through seven business centers established across the islands.

connectivity gap between islands and have limited economic opportunities. Both tourism and fisheries, the main foreign exchange-earning sectors, heavily rely on transport and connectivity. Public transportation systems are inadequate due to high operational costs, and private sector investment is discouraged by the low passenger numbers and high costs of importing fuel. To address these issues, the Strategic Action Plan 2019–2023 lays out ambitious targets to improve maritime infrastructure, public transportation, and connectivity. In addition, the Maritime Transport Master Plan, the government’s long-term roadmap of institutional and regulatory reforms for the sector’s development, highlights the establishment of an independent regulatory authority and the formulation of a sound legal and institutional framework to help attract private sector participation in maritime infrastructure and service provision. Private sector participation in the sector is especially important given the public sector’s limited resources and fiscal constraints.

**Air linkages are critical to Maldives, particularly for the tourism industry.** Prior to the outbreak of COVID-19, the air transport sector, which includes airlines, airport operators, on-site airport businesses, and air navigation services, contributed roughly 5,000 direct jobs and up to 68,000 indirect jobs through the tourism value chain, as estimated by the International Air Transport Association (IATA). However, the sector was hard hit as a result of the pandemic, causing passenger demand and revenues to plummet. The IATA estimates potential job losses of 37,200 due to the impact of COVID-19. The pandemic has highlighted the significance of air linkages to transport essential goods as well as emergency repatriation flights. As the country gradually lifts travel restrictions, air transport will play a central part in the country’s economic recovery. Assuming a rebound in the tourism sector, ongoing work to increase capacity at both Velana International Airport and regional airports will be important.

**Maldives relies heavily on imports; important improvements are needed to reduce the cost of importing goods into the country.** Malé Commercial Harbor (MCH) is the main gateway for international cargo coming to Maldives. Currently, MCH has one berth capable of accommodating one international container vessel. MCH is currently operating above its capacity, leading to significant inefficiencies and increased costs. The growing volume of container traffic and limited berthing and cargo space at MCH have resulted in long waiting times for container ships at anchorage (USAID 2019). Government plans include the development of a new port in Gulhifalhu and the construction of bridges connecting the Greater Malé region.

**Current transshipment facilities are inadequate to facilitate efficient warehousing and cargo shipment procedures.** As a result, the cost of transporting a container of cargo from one atoll to another equals that of transporting goods from Malé to Shanghai (Deloitte 2019). Utilization of electronic services to improve port performance is limited. UNCTAD’s (2017) review of maritime transport suggests that adopting an electronic service model in commercial ports could reduce overhead costs, reduce time for completion of procedures, minimize error rates, improve customer services, and increase revenues. Maldives ranks 125 out of 160 countries on the 2018 Logistics Performance Index in competence and quality of logistics services (e.g., transport operators, customs brokers), and 94 out of 160 in ease of arranging competitively priced shipments (figure 17). On most indicators, Maldives underperforms other upper-middle-income countries (World Bank 2018a). Plans are under way to develop a new international port, which will address some key constraints currently present at MCH (among other issues: insufficient yard storage, clearing, container freight station (CFS) space, and refrigerated container plugs; inadequate berth length, layout, and depth alongside the quay; limitations in access roads, cold storage, and warehousing storage). The new port is expected to reduce turnaround time and freight charges for merchandise going in and out of the

country. Increased capacity is expected to boost commercial activity and support ancillary activities such as warehousing and storage.

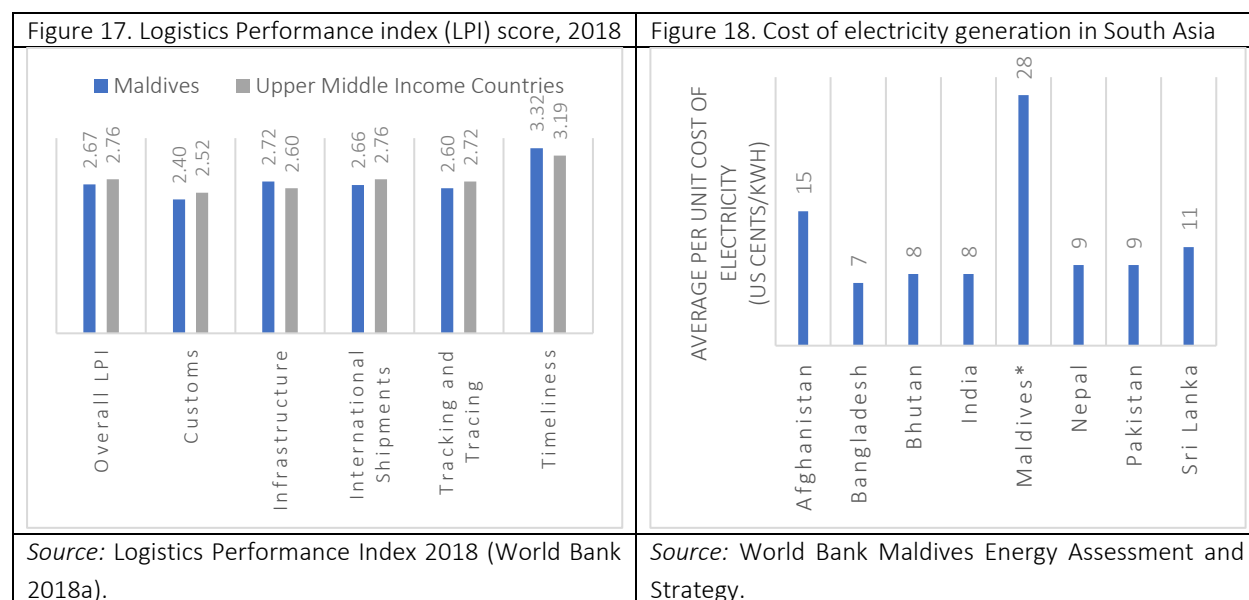
**Sustainable modes of transportation also need to be explored further.** Utilizing electric mobility (e-mobility) technologies such as electric vehicles (EVs) at scale could improve the country's sustainability through lower CO<sub>2</sub> emissions and reduced dependency on fossil fuels. The transport sector is second to electricity generation in terms of emissions (about 25 percent compared to 67 percent for electricity). The transport sector also accounts for a large share of energy consumption. The main mode of inter-island transport is either diesel- or petrol-based sea transport. Modalities of land transportation involve cars, buses, lorries, and motorbikes. There are also three international airports and nine domestic airports. Estimated total emission from the transport sector amounted to about 380.84 Gg of CO<sub>2</sub> equivalent in 2015 (Ministry of Environment 2019). Maldives is part of the initial set of 17 countries in the Global Environment Facility Global E-Mobility program, launched at the COP25 climate summit, which aims to promote the deployment of electric mobility in developing countries through establishing supportive policies that enable technology transfer and private sector engagement.

**Opportunities to electrify government and commercial fleets can be capitalized, with associated cost and emissions savings.** The transport sector is a major source of greenhouse gas emissions. Of 108,532 vehicles registered by end-2018, almost 90,000 were motorcycles. Only 1,400 were battery scooters. Declining battery costs, increased awareness, and favorable government policies, in addition to the small size of islands (mitigating range anxiety for EVs), could help foster a faster adoption of EVs in Maldives. Battery prices have fallen rapidly from over US\$1,100 per kWh in 2010 to US\$156 per kWh in 2019, thanks to increasing order size, growth in battery electric vehicle sales, the continued penetration of high-energy-density cathodes, new pack designs, and falling manufacturing costs (BloombergNEF 2019). EVs reduce local air pollution and have the potential to reduce emissions when coupled with zero-carbon energy. It is key to pair EV deployment with a parallel expansion of renewable energy; this approach reduces vulnerabilities stemming from oil price vulnerability and cuts greenhouse emissions. Changes in policies and regulatory frameworks, on the one hand, and investment and improved grid management tools, on the other, should accompany the expansion of e-mobility. Public utilities can play an important role in creating an enabling environment for EVs, renewable energy development, and the overall transformation of both the transport and energy sectors (Viscidi et al. 2020).

**There are also opportunities to strengthen service delivery by improving access to affordable and reliable internet connectivity, particularly in the outer atolls.** The 2018 Findex Survey finds that digital payments are widespread (figure 16), and people are using mobile phones for a range of transactions (World Bank Group 2019). There is, however, room for growth in this area for both government and businesses. Given the unique geography of Maldives and its high cost of delivering services across numerous islands, improving access to affordable high-speed broadband and expanding the role of digital technologies in the island communities would be a key enabler to strengthen local governance and service delivery (e.g. connecting atolls/islands government offices, schools, hospitals, businesses, and promoting digital financial services such as digital payments and remittance transfers). The importance of accelerating the growth of digital platforms became particularly evident during the COVID-19 pandemic as physical distancing measures were implemented across the country. For instance, the role of telemedicine that emerged during the pandemic could be expanded further to improve routine health care delivery in the atolls, which could also reduce health care costs in the long run. Putting in place some of the digital enablers—such as



more-developed digital capabilities—would also be important to build resilience to future disruptions, including climate change related natural disasters.



### 2.3.4 Energy

**Maldives is highly dependent on imported fossil fuels for electricity generation and transport, while renewable sources remain largely untapped.** In 2018, the country imported 643,964 MT (metric tons) of fuel (about 15 percent of total CIF [cost, insurance, and freight] value of goods imports). Of this, 521,598 MT was diesel (11.8 percent of total CIF value of goods imports), of which approximately 75 percent was for electricity generation. Electricity consumption has been growing steadily across the country, increasing from 550 GWh in 2015 to 750.6 GWh in 2018 on the inhabited islands (MEE 2019). Total installed electricity capacity for inhabited islands is 319 MW (megawatts) of diesel generators.<sup>30</sup> The government aims to reduce fossil fuel imports by increasing electricity generation from renewable sources to cater for increasing demand. Maldives has significant untapped potential for renewable energy, particularly solar photovoltaic (PV). The current cumulative operating capacity of PV is only 31.5 MW.

**Relying solely on diesel imports for electricity generation has resulted in the highest unit cost of electricity generation in South Asia (figure 18) and one of the highest rates of carbon emissions per unit of electricity.** Developing and transitioning to affordable, cleaner, and renewable energy is a key priority for the government. According to the Nationally Determined Contributions under the Paris Climate Agreement, by 2030 Maldives will reduce its emissions by 26 percent if adequate climate financing, technology transfer and capacity building is made available. In addition, Maldives aims to reach net-zero by 2030 provided on condition that it gets the extensive support and assistance from the international community.<sup>31</sup> To meet these ambitious targets, Maldives will need to leverage private investments so that scarce public resources can be used for other productive sectors. Providing risk mitigation solutions to the private sector to reduce perceived risks for private sector investments and effectively mobilizing private sector investment in

<sup>30</sup> There is an additional 210 MW of diesel fuel generation in resort islands.

<sup>31</sup> <https://www4.unfccc.int/sites/NDCStaging/Pages/Party.aspx?party=MDV>

renewable energy is thus critical to meet the government's ambitious targets and tackle existing fiscal constraints to further expand investment in the clean energy space.<sup>32</sup>

**Addressing key constraints in the energy sector could accelerate renewable energy penetration and increase its share in the overall energy mix in Maldives.** The key constraints thus far, have been on the regulatory framework and local capacity, specifically around offshore floating solar PV (FPV), limited land/roof area for the installation of solar PV systems, financing availability, net metering, and other new and innovative approaches such as Battery Energy Storage Solutions (BESS). While the regulatory framework in the Maldives needs to be fine-tuned to increase their capacity around net metering<sup>33</sup> and FPV, the state utilities and project management units need training support to increase their capacity on FPV and BESS. It is also critical for utilities to continue improving the quality of infrastructure, which have resulted in high generation costs due to inefficiencies and distribution losses.

**Greening of resort islands and electric mobility present significant opportunities for reducing fossil fuel dependence.** The development of the renewable energy sector will require a concerted effort between the public and private sector. However, investments in the energy sector remain limited due to gaps in feed-in tariff and net metering systems, lack of coordination between relevant agencies, and constraints in financing. Improving local islands' diesel storage installations, increasing the efficiency of power generation, and reducing losses in the transmission and distribution network could also help reduce diesel imports. In many islands, the ad hoc development of power generation facilities and fast growth of demand has led to some poor and inefficient facilities (Ministry of Environment 2019).

### 2.3.5 Governance

**Governance, institutions, and transparency make up a cross-cutting theme for Maldives' young democracy.** Key aspects include strengthening institutions that focus on integrity, anti-corruption efforts, and related oversight and accountability (such as Parliament, local councils, the auditor general, and the Anti-Corruption Commission); the reform of the justice system; and local governance and decentralization.

**Both institutional and bureaucratic quality indicators suggest that there is a need to strengthen institutions** and to enhance knowledge, capabilities, and systems for the civil service, in part by informing the public of the collection and use of public resources in delivering government services. The Worldwide Governance Indicators point to important challenges in key governance areas, reflected in a steady decline in the country's percentile rank across several indicators such as government effectiveness, regulatory quality, rule of law, and control of corruption.<sup>34</sup>

**The Government of Maldives Public Financial Management (PFM) Performance Report (2020) shows improved performance compared to 2009 and 2014.** Basic monitoring mechanisms are in place for fiscal aggregates. Strategic allocation of resources and efficiency of service delivery perform at overall basic level. The budget preparation process and public access to key fiscal information are aligned with good international practice. However, there are frequent and significant within year adjustments to budget allocations. Strengthening the management of public finances remains a core priority, particularly in view of the fragile fiscal situation and fiscal risks, that will be accentuated by the COVID-19 impact. Public debt

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<sup>32</sup> See for instance the World Bank Group's Accelerating Sustainable Private Investment in Renewable Energy (ASPIRE) and Accelerating Renewable Energy Integration and Sustainable Energy (ARISE) projects.

<sup>33</sup> Net metering regulation has been revised in 2020 to address some of the existing challenges.

<sup>34</sup> World Bank, "WGI Table," [https://databank.worldbank.org/reports.aspx?Report\\_Name=WGI-Table&Id=ccea4d8b](https://databank.worldbank.org/reports.aspx?Report_Name=WGI-Table&Id=ccea4d8b).

has risen, fueled by major infrastructure projects and extension of sovereign guarantees. There is considerable scope to improve the efficiency and selectivity of public investments and to impose a more stringent vetting and prioritization process (IMF 2019). Likewise, action needs to be taken to strengthen the oversight, corporate governance, and performance of SOEs, which play an important role in the economy, but also embody major fiscal risks. Progress has been made in key areas such as budget credibility and the monitoring and oversight of SOEs.

**Further improvements are expected to strengthen transparency, accountability, and efficiency in PFM** by (i) modernizing the legal and regulatory framework for PFM; (ii) improving public debt management and enhancing transparency to reduce fiscal risks; (iii) strengthening public investment management to improve allocative and operational efficiency and mitigate fiscal risks; (iv) enhancing the governance and oversight of SOEs; (v) implementing reforms to improve the efficiency and integrity of public procurement;<sup>35</sup> and (vi) improving the internal and external control of public finances including use of citizen participatory audits. In addition, Maldives needs to strengthen monitoring and evaluation systems to achieve better development outcomes.

**The government has taken important steps to improve debt reporting and debt transparency.** Debt statistics and fiscal developments have been published regularly. Publications include information on disbursed outstanding debt and a disaggregated list of the stock of external loans and government sovereign guarantees. Quarterly reports for SOEs have also been made available recently. Notwithstanding recent progress, information on capital projects and sovereign guarantees is fragmented and incomplete. Further improvements in debt transparency is needed to better understand the fiscal and debt vulnerabilities stemming from large public investment projects, some of them backed by sovereign guarantees.

**Transparency and better access to information will help enhance the public sector's accountability, efficiency, and efficacy.** Participation of civil society organizations (CSOs) is currently limited, however. About 1,800 CSOs are registered in Maldives, mostly comprising volunteers, and their technical capacity is limited. Generating enabling conditions for the engagement of citizens, especially vulnerable and marginalized groups (youth and women), would gradually result in better local governance institutions and would improve accountability and checks and balances. For instance, promoting open government data and an open data ecosystem will help in strengthening the management of public finances, directly contribute to better governance and fiscal sustainability, and improve public services in a transparent and accountable manner. In addition, this approach can foster more active engagement from individual citizens, civil society, the private sector, and international organizations and donors.<sup>36</sup>

**With the amendment to the Decentralization Act in December 2020, there has been a policy shift towards decentralization and greater autonomy to local councils.** Legislation changes are expected to bring much

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<sup>35</sup> The Procurement Policy Board was established by Presidential decree in February 2020, aiming to formulate, enforce and amend procurement policies, regulations and guidelines across the public sector. Some important ongoing initiatives include the development of the Electronic Government Procurement system and a tender management portal, which are expected to centralize all government procurement and maintain procurement statistics under a single platform (procurement policies, procurement plans, ongoing tenders, and all contract awards). See PEFA 2020 for additional details.

<sup>36</sup> This approach is aligned with the Strategic Action Plan 2019–2023 under “Accountable State” (President’s Office 2019).

of the decision making on issues facing each island to the local councils. The Act also mandates that one-third of council seats should be occupied by women. This represents a major shift away from past policies, focused in the consolidation of population in the Greater Malé region. This, in turn, is complemented by the planned development of regional and subregional hubs aimed at providing for a more balanced geographical development. Successful efforts towards decentralization will partly depend on the provision of public services and economic opportunities outside the Greater Malé region.

**To prevent and detect illicit financial flows in the country, it is also important to strengthen the implementation of a framework for anti-money laundering and combating the financing of terrorism (AML/CFT).** Maldives is not on the Financial Action Task Force (FATF) list of countries that have been identified as having strategic AML deficiencies. The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counterterrorist financing standards in Maldives was undertaken by the FATF in 2011. Since then, authorities have made some good progress, particularly with enactment of the Prevention of Money Laundering and Financing of Terrorism (PMLFT) Act in 2015, issuance of related regulations, and creation of the Financial Intelligence Unit within Maldives Monetary Authority. The government established a National Coordination Committee for Countering Money Laundering and the Financing of Terrorism, chaired by the head of the Financial Intelligence Unit and comprising all relevant agencies with AML/CFT responsibilities. The International Monetary Fund, the United Nations Office on Drugs and Crime (UNODC), and the Stolen Asset Recovery Initiative (StAR) continue providing support in this area. However, implementation of the PMLFT Act and operational effectiveness are lacking, and many gaps remain in the AML/CFT system.

**Maldives will have its next Mutual Evaluation, to be conducted by the Asia Pacific Group on Money Laundering (APG), in the fourth quarter of 2022.** In order to be ready for this, Maldives must complete a National Risk Assessment (NRA) on AML/CFT and also develop a time-bound AML/CTF strategy. These actions are necessary for Maldives to implement the Recommendations of the FATF and comply with international standards. Maldives has not conducted this NRA till date. The NRA is needed at the national level as well as at sector, supervisor, and institutional levels. Once the risks are properly understood, the authorities need to implement anti-money laundering and counterterrorist financing measures that mitigate these risks. This risk-based approach is central to the effective implementation of the FATF standards and applies to financial institutions and designated nonfinancial businesses and professions. It is important that Maldives remains compliant with FATF; failure to comply can negatively impact the risk profile of Maldives in international banking channels. This can impact the financial sector's integrity and also have a spillover effect on the economy. For example, given the scale of tourism in Maldives, correspondent banking must remain viable. Without the successful completion of the NRA and Mutual Evaluation, there is a risk that correspondent banking channels will be negatively impacted due to the Maldives being perceived as a higher risk jurisdiction for international funding transactions.

**Maldives is one of the 9 jurisdictions included on the European Union's "grey list" of tax havens.**<sup>37</sup> The list is part of the EU's work to fight tax evasion and avoidance and has been compiled since December 2017. The criteria for good tax governance relate to tax transparency, fair taxation, and the implementation of the Organization for Economic Co-operation and Development (OECD) base erosion and profit shifting (BEPS). Maldives, as one the countries on the gray list, has made progress on its commitments, and the

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<sup>37</sup> [https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=uriserv:OJ.C\\_.2021.066.01.0040.01.ENG](https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=uriserv:OJ.C_.2021.066.01.0040.01.ENG)

country was granted until April 30, 2021 to sign the OECD Multilateral Convention on Mutual Administrative Assistance (MAC) and until December 31, 2021 to ratify the MAC.<sup>38</sup>

### 3 SUSTAINABILITY CHALLENGES UNDER THE CURRENT MODEL

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Maldives' vulnerabilities on many fronts threaten continued progress toward the goals of poverty eradication and inclusive growth. The COVID-19 pandemic has exposed important vulnerabilities under the current development model. With tourism as the main driver of growth in Maldives, progress towards these goals will likely suffer setbacks with the temporary halt in tourist arrivals. Job and livelihood losses linked to the pandemic and the contraction in economic activity will result in poverty increases.

#### 3.1 FISCAL AND EXTERNAL SUSTAINABILITY

##### 3.1.1 Sustainability of Public Finances

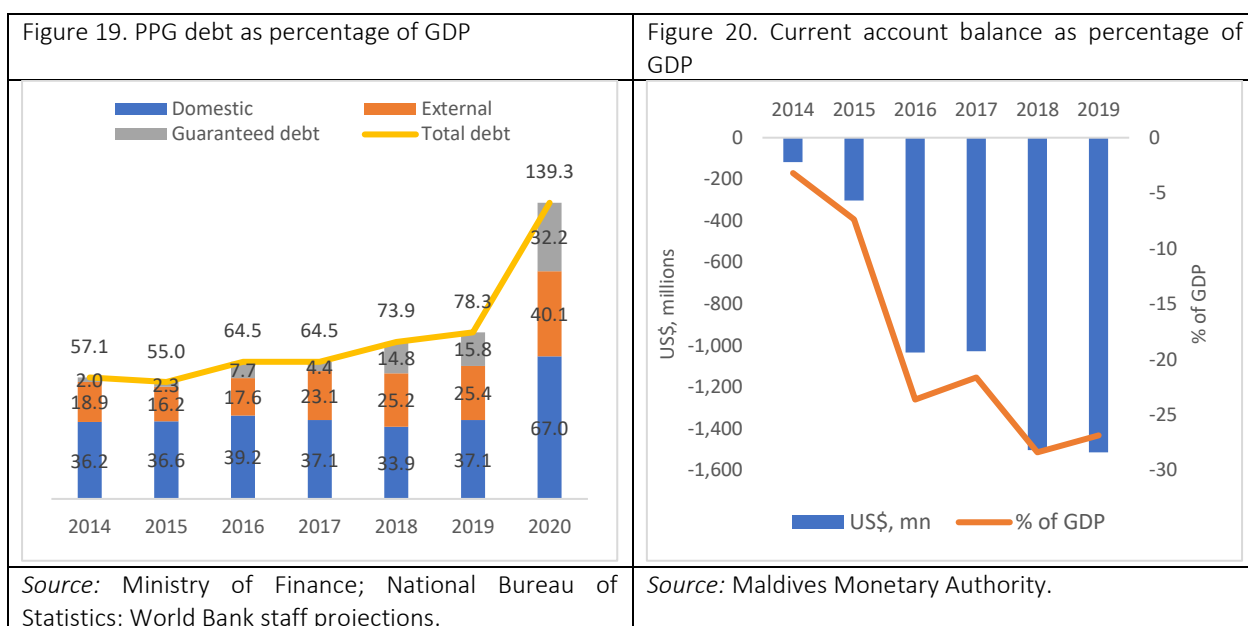
**The level of indebtedness has grown very rapidly, constraining fiscal space.** Total public and publicly guaranteed (PPG) debt rose from about 55 percent of GDP in 2015 (or US\$2.3 billion) to 78.4 percent of GDP in 2019 (or US\$4.4 billion). Increases in recurrent spending, mainly from subsidies and health spending, and an ambitious infrastructure program, have translated into large fiscal deficits and a growing level of indebtedness. As a result of the sudden stop of tourist flows due to the global COVID-19 pandemic, Maldives is expected to be the hardest hit economy in South Asia. Real GDP is expected to fall by 28 percent in 2020, further eroding the debt carrying capacity of the economy. A widening budget deficit mostly due to the large shortfall in government revenues will result in higher levels of public indebtedness (World Bank 2020a, World Bank 2020b). This constrains the available fiscal space moving forward.

**Up-front investments to address bottlenecks in the tourism sector, strengthen resilience to climate change, ease constraints in service delivery, and support housing projects have led to a rapid increase in PPG external debt.** Total debt grew by 13.8 percentage points between end-2017 and end-2019, mainly on account of a large increase in guaranteed debt, which rose from 4.4 to 15.8 percent of GDP (figure 19). As of December 2020, total PPG debt stood at US\$5.6 billion, with guaranteed debt standing at US\$1.3 billion.<sup>39</sup> Maldives' risk of external debt distress remains high (IMF 2020). COVID-19 is expected to further aggravate the fiscal position and seriously hamper the government's ability to continue supporting social spending and infrastructure projects. Rebuilding fiscal and external buffers is thus critical for the sustainability of public finances in the medium term. To reduce the buildup of debt vulnerabilities, the government could explore new revenue measures as an alternative to debt financing, rationalization of recurrent spending, better prioritization of public investment, better planning and procurement processes, and reform of the SOE sector.

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<sup>38</sup> [https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=uriserv:OJ.C\\_.2021.066.01.0040.01.ENG](https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=uriserv:OJ.C_.2021.066.01.0040.01.ENG)

<sup>39</sup> Ministry of Finance, Maldives  
(<https://www.finance.gov.mv/public/attachments/KEawx2tGovPuU0q9eLsoWtkTkzfH0UqY8cIjp4G.pdf>)



**The scaling up of infrastructure investment has been the main driver of the increase in PPG debt.** Major projects include the expansion of the international airport, Hulhumalé land reclamation work and development, the Malé-Hulhumalé connecting bridge, the new Indira Gandhi Memorial Hospital, large social housing projects, and the planned development of a new port around Ghulifalhu. In addition, under the new National Spatial Plan, the government is planning to develop regional and subregional urban centers. While many of these major infrastructure projects have the potential to be transformative, they also carry risks. Public sector capacity to plan and implement such projects is limited. The efficiency of public investment management is crucial to ensure value for money and returns from investments, but the efficiency gap between Maldives and the most efficient countries with comparable levels of public capital stock per capita is 50 percent, wider than the average for emerging market economies. Areas that need immediate attention include (i) budget credibility and budget execution, including the extensive use of virements and reallocations; (ii) project planning, appraisal, and selection; (iii) project pipeline and capital budget ceilings; (iv) limited implementation capacity; and (v) weak oversight of SOEs (IMF 2019). Reforms are ongoing in several areas, including efforts to strengthen the oversight of SOEs, commitment controls, and cash management, and efforts to improve the overall framework for budget credibility.<sup>40</sup>

**The provision of affordable housing has remained front and center in the policy agenda for past and current administrations.** Over one-third of the population resides in the greater Malé area. From 2000 onward, this area has accounted for an increasing share of the total population of Maldives, attributable largely to a substantial internal migration.<sup>41</sup> The main reasons cited for migration include education (40 percent) and employment (13 percent); more broadly, the availability of economic opportunities draws people to Malé. The limited physical space available in Malé and the growing population have led to an increasing demand for affordable housing. For years, these increasing housing needs in Malé were met by subdividing existing units, resulting in overcrowding. More than five people share a room among households in the bottom

<sup>40</sup> This includes reforms to reduce virements and budget reallocations.

<sup>41</sup> According to the 2014 Census, approximately 53 percent of the resident population of Malé was made up of lifetime migrants.

quintile. In addition, housing costs in Malé are high: the bottom 20 percent of the population devote over 40 percent of their monthly expenditures to housing (and an additional 9 percent to utilities) (HIES 2016).

**Over the last few years, the external public and publicly guaranteed debt associated with housing projects has soared.** Government's efforts to increase the provision of affordable housing has been financed mainly through external financing. As of end-2019, disbursed outstanding external PPG for housing projects amounted to about US\$635 million (or 11.3 percent of GDP). The delivery of housing projects has been under the Ministry of Housing (now the Ministry of National Planning, Housing and Infrastructure), the Housing Development Corporation, the Fahi Dhiriulhun Corporation (a new social housing body), and SOEs. Housing policies and implementation mechanisms are fragmented, and better coordination between different bodies involved in the delivery of housing is required. In addition, long-term housing finance is underdeveloped and the mortgage market is small. Risks stem from mismatches between loan repayment periods and the starting point for cash flows from beneficiaries, gaps deriving from operational and maintenance costs, rental prices that do not cover debt service costs, and high delinquency rates. The COVID-19 pandemic is expected to exacerbate existing challenges in the housing sector, including delinquency rates and non-performing loans.

**To finance the large public sector investment program and housing projects, the government has been increasingly relying on non-concessional borrowing.** In 2015, commercial loans accounted for 7.7 percent of total PPG external debt, whereas multilateral debt represented 38.9 percent. Between 2015 and 2018, Maldives increasingly relied on more expensive financing sources, with a growing share of commercial loans (40.4 percent) and a declining share of multilateral debt (16.5 percent) in total PPG external debt.<sup>42</sup> In 2017 and 2018, the government issued two five-year sovereign bonds amounting to US\$250 million and US\$100 million, respectively. In addition, the role of nontraditional creditors, such as China and India, have become more prevalent. China has provided financing for several housing projects, the airport runaway, and the Malé-Hulhumalé bridge. The Export-Import (EXIM) Bank of China is the single largest creditor holding Maldives external debt, with 40.4 percent as of December 2019.<sup>43</sup> The Export-Import (EXIM) Bank of India and the Government of Maldives signed two lines of credit in 2019 and 2020 in the amount of US\$1.2 billion to support infrastructure projects. Many of these projects have been financed by non-concessional loans. The repayment of outstanding debt linked to these projects is expected to gradually increase over time, thereby increasing debt servicing costs and posing important risks to both fiscal and external sustainability.

**As mentioned in the discussion on transport and digital connectivity, Maldives' sparse population and geography place upward pressure on the cost of service delivery.** Maldives has a strong track record in achieving good health outcomes (life expectancy, under-five mortality, infant and maternal mortality rates) and in the recent past has also significantly improved its financial protection of households against high out-of-pocket spending. Government health spending more than doubled in real terms between 2013 and 2017 (World Bank 2018b). Since 2013, health spending as a share of GDP and as a share of total government spending has moved upward relative to peers with the introduction of the universal health insurance program Aasandha in 2012 and the expansion of this coverage in 2014 (through Husnuvaa, or "unlimited" Aasandha).<sup>44</sup> Recent reforms have aimed at reducing health spending without materially affecting the

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<sup>42</sup> Ministry of Finance, "Medium-Term Debt Management Strategy 2020–2022."

<sup>43</sup> Ministry of Finance, "Public Debt Bulletin," Issue 4, December 2019.

<sup>44</sup> Important drivers of increased government spending on health have been related to Aasandha (specifically overseas health care costs and excessive drug prices) and to the Dharumavantha Hospital.

quality of service delivery. Various inefficiencies in the health sector remain, such as excessive care-seeking at hospitals in Malé due to underfunded, low-quality services in the atolls, and high rents in the pharmaceutical sector leading to wasteful spending on drugs. A commitment to expand Aasandha to Maldivians living abroad is expected to increase fiscal costs.

**Important savings could also be achieved through better targeting of existing subsidy programs (food, social, electricity, and fuel subsidies) or through replacing these programs with a direct cash transfer program.** A rationalization of power and fuel subsidies could contribute to fiscal savings. Energy subsidies are high; estimated diesel subsidies for electricity generation amounted to approximately 1 percent of GDP in 2018. Maldives has the highest cost of electricity generation across South Asia, and high electricity prices are linked to volatile diesel imports and the inefficiency of most installed diesel generators. Social assistance programs could be better integrated with health services and linked to better access to cash transfer programs, especially in the atolls. In addition, streamlining the so-called double pensions for select civil servants retiring since 2009 and reviewing the adequacy of contributory pensions are areas that require attention.

**The pandemic also highlights the lack of contributory social insurance programs in Maldives.** At least 20,000 workers have lost income or jobs as a result of the pandemic. The government has responded rapidly with an emergency Income Support Allowance program, but this has been financed out of recurrent budget and donor resources. While the Income Support Allowance program has showcased the effectiveness of the country's registration and payment systems in rapidly delivering assistance, establishing a contributory unemployment insurance scheme for workers would lessen the fiscal burden of future crises.

### 3.1.2 External Sustainability

**Maldives has been running large current account deficits, averaging 25 percent of GDP over 2016–19 (figure 20).** Several factors are behind this, particularly the enclave and insularity characteristics of the Maldivian economy and its reliance on imports, foreign capital, and foreign labor. In recent years, the country has scaled up infrastructure investment. Increases in imports of raw and construction materials and capital goods linked to these projects, as well as the development of new resorts, explain the widening current account deficits.<sup>45</sup> The country is also a net importer of oil. The resort tourism sector and the construction sector also rely heavily on migrant workers. A steady outflow of workers' remittances, averaging 9.8 percent of GDP over 2016–19, has contributed to the large current account deficits. The current account balance has been financed by FDI—mainly directed to the tourism sector—and debt flows. With COVID-19, export receipts (especially from tourism) are projected to decline sharply in 2020. The impact on the current account is expected to be countered by lower imports and remittances outflows. The financing of the current account deficit may be challenging in view of capital flows reversals and reigning uncertainty. The duration of the shock at the time of writing is uncertain.

**Moving away from fossil fuels toward a more diversified electricity matrix is key to ensure a sustainable sector from both an environmental and economic perspective, and to reduce a critical source of fiscal vulnerability.** While lower oil prices in recent years have reduced vulnerabilities on the external side—to an even larger extent under the ongoing pandemic—potential oil price increases in the near to medium term

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<sup>45</sup> The external position is assessed as weaker than fundamentals. The analysis suggests a real effective exchange rate appreciation. The external adjustment is expected through the unwinding of large infrastructure projects and growing tourism receipts. In addition, structural reforms that improve competitiveness, build reserve buffers, and modernize the exchange rate framework could contribute toward the adjustment of the current account deficit (IMF 2019).



pose significant risks to the outlook. Adjusting tariffs to better reflect actual generation costs and gradually shifting the composition of the electricity generation matrix toward renewables are expected to narrow the current account deficit and reduce both fiscal and external sector vulnerabilities. Designing and implementing smart energy systems, including electricity storage, will strengthen utility finances through improved operations, reduced fossil footprint, and increased resilience. Better selection and sequencing of infrastructure projects is also expected to reduce investment-related imports. Finally, gradually incorporating a higher share of the Maldivian labor force into tourism related-activities may reduce remittance outflows.

**Limited fiscal buffers may further aggravate the impact of a global recession or an idiosyncratic shock to the tourism sector.** Temporary shocks that limit tourism flows (a disease outbreak, a global slowdown, or a recession in some key markets) or more long-lasting shocks (sea temperature rise and coral bleaching that could reduce the attractiveness of Maldives as a tourism destination) could have a severe impact on the economy and on the government's resource envelope, given the importance of revenues from tourism (i.e., income from resorts, tourism GST, green tax, and departure charges). This has been highlighted by the recent outbreak of COVID-19, which heightened existing vulnerabilities and the importance of fiscal prudence. Reserve buffers are low at 1.2 months of merchandise imports (September 2020).<sup>46</sup> The government has set a sovereign development fund to finance the redemption of external debt linked to some important infrastructure projects such as the airport.

### 3.2 SOCIAL SUSTAINABILITY AND SPATIAL DISPARITIES

**The main challenges to social sustainability and inclusion stem from limited economic opportunities for youth, spatial disparities, and existing gender gaps.** With a young and expanding workforce, delivering sufficient jobs for youth remains a key priority to foster inclusion. COVID-19 induced layoffs, lost livelihoods and reduction in incomes have made this priority even more pressing.<sup>47</sup> The most adverse effect of the pandemic is expected to be seen in sectors and activities that are directly or indirectly linked to tourism or that require personal interactions. External and domestic containment measures are expected to have significantly reduced turnover of accommodation establishments and restaurants, retail stores, transport providers, and personal service providers, leading to significant job losses and businesses closures. As the private sector emerges from the pandemic, its capacity to create jobs will be severely hampered. In addition to providing support to affected individuals and firms during the recovery phase, addressing long-standing issues and existing challenges that hinder social sustainability and inclusion of vulnerable groups remains central to Maldives' development agenda. This will require a multipronged effort that includes skills development<sup>48</sup> and addresses weaknesses in education quality and school-to-work transition, carried out in close collaboration with the private sector. In addition, economic opportunities are closely interlinked to the remoteness of the islands and challenges associated with the provision of services such as education,

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<sup>46</sup> This figure refers to usable reserves, net of short-term liabilities. The standard reserve adequacy metric may not be suitable for Maldives, in view of the large capital imports related to infrastructure projects, imports of raw and construction materials for such projects, and imports by the tourism sector.

<sup>47</sup> See also "Rapid Livelihood Assessment: Impact of the COVID-19 Crisis in the Maldives" (Ministry of Economic Development and UNDP 2020).

<sup>48</sup> This includes the development of market-driven digital economy skills for the local IT industry, with potential for economic diversification, job creation, and increasing exports of digital services such as programming, website development and call centers.

health care, and transport. Finally, while Maldives compares favorably with regional peers in many important dimensions of gender equality, it could foster even greater inclusion in the country by reducing existing gender gaps in key areas, such as labor force participation.

### 3.2.1 Youth, Jobs, and Inclusion

**Maldives' growing working-age population needs to be gainfully employed to avoid social tensions in the future.** Young Maldivians have a huge untapped potential, which if used productively could lead to further growth and shared prosperity. Yet youth are more likely to be unemployed than older workers. In addition, an important share of young people are NEET, reducing their employability prospects. Hence increasing job opportunities for younger cohorts is central to promoting better inclusion. Improving educational opportunities at the upper secondary and post-secondary level combined with better school-to-work transitions will be critical to address skills shortages and promote inclusiveness and social sustainability. Delivering sufficient jobs for Maldivian youth will require: (i) concerted efforts in fast-growing sectors such as tourism; (ii) skills development and improvements in educational attainment and quality; (iii) improvements in national and regional access (i.e., through better air or maritime connectivity, which will open up opportunities in key sectors; and through improved speed, quality, and cost-effectiveness of ICT infrastructure, especially broadband); and (iv) a reduced role of the state in the production of goods and services to foster private sector activity and job creation.

**Lack of jobs and economic opportunities can lead youth to feel discontented and disenfranchised, making them more susceptible to radicalization as well as engage in crime and drugs:**

- **Increased radicalization.** The International Institute for Strategic Studies estimated that as of 2018, between 250 and 450 Maldivians had joined the Islamic State, making Maldives the top country per capita for foreign Islamic State recruits in the world (Solanki 2018). Furthermore, widely publicized intimidation (including murder and abduction) of outspoken Maldivians who were critical of radical religious views reinforced domestic perceptions that it is unsafe to openly advocate religious plurality (Rasheed 2019; Aneez 2017). Although a handful of violent incidents have taken place in Maldives, most cases appear to be connected to political turmoil rather than extremism. While these concerns need to be approached cautiously, the perception that Maldives is susceptible to extremism is particularly challenging to the country given its heavy reliance on international tourism.<sup>49</sup> The current context calls for better ways to monitor fast-changing societal dynamics that have contributed to the spread of radical ideology, as well as related issues of identify, fairness, exclusion, and disenchantment among youth. Global research shows that extremism is linked less to lack of economic or educational opportunities than to issues of exclusion, identity, disillusionment, and psychological trauma—all of which seem to be present (at least in early stages) among youth in Maldives, and all of which may play a crucial role in creating disillusioned youth (UNDP 2019; Maldives Independent 2019a, 2019b).
- **Consumption of illicit drugs.** According to the 2011–12 study on drug use prevalence (UNODC 2013), the number of drug users in Malé was estimated at 4,342 (or roughly 7 percent) and in other

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<sup>49</sup> International tourism has proven to be resilient to terrorism. According to the World Travel and Tourism Council and Global Rescue, it takes on average about 11.5 months for the tourism sector to make an economic recovery following a terrorist incident. Longer recovery times were recorded in some cases: about 21 months following the 2002 and 2005 attacks for Indonesia and about 39 months following the 2015 attack for Tunisia. For more information, please see WTTC and Global Rescue (2019).

atolls at 3,154 (roughly 2 percent). The majority of these users are ages 15–19. Relatedly, the majority (70–80 percent) of incarcerated Maldivians are jailed for nonviolent drug offenses (Shafy and Wan Muhammad 2018). The Maldives had an incarceration rate of 499 per 100,000 of population in 2017 at an occupancy level of 128 percent,<sup>50</sup> one of the highest in the world. Incarceration raises the risk of radicalization while in prison.

- **Gang participation and violence.** Anecdotal evidence suggests that youth are joining gangs for a variety of reasons, including inactivity and apathy, unemployment, drug use, the need to belong and form a brotherhood, and the need for young men to prove their masculinity (World Bank 2014). Most of the gang violence is within or between gangs rather than against the general public (UNDP 2019).

### 3.2.2 Spatial Disparities

**Over one-third of Maldives' population is concentrated in the greater Malé area.** The concentration of economic activities in a relatively small region has led to agglomeration effects as well as new economic activities. However, agglomeration effects can make it challenging to spread economic benefits equally to all Maldivians; the greater Malé area does not only concentrate economic activity, but also provides better employment opportunities and access to services such as health and education.<sup>51</sup> Persistent disparities in living standards are present for Maldivians living in the atolls, where access to basic services, including education and health, is limited, and fewer economic opportunities are available. These challenges have resulted in many Maldivians migrating to the greater Malé area. The main reasons cited for migration include education (40 percent) and employment (13 percent); more broadly, the availability of economic opportunities draws migrants to Malé (NBS Maldives 2014).<sup>52</sup>

**Few Maldivians are (consumption) poor, yet large spatial socioeconomic disparities exist between Malé and the atolls.** Poverty rates vary largely across regions: the southern atolls are among the poorest, with poverty rates of 18 percent, whereas people living in and around Malé are better off, with poverty rates of less than 2 percent. Unemployment is the highest in the south and in Malé. A large part of the population has migrated to Malé in search of jobs but with limited employment opportunities, many of them remain unemployed.

**Size and geographical dispersion lead to high overhead costs per capita in the provision of services and key infrastructure for small inhabited islands.** These challenges are compounded by existing inter-island transportation constraints. Health outcomes vary across and the atolls (MoH 2019). However, due to better availability of health services in Malé, monthly per capita out-of-pocket expenditure on health care is higher in Malé than any other regions. Education opportunities at the upper secondary and post-secondary level outside of Malé are limited. One often-cited reason to migrate from the atolls to greater Malé is to seek better education opportunities. The population in Malé with completed A levels or above is higher than in

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<sup>50</sup> See World Prison Brief data on Maldives for 2017, <https://www.prisonstudies.org/country/maldives>.

<sup>51</sup> SCD consultation participants from the atolls noted that budget for education and health care facilities is controlled by the central government, an arrangement that has led to ineffective management and inequitable provision of services. A disproportionate share of the budget is still allocated to Malé.

<sup>52</sup> Participants in the SCD consultation process noted that though there are talented and educated people who wish to stay in their islands, very few economic opportunities are available in those communities. Overcentralization of services in Malé and tourism development in the central region were identified by focus group participants as reasons for growing inequality. Malé continues to be prioritized in health care services, and the development of resorts continues to be centered near Velana International Airport.

other regions. Men and women in Malé are almost three times more likely than those elsewhere to have achieved O levels or above (32.4 percent of men and 36.5 percent of women in Malé have A levels or above). Approximately 53 percent of Maldivians ages 15–24 living in Malé are studying, compared to 37 percent in the atolls. Finding the appropriate balance between the level of service delivery, subnational governance, and fiscal affordability is key to producing the desired impact on economic opportunities, migration, and living standards.

**Service delivery for the poor, people with disabilities and the elderly are also more limited in the atolls.** The country at present lacks a formal social assistance program for the poor. Social care services for people with disabilities, the elderly and the mentally ill are also limited. Providing such services on each of the Maldives' many islands is clearly impractical, however there is scope to deliver more and better services through the well-established networks of Family and Child Service Centers and local hospitals. Better coordination of administrative data, for instance on people with disabilities, could also improve the consistency of service delivery.

### 3.2.3 Gender Gaps

**Maldives fares better than most South Asian countries on gender equality indices for economic opportunity, health, education, and women's decision making in the household. However, substantial progress is needed to close existing gender gaps.** Young women tend to be better educated than young men. In the age group 15 to 24, women have higher levels of education than men; 32 percent of young women have completed A levels or above compared to 21 percent of young men. Maldives is the only country in the region to have attained gender parity in primary and secondary enrollment and completion rates,<sup>53</sup> and the number of Maldivian women attaining university degrees is at par with numbers for men, although women are less likely than men to enroll in technical and vocational training (Ministry of Education 2019).<sup>54</sup> On health and survival, Maldives also fares well, with a maternal mortality rate of 68 and parity of sex ratio at birth. Adolescent fertility rates are comparatively low at 5.8 percent (World Bank 2019c). Nevertheless, for reasons pointed out in section 2.1, labor force participation rates for women are low for all ages and are almost half those of men, impeding women to achieve their full economic potential.

**A recent survey highlights important gender-differentiated impacts of the COVID-19 outbreak in terms of economic empowerment in the Maldives.**<sup>55</sup> Key findings suggest that: (i) the pandemic disproportionately impacts women's mental and emotional health, with increased economic strains and gender-based violence contributing to these outcomes; (ii) women in informal employment are more likely than men to see their working hours reduced; (iii) lockdown and social distancing measures have led to a sharp increase in unpaid domestic work, with women reporting the largest increases.

**To improve inclusiveness, Maldives should address key gaps related to employment, leadership positions, and sexual harassment:**

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<sup>53</sup> High school enrollment rates are higher among girls than boys. Net enrollment rates were 50.4 percent for girls and 38.9 percent for boys in 2018 (Ministry of Education 2019).

<sup>54</sup> The percentage of population with completed tertiary schooling is low in Maldives. In addition, female participation rates at all levels of education are relatively low, further reducing the availability of skilled labor.

<sup>55</sup> Rapid Assessment on COVID by UNWOMEN: <http://statisticsmaldives.gov.mv/nbs/wp-content/uploads/2020/06/Gender-Differentiated-Consequences-of-COVID-19.pdf>

- **The labor force participation rate of 44 percent for women is lower than that of men in all age groups, even for young women.** Most women do not have access to high-paying and skilled jobs. The gender wage gap is significant; on average, women earn MVR 7,510 per month while men earn MVR 11,977 (NBS Maldives 2018). Women earn less than their male counterparts irrespective of their level of education. Vulnerable employment—e.g., as own-account workers or contributing family workers—is also much higher among women (30 percent) than men (13 percent), and 40 percent of women work in the informal sector compared to 31 percent of men.
- **Women’s participation in leadership positions is low at local and national levels.** Only one-fifth of all people employed in decision-making and management roles are women. According to the Inter-Parliamentary Union (IPU 2019), Maldives ranked 183 among 193 countries in the classification of women in national parliaments as of 2019. Women’s representation stands at 5.9 percent in Parliament and 17.6 percent in ministerial positions. The low representation of women in the Maldivian Parliament can be partly attributed to the lack of reserved seats for women, a practice that has been introduced in many other countries in South Asia.
- **Violence against women is a major issue in Maldives.** UNFPA (2017) reports that over 96 percent of Maldivian women have experienced gender-based violence during their lifetime, with 60 percent having their first experience before the age of 14 and 40 percent before the age of 10. Domestic violence in Maldives remains high with one out of every four females reporting having experienced some form of violence during her lifetime (MoH 2019).

### 3.2.4 Migrant workers

**To overcome labor supply constraints, employers have relied on migrant workers for both low- and high-skill jobs.** Migrant workers make up about 30 percent of the total labor force in Maldives. Estimates from the 2014 Census (NBS Maldives 2014) indicate that about 20 percent of the workforce ages 15 to 64 years are foreigners (about 62,500 foreigners).<sup>56</sup> Almost 9 out of 10 are male, and two-thirds are between 25 and 39 years old. More than one-third of all foreigners live and work in industrial islands but the rest live among host communities in Malé and other islands (IOM 2018). Foreign labor has been used to fill jobs that Maldivians are not willing to take and to make up for skill shortages in key sectors such as tourism and construction—shortages that exist because the education system has yet to catch up with qualifications and skills required by employers.

**Migrant workers’ rights and safety needs, along with growing hostility toward migrant workers, are important concerns that need attention going forward.** There is a growing negative sentiment toward foreign workers among many Maldivians, likely fueled by the perception that they crowd out local labor by accepting lower wages and by the fact that many of them do not always enter the country legally. The government estimated at least 35,000 undocumented migrants in 2015 (IOM 2018). Migrant workers, especially those in low-skills jobs, are more likely to be subject to lower wages, precarious and unsafe working conditions, inefficient monitoring of recruitment and employment practice, and weak sanctions for labor law violations (IOM 2018).

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<sup>56</sup> Numbers on migrant workers are contested; in 2015, the United Nations Development Programme reported more than 94,000 migrants living in Maldives.

### 3.3 ENVIRONMENTAL SUSTAINABILITY

#### 3.3.1 Disaster Risks and Climate Change

**Maldives faces many of the same challenges as other small island nations (IPCC 2014).** A narrow economic base around tourism and related activities, small size, and insularity limit Maldives' resilience and adaptive capacity to cope with natural disasters, climate change, and environmental risks. Economic vulnerability is heightened by high dependence on key imports such as food and fuel, and recent population growth has increased exposure to climate-related hazards.

**Tourism depends heavily on the natural habitat features of Maldives: pristine waters and natural reefs and ecosystems.** The tourism sector is the largest sector of the economy and generates the majority of the government's revenues. Resorts' basic infrastructure—such as power structure, water systems, drainage systems, and waste disposal systems—is within 50 m of shorelines (UNDP BCPR 2013). Climate change can have an adverse impact on environmental resources through coral bleaching and beach erosion, potentially adversely affecting tourism. Fisheries and agriculture, which support the livelihoods of many Maldivians, are also susceptible to natural hazards and climate risks, though to a lesser extent. Warmer sea-surface temperature and coral bleaching can have a negative impact on fishing activities and migration patterns of tuna. Maldives is dependent on pole and line methods on live bait, which is extracted from corals (which are susceptible to climate variability and change). In addition, climate-related risks pose serious threats to infrastructure and production systems. Critical infrastructure (harbor, hospitals, power stations, communication systems, waste disposal centers, and schools) are exposed to swells, strong winds, and rainwater flooding. An extreme shock or poor environmental management could undermine Maldives' capacity to generate revenues and provide public services.<sup>57</sup>

**Maldives is exposed to several climate hazards, including wave swells, storm surge caused by cyclones, heavy rainfall and floods, droughts, and strong winds (UNDP 2006).** Three major types of wave hazards impacting Maldives include *udha*, swell waves,<sup>58</sup> and tsunamis.<sup>59</sup> Impacts associated with such events include damage to coastal vegetation, saltwater intrusion to wetland and island water lenses, contamination of groundwater, damage to crops, loss of soil productivity, damage to coral reefs, and geomorphologic changes in the shoreline and lagoon. Northern atolls are exposed to greater risks of tropical cyclones, including cyclonic winds and storm surges. Maldives is frequently affected by local thunderstorms and thunder squalls. Hazards associated with thunderstorms are strong winds and wind-driven waves, heavy rainfall, lightning, and hail, which could be hazardous to lives and infrastructure along the coast. Heavy rainfall (and associated flooding) occurs during the monsoon season and during storms.

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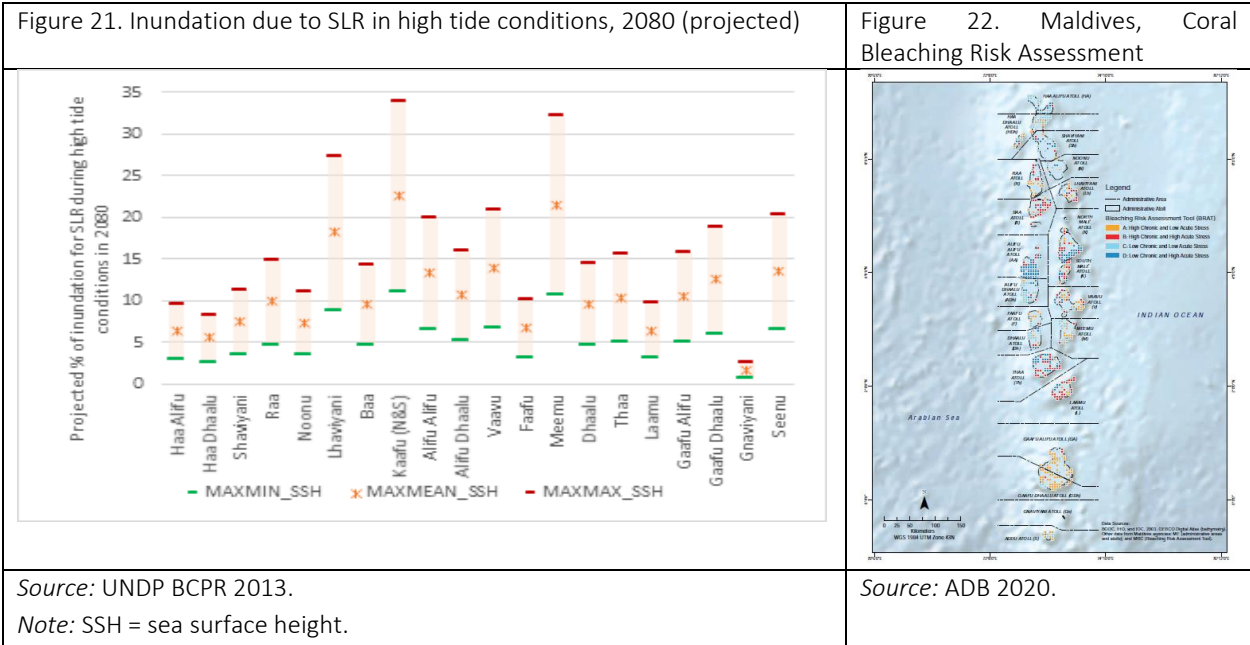
<sup>57</sup> There was a strong perception among participants in the SCD consultations that damage to the environment is not given serious consideration in undertaking development initiatives and that genuine environmental care is lacking in policy planning. No proper environmental impact assessment is conducted in many development undertakings in either the public or private sector. Sand mining and reclamation (for urbanization and resort development) affects marine life and increases climate change risks. Dependency on fossil fuel was raised as a further concern, given that Maldives is in an ideal position to harness solar energy.

<sup>58</sup> *Udha* is a gravity wave phenomenon caused by a combination of high tides and strong wind waves occurring in the months of May–June in southern Maldives. Swell waves are unusual tidal waves with stronger energy triggered by synoptic systems or other factors (UNDP BCPR 2013).

<sup>59</sup> Maldives was devastated by the 2004 tsunami. Total damage is estimated at about 62 percent of the country's GDP (UNDP 2006). Severe damage was caused to habitats, housing, and infrastructure, and economic activity was disrupted in key sectors such as tourism and fisheries.

In contrast, failure of monsoon leads to drought-like conditions, since rainwater is the major source of drinking water for many islands (UNDP BCPR 2013).<sup>60</sup>

The main climate change threats to Maldives are warmer sea-surface temperatures and their impact on coral health and fisheries, distribution of rainfall, sea-level rise (SLR), and increase in temperature that can lead to disease outbreaks (UNDP BCPR 2013, ADB 2020). SLR represents one of the most significant climate change threats for low-lying islands such as Maldives in the medium to long run. Due to its low elevation, SLR threat is uniform throughout the country. Consequences of SLR include coastal and beach erosion, inundation, saltwater intrusion and degradation of fresh groundwater resources, and threat to human settlements and infrastructure (figure 21). Storms, swell waves, and high tides are expected to exacerbate the impact of SLR, accelerating coastal erosion in the islands and saltwater intrusion. Changes in rainfall patterns, increase in heavy rainfall, and prolonged drought periods are expected to have heterogenous impacts on agriculture and water supply. Climate change is also expected to lead to an increase in rainfall flooding and threats to coral reef growth in Maldives. Sea surface temperature has important implications for the fisheries and tourism sectors, as well as the biodiversity of the lagoons. Thermal stress and increasing carbon dioxide concentration are expected to lead to increased coral bleaching (figure 22) and reduced reef calcification, in turn reducing reefs’ protective capacity against tides and waves (IPCC 2014; ADB 2020).



**Maldives depends on rainwater harvesting and shallow wells for freshwater.** The shallow wells and freshwater aquifers are being threatened by land degradation and salinization, especially in low-rainfall areas. Low rainfall occurs once in five years during El Niño and may be further aggravated by climate variations. In the years 2009, 2010, and 2012, nearly 60 islands witnessed water scarcity in the summer

<sup>60</sup> Participants in the SCD consultation process identified natural disasters as having the potential to set back development progress. They noted that building climate change resilience is important and that Maldives lacks proper resilience planning. Participants perceived the need to identify safe shelters, cluster population or safer islands based on water and food security.

months, impacting 30,000 people. It is estimated that 25,000 to 30,000 people, particularly in northern and central islands, could face water scarcity in future low-rainfall years (UNDP BCPR 2013).

**Maldives' small size and insularity mean that climate-related threats have disproportionate impact, making preparedness and adaptation measures especially challenging.** Small size leads to high overhead cost per capita, particularly for climate change adaptation and redesign of the islands' infrastructure. Adaptations to climate change, especially hard adaptation measures, generally require large up-front overhead costs, which in the case of small islands cannot be easily downscaled in proportion to the size of the population or territory (Sovacool 2011, 2012). The unit cost of shoreline protection per capita in small islands is substantially higher than the unit cost for a similar structure in a larger territory with a larger population (IPCC 2014).

**Rapid population growth, increasing tourist arrivals, and the development of resorts and critical infrastructure are also putting additional pressure on Maldives' natural habitats and biodiversity systems, which provide the foundation for the tourism and fisheries sectors.** Deterioration of natural barriers that cushion against the impact of natural hazards could expose many islands, people, and associated livelihoods to increasing climate-related risks. A recent study of 608 islands in Maldives finds that human disturbances have undermined the atoll islands' capacity to adjust to ocean climate-related pressures. Reef ecosystems provide coastal protection services, including the reduction of marine inundation and coastal erosion by attenuating wave energy through wave friction over the reef flat and sediment delivery to the island. Land reclamation (and reef mining) and shoreline armoring have contributed to major changes to island and reef morphology. About 20.1 percent of inhabited and exploited islands have reached an anthropogenic tipping point beyond which island armoring and human intervention will be the only solution to ocean climate-related risks. In addition, about 46.2 percent of inhabited and exploited islands may reach this tipping point in the near term, increasing risks from sea-level rise and flooding events (Duvat and Magnan 2019).

### 3.3.2 Water and Waste Management

**Freshwater resources in Maldives are scarce.** The main natural freshwater resources available in the islands are shallow groundwater aquifers. Groundwater lenses lie at an average depth of 1–1.5 m below the ground surface. In many of the inhabited islands, fresh groundwater has been depleted by over-extraction, causing saltwater intrusion (MEE 2017). In addition, groundwater—recharged by rainfall—becomes contaminated while percolating through the soil, which is generally polluted with organic and human waste (FAO 2011). Rooftop rainwater harvesting is widely practiced in the atolls, mainly for potable purposes, as the quality of groundwater has been degraded. The share of households in atolls with rainwater tanks increased from 35 percent in 2004 to 87 percent in 2016 (MEE 2016). In Malé, desalinated water is distributed through a piped network. Major progress has been made in providing access to piped water supply: by the end of 2016, 41 percent of the population had access to water supply systems, compared to just 25 percent in 2013 (MEE 2017). Resorts and a growing number of inhabited island communities rely mainly on desalinated water. Despite progress in increasing the supply of desalinated piped water, there remains a need for more knowledge about, information on, and trust in the drinking water quality to overcome a habitual reliance on bottled water that is contributing to the generation of waste and marine plastics.

**Water security remains a challenge, despite progress recorded in rainwater collection systems in the outer islands.** Maldives faces significant challenges to water security and water quality due to increasing salinity intrusion and contamination of groundwater lenses, which are the main source of drinking water next to rainwater. Rapid and unplanned urbanization, together with climate change, is exacerbating this challenge.



Findings in Deng and Bailey (2017) suggest that if SLR is taken into account in combination with future rainfall patterns, groundwater availability could drastically decrease for small islands, with lens thickness decreasing by 60–100 percent by the year 2050; larger islands would be only slightly affected (a decrease of 1–3 percent).

**Untreated wastewater continues to be discharged into the sea, creating sustainability risks to the tourism and fisheries industries and potential health risks to the population.** Improved sewerage systems and fecal sludge management are needed. Sewerage connection coverage increased from 37 percent of the population in 2013 to 48 percent by end of 2016 (MEE 2017). About 75 percent of Maldivian households are served through sewer networks, yet wastewater is often not treated.

**Maldives is facing important challenges in managing its solid waste and associated environmental issues.** Solid waste management has grown in relevance due to population growth, changing consumption patterns, and rapid growth in tourist arrivals. Residents and the more than 1.5 million tourists who visit Maldives every year produce large amounts of waste. Approximately 755 tons of solid waste per day or 275,575 tons per year was generated in Maldives in 2017. Of this amount, the tourism sector generated approximately 20 percent, and urban areas and island communities accounted respectively for 49 percent and 31 percent. Solid waste is generated at a rate of 1.8–2.8 kg per day in urban areas, 0.8–1.0 kg per day in other inhabited islands, and 3.5–7.2 kg per day in resorts (Ministry of Tourism 2015; World Bank 2017). Most of the waste generated on the islands is disposed of on the island foreshore or burnt at low-combustion temperatures due to limited infrastructure and waste transportation difficulties, lack of institutional capacity, and lack of public awareness and participation, among several factors.

**Waste management practices differ across islands.** In Malé, the Waste Management Corporation (WAMCO), an SOE, provides waste management services and also is responsible for transferring collected waste for disposal to Thilafushi. The bulk of the waste generated in the Malé region is transported daily (mixed and untreated) by boat to Thilafushi (6 km from Malé), where waste is dumped and burned, creating significant environmental and public health risks.<sup>61</sup> WAMCO also operates the country's first Regional Waste Management Facility at Vandhoo island in Raa Atoll, manages the collection of waste from the Island Waste Management Centers (IWMCs) of four atolls (Baa, Raa, Noonu, and Lhaviyani), and has plans to accept waste from additional northern atolls in the future. Operation of a more integrated regional system has come with significant start-up challenges related to low capacity to operate a waste-to-energy facility, remoteness with long delays to access spare parts, and challenges with waste collection transport and logistics. On islands, in general, waste is collected by the island councils or community and private operators, or it is carried by individuals to a designated disposal site or IWMC. As mentioned above, however, in the absence of services to remove waste from islands, accumulated waste is often dumped onto the island foreshore or openly burned, polluting the environment and constituting an important risk for the population as well as some of the key sectors of the economy (tourism and fisheries). Good progress is being made to expand the construction, rehabilitation, and reactivation of island waste management center functions at the inhabited island level as a necessary first step, while models for Atoll and regional level waste processing facilities continue to be planned and constructed while they adapt to overcome early challenges.

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<sup>61</sup> Greater Malé and its 32 inhabited outer islands lack an organized and sustainable waste management system. About 774 tons of mixed solid waste is generated daily. With rapid urbanization and tourism development in the region, the amount of waste is projected to grow to 924 tons per day by 2022 (ADB 2018).

**All resorts operate their own waste management centers that treat waste to a varying degree on site.** In some cases, mixed solid waste is loaded into vessels and sent to Thilafushi for disposal or to the nearest Regional Waste Management Facility (when it is operating and accepting waste). Food waste from resorts is typically separated and dumped into the ocean, although some resorts are treating organic waste on site with composting and, more recently, biogas digestion. Combustible waste components like cardboard are often incinerated in small-scale facilities (ME 2019).

**Maldives is undergoing an ambitious investment program to improve solid waste management across the country.** This includes the introduction of two additional Regional Waste Management Centers and the rehabilitation of Thilafushi island with construction of a new waste-to-energy facility to serve greater Malé and act as the country's central hub facility.

**Reducing plastic waste generation and plastic pollution is also key for environmental sustainability.** Maldives produced approximately 20,000–25,000 tons of plastic waste in 2018, and it is estimated that 1,500–2,000 tons of plastic waste enter Maldivian waters per year. About 50 percent of plastic waste in Maldives is single-use plastic bottles; approximately 100 million beverage bottles are consumed each year. Other waste items include other plastic bottles, diapers, carrier and other bags, food wrappers, construction plastics, and sanitary pads. Malé and other urban areas collectively generate 50 percent of total plastic waste, and one-third of waste is generated by island communities. While about 20 percent of the total waste is generated at resorts, per capita generation is three times higher than on islands. A 2019 study on the flow of plastics has estimated that approximately 25 percent of waste collected at resorts and islands eventually ends up in the sea from dumping or wind while being transported to Thilafushi. Policies to phase out single-use plastic bottles and bags could significantly reduce the plastic waste entering the sea. The government has established ambitious targets to phase out single use plastics by 2023. Maldives has several nongovernment programs for the collection and reuse of plastic waste such as the Parley Maldives program. Waste disposal and the improper burning of waste, plastic waste, and raw sewage discharges pose important challenges for the marine ecosystems and Maldives' pristine environment, and as mentioned above threaten sustainability of key sectors such as tourism and fisheries.

## **4 PRIORITIZATION**

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**The objective of setting priorities is to identify the most critical factors that can help lift growth, ensure inclusion and poverty reduction, and safeguard sustainability.** The prioritization below is based on the analysis presented in the previous sections (adding to the evidence presented in the 2015 SCD) and country team knowledge. It also draws on consultations with local and international stakeholders in Maldives held by the World Bank during the preparation of the diagnostic. These consultations included (i) a public online survey; (ii) face-to-face consultations in Malé and two atolls outside the greater Malé region with government, CSOs, private sector, youth groups, and women's groups, among others; and (iii) consultations with government officials during a workshop attended by key staff of various ministries.

**Consultations with stakeholders allowed for an open discussion on Maldives' development challenges and for validation of the analysis and conclusions presented in this document.** Field group discussions pointed to key issues that are featured in this SCD update: the lack of economic opportunities, particularly for island communities; the need for reliable transport and connectivity networks; support to MSME development; access to finance and the business environment; tensions arising from an overcentralized development

focus around the greater Malé region; growing socioeconomic disparities and drivers of migration; jobs and youth; employment challenges for women; drivers of growth and employment in tourism; skills mismatches; education outcomes and quality; the importance of protecting and preserving the environment; climate change and resilience planning; renewables; increasing debt vulnerabilities; and fragility risks linked to extremism.<sup>62</sup>

**Priority areas for policy action identified in this SCD update remain broadly unchanged from the previous SCD.** Taking into account progress since the previous SCD, new developments, and constraints and opportunities, and based on the analysis presented in the document, country knowledge, and consultations with local stakeholders, this update identifies the following priority areas: (i) enhancing opportunities for the local population to benefit from existing industries; (ii) enabling opportunities for creation of new sources of growth; and (iii) improving public resource management and reducing macrofiscal risk. The cross-cutting thematic areas are jobs, environment preservation and resilience to climate change, and governance (figure 23). Three areas have increased prominence in view of the COVID-19 pandemic: public resource management and macrofiscal risks, the jobs agenda, and pandemic preparedness.

- **Enhancing opportunities for the local population to benefit from existing industries.** The COVID-19 pandemic is expected to have a large impact on tourism. However, tourism is expected to continue driving growth in Maldives, both from the resort and the guesthouse segment. The latter has the potential to reduce spatial disparities and offer attractive economic opportunities outside greater Malé. Adequate planning and regulation of tourism development in inhabited islands will be important for ensuring provision of power, water, and sanitation in smaller islands, improving waste management, identifying skills needed in advance for the education and training system to respond to, and addressing transportation and connectivity constraints. Strengthening linkages between local providers of goods and services with both the resort and guesthouse segments could lead to job creation and new economic opportunities for local communities. Improving internet connectivity in atolls can also help outreach efforts to attract more tourists (e.g. e-commerce). In the fisheries sector, assessing the economic viability of new species (in addition to skipjack and yellowfin tuna) and of cannery activities could lead to new sources of income, jobs, and export earnings. Both the tourism and fisheries sectors require prudent management of Maldives' pristine marine environment.
- **Enabling opportunities for creation of new sources of growth.** Given its geography and size, limited opportunities for economic diversification are present. To overcome such spatial and structural constraints, enhancing the business environment and the investment climate, could contribute to fostering entrepreneurship and competitiveness. Areas for policy action include addressing potential negative spillovers generated by SOEs that may crowd out private sector activity or hinder private sector-led growth. Taking full advantage of new sources of growth would also require addressing human capital shortcomings. Increasing access to and improving the quality of education, as well as developing effective policies to address low educational attainment, are key priorities for fostering more and better education and skills. Given that the skills offered by the education system are not always those demanded by the labor market, it is essential that the country strengthen the quality of foundation and general education, and diversify vocational training, technical education, and higher education, to better meet these needs. This includes

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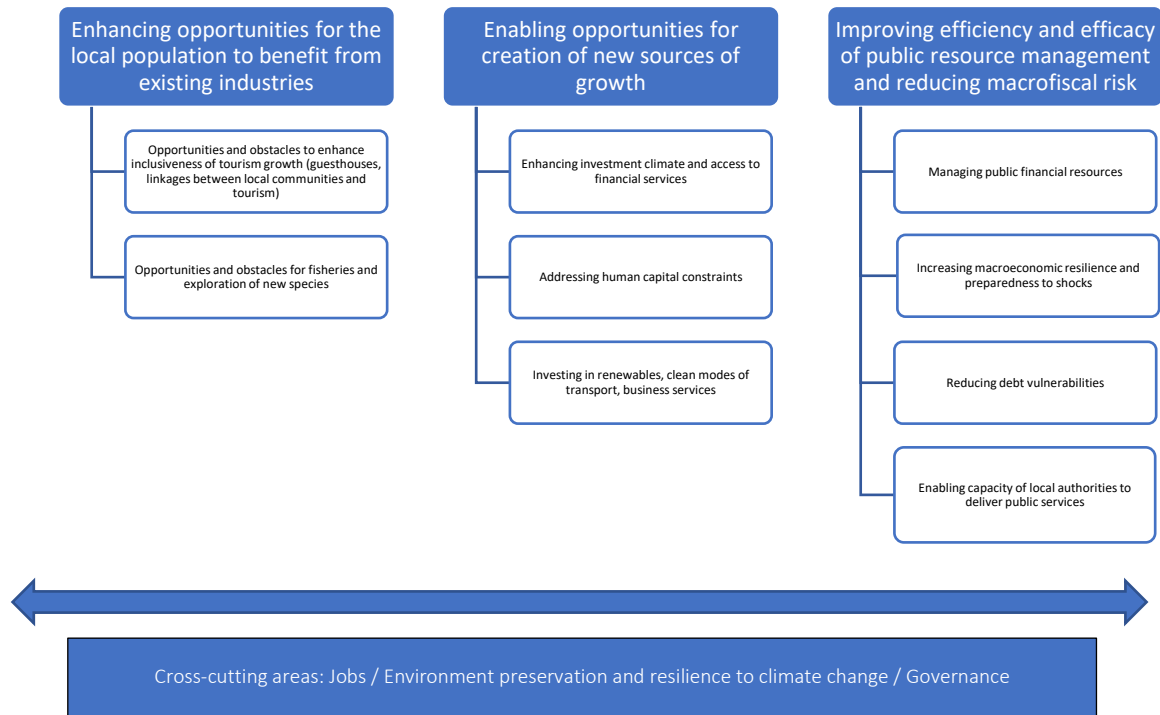
<sup>62</sup> Annex 4 provides additional details on the format of the consultations, based on World Bank (2019b).

investing in market-driven digital economy skills that could promote new tech startups and IT-BPO jobs in the international market. In addition, investment in education needs to focus on enhancing learning and improving socio-emotional skills that enable individuals to perform flexibly over a wide range of employment opportunities. Improving health service delivery especially in the atolls, as care-seeking behavior continues to be biased toward Malé, is key to reduce spatial disparities and foster inclusion. This effort should be accompanied with efforts to enhance the health system's efficiency, especially as Maldives' population will age over the long term, increasing the disease burden. Pandemic preparedness too needs to be addressed, given the country's reliance on tourism. Lessons learned from this global pandemic highlight the importance of continuing investing in pandemic preparedness to rapidly respond to such emergencies and mitigate the impact on key economic sectors such as tourism in the future. Business services, investment in renewables, and clean modes of transport are areas with potential for private sector-led growth and job creation.

- **Improving public resource management and reducing macroeconomic and fiscal risks.** Sustaining the progress achieved so far will crucially depend on better management of Maldives' public financial resources, as well as reducing debt vulnerabilities. The COVID-19 pandemic has heightened debt vulnerabilities and increased macroeconomic and fiscal risks. This priority has become more pressing in the short- and medium-term. Better prioritization of public spending will be critical. Taking additional steps toward improving the efficiency and effectiveness of the public sector in delivering public goods (subsidies, infrastructure, education and health services, and management of pensions) and enhancing revenue collection rather than debt financing would improve the sustainability of public finances. The rapid accumulation of debt (public and publicly guaranteed debt), which has increased the country's vulnerability to external shocks, has partly been driven by the government's efforts to provide social housing. Yet access to affordable housing continues to be a key development challenge for Maldives. The government should carefully consider issues such as congestion and overcrowding in Malé, available economic opportunities, transport and connectivity, the provision of public services, and the fiscal implications associated with such projects. In addition, in view of the potential impact from a disease outbreak in the tourism sector, strengthening disease preparedness would contribute to macroeconomic resilience. Finally, in view of the increased focus on decentralization and development of regional centers, enhancing the capacity of local authorities to deliver public services will be crucial for both poverty reduction and shared prosperity.
- **Cross-cutting areas: Jobs, spatial disparities, and governance.** A young and growing working-age population can spur growth, if employed productively. This is particularly important for Maldives, given its young population. Failing to do so could have long-lasting impacts for the country's development prospects, with more youth engaging in negative social behaviors. Jobs—with a focus on youth and women—are critical to increase socioeconomic opportunities and strengthen inclusion and social cohesion. The pandemic has triggered significant job losses and aggravated existing labor market challenges. Ensuring Maldivians receive the right skills to take advantage of existing and potential labor market opportunities will be critical moving forward. Reducing vulnerabilities arising from climate change and natural hazards and improving the management of Maldives' natural resources—the cornerstone of Maldives' tourism and fisheries sectors—are critical to ensure that recent progress toward the World Bank's twin goals can be sustained. In addition to climate change drivers, the growing population and increasing number of tourist

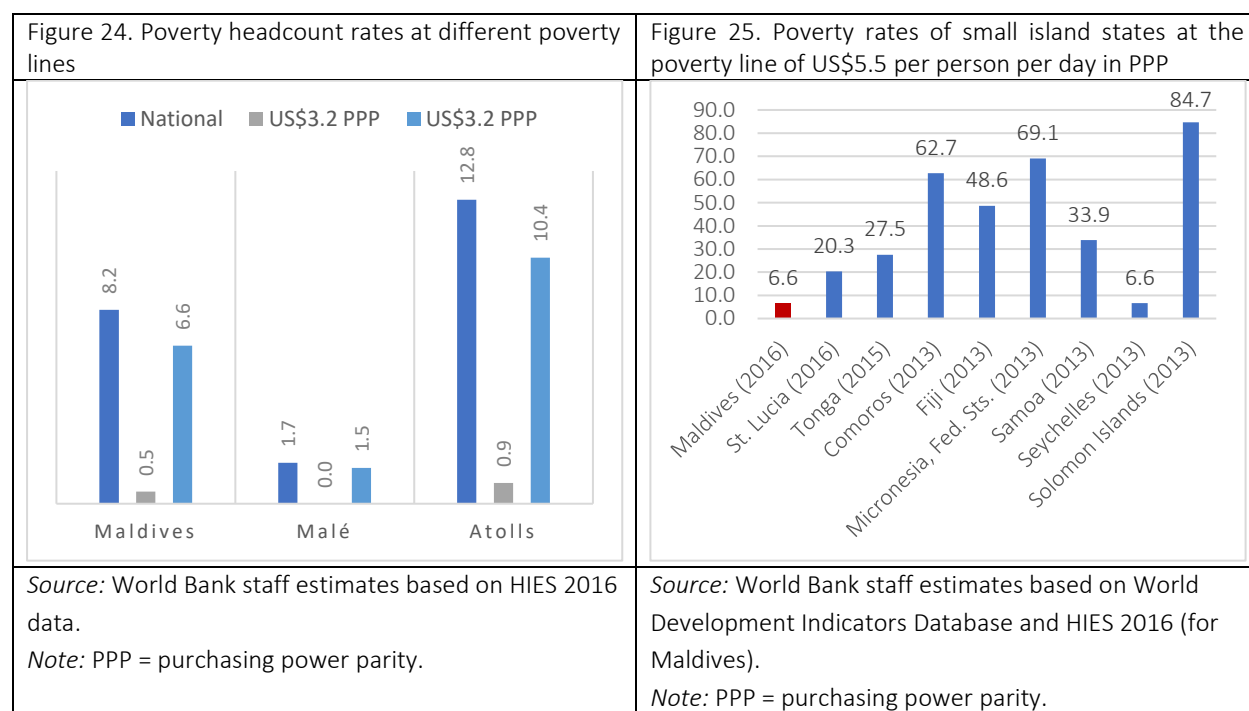
arrivals have contributed to higher levels of pollution and waste. Better coordination among institutions and increased stakeholder involvement could contribute to better management of natural resources and enhance the country's hazard preparedness and response. Finally, improving institutional quality and the efficiency of public service delivery is key to achieve progress in all identified priority areas.

Figure 23. Main priorities for Maldives



## ANNEX 1: POVERTY, INEQUALITY, AND SOCIOECONOMIC OUTCOMES IN MALDIVES

**Few Maldivians are poor according to the national and international poverty lines.**<sup>63</sup> About 8.2 percent of Maldivians live below the national poverty line, and 6.6 percent live below the international poverty line for upper-middle-income countries (US\$5.5 per person per day) (figure 24). Maldives performs well on poverty outcomes compared to its regional, income, and small island peers (figure 25). Yet, large differences in consumption expenditures between Malé and the atolls are a cause of concern. Poverty rates (using the national poverty line) vary substantially between Malé (1.7 percent) and the atolls (12.8 percent) (figure 24). Over 90 percent of all the poor—or over 28,000 people—live in the atolls, even though the population share of the atolls is only 58 percent (figure 26).

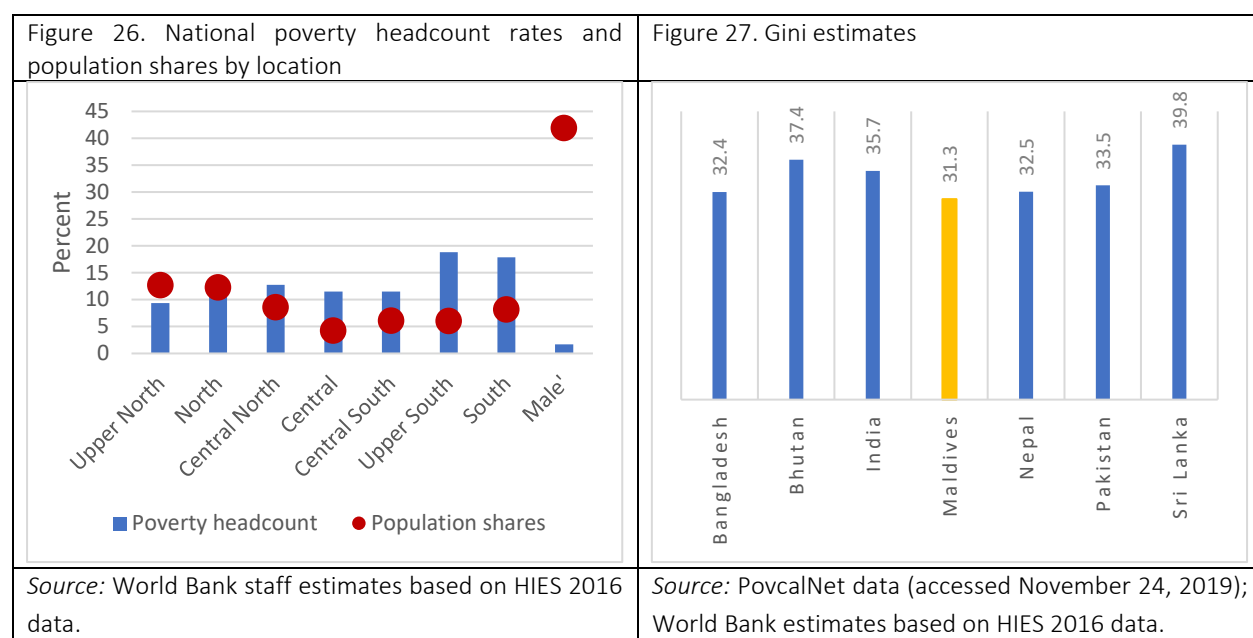


**Maldives has relatively low levels of inequality, with a Gini coefficient of 31.3 (figure 27).** Per capita median expenditure in the top quintile is four times higher than in the bottom quintile. Almost 80 percent of inequality in Maldives is due to inequality within areas (e.g., within Malé and within atolls), and only 20 percent is due to differences between areas (e.g., the Malé–atoll income gap). The top 20 percent make up 40 percent of the entire consumption in Maldives, while the bottom 40 percent consume 20 percent.

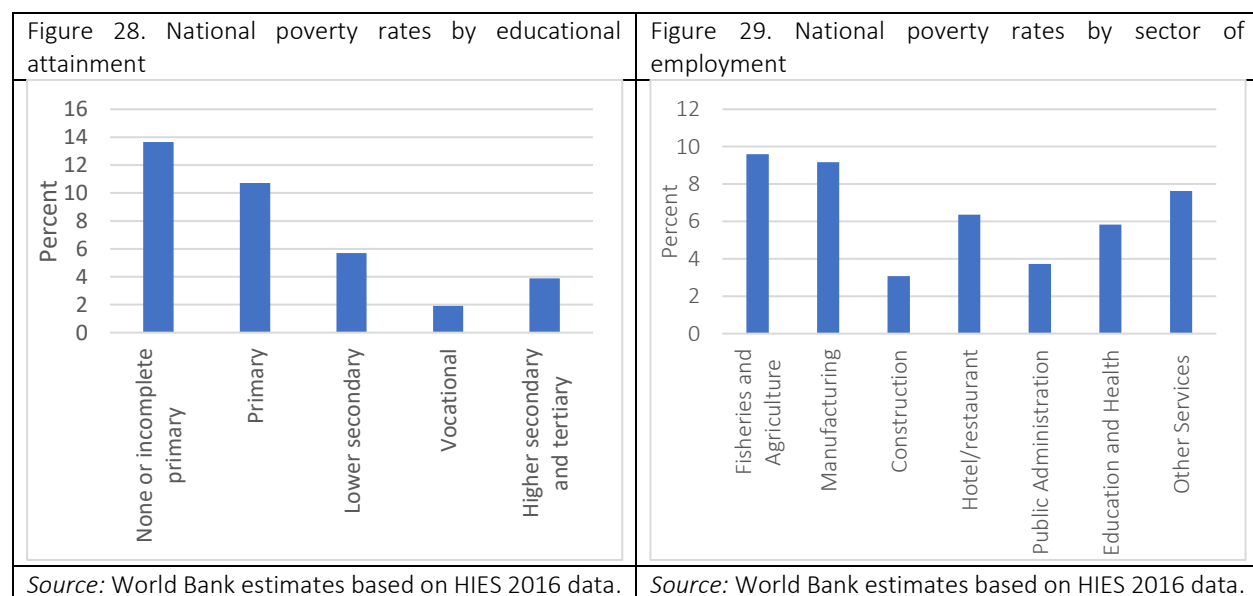
**Demographic characteristics are strongly correlated with poverty headcount rates.** Poverty rates increase with household size and dependency ratios. For example, poverty rates for households in which more than half of all the members are dependents (below the age of 15 or above the age of 64) is 11.4 percent, compared to 2.7 percent for households without dependents. Education (or the lack thereof) is another important correlate of poverty in Maldives. Educational attainment is rather low in Maldives, and poverty

<sup>63</sup> This section draws on HIES (2016), which is not comparable to previous survey rounds (2003 and 2009) due to changes in methodology and questionnaire design. These changes prevent the construction of poverty trends. One improvement made in the 2016 HIES to comply with international best practice is the inclusion of rent and durable goods, which were used to construct the consumption aggregate. See annex 3 for further information; see also World Bank 2018c.

rates decrease sharply with increasing educational attainment but are surprisingly still relatively high for Maldivians with higher secondary and tertiary education (at almost 4 percent) (figure 28).

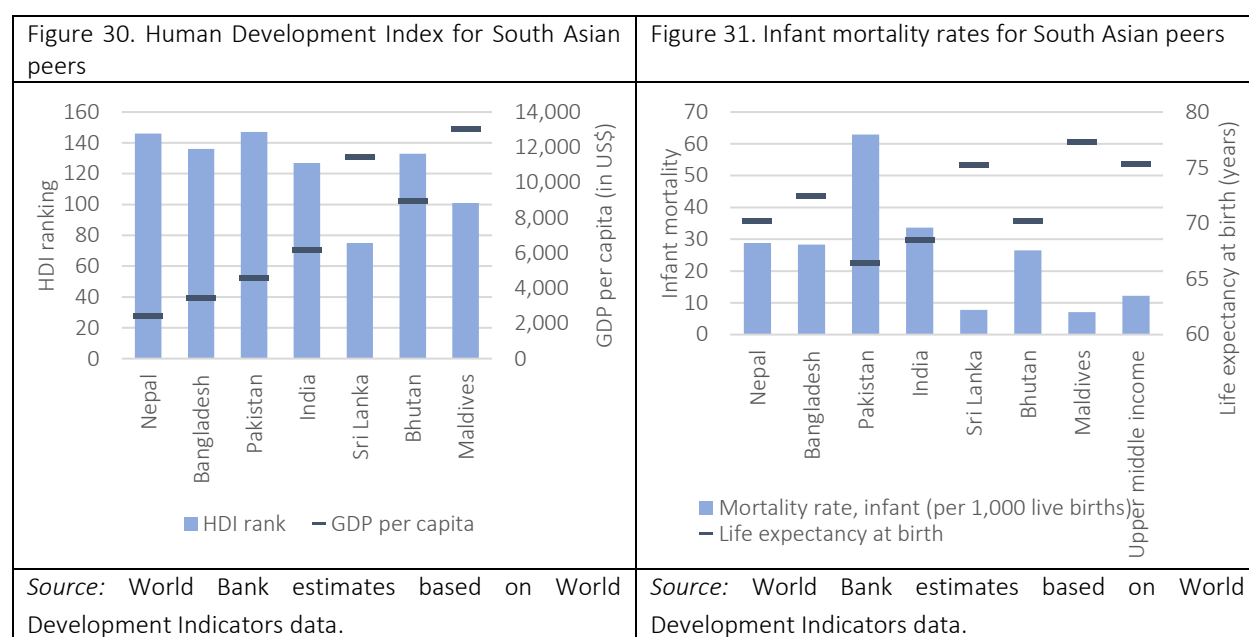


**Labor market status is a strong determinant for poverty, and employment in certain sectors has a strong correlation to poverty.** Poverty rates are much higher for households with an unemployed household head (9.9 percent) and those out of the labor force (9.5 percent) compared to employed household heads (6.9 percent). Only 6 percent of all the poor have an unemployed household head. Maldivians working in fisheries and manufacturing are particularly vulnerable to poverty (figure 29).

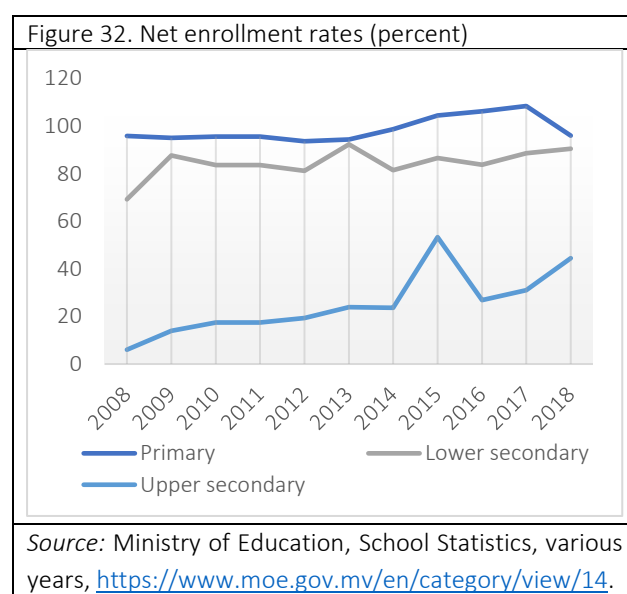


**Maldives performs well on nonmonetary indicators of well-being.** Compared to its regional peers, Maldives performs relatively well on the Human Development Index (HDI) but also has a much larger GDP per capita (figure 30). Infant mortality rates are low and life expectancy is high compared to regional and income peers (figure 31). Maldives has made tremendous progress in both areas over the past two decades. Back

in 2000, it had the highest infant mortality rate in South Asia (35 deaths per 1,000 live births). In 2017, infant mortality was the lowest among regional peers (7 deaths per 1,000 live births). Similarly, life expectancy improved from 70 years in 2000 to 78 years in 2017.



**Maldives has relatively modest net enrollment rates, particularly for upper secondary education.** Net enrollment rates measure the number of children who are the right age for a particular level of education and are actually enrolled in that level of education, expressed as a percentage of the total population in that age group. In 2018, 96 percent of all primary-age school children were enrolled in primary school, similar to the levels in 2008. Net enrollment in upper secondary education is still relatively low, with less than half of youth ages 17 and 18 enrolled in upper secondary education. Important improvements in upper secondary enrollment have been recorded over the past 10 years (an increase from 14 percent in 2008 to 45 percent in 2018) (figure 32).





## ANNEX 2: LABOR MARKET OUTCOMES IN MALDIVES

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**The Maldivian labor market is characterized by large disparities in sex and age.** Of the 215,582 Maldivians ages 15–64, about 60 percent are engaged in the labor force. Labor force participation rates differ widely for men and women (80 percent for men and 44 percent for women). The majority of people engaged in the labor force are employed; unemployment is relatively low at 6.2 percent. However, youth unemployment is high at 15.9 percent, and youth account for 21 percent of the total labor force.

**More than two-thirds of Maldivians are employed in the service sector.** One-third of the female workforce is employed in education or health and another 14 percent works in public administration. Males work primarily in tourism-related services and industry. The government is the biggest employer, representing 43 and 38 percent of the total employment for women and men, respectively. Private sector employment accounts for 22 percent of total employment for women and 36 percent of total employment for men.

**Jobs in tourism and fisheries account for an important share of employment outside the public sector.** One-quarter of females and one-third of males work directly or indirectly in tourism, with minor differences for younger and older cohorts. Tourism is dominated by male and foreign workers, however. Census data for 2014 show that almost 90 percent of all jobs in tourism are taken by male workers (NBS Maldives 2014). Foreigners accounted for about half of all employment in tourism. Fisheries are a significant source of employment, particularly for men with lower levels of education living outside of Malé and for older workers. The fisheries sector is critical for the country's national economy and forms the most important primary economic activity in many of the country's inhabited islands. Although its relative importance has declined, its role in the Maldivian economy remains significant.

**Maldives has experienced a high pace of growth, yet it has fallen short in keeping up with the growing demand of jobs.** The main challenges are summarized below and then further elaborated.

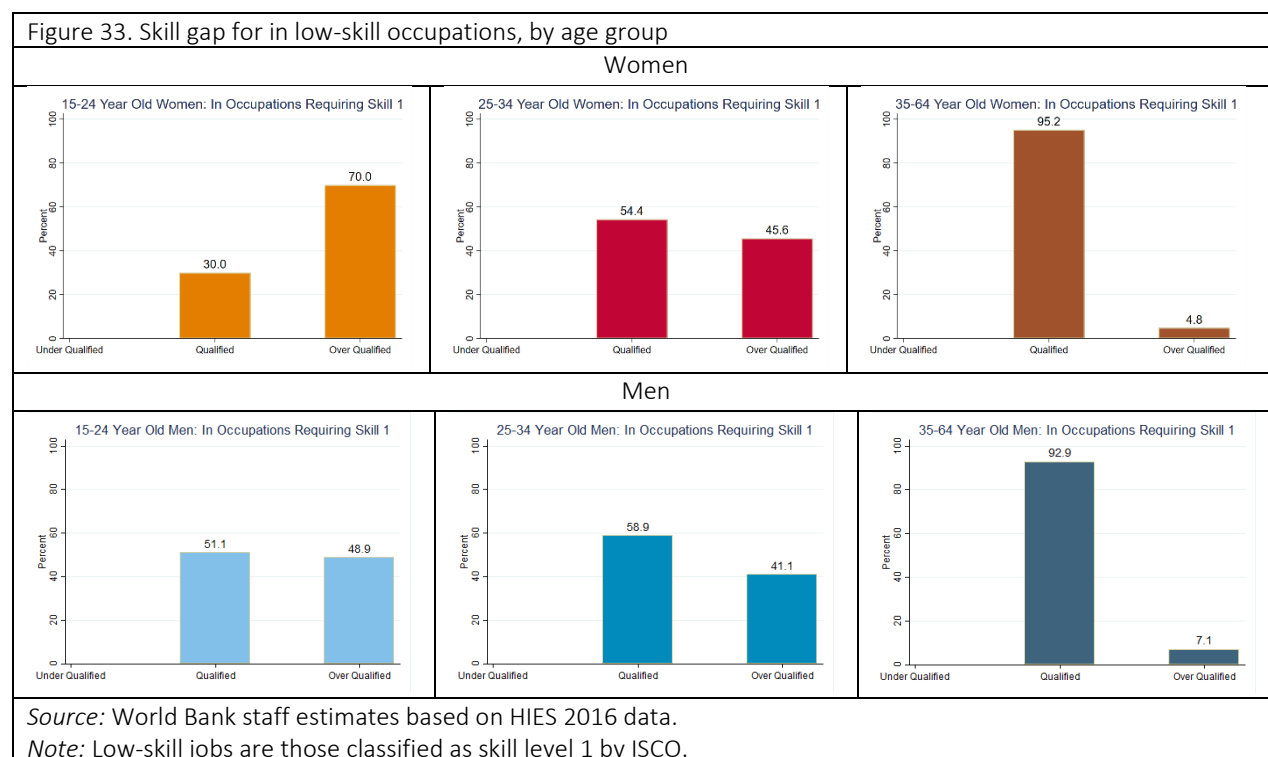
- **Mismatches in required skills between the demand and supply of labor.** The construction and tourism sectors, the main drivers of growth, need skills that Maldivians either do not have (high skills) or do not aspire to (low skills and/or below reservation wages). Labor market outcomes have not been inclusive enough, failing to provide sufficient jobs of the type that Maldivians are able and willing to do. This growing gap between aspirations and opportunities for socioeconomic inclusion contributes to fostering disenfranchisement among Maldivian youth.
- **Heavy reliance on public sector employment.** Public sector jobs offer working conditions that the private sector cannot compete with.
- **Lack of labor market inclusiveness for the youth.** Youth are much more likely to be unemployed than adults. School-to-work transition has become increasingly difficult, with increased competition from foreign labor at the high end and high reservation wages at the low end of the skills distribution.
- **Strong gender norms.** Gender norms hinder women from exploiting the full range of employment opportunities available in the Maldivian labor market.

### Skills Mismatches in Labor Demand and Supply

**One of the challenges in the Maldivian labor market is the mismatch between labor demand and supply.** Given the strong growth in the labor-intensive construction and tourism sectors, the demand for labor is large. However, neither construction nor tourism provides desirable jobs for Maldivians. The growth of

high-end tourism services has outpaced the capacity of the Maldivian labor market to provide internationally competitive skills required by employers—technical, vocational, and soft skills. Maldivians are often not equipped with the right skill sets to take up these jobs.<sup>64</sup> To overcome labor supply constraints, employers often hire migrant workers<sup>65</sup> on both ends of the skills distribution: highly skilled labor for jobs in tourism (particularly in resorts), education, and health care; and low-skill labor for jobs in construction, which Maldivians do not want. In the services sector related to tourism and beyond, the demand for skilled labor has also been easily met by migrant workers. A big challenge going forward will be to fill the demand for labor in sectors where Maldivians are unable or unwilling to work and to provide employment for a young Maldivian workforce with high wage expectations and a low job commitment.

**The Maldivian labor market suffers from skills mismatches<sup>66</sup> across skill levels and age groups.** Based on individuals' educational attainment and occupations, 15 percent of women and 24 percent of men are overqualified for low-skill occupations. Older women are more likely to have the adequate skills for low-skill occupations, while young women are vastly overqualified (figure 33). On the other hand, fewer young men than women are overqualified for elementary occupations, but overqualification is still high among men below the age of 35.

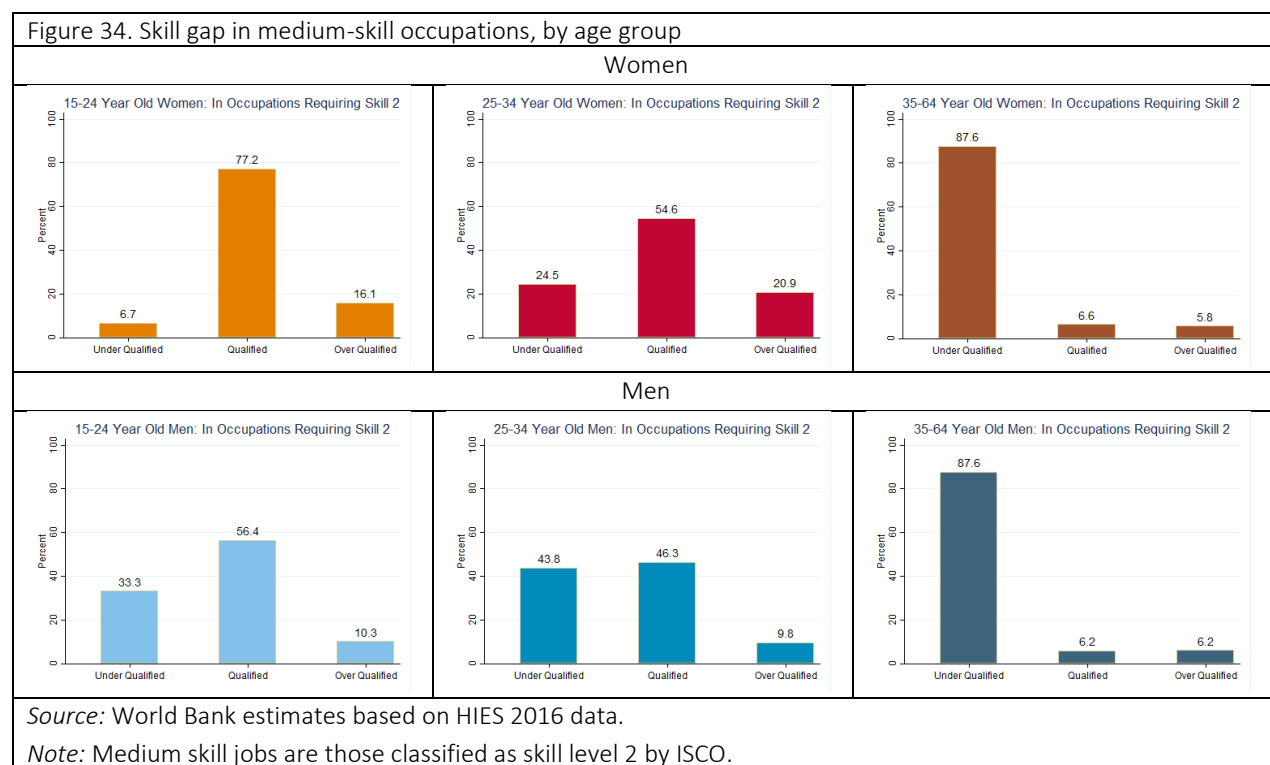


<sup>64</sup> Tourism is the dominant sector of employment for male youth, but there is strong competition from foreign labor for both high- and low-skill jobs in resorts. More than half of all tourism jobs held by youth are occupied by foreign youth. About 22 percent of foreign youth working in tourism have completed A levels or above, compared to less than 3 percent of Maldivians (Wieser 2017).

<sup>65</sup> Migrants dominate the workforce and represent nearly one-third of the country's population (IOM 2018).

<sup>66</sup> Skill gaps are calculated by using the skill level attained based on educational attainment (classified to the International Standard Classification of Education, or ISCED) and comparing it to the skill level required for the occupation in which individuals are employed (based on the International Standard Classification of Occupations, or ISCO). See ILO (2018).

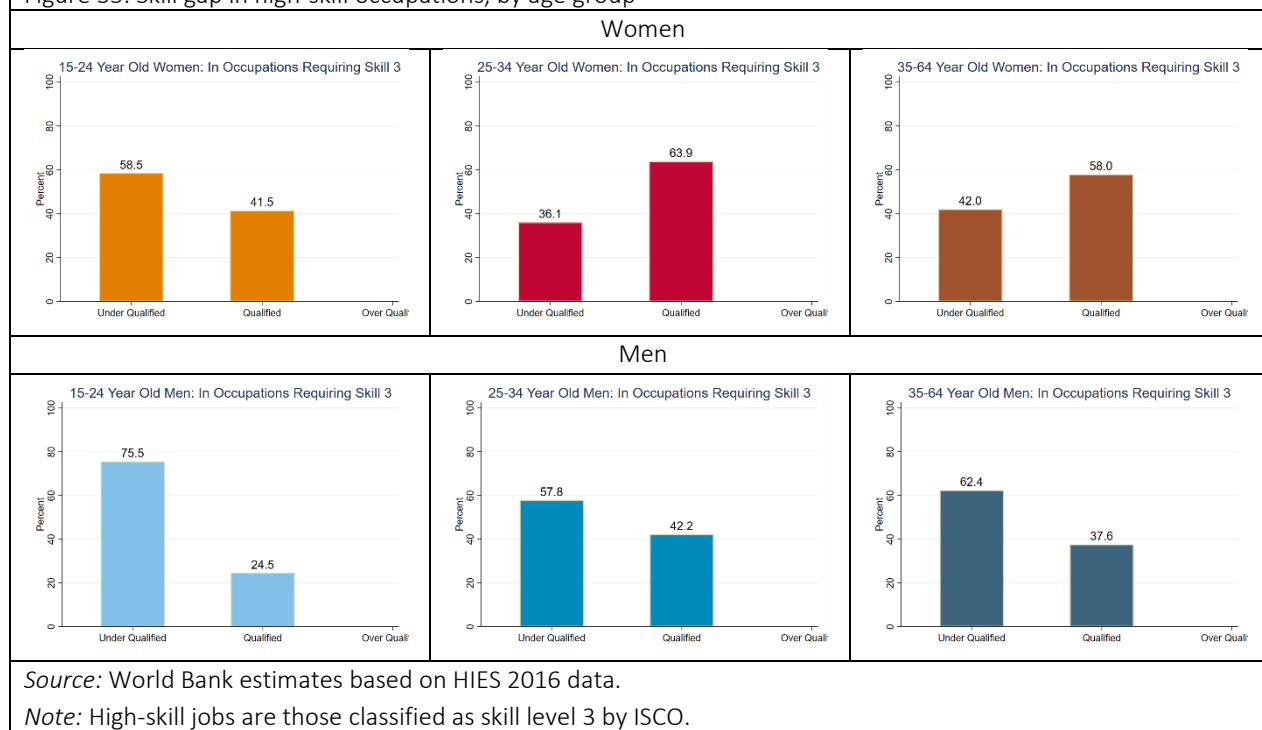
For medium-skill occupations requiring secondary education,<sup>67</sup> over half of all women and two-thirds of all men are underqualified. Underqualification increases with age, and older individuals are more likely to be underqualified for occupations requiring medium skills. Young women are most likely to be qualified for medium-skill occupations, and across age groups a larger percentage of women tend to be qualified for the occupations compared to men. This points to a strong self-selection into occupations by sex that creates mismatches in the labor market (figure 34).



For high-skill occupations—those classified as skill level 3 or 4 in the International Standard Classification of Occupations (ISCO) and requiring above secondary education, such as technicians and associated professionals and managers—there is vast underqualification. Nearly 44 percent of women and 62 percent of men are underqualified. Again, more men than women in each age group are underqualified. Even in the age group 25–34, whose members most likely have completed their education, less than half of all men in high-skill occupations have the right qualifications (above secondary education). This points to a challenging environment for employers seeking to find the right skills (figure 35).

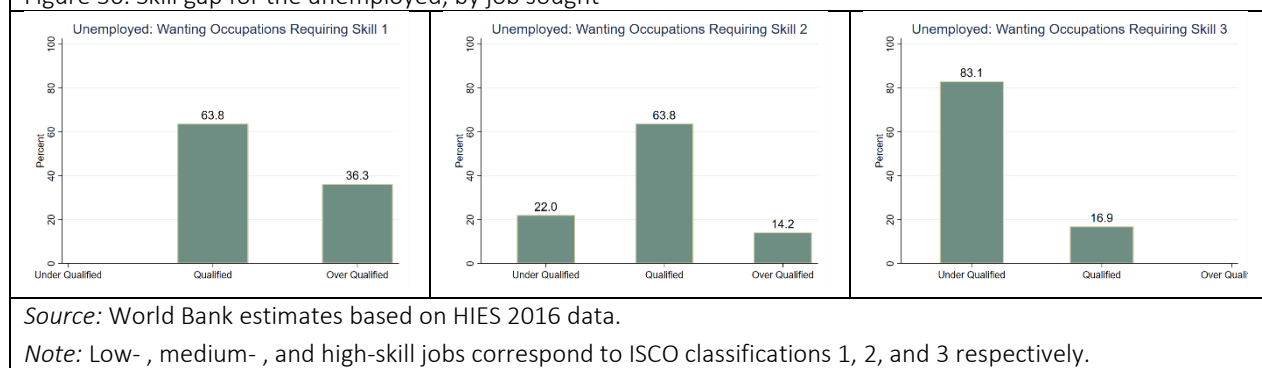
<sup>67</sup> These occupations are (i) clerical support workers; (ii) service and sales workers; (iii) skilled agriculture, forestry, and fisheries workers; (iv) craft and related trade workers; and (v) plant and machine operators and assemblers.

Figure 35. Skill gap in high-skill occupations, by age group



There are also strong mismatches in the skills of the unemployed and the jobs they seek. About one-third of unemployed Maldivians seeking low-skill job (skill level 1) are overqualified (left panel of figure A13). On the other hand, over 80 percent of unemployed Maldivians seeking high-skill jobs (skill level 3 and 4) are underqualified (right panel of figure 36).

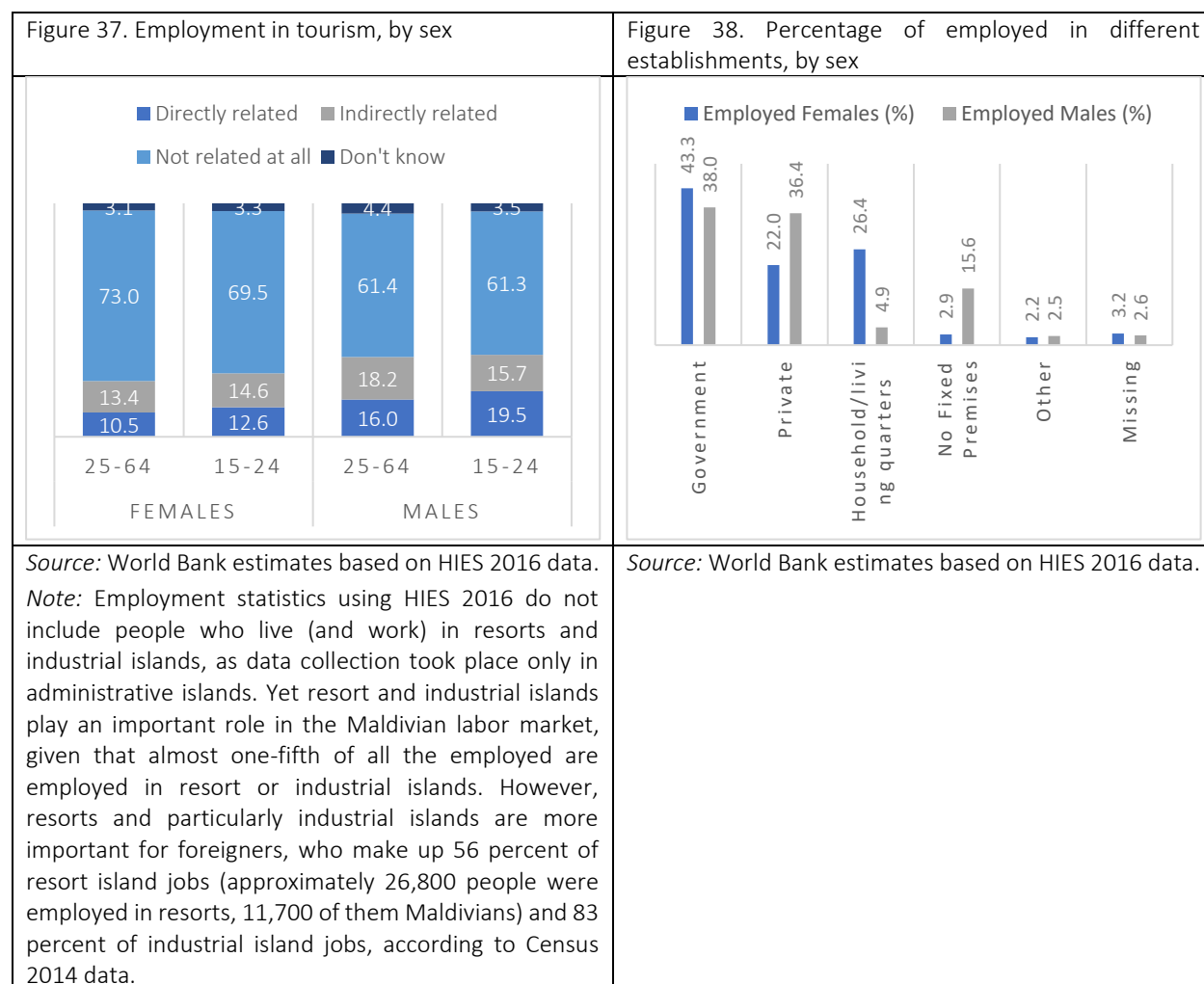
Figure 36. Skill gap for the unemployed, by job sought



## Heavy Reliance on Public Sector Employment

The government is the biggest employer in Maldives (figure 38). The public sector pays a wage premium compared to the private sector (one that is particularly stark for the age group 35–64) and plays a particularly important role for women, given the favorable working hours (figure 37). However, the fiscally constrained public sector will likely not be able to support strong job growth for the local population at the same pace as in the past.

Moreover, as the country has grown, the share of the public sector in the total number of jobs has fallen. Typically, the contribution of the public sector to job creation falls as countries grow, undergo structural transformation, and become more diversified. This has been the case for Maldives. Reduced opportunities for employment in the public sector, which tends to provide jobs that are well paid and have good working conditions and benefits, may contribute to discontent among Maldivian youth, particularly those with high levels of education who used to benefit from public sector employment.



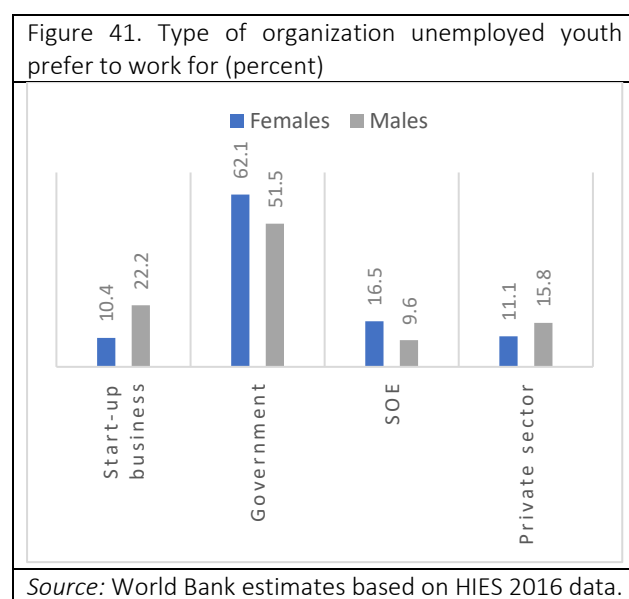
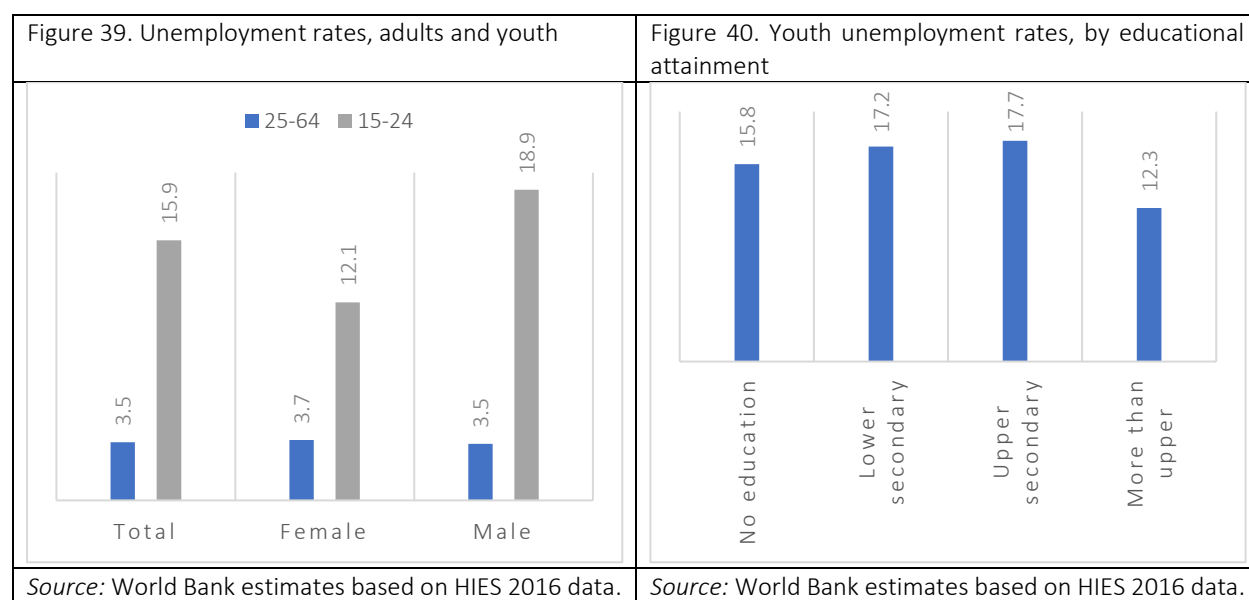
## Lack of Labor Market Inclusiveness for Youth

Although the overall unemployment rate is low, youth unemployment is high at 15.9 percent. Education opportunities beyond lower secondary schooling are limited. Only 47 percent of boys and 36 percent of girls ages 18 to 19 are at school due to the lack of adequate high secondary education opportunities in Maldives. At the same time, school-to-work transition has become difficult, with increased competition from foreign labor at the high end of the skill distribution, and high reservation wages at the low end.

Youth are almost five times more likely to be unemployed than adults. Young males (15–24) are hit particularly hard by unemployment. Their unemployment rate is 18.9 percent, 1.5 times that of female youth and 6 times that of their adult counterparts (figure 39). The high pay and favorable working conditions in the public sector create clear mismatches in the Maldivian labor market. There is no clear link

between unemployment and educational attainment for Maldivian youth (and Maldivians more broadly); young Maldivians who have completed A levels (equivalent to upper secondary education) have the highest unemployment rates (figure 40).

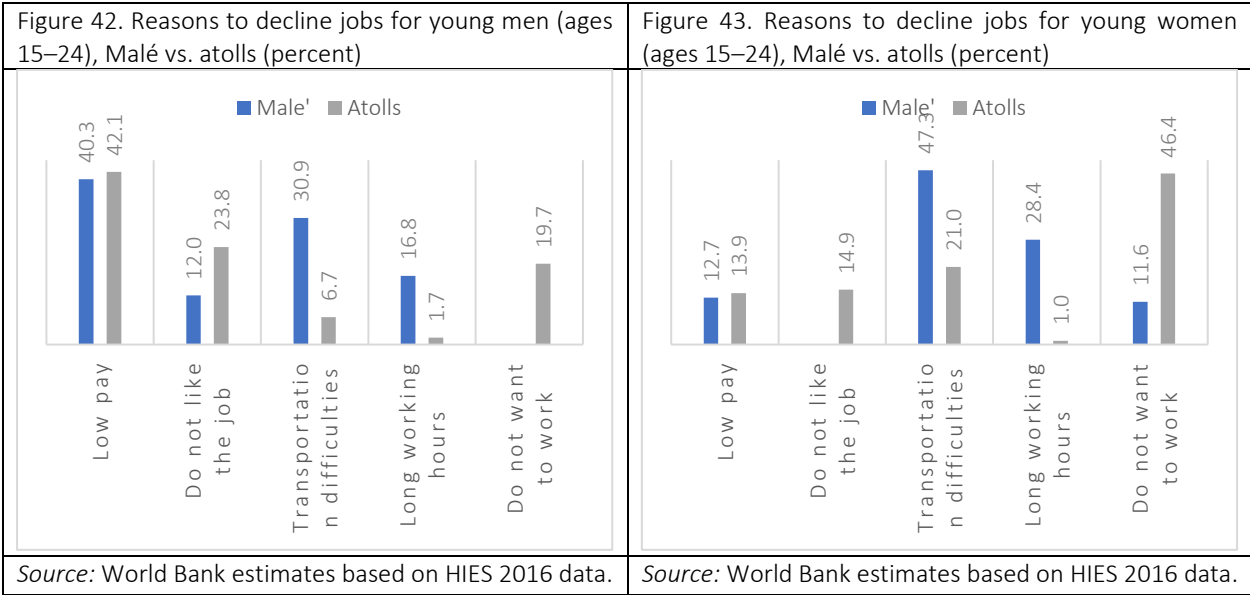
**Due to preferred working conditions in the public sector, the private sector is not competitive, creating large distortions in the labor market.** This is illustrated by the fact that young unemployed job seekers overwhelmingly wait for government (or SOE) jobs: almost two-thirds of young women and over half of young men wait for government jobs rather than working elsewhere (figure 41).



**Young Maldivians who do not have a job seem to have unrealistic wage expectations and higher reservation wages compared to older cohorts (figure 46).** This labor market distortion can be further illustrated by the reasons for youth to decline jobs; over 40 percent of young men in Malé and the atolls who do not work have declined job offers due to low pay (figure 42). Furthermore, in the atolls, there seems to be very little

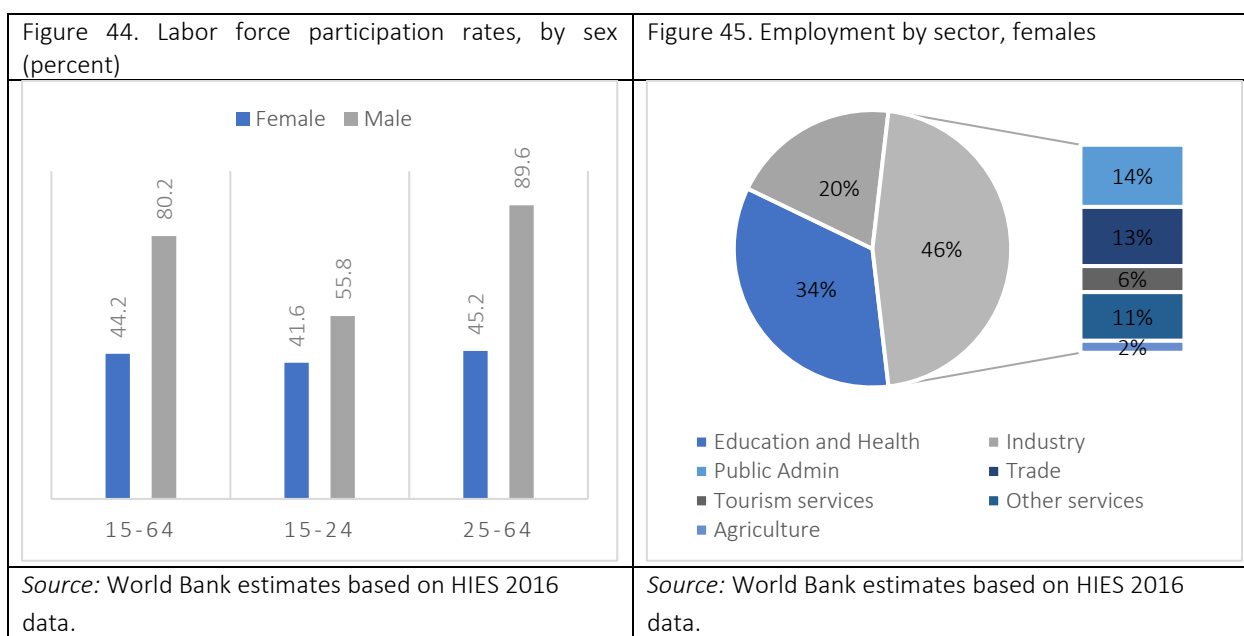
incentive to work. Over a quarter of young men in the atolls have declined a job offer in the past because they did not like the job, and almost 20 percent because they did not want to work. Of young females in the atolls, almost half indicated that they did not want to work (figure 43).

**A lack of willingness to work or discouragement may also explain the large percentage of youth who are not in employment, education, or training.** About 27 percent of young men and 23 percent of young women have effectively exited the labor force and are best characterized as NEETs. For young men, the key reasons for being NEET are the lack of economic opportunities in the island of residence and inability to find suitable employment that matches their respective education or training. About 50 percent of young women are NEET because of responsibilities for household chores and child care. Finally, the reasons differ between residents of Malé and other atolls. For young males in Malé, low pay was the foremost reason, followed by transportation difficulties.



### Lack of Labor Market Attachment for Women

Although young women are better educated than their male counterparts, women tend not to participate in the labor market; labor force participation rates for women are low for all ages and are almost half those of men (figure 44). There are numerous reasons that likely contribute to women not using their full economic potential.



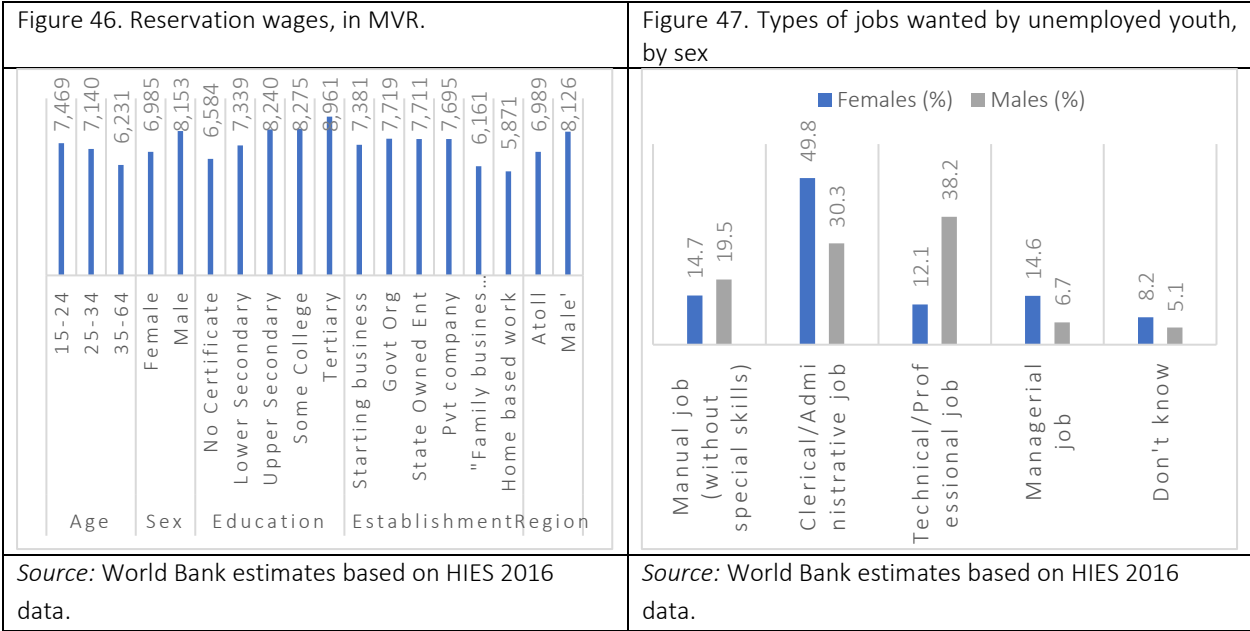
**Labor market outcomes indicate important gaps for men and women.** For instance, the unemployment rate is similar for men and women (6.4 vs. 5.7 percent), yet many women are discouraged, meaning that they are available to and want to work but are not actively seeking.<sup>68</sup> Under the broader definition of unemployment (accounting for discouraged workers), the unemployment rate is much larger for females (about 35 percent) than for males (13 percent). The low rate of female labor force participation (even for young women) is likely due to the very young age at which women get married and have children. More than 50 percent of women marry under the age of 20 and more than 90 percent under the age of 25. Of women with children, 27 percent are under the age of 20 at first birth and almost 80 percent under the age of 25. Given the expectation that young women will prioritize household chores and provide child care within the family unit, and given limited child care facilities, women struggle to participate in the labor market and raise children. Mainstreaming child care options for working women will ensure equal opportunities for women seeking to enter the labor market and use their higher levels of education and skills. Transportation challenges are relatively more important for women than men, with almost half of young women who are not employed having declined a job offer because of transportation difficulties (figure 42).

**Strong gender norms in the country create a strong self-selection into “gender-typical” sectors, occupations, and work places.** One-third of employed women work in education and health alone (figure 45). Over one-quarter of women work from their households or living quarters (compared to less than 5 percent of men). Nearly half of the 15- to 24-year-old unemployed women prefer clerical/administrative jobs, while young males prefer technical or professional jobs (figure 47). Three-quarters of young women work in just three occupations (professionals; services and sales; and clerical support). Gender and religious norms prevent women from being employed in fast-growing sectors. Although tourism jobs are growing rapidly, most of the jobs in tourism are not seized by the local population, and employment of Maldivian women in the tourism industry is low; less than one-quarter of employed women work in jobs directly related to tourism (figure 45). The resort sector is not considered a “suitable” work place for women,

<sup>68</sup> In other words, they have dropped out of the labor force.



although women ages 25–34 who work in jobs directly related to tourism (but outside of resorts) have higher wages than men, particularly in Malé.



### ANNEX 3: COMPARABILITY BETWEEN THE 2016 HIES AND PREVIOUS SURVEY ROUNDS

Poverty estimates obtained using HIES 2016 are not comparable to earlier figures, mainly due to changes in the design of the HIES and in the methodology used for poverty measurement. These differences are summarized below:

|  | HIES 2002/03  | HIES 2009/10  | HIES 2016           |
|--|---|---|---------------------|
| <b>Sampling design</b>                     |   |   |                     |
| Sampling frame                             | 2000 Census   | 2006 Census   | 2014 Census         |
| Primary sampling units                     | 68  | 113   | 330                 |
| - Malé                                     | 28  | 40  | 48                  |
| - Atolls                                   | 40  | 73  | 282                 |
| Actual sample size (households)            | 834   | 2,060   | 4,985               |
| - Malé                                     | 246   | 600   | 720                 |
| - Atolls                                   | 588   | 1,460   | 4,265               |
| Sampling ratio (%)                         | 2.1   | 4.5   | 7.5                 |
| Unit response rate (%)                     | 94.8  | 93.1  | 98.5                |
| Data collection period                     | Sept. 2002–June 2003  | Sept. 2009–Sept. 2010   | Mar.–Nov. 2016      |
| <b>Questionnaire design</b>                |   |   |                     |
| Food items                                 |   |   |                     |
| - Recall or diary?                         | Diary (individual) and recall, for all items                      | Diary (household [HH] & individual) for most foods; recall for bulk purchases | Recall              |
| - Number of listed items                   | 94  | 62  | 140                 |
| - Open-ended list?                         | Yes   | Yes   | Yes                 |
| - Reference period                         | 7 days (diary); 7 days, 1 month, 3 months (recall)                | 1 month (both diary & recall)   | 7 days              |
| - Data collection for food away from home  | 1 line  | 1 line  | Dedicated module    |
| - Consumption or acquisition <sup>a</sup>  | Acquisition   | Acquisition   | Both                |
| Nonfood items                              |   |   |                     |
| - Recall or diary?                         | Diary (individual) and recall, for all items                      | Diary (HH & individual) for daily-use items; recall for large purchases       | Recall              |
| - Reference period                         | 7 days (diary); 7 days, 1 month, 3 months, and 12 months (recall) | 1 month (diary); 12 months (recall)   | 1, 3, and 12 months |
| <b>Consumption aggregate</b>               |   |   |                     |
| Food items                                 |   |   |                     |
| - Consumption or acquisition <sup>a</sup>  | Acquisition   | Acquisition   | Consumption         |
| - Food from purchases                      | Included  | Included  | Included            |
| - Own-produced food                        | Included  | Included  | Included            |
| - Food received in-kind                    | Included  | Included  | Included            |
| - Food consumed away from home             | Included  | Included  | Included            |
| Nonfood nondurable items                   |   |   |                     |
| - Habitual, welfare-enhancing expenditures | Included  | Included  | Included            |
| - “Lumpy” expenditures <sup>b</sup>        | Included  | Not included  | Not included        |
| - Health                                   | Included  | Included  | Not included        |
| Housing                                    |   |   |                     |
| - Actual rent                              | Not included  | Not included  | Included            |
| - Imputed rent                             | Not included  | Not included  | Included            |
| <b>Adjustments</b>                         |   |   |                     |
| Within-survey temporal deflation           | No  | No  | Yes                 |
| Spatial deflation                          | No  | No  | Yes (each atoll)    |
| Adjustment for HH size & composition       | Per capita  | Per capita  | Per capita          |

Sources: Ministry of Planning and National Development 2005; NBS Maldives 2012, 2016b, 2016c; World Bank 2015.

a. “Consumption or acquisition” refers to the difference between the quantity/value of food actually consumed (food intake) and that of food obtained (which may be consumed, but also stocked, given away, or wasted).

b. See Deaton and Zaidi (2002).

## ANNEX 4: SCD CONSULTATIONS

As part of the SCD, the team engaged in wide-reaching conversations to identify the most critical constraints on and opportunities for ending extreme poverty and promoting shared prosperity in a sustainable manner in the country. Stakeholder consultations are an integral part of the SCD process and contribute to a better understanding of the challenges and opportunities in Maldives.

The consultations were carried out in three distinct ways. First, the team launched a public online survey that was disseminated and boosted through the World Bank Group's social media channels. Given Maldives' geographic dispersion, an online survey is one way to ensure that stakeholders not traditionally incorporated in consultations have their voices included. Second, face-to-face consultations were held in three locations: Malé and two atolls outside the greater Malé region—one in the north and one in the south (Addu City and Kulhudhuffushi). The consultations were carried out via focus group discussions (FGDs)<sup>69</sup> with government, CSOs, private sector, youth groups, and women's groups, among others. At the end of all consultations, the participants filled out a survey form. Third, preliminary results were presented to government officials during a workshop attended by key staff of various ministries.

FGDs held in Addu City (south), greater Malé (central), and Kulhudhuffushi (north) gathered input from over 100 participants, representing a broad array of stakeholder groups that included government agencies, development partners, private sector, civil society organizations, academia, media, women, youth, and citizen groups.<sup>70</sup>

FGDs were centered around key themes and questions relevant to the development agenda of Maldives:

| THEME/AREA                     | TEAM OBSERVATIONS  | KEY QUESTION FOR FGD   |
|--------------------------------|--|--|
| <b>GENERAL</b>                 | <ul style="list-style-type: none"><li>• Back in 1980, Maldives was among the poorest countries in the world, with a GDP per capita of US\$268. In a period of less than 40 years, sustained and fast growth has allowed the country to close the gap with rich countries, reaching upper-middle-income status and on pace to become a high-income country within the next lustrum.</li></ul> | What do participants see as the biggest challenges to the development story going forward, and what specifically do you see as the biggest hindrances to continuing this strong path of development? |
| <b>POVERTY AND INEQUALITY</b>  | <ul style="list-style-type: none"><li>• Maldives has been able to lift the majority of the population out of poverty. About 8.2 percent of Maldivians live below the national poverty line.</li><li>• Important disparities exist between atolls and greater Malé both in socioeconomic outcomes and service delivery.</li><li>• Inequality is relatively low.</li></ul>                     | What are the participants' largest concerns in terms of continued poverty reduction and growing inequalities in the country? What are the opportunities for positive change and continued progress?  |
| <b>LABOR MARKET CHALLENGES</b> | <ul style="list-style-type: none"><li>• Unemployment is low at 6.2 percent.</li><li>• A large percentage of youth are not in employment, education, or training (NEET).</li><li>• Public sector employment accounts for a large share of total employment. Revenues from tourism</li></ul>   | What do participants see as the biggest challenges in productively employing youth? What are the challenges for labor market   |

<sup>69</sup> The FGDs were carried out by FJS Consulting in November 2019 in close collaboration with the World Bank Group SCD team.

<sup>70</sup> A detailed report on the results of the focus group discussions as well as the online survey is available upon request.

|   |   |  |
|---|---|--|
|   | <p>have been able to support a large public sector, yet fewer public sector jobs are becoming available.</p> <ul style="list-style-type: none"> <li>• Female labor force participation is low. Though better-educated than their male counterparts, women tend not to participate in the labor market.</li> <li>• Evidence suggests that important skill mismatches are present. Construction and tourism have been the main drivers of growth. These sectors are in need of skills that Maldivians do not have (high skills) or provide jobs that Maldivians are not willing to take (low skills).</li> </ul>  | <p>participation, separately for young men and young women?</p>  |
| <b>DISPARITIES ACROSS REGIONS IN MALDIVES</b> | <ul style="list-style-type: none"> <li>• Internal migration flows have led to a rapid concentration of population around Malé. Pull factors are likely linked to education and employment opportunities as well as an ambitious infrastructure program for the development of the greater Malé area.</li> <li>• Large disparities in educational outcomes persist in Maldives. Many families migrate from islands to the greater Malé area to improve educational opportunities for their children.</li> <li>• While this process has generated new opportunities and agglomeration effects and protects a larger share of the population from sea-level rise and natural disasters, it has led to overcrowding in Malé and a shortage of housing. It has also led to a tepid increase in debt accumulation, as such efforts required huge investments up front, with capacity to manage the budget and public debt still limited.</li> </ul> | <p>What are the biggest challenges related to housing and migration in Malé and atolls?</p>  |
| <b>SUSTAINABILITY OF CURRENT MODEL</b>        | <ul style="list-style-type: none"> <li>• The sustainability of the current model can be questioned: <ul style="list-style-type: none"> <li>○ Macroeconomic and fiscal sustainability</li> <li>○ Social sustainability and spatial disparities</li> <li>○ Environmental sustainability</li> </ul> </li> </ul>  | <p>What are participants' concerns in each of these areas, and what are the biggest opportunities to create positive change going forward?</p>   |
| <b>UNLOCKING THE PRIVATE SECTOR</b>           | <ul style="list-style-type: none"> <li>• Given fiscal and public sector capacity constraints, sustained growth and job creation will need to be driven by the private sector.</li> </ul>  | <p>What do the participants see as the main constraints faced by businesses? What should the World Bank Group do to support more private sector investment? What issues could be addressed by the private sector (that are not being addressed currently)?</p> |
| <b>ADDRESSING FRAGILITY DRIVERS</b>           | <ul style="list-style-type: none"> <li>• Fragility risks—such as vulnerabilities to climate change, marginalization, lack of social accountability and transparency, inequitable access to services, youth exclusion, and violent extremism—could have negative implications for the country's growth and development.</li> <li>• Issues of youth exclusion and violent extremism in Maldives could require focused attention for violence prevention. According to a recent UN</li> </ul>  | <p>Are there significant (fragility) risks that could pose a challenge to Maldives' social cohesion and stability?</p>   |

report (UNDP 2019), many youth feel that there are few legitimate ways to express their frustrations and concerns. The possible influence of violent extremism in the country could also be seen as symptomatic of patterns of social isolation and exclusion.

A total of 13 focus groups were held across Maldives, as follows:

| FGD NUMBER            | STAKEHOLDER GROUPS                       | FGD DATE (TIME)   |
|-----------------------|--|-------------------|
| <b>Addu City</b>      |  |                   |
| FGD 1                 | Government agencies                      | Nov. 17 (1:30 pm) |
| FGD 2                 | CSOs, think tanks, academia, media       | Nov. 17 (4 pm)    |
| FGD 3                 | Youth, women, and citizen groups         | Nov. 17 (8 pm)    |
| <b>Greater Malé</b>   |  |                   |
| FGD 1                 | Government agencies 1 (economic sectors) | Nov. 20 (10 am)   |
| FGD 2                 | Government agencies 2 (social sectors)   | Nov. 20 (1 pm)    |
| FGD 3                 | Development partners                     | Nov. 20 (3 pm)    |
| FGD 4                 | CSOs, think tanks, academia, media       | Nov. 21 (9 am)    |
| FGD 5                 | Private sector                           | Nov. 21 (11 am)   |
| FGD 6                 | Youth, women, and citizen groups 1       | Nov. 21 (2 pm)    |
| FGD 7                 | Youth, women, and citizen groups 2       | Nov. 21 (4 pm)    |
| <b>Kulhudhuffushi</b> |  |                   |
| FGD 1                 | Government agencies                      | Nov. 25 (1 pm)    |
| FGD 2                 | CSOs, think tanks, academia, media       | Nov. 25 (4 pm)    |
| FGD 3                 | Youth, women, and citizen groups         | Nov. 25 (8 pm)    |

Discussions were held in small focus groups targeting six to eight persons in each. As a general rule, participants were invited based on their relevance and availability. As there were relatively few government agencies based in Addu City and Kulhudhuffushi, all relevant agencies based in those localities were invited to participate in the focus group for government agencies.

Consultations with government agencies in Malé were carried out through two focus groups (i.e., Malé FGDs 1 and 2). Malé FGD 1 primarily targeted participation from agencies overseeing macroeconomic affairs, infrastructure, and industry (finance, trade, tourism, fisheries); and FGD 2 targeted agencies overseeing human development services (health, education, gender, and social protection). Few participants were present in the focus group with development partners (FGD 4), as two of the six development agencies present in Maldives were not able to attend (United Nations Population Fund, UNFPA; and Japan International Cooperation Agency, JICA). Consultations with youth, women, and citizen groups were also done through two focus groups in Malé. Malé FGD 6 primarily targeted women and citizen groups, whereas FGD 7 was on youth issues.

## ANNEX 5: SCD TEAM COMPOSITION

The SCD was prepared by a core team led by Fernando Im (Co-Task Team Lead, Senior Economist, Macroeconomics, Trade and Investment [MTI] Global Practice), Christina Wieser (Co- Task Team Lead, Senior Economist, Poverty and Equity Global Practice), and Pia Pallavi Trivedi (Strategy Officer, International Finance Corporation [IFC]), under the guidance of Idah Pswarayi-Riddihough (Country Director, World Bank), Faris Hadad-Zervos (Country Director, World Bank), Zoubida Kherous Allaoua (Regional Director, Equitable Growth, Finance and Institutions for South Asia Region), Amena Arif (Country Manager, IFC), Chiyo Kanda (Country Manager, World Bank), (Valerie Layrol (Senior Operations Officer), Manuela Francisco (Practice Manager, MTI), Benu Bidani (Practice Manager, Poverty and Equity Global Practice), and Andrew Dabalen (Practice Manager, Poverty and Equity Global Practice). The team is grateful for the guidance received from peer reviewers Philip Schuler (Lead Economist, MTI), Zeinab Partow (Principal Economist, IFC), and Kristen Himelein (Senior Economist and Statistician, Poverty and Equity Global Practice). Team members listed in the table below are categorized based on the main thematic areas to which they contributed inputs for the SCD.

| GLOBAL PRACTICE/CROSS-CUTTING SOLUTION AREA (CCSA) | FOCAL POINT(S)  |
|--|---|
| AGRICULTURE  | Andrew Goodland, Tapas Paul   |
| DISASTER RISK MANAGEMENT                           | Suranga Kahandawa, Armando Guzman, Priyanka Dissanayake   |
| EDUCATION  | Shobhana Sosale   |
| ENERGY   | Sandeep Kohli, Amit Jain, Joonkyung Seong   |
| ENVIRONMENT AND NATURAL RESOURCES                  | Karin Shepardson  |
| FINANCE, COMPETITIVENESS & INNOVATION              | Amila Indeewari Dahanayake, Anoma Kulathunga, Namoos Zaheer   |
| FRAGILITY, CONFLICT, VIOLENCE CCSA                 | Da Woon Chung   |
| GOVERNANCE   | Fabian Seiderer, Winston Onipede Cole, Anula Harasgama, Enoka Wijegunawardene   |
| HEALTH, NUTRITION, AND POPULATION                  | Owen Smith, Hideki Higashi, Rifat Hasan, Gyorgy Bela Fritsche   |
| MACROECONOMICS, TRADE & INVESTMENT                 | Fernando Im, Pui Shen Yoong   |
| POVERTY AND EQUITY                                 | Christina Wieser  |
| SOCIAL DEVELOPMENT                                 | Bandita Sijapati  |
| SOCIAL PROTECTION AND LABOR                        | Thomas Walker, Mark Dorfman   |
| TRANSPORT  | Wei Winnie Wang   |
| URBAN  | Jessica Schmidt   |
| GENDER   | Sonya Sultan, Bandita Sijapati  |
| PROGRAM LEADERS                                    | Andrew Goodland (Sustainable Development), Harsha Aturupane (Human Development), Rene Antonio Leon Solano (Human Development) |
| COMMUNICATIONS                                     | Dilinika Peiris, Ali Naafiz   |
| IFC  | Pia Pallavi Trivedi   |

## ANNEX 6: KNOWLEDGE GAPS

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The SCD update was able to fill some of the most salient knowledge gaps identified in the previous SCD by using new fiscal data as well as a new round of the national household survey (HIES 2016). Specific analysis for the SCD update using HIES 2016 concentrated on carrying out in-depth analysis on (i) labor market issues with a focus on youth and women, and (ii) spatial disparities of socioeconomic outcomes across Maldives.

Based on the initial analysis and review of the evidence base, the team identified several gaps in the knowledge base in Maldives. These knowledge gaps will require a longer time frame to fill, and information on them will be updated as the SCD process progresses. The following are among the knowledge gaps that have been identified:

- **Decentralization.** The National Spatial Plan calls for the development of regional hubs and subcenters. This is expected to have major fiscal impacts and should also promote a better understanding of such plans' implications for transport and logistic arrangements.
- **Core analytics.** There is a need to better understand several key areas, such as SOEs, procurement, housing, transport and connectivity, and spending in social sectors (education, subsidies). A public expenditure review, country economic memorandum, financial sector assessment program, and poverty assessment can fill the knowledge gap in these areas.
- **Gender diagnostic:** Maldives has made important progress in narrowing gender gaps in human development and other dimensions of equality. Labor market participation rates of women are about half that of men. In addition, women in the country continue to be under-represented in decision making roles in government and the private sector. Further cross-sectoral gender analysis can help understand factors driving the existing gender gap along different dimensions to inform policy decisions.
- **Violent extremism.** The perception that Maldives is susceptible to extremism is particularly challenging to the country given that the economy relies heavily on the tourism industry. There is a need to understand what drives the emergence of violent extremism, how serious a problem extremism is, and how young people are influenced by this emerging trend. The current context calls for better ways to monitor fast-changing societal dynamics that have contributed to the spread of radical religious ideology, such as youth exclusion, intolerance of religious plurality, disproportionate incarceration of nonviolent offenders, local perception of the tourism industry, and perceived inequality.
- **Social integration and prison reforms.** Potential issues for further investigation are reintegration of people who were formerly incarcerated, and targeted outreach to young people vulnerable to gangs and drug-related crime. The role of prisons as potential sites of radicalization is well documented in the international research literature on terrorism (Rushchenko 2019). However, there is limited empirical evidence on the complex dynamics of radicalization in prisons in Maldives.
- **Lack of (recent) quantitative evidence on drugs and gang violence.** There is a strong perception in Maldives that drug use and gang violence are on the rise, mostly based on anecdotal evidence. Data on drug use are outdated—the latest National Drug Use Survey (UNODC 2013) is almost 10 years old—and more detailed analysis is required to better understand the impacts of drugs and gang violence on Maldivian society.

- **Impact of COVID-19.** A detailed assessment of the economic and social impact of the COVID-19 pandemic is needed. Notably, a more detailed assessment of the economic and social impact of the COVID-19 pandemic, including gendered impacts, alongside other parameters such as employment, livelihoods and income losses, human capital accumulation, vulnerable groups, and social cohesion are necessary. Moreover, more in-depth analysis of implications for the sustainability of public finances and the stability of the financial sector is required to fully capture the extent to which COVID-19 impacts the Maldivian economy. As more data and surveys become available, it would be possible to provide a comprehensive assessment of such impacts.
- **Transport system assessment:** A comprehensive assessment of accessibility and connectivity of all travel mode may help better understand service and infrastructure gaps among different transport modes in order to provide an integrated transport system. An assessment of the transport sector's financial performance and regulatory and policy environment is important to revisit subsidies in the transport sector should these be needed to facilitate essential services, facilitate private sector investment, and explore financing modalities to cover for infrastructure gaps.
- **Returns to education:** There is a need for a more in-depth understanding of returns to education to better gauge the main constraints to the substitution of high-skilled foreign labor with Maldivians. For example, returns to education across sex and sector could provide additional information as to why more people are not pursuing higher degrees or to what extent existing education is not equipping graduates with the right skills.
- **Knowledge gaps in other areas:** (i) Energy sector diagnostics, including an evaluation of the performance of the state utilities, and fuel and user-end tariff subsidies; (ii) Country Environmental Assessment; and (iii) Assessment of water stress and rainfall variability.



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