

**POVERTY REDUCTION IN THE MALDIVES:  
ISSUES, FINDINGS, AND APPROACHES**

Asian Development Bank

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## FOREWORD

The Asian Development Bank (ADB) has launched a series of initiatives to develop better approaches to reduce poverty in the Maldives, following the adoption of poverty reduction as its overarching goal in November 1999. Important among these initiatives is the preparation of a poverty assessment to better understand the nature of poverty in the country and to provide a set of strategic options for ADB in assisting the Government to reduce poverty.

The Maldives has achieved commendable economic development and social progress over the past decades. However, poverty still exists in the country. It is characterized by regional disparities between Malé and the atolls in terms of incomes, employment opportunities, and access to economic infrastructure and social services. Vulnerability is also a main feature of the economy, as it is narrowly based on virtually two sectors, tourism and fisheries, which are significantly influenced by external factors.

This report was presented at the High-Level Forum on Poverty Reduction and Country Strategy held in Malé in May 2001. Participants in the forum assessed the report and presented their views on the specific role of ADB in assisting the Government to operationalize its strategy. The key findings of the report and discussions during the forum have been culminated in ADB's Country Strategy and Program for the Maldives (2002-2006) and a partnership agreement on poverty reduction between the Government and ADB. The agreement will formalize a sustainable partnership setting a long-term vision and agreed targets and strategies for poverty reduction.

This study was managed by Hideaki Imamura, Programs Officer, Operations Coordination Division, South Asia Department, with the support of William Murray. Marshuk Ali Shah, Country Director, Pakistan Resident Mission and former Programs Manager, Division 1, Programs Department (West), and S. Hafeez Rahman, Director, Operations Coordination Division, South Asia Department, provided overall guidance. Valuable assistance and support was provided by the Government of Maldives.



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## ABBREVIATIONS

ADB	–	Asian Development Bank
COS	–	country operational strategy
EEZ	–	exclusive economic zone
EU	–	European Union
FNDP	–	Fifth National Development Plan
GDI	–	Gender Development Index
GDP	–	gross domestic product
HLF	–	High-Level Forum on Poverty Reduction and Country Strategy
HVI	–	human vulnerability index
IMF	–	International Monetary Fund
LDC	–	least developed country
MCHE	–	Maldives College for Higher Education
MIFCO	–	Maldives Industrial Fisheries Company
NDR	–	northern development region
NGO	–	nongovernment organization
SDR	–	southern development region
UNDP	–	United Nations Development Programme
UNICEF	–	United Nations Childrens’ Fund
US	–	United States
VPA	–	Vulnerability and Poverty Assessment
WHO	–	World Health Organization

## NOTE

In this report, “\$” refers to US dollars.

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## EXECUTIVE SUMMARY

The word “poverty” does not occur in *Dhivehi*, the Maldivian language, with the same connotations as in English. In fact very few Maldivians are destitute—fewer than elsewhere in South Asia, or indeed in many developed countries. However, the Government fully recognizes that households and communities, as well as the country itself, are disadvantaged by their vulnerability.

Poverty in the Maldives context differs from that of many other countries. In the Maldives, poverty alleviation primarily means the reduction of regional disparities in living conditions, since poverty problems in the country are related to remoteness of the islands and lack of services in the atolls. Personal incomes are significantly higher in Malé than in the atolls. Economic and social infrastructures including ports, roads, schools, hospitals, water and sanitation system, have accumulated largely in Malé, while access to these is disadvantaged in the atolls. Employment opportunities are very limited in the outer islands. The disparities have led to the recent accelerating trend of migration to Malé from the atolls, which could further deplete the development prospects of the outer islands, and worsen the living condition in Malé, possibly intensifying urban poverty. On the public sector institutional aspect, the limited capacity of local authorities and communities at the atoll and island levels has prevented the adequate planning and management of the development of the outer islands.

From the countrywide macro perspective, there are factors that can affect poverty both in direct and indirect ways. The smallness of the economy and its vulnerability to external shocks have major implications not only for the country’s macroeconomic performance, but also for the people’s quality of life, as the economy relies on earnings from export items and on imports for the necessities. The increasing reliance on foreign workers can be a constraint to employment of Maldivians and put pressure on foreign exchange reserves because of the outward flow of their for-

ign exchange remittance. Malnutrition is also a concern, which is prevalent with nearly 50% of children suffering from stunting and wasting due to poor nutrition.

Unlike its regional neighbors, Maldivian society has not been subjected to colonialism, and has consequently developed its own forms of government and administration. With the increasing need to interface with the rest of the world, however, it is necessary to bring certain elements of administration and practice into line with international norms within the Maldivian context, e.g., elements of the legal, financial, and accounting systems in both the public and private sectors.

A strategy for poverty reduction in the Maldives is required to address these concerns. Key strategic areas are (i) outer island development through the provision of basic social and economic infrastructure and credit to spur household income generation and the creation of economic and employment opportunities, to promote an equitable distribution of the benefits of economic growth to the disadvantaged island populations, supported by population consolidation; (ii) human resource development, especially through improved education and training to meet the skill demands of a modern economy, and a reduced reliance on foreign labor through improved labor regulations, together with the creation of new employment opportunities; (iii) nutrition improvement, particularly in the outer islands, by changing people’s diet and eating habits; (iv) further development of the fisheries sector, a major industry, employer, and exporter; and (v) decentralized decision-making system and capacity building to meet the development needs of outer island populations and facilitate their development planning and management.

This strategy should be complemented by the following policy initiatives, which would have an indirect but significant effect on poverty reduction in the country: (i) prudent macroeconomic policy and a proactive industrial policy for diversified industrial structure to reduce the country’s

vulnerability to external shocks; (ii) fiscal consolidation to ensure macroeconomic stability and to allow more room for strategic budgetary allocation targeting the poor; (iii) higher and sustainable economic growth led by the private sector in tandem with an enabling legal and institutional environment for increased private sector activities, supported by the development of the financial sector aiming at domestic resource mobilization; (iv) capacity building of the public sector institutions for improved public sector management; and (v) environmental management through institutional capacity building in monitoring and enforcing environmental rules and regulations and taking appropriate mitigating measures for environmental protection.

ADB's current Country Operational Strategy for the Maldives was prepared in 1995 when macroeconomic instability, geographic disparities, environmental vulnerability, and skill shortages were the major concerns. Accordingly, the operational priorities included (i) improvement of fiscal management, (ii) promotion of outer-island development together with improvement of quality of and access to education, and (iii) protection of environment. ADB assistance in the past were largely fo-

cused on Malé, mainly for the improvement of power supply and port facilities. ADB assistance enabled a reliable electricity supply and significantly improved port operations in Malé. ADB assistance has also supported human development and institutional capacity building in these two sectors, as the shortage of technical experts in engineering, finance, accounting, planning, and management has been a key constraint. Thus past ADB assistance has contributed to the development on Malé, but not to that of the atolls.

ADB's future strategy for poverty reduction in the Maldives should be the one with maximum contribution to addressing the key poverty concerns. At the same time, the strategy should focus on ADB's core competence areas where ADB has comparative advantages to maximize the poverty reduction impact of its assistance. The areas would include (i) outer island development, (ii) human resource development, and (iii) capacity building and decentralization. The assistance to core areas should be supported by measures to promote sustainable economic growth through development of the private sector and the financial sector.

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## I. INTRODUCTION

The purpose of this poverty analysis is to provide an assessment of the poverty situation in the Maldives and an initial poverty reduction strategy for the country for discussion. This report serves as a background study for Asian Development Bank's (ADB) country strategy for the Maldives. It is also a contribution to the Sixth National Development Plan (2001-2005), which the Government has recently finalized. This report focuses on particular problems of poverty and proposes a strategy to address them to the Government and the aid community.

The poverty analysis comprises three parts: (i) a poverty profile highlighting the manifestations and causes of poverty; (ii) responses to poverty to date; and (iii) recommendations for a poverty reduction strategy. The key economic and social indicators are in Appendix 1. The report does not reiterate the detailed poverty assessments available in the Vulnerability and Poverty Assessment (VPA), 1998; rather, it focuses on selected key aspects of

poverty. It contains the findings of a 4-week mission, during which several inhabited islands were visited and consultations were undertaken in Gaaf Dhaal atoll including Nadalla (ranked in the VPA as the most vulnerable of all the 201 inhabited islands in the country), Fares (4th most vulnerable), Vadhoo (10th), Maathodaa (77th), Rathaafandhoo (90th), Fyoari (20-50% vulnerability class), and the atoll capital of Thinadhoo (in the least vulnerable 40%).

The High-Level Forum on Poverty Reduction and Country Strategy (HLF), organized by the Government of Maldives and ADB, was held in Malé on 21 May 2001. The HLF discussed with all stakeholders the manifestations and causes of poverty and vulnerability in the Maldives and ADB's future strategy for poverty reduction for the country, based on the draft of this report. A summary of discussions at the HLF is in Appendix 2. This report has been further improved reflecting the discussions at the HLF.

## II. POVERTY PROFILE

### Manifestations of Poverty

#### Definition of Poverty in the Maldives

The word "poverty" does not occur in *Dhivehi*, the Maldivian language, with the same connotations as in English. In fact very few Maldivians are destitute—fewer than elsewhere in South Asia, or indeed in many developed countries. However, the Government fully recognizes that households and communities, as well as the country itself, are disadvantaged by their vulnerability to adverse external impacts. Poverty in the Maldives context differs from that of many other countries. In the Maldives, poverty alleviation primarily means the reduction of regional disparities in living conditions, since poverty problems in the country are primarily re-

lated to remoteness of the islands and lack of services in the atolls.<sup>1</sup> In addition to income, the concept of poverty includes other socioeconomic aspects such as access to electricity, transport, communications, education, health, potable drinking water, recreation facilities and selected consumer goods, the quality of housing and the natural environment, and the incidence of food security and malnutrition.

#### Vulnerability of the Economy

The Maldives has a long tradition of being an open economy, and, combined with its

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<sup>1</sup> "Atolls" and "outer islands" are used in this report to identify those parts of the country other than Malé; and "region" to indicate a grouping of atolls.



fundamental reliance on the two export-dependent sectors of tourism and fisheries, it continues to be highly vulnerable to external shocks. The country suffered from severe macroeconomic imbalances with large fiscal deficits and strong pressure on its balance-of-payments position in the early 1990s, which was largely attributable to the sharp decline in tourist arrivals due to the recession in the European economy and the Gulf War, and to reduced world tuna prices. In 1994, the Government implemented a successful economic stabilization program that reversed declining growth rates and achieved a 50% increase in gross domestic product (GDP) from 1995 to 2000.

The table below provides data on the changing sectoral growth and composition of GDP from

1995 to 2000. GDP increased at an average of 7.9% per year during this period, while the core tourism sector, at 7.3% per year, increased at a similar rate. The sectors that grew rapidly were electricity and water supply at 21.7% per year and transport at 15.7% per year. There was slow growth in the labor-intensive fisheries and agriculture sectors; and also below average growth in most of the other services subsectors. In terms of contribution to GDP, the largest changes are the decline in the fisheries sector and the increase in the transport and communication sector associated with the growth in the tourism sector and the recent expansion of information and telecommunications services.

**Table: Changes in Gross Domestic Product by Sectoral Origin (%)**

	<b>1995 Contribution to GDP</b>	<b>2000 Contribution to GDP</b>	<b>1995-2000 Annual Rate of Change</b>	<b>1995-2000 % points change in Contribution</b>
<b>Gross Domestic Product</b>	<b>100.0</b>	<b>100.0</b>	<b>7.9</b>	<b>-</b>
<b>Primary Sector</b>	<b>12.1</b>	<b>9.4</b>	<b>2.6</b>	<b>(2.7)</b>
Agriculture	3.6	2.8	2.5	(0.8)
Fisheries	7.8	6.1	5.7	(1.7)
Coral and Sand Mining	0.7	0.6	3.4	(0.1)
<b>Secondary Sector</b>	<b>13.2</b>	<b>14.5</b>	<b>10.3</b>	<b>1.3</b>
Manufacturing	8.2	8.5	8.9	0.3
Electricity and Water Supply	1.8	3.3	21.7	1.5
Construction	3.1	2.7	6.8	(0.4)
<b>Tertiary Sector</b>	<b>78.8</b>	<b>82.0</b>	<b>8.8</b>	<b>3.2</b>
Wholesale and Retail Trade	5.5	4.5	4.0	(1.0)
Tourism	34.4	33.4	7.3	(1.0)
Transport and Communications	11.1	15.7	15.7	4.6
Financial Services	3.5	3.4	7.0	(0.1)
Real Estate	9.1	7.8	4.7	(1.3)
Business Services	3.0	2.9	7.0	(0.1)
Government Administration	9.3	12.0	13.5	2.7
Social Services	2.9	2.2	2.0	(0.7)
Financial Services Indirectly Measured	(4.1)	(5.9)	-	-

Source: Ministry of Planning and National Development, 2001.

Between 1987 and 1999 tourist arrivals increased by more than 300%. In recent years, tourism has accounted directly for one third of GDP and employment. Around 30% of government tax revenues and 70% of total foreign exchange earnings come from the sector. It is estimated, however, that about a third of the gross foreign exchange earnings from tourism will outflow from the country as payments for consumption imports for resorts, foreign equity and debt services, and remittances by foreign workers. At the end of 1999, the tourism sector employed 12,500 Maldivian and 10,618 foreign workers.

The contribution of the fisheries sector to the greatly increased GDP declined from about 16% in 1987 to 5.7% in 2000, although it is understood that this incorporates only fishing catch values and not postprocessing values, the added values of which are classified under manufacturing, which increased by 10% per annum—more quickly than tourism. The fisheries sector is overwhelmingly "manned" by Maldivian fishermen living in the outer islands. It still employs more than twice as many Maldivian workers as does tourism; and 18% of the total labor force are engaged in primary fishing activities alone, making it the second largest Maldivian employment category after government. The VPA's analysis on the distribution of sectoral employment indicates that 98% of employment in the fisheries sector is found in the atolls, where it is the biggest employer.

The Government's taxation base is narrow and taxes from imports and tourism alone supply 48% of government revenue. Nontax revenues, primarily from resort leases and profits of state-owned enterprises and joint ventures, contribute a further 43% of government revenue. Thus the Government's revenue stream is also highly vulnerable to external factors. The only direct tax is on the net profits of commercial banks; there are no income, property, or value-added taxes.

Grants, concessionary loans, and overseas fish and garment markets are under threat from the possible graduation of the Maldives from least developed country (LDC) status. While this is on hold at present, it may not be possible to retain LDC status indefinitely given the pace of economic

development. Graduation from LDC status would lead to a decline in grant and concessional external assistance to the country, loss of garment quotas in the United States (US), and adverse impact on the fisheries industry with the loss of the 24% tariff concession for tuna in the European Union (EU).

The vulnerability of the economy to external shocks is a potential threat not only to economic performance at the macro level, but also to the people whose livelihoods are dependent on imports for oil and other necessities and on the particular sectors, especially fishermen living in atolls who are disadvantaged in various ways, including income and access to social services, compared to Malé residents.

### Population

In recent decades the Maldives has had a high population growth rate, with a doubling of population between 1971 and 1991. This has been regarded as a major constraint to the quality of life for women and children in particular, to the extent that it was identified as the first priority in the Government's Fifth National Development Plan (FNDP, 1997–2000). A recent achievement therefore is the remarkable reduction in the rate of population growth reported in the preliminary results of the March 2000 Census from 3.4% during 1985–1990 to 1.9% during 1995–2000. This significant reduction in the population growth rate is largely attributable to the Government's efforts in promoting public awareness, and making contraceptives available.

### Personal Incomes

Despite the country's high per capita income at aggregated level, income poverty still exists. In the VPA, the median of Rf15 (\$1.17) was adopted as a maximum poverty line, and half of this, Rf7.5 (\$0.59), as a low poverty line; an intermediate poverty line of Rf10 (\$0.78) was also used in the analysis. Around 43% of the population, including 20% of those on Malé, were below the Rf15 per day line and 22%, including 10% of those in Malé, were below the Rf10 per day line.

The Government's position on poverty is that income poverty exists everywhere in the country, even when applying the lowest poverty line of Rf7.5 per person per day. Poor households are found on all the atolls and on Malé, not only on poor islands but on rich islands as well. The absolute number of the income poor per island is estimated by multiplying the head count ratio by the island population size. Adding these absolute numbers over the islands, the total number of income poor in the country is estimated at about 30,000 or 15% of the population under the lowest poverty line.<sup>2</sup>

The VPA estimated the mean per capita income as Rf24 (\$1.88) per day and concluded that this estimate was consistent with national accounts data and the 1993 *Household Income and Expenditure Survey*.

In terms of trends in household incomes 43% of VPA respondents reported an increase over the preceding 5 years, 42% no change, and 14% a decrease. There was apparently little relationship between current wealth and the change in income, i.e., poor households were as likely to declare income increases as rich ones.

For Malé alone, the 1993 Survey found that, while expenditure apparently exceeded income for the poorest 20% of households, expenditure on food, beverages and tobacco accounted for 66% of the expenditure of the lowest decile, which is not an extremely high figure by international standards, and for 34% overall. This suggests that income poverty was not widespread in Malé. The incomes of the richest 10% of households were 31 times those of the poorest in 1993, which was a significant reduction from 1981. The Lorenz ratio was 0.492 in 1993.

<sup>2</sup> The VPA defines household income as household consumption expenditures in cash plus the imputed value of own produced consumer goods minus housing rent paid. The value of housing is omitted because of the different situations between housing markets in Malé and the other islands. This omits an important budget item for many people living in Malé or aspiring to move there, and understates incomes in Malé.

## Human and Social Indicators

The Human Development Index for the Maldives for 1998 from *Human Development Report 2000*, United Nations Development Programme (UNDP) was 0.725, which was higher than for all other South Asian countries except Sri Lanka. The Maldives was ranked 89th of 174 countries. While this indicates commendable development of the country over the past decades, the index only represents an aggregated picture of the country, and attention should be paid to micro level social and human development to see the real situation of poverty and vulnerability.

## Geographic Disparities

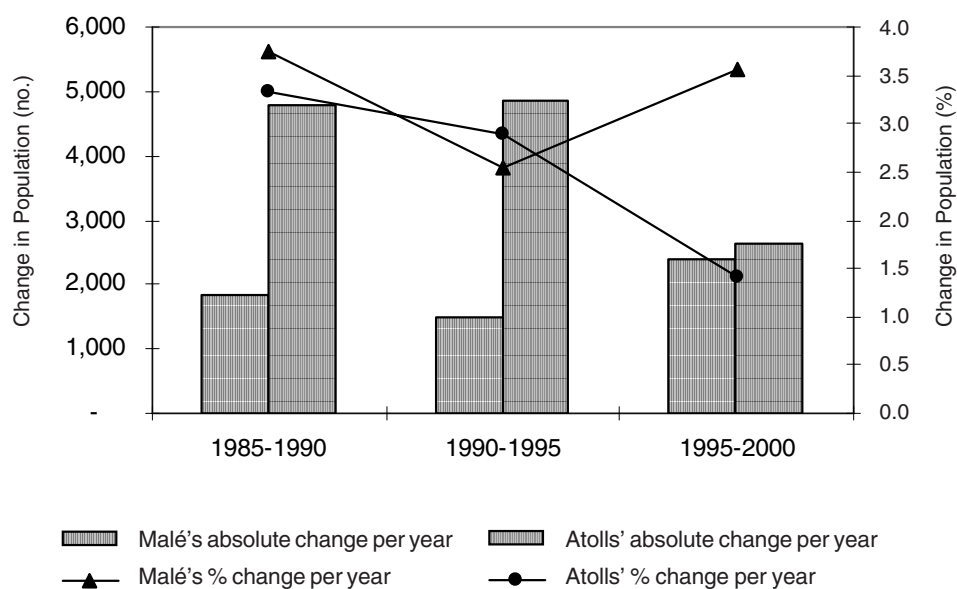
### Population

The recent reduced rate of population growth is geographically differentiated and is in fact confined to the atolls, where it fell from 2.8% per year in 1990–1995 to 1.3% per year in 1995–2000. By contrast, in Malé it increased sharply from 2.5% to 3.5% per year during the same period. Three atolls lost population during the 5 years because of out-migration. These demographic trends are happening so rapidly that this switch to a negative position might become the norm in the future for almost all atolls.

Figure 1 indicates the dramatic and ongoing changes in population distribution. While the rate of increase in the atolls has declined since 1990, in Malé it fell between 1990 and 1995 due to the economic crisis in the early 1990s, but it subsequently strengthened. While the absolute increase in atoll population was more than three times that in Malé from 1990 to 1995, the two have been almost equivalent between 1995 and 2000. Increases in population in Malé would be greater when foreign labor is included. There are currently more additional people in Malé each year than in the whole of the rest of the country. In the 5 years to 2005, many more islands and atolls can be expected to experience absolute population loss.

Using national growth rates, the estimated net migration from the atolls between 1977 and 2000

**Figure 1: Population Changes in Malé and the Atolls**  
(mean annual changes within 5-year periods)



Source: *Population and Housing Census 2000, Preliminary Results*, Ministry of Planning and National Development.

is 33,000, with only Kaafu (excluding Malé) and Alifu having net immigration. Both of these atolls are located in the center of the country and have well-developed tourism facilities. As Figure 2 indicates, by far the largest emigration has been from Seenu at the extreme southern end of the country, which may have lost 7,700 people, or 29% of its population, more than double the average for all atolls. This accounts for 30% of all emigration. There appears to be a tendency that more emigration has been seen from the distant northerly and southerly atolls than other atolls pattern is less pronounced in proportionate terms.

### Incomes and Expenditures

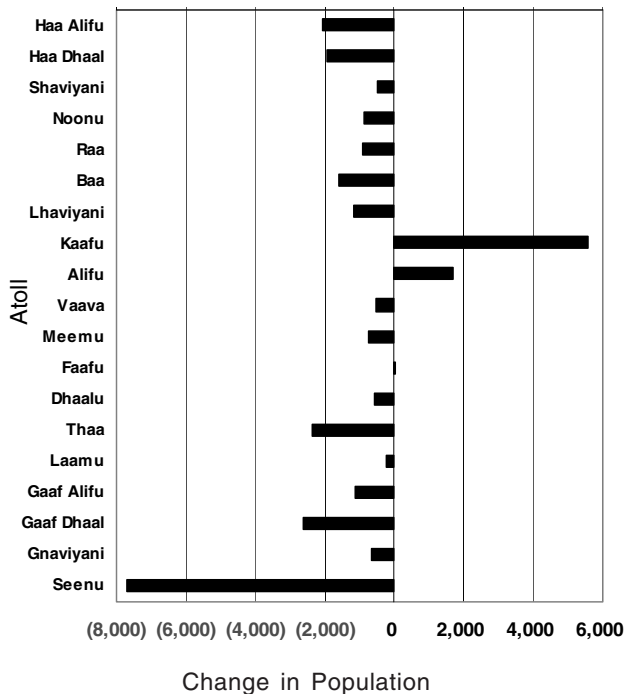
The VPA found that incomes were highest in Malé, with a mean of Rf35 per day, compared with Rf20 for the rest of the country, ranging from Rf11 to Rf28 per day. The median for Malé was Rf26, and for the atolls, Rf15 ranging from Rf8 to Rf22.

Figure 3 illustrates an estimated cumulative income distribution for year 2000 based on data from the VPA increased across the board by an addition of 18% for inflation and with the addition

of a cash or imputed accommodation premium for Malé, with an increase in incomes from Rf5 per day to Rf22 per day. It indicates the true geographic difference clearly, with Malé incomes generally more than three times greater, and perhaps rising to more than five times for the 10-30% deciles. Notwithstanding the fact that the costs of living are significantly higher in Malé, although not for all items, e.g., secondary education, this interpretation suggests that 70% of the population outside Malé have incomes equivalent to only the least wealthy 20% in Malé within a relatively narrow band of Rf4-Rf20 per day, i.e., less than \$2. About 40% of people outside Malé have less than \$1 per day. It is obvious that in this situation the condition of the family is fragile and whether or not a family is in a state of poverty depends on the management of the household budget.

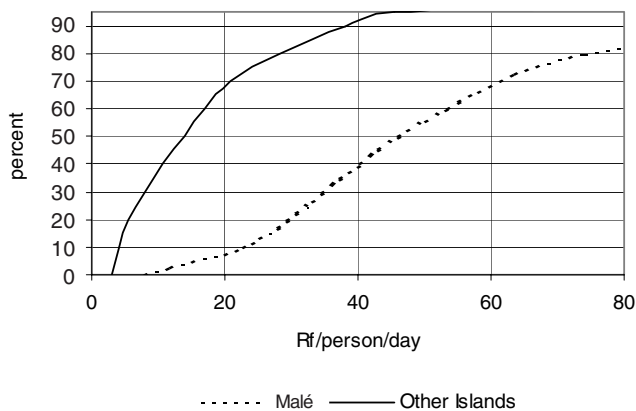
The structure of expenditure varies among the islands. For example, more crowded islands have less firewood available and have to purchase fuel; but the few islands with secondary schools have the great advantage of not having to pay for the boarding expenses of their children. Access to secondary education is a dominating factor in the lives

**Figure 2: Indicative Atoll Migration, 1977-2000**



Source: *Population and Housing Census 2000*, Preliminary Results, Ministry of Planning and National Development.

**Figure 3: Indicative Income Distribution for Malé and the Other Islands, 2000**



Source: *Vulnerability and Poverty Assessment*, Ministry of Planning and National Development, 1998.

of many households. Fewer than 40% can afford the expense of moving and accommodating children on another island, and their children's education stops at grade 7, nominally age 13, if indeed they stay in school that long (Figure 6). If relatives are available to accommodate the children, they may go to secondary school unaccompanied by members of their immediate family; otherwise if families can afford it they very often accompany their children to live on an island where there is a secondary school. They prefer to go to Malé where the schools are perceived to be better than those in the atolls and there are more opportunities for household members to find employment to support the family during this period. The parents may return to live on their home island when education is complete, but the children are less likely to do so.

### Physical and Social Infrastructure

There is a marked discrepancy between Malé and the outer islands in the availability of physical and social infrastructure such as schools, markets, health care facilities, water supply and sanitation, and electricity. Private sector activities, which would spur economic growth, have been very limited in the outer islands due to lack of basic infrastructure services and high cost of transportation and communication. While in Malé grade 12 (secondary school) is the highest grade, only intermediate grades (5 to 7) are available in many atolls.

Access to health service is also limited in the atolls compared to Malé. The VPA indicates that, while Malé has 100% access to doctors and nurses, about 58% and 70% of the population in the atolls are without reasonable access to doctors and nurses, respectively. Around 4% of the atoll population are even without trained health personnel. As for drinking water, almost 60% of the population in Malé are able to get water through a piped supply system, but a significant portion of the atoll populations still rely on rainwater collection. Although rainwater is considered to be safe, the quality of rainwater tanks will adversely affect the quality of water if they are not properly maintained. Moreover, people who do not have

rainwater collection facility will use well water that may be contaminated with fecal coliforms.

Although most of the atoll populations have access to some form of electricity, the supply systems are not generally adequate. Operating hours are often restricted, quality is usually poor, and tariff levels are too high. Currently 35% of the atolls population have access to electricity for only 5–12 hours per day. Most atolls are supplied with poor quality electricity due to obsolete systems, insufficient generating capacities, lack of backup generators, and improper distribution system, which have resulted in frequent power cuts and significant voltage drops. Interatolls and interislands transport is very limited, and the only regular ferry service is the one between Malé and Villingili.

### Overcrowding in Malé

The long-term trend of migration to Malé, exacerbated by the more recent large-scale importation of foreign labor, has led to its overcrowded condition. Malé has for many years suffered from an acute housing shortage to the extent that overcrowding has given rise to living conditions that are squalid. Population density in Malé has been estimated at 334.3 persons per hectare, while the average for the entire country is 26.1 persons per hectare. Households average 9 persons, almost 50% more than in the atolls. Around 14% of people live in conditions where there are 5 or more persons per room, and "shift- sleeping" is reputedly a not infrequent occurrence. Cases of 10 persons sharing a room measuring 3 meters by 3 meters are apparently not uncommon. These show that, in Malé, the continually deteriorating living conditions are of concern.

### Employment

One of the main features of labor situation in the Maldives is limited employment opportunities and income-generating activities in the atolls. While in Malé and nearby islands wide ranging economic and commercial activities including manufacturing, construction, and service (mainly tourism) provide various job opportunities, fisheries are virtually the

sole income-generating activity in the atolls. Communities in the atolls are vulnerable to changes in the fish price both in local and international markets and also to weather conditions. Many young people who receive higher education in Malé will not return to the atolls, as there are very few opportunities where their professional capacities can be utilized.

Another aspect of employment in the country is heavy reliance on foreign labor force. It is estimated that expatriates currently constitute more than 20% of the labor force. Foreign labor has increased at a rate of 16.6% per year since 1989 from a relatively modest 5,142 to 27,545 in October 2000 (Figure 4), 79% of whom were unskilled or semi-skilled. The tourism industry is widely acknowledged to be heavily dependent on foreign labor, with the dual consequence that much of the money paid to the foreigners leaks out of the country and that local labor is at the same time not employed. However, foreign labor is no longer restricted to the tourism industry; it has now penetrated most sectors in the economy.

Figure 5 indicates that (i) large net changes in the number of foreign workers, both negative and positive, can and do occur in single years; in particular there was a decrease of 4,425, or 21% of the total, as recently as 1997; and (ii) while 1999 saw the largest ever annual net increase (5,873 or 29% of the total), there has perhaps been a tightening of the market in year 2000, indicating the smallest annual positive change since 1990.

### Education

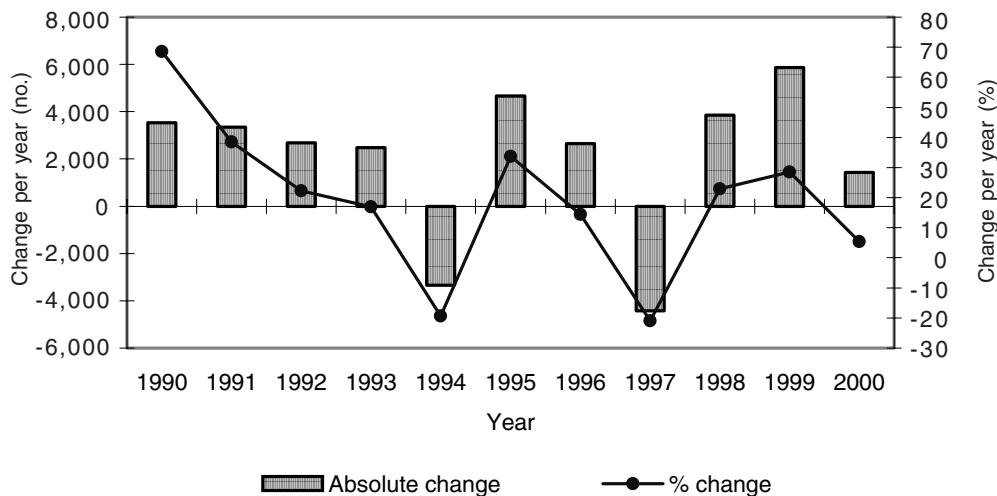
The primary school enrollment figures are impressive for both male and female children. However, in general, the levels of achievement in the current education system in the Maldives are generally not adequate to enable the students to work in areas requiring skilled labor. Skills training and employment for young people were identified as priority issues by the working group on *Common Country Assessment*, 2000, by UNDP.

Although the Maldives enjoys an adult literacy rate as high as 98%, this is assessed on the basis of the ability to recite basic Arabic and Thaana



**Figure 4: Foreign Labor, 1989-2000**

Source: Ministry of Human Resources, Employment and Labor.

**Figure 5: Annual Increments of Foreign Workers**

Note: 2000 figure is extrapolated from the increment to October 2000.

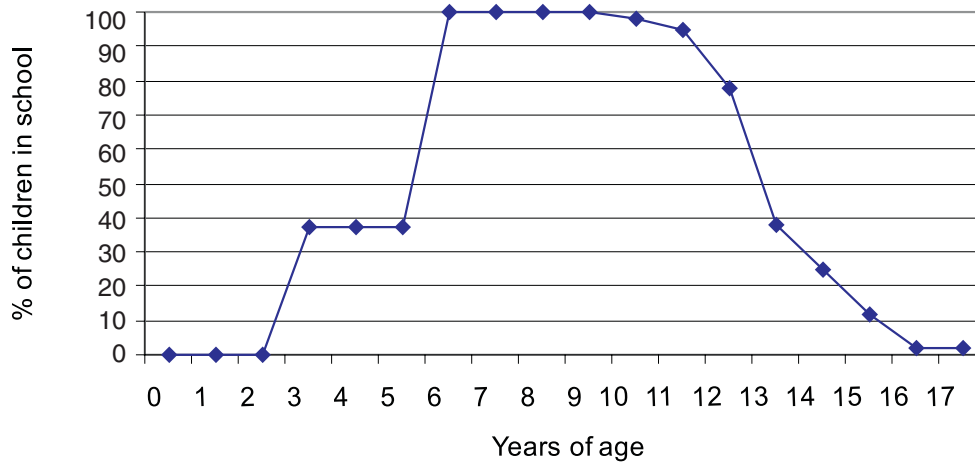
Source: Ministry of Human Resources, Employment and Labor.

texts without necessarily implying a full understanding of their content. Functional literacy is lower than 98% because of the unavailability of secondary education in the atolls and the poor quality of primary education. Although exact figures are not available, it is estimated that less than 40% of children stay in school beyond the age of 13 (Figure 6). Equally important is the fact that the poor quality of primary education leads some children to leave school without adequate skills in literacy and numeracy.

## Health

The Government has been promoting increased access to health care services all over the country. Currently, there are main hospitals in Malé, five regional hospitals in the major atolls, one or more health care centers in each atoll, and at least one health care worker in each island. Indicators in the health sector have shown considerable improvement over the past decades.

However, the geographical dispersion of the country has been a major obstacle to the provision

**Figure 6: Percentage of Children in School by Age**

Source: *Social Development in the Maldives, An Overview and Assessment*, Ministry of Planning and National Development and UNDP; and *Maldives Country Economic Memorandum, Policies for Sustaining Economic Growth*, World Bank, 1999.

of adequate access to health care for the population in the atolls, particularly during emergency. Unavailability of scheduled transport between islands and the need to pay high costs to arrange special transport have prevented timely access to urgently needed medical care and contributed to the high incidence of maternal mortality rate. Another area of concern is the lack of human resources. Many health care workers have not been properly trained, which has led to limited quality of health care services available in small islands and reliance on a large number of expatriates.

### Malnutrition

The *Maldives Multiple Indicator Survey Report* (1996) by the United Nations Children's Fund (UNICEF) assessed the progress made in achieving the mid-decade goals of the National Plan of Action for Children of Maldives and found excellent progress in most areas, although anthropometric data indicated a stunting prevalence of 30%, wasting 17%, and undernutrition 43%, which was comparable with the 1993/94 *National Nutrition Survey*. The prevalence of malnutrition increases with age, so that mean figures for the under-5 year group understate the real situation.

The "Memorandum Containing Observations and Comments of the Government of the Republic

of Maldives on the Recommendation by the Committee for Development Policy to Graduate the Maldives from the List of LDCs" (2000) acknowledges that close to 50% of all children suffer from stunting and wasting due to poor nutrition. The VPA found that there had been no significant improvement in at least the previous 16 years: on the contrary, available evidence points to a worsening of the situation.

Malnutrition in children has been a problem for several decades, although few data have been available to quantify it. A small survey of 39 children in 1977 found that 45% were moderately affected by malnutrition and 10% were severely affected. Surveys undertaken for preparing the *Country Health Programme of Maldives* in 1980 found that 65% of the children measured were more than two standard deviations from the internationally recognized weight-to-height ratios. *The Nutritional Status and Child Feeding Practises of Maldivian Children* (1994) was the first large survey to assess nutritional status. It surveyed 5% of households and found that while undernutrition, as measured by two standard deviations below the median for height/age/weight ratios, had decreased significantly since 1981, the prevalence of severe malnutrition had not decreased. In addition, some 82% of children, 68% of pregnant women, and 62% of nonpregnant mothers had hemoglobin



levels below the level recommended by the World Health Organization (WHO).

It was found that only a limited variety of foods were consumed and that meals were infrequent: only 2–3 times per day. Protective group foods, i.e., fruits and leafy vegetables, were consumed by less than 30% of children and 50–80% of children never ate anything except rice, wheat flour, coconut, tuna fish, milk, sugar, and black tea. Recent school surveys in Malé and the atolls have found that some children go to school without any breakfast whatsoever, and that many others only have a drink.

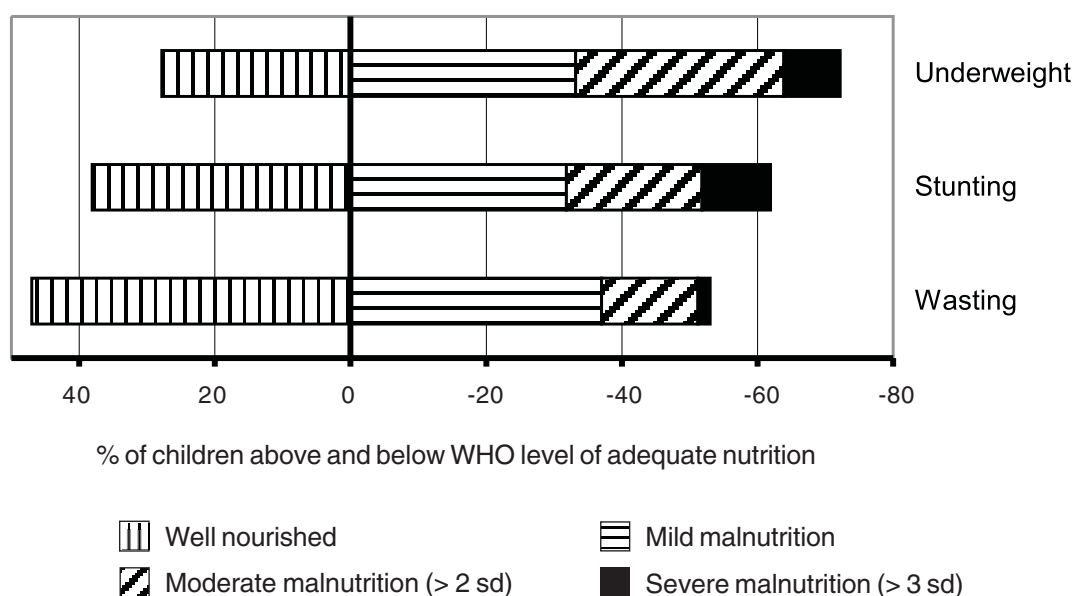
As Figure 7 indicates, well under half of Maldivian children were found to be well-fed in 1994: 16% of children suffered from moderate to severe wasting, 30% had either moderate or severe stunting, and 39% were seriously underweight.

The nutrition situation for the aged under-5 population of the Maldives is of great concern. Children in developing countries commonly suffer from chronic undernutrition resulting in stunting. However, this should no longer be acceptable

in the 21st century. The prevalence of wasting is uncommonly serious and is considered a severe situation. Malnutrition starts before birth with about 20% with low birth weights. Aside from poor growth rate as a consequence of malnutrition, associations have been observed between low anthropometry and high infant and child mortality, infectious diseases, decreased activity, delayed intellectual development, impaired school performance, and decreased productivity. It is essential that program planners understand these consequences and the underlying causes of malnutrition so as to take appropriate measures.

Malnutrition takes the form of protein energy malnutrition and micronutrient deficiency anemia, which affect at least 30% of the population and result in apathy, lack of well-being, and decreased work capacity and productivity. Much of the anemia results from insufficient intake of iron and folic acid in the diet, worm infestation, or blood disorder of B thalassemia minor type (*Human Resources Development in Maldives, Guidelines for Programme Development, 1991*). Malnutrition adversely, and often permanently,

**Figure 7: Nutritional Condition of Children Under 5 Years (WHO Standards)**



Source: The Nutritional Status and Child Feeding Practises of Maldivian Children, Report of the national nutrition survey, Department of Public Health, in collaboration with UNICEF and WHO, 1994.

affects mental as well as physical capacity. Thus malnutrition on the Maldivian scale is a serious threat to the quality of its current and future human resources.

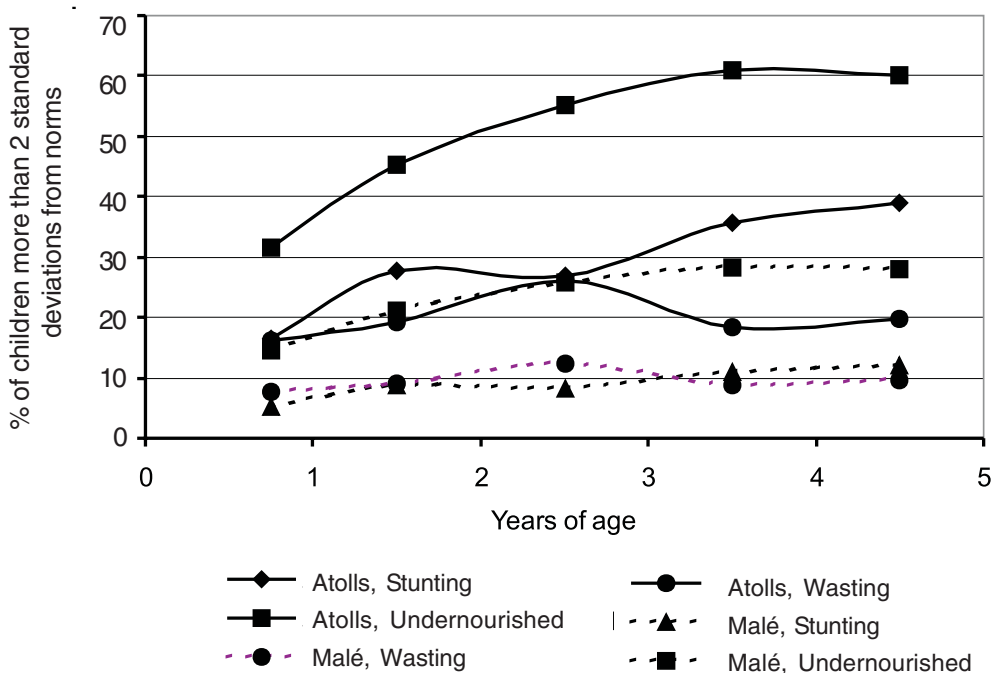
As Figure 8 indicates, malnutrition tends to be cumulative with age, thus descriptive statistics tend to make the situation appear better than it really is. Some 27% of children under 5 years in the atolls are more stunted and wasted by more than two standard deviations from world norms, and 55% are more undernourished to the same degree; but when they reach 5 years almost 40% of children are stunted to this extraordinary degree, while 60% are grossly undernourished. Wide differences exist between Malé and the islands that are attributable to the difference in living standards, a greater awareness of international habits, and the availability and diversity of food.

### Gender Disparities

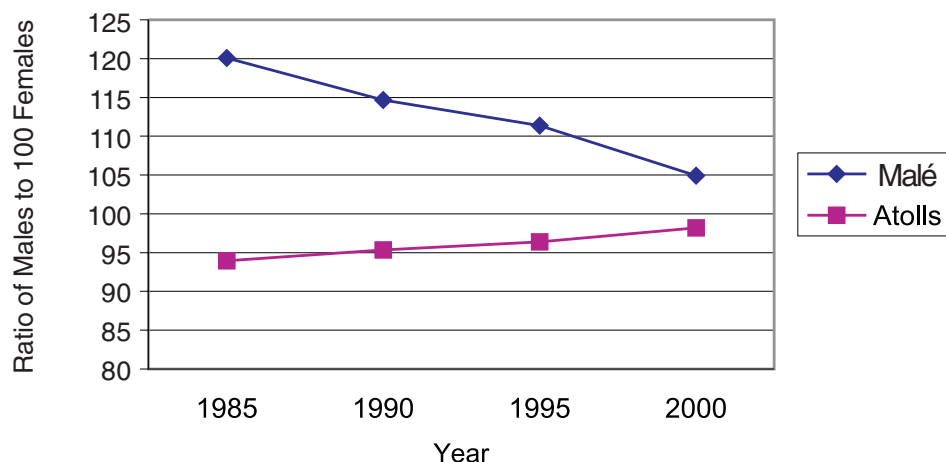
In terms of demography, Figure 9 indicates a continuation of the welcome trend toward equal numbers of men and women both in Malé and in the atolls. However, these averages mask great variations between atolls. For instance, Haa Daalu in the far north has a mean male-to-female ratio of 0.95 compared with the national average of 1.05, but the small island of Faridhoo in the same atoll has a ratio of 0.63, implying that virtually all the adult males are away working.

The Maldives is ranked as among the highest in Southern Asian countries according to the Gender Development Index (GDI) of UNDP (2000). There is no institutional discrimination along gender lines in access to primary education. School enrollment rates for girls and boys are almost the same. Women are employed in the public sector and in manufacturing, and they account for 70% of active persons in agriculture.

**Figure 8: Cumulative Serious Malnutrition Geographic Disparities in Children Under 5 Years (WHO Standards)**



Source: *Maldives Multiple Indicator Survey Report*, UNICEF, 1996.

**Figure 9: Ratio of Males to 100 Females, 1985-2000**

Source: Population and Housing Census 2000, Preliminary Results, Ministry of Planning and National Development.

However, employment opportunities for women have declined over the last 20 years due to the mechanization of fish processing, previously undertaken in island homes;<sup>3</sup> the decline in local handicraft production, now replaced by imports from People's Republic of China and other countries; and their cultural incompatibility with the expanded employment opportunities in the tourism industry. The female employment participation rate declined from 60% in 1978 to 21% in 1995—from one of the highest in the region to one of the lowest in the world. The barriers to accessing higher education are also placing girls in a disadvantaged position: upper secondary education is only available in Malé, and the limited movement of girls from the atolls to Malé reduces their proportion. This could lead to a corresponding limitation on the access of girls to postsecondary education.

The *Maldives Multiple Indicator Survey Report* (1996) found no differences in the conditions of the two sexes regarding malnutrition, but the VPA reported that both stunting and wasting were more prevalent among girls. It has also been pointed out that women are in a disadvantaged position in receiving adequate health care, as they are usually left in the islands to take care of their whole family by

themselves. It is very difficult to receive quality medical services in the outer islands, but it is not easy to go to other islands with good medical facilities because transport is not available and women usually do not want to leave their children behind.

The Government has been playing an active role in promoting sensitization of people including government officials, media, local communities, and businesspersons on the gender issues. A series of country-wide seminars has been held for this purpose. The country's first action plan for women's development is currently being developed that will articulate an implementation plan and a monitoring mechanism for the development of women.

### Environmental Concerns

The coupling of rapid economic and social development with the high population growth has had adverse effects on the environment. Environmental problems, once largely unknown, are increasing rapidly, especially in the areas of sewage and solid waste disposal, the depletion and pollution of groundwater, excessive fishing in localized coastal zones, the unsustainable exploitation of some marine resources, the destruction of coral reefs and reef habitats, and coastal erosion exacerbated by coral mining in some locations. Some of these

<sup>3</sup> A positive aspect of the mechanization has been that it has freed women from the strenuous manual labor of fish processing.

problems are increasing the vulnerability of the Maldives to natural disasters; and may well have an adverse effect on the economic mainstays of tourism and fisheries through declining income from tourism and consequent depletion of government revenues and pressure on social expenditure that benefits the poor, and reduced income potential of local fishermen.

## Causes of Poverty

### Geographic Disparities

The causes of poverty and disadvantage in the Maldives are largely geographic disparities. The total population is small and fractionalized into 200 small village communities that are able to sustain only lower levels of socioeconomic activity. Diseconomies of scale in production and transport and in the provision of social services (especially education and health care) and physical infrastructure are major constraints due to the highly fragmented geographical and population distribution. The *Maldives and Its Development Partners: An Agenda for Cooperation* (1999) suggests that costs are magnified by the smallness and insularity of the country, resulting in overall cost levels that may be 300-500% higher than the typical averages for larger developing countries. For example, the average construction cost of a primary school on an atoll is five times higher than the cost of a comparable school in Sri Lanka; and the cost of immunizing a child is five times higher than the average of all developing countries, largely because of the transport costs of vaccines.

Past development efforts, especially in terms of infrastructure development, have been largely centered on Malé. The accumulation of infrastructure there has been warranted by scale economies and cost-effectiveness in the highly fragmented island context, but it cannot be denied that the development of the atolls has not received sufficient attention. Disadvantaged access to basic infrastructure and social services (education, health care services, and water and sanitation) and the limited employment opportunities in the outer islands are

clear evidence of poverty and vulnerability in the atolls and have fuelled migration to Malé. Skilled workers such as accountants, teachers, and government officers are generally unwilling to be stationed outside Malé, thus further hindering the development of the outer islands.

Lack of capacity of local authorities and communities in the atolls and islands including atoll offices has also constrained the development of the outer islands. Due to the limited availability of qualified human resources and necessary facilities, their functions have largely been restricted to administrative matters such as licensing and collecting fees; they have not been able to perform as a planner or manager of atoll development. The needs of communities in the atolls for social service and infrastructure development have therefore been determined at the central level in Malé.

### Education

Government investment in higher education is primarily in the institutes under the Maldives College of Higher Education (MCHE), which train much needed skilled people: teachers, nurses, administrators, technicians, accountants, lawyers, etc. However, vocational training facilities are out of scale with both the demand for skilled people and the supply of school leavers, who only have varying degrees of an academic, rather than practical, formal education. While the modernization of the education system is an enormous task, questions have been raised on the spending priorities. It is generally acknowledged that the quality of primary education is poor, and subsequent educational achievement and life-effectiveness rests on performance here. Nonetheless, a great deal of investment has been made at the tertiary end of the spectrum, which is attained by a privileged less than 1% of children.

Quality of education in the atolls has been disadvantaged. School facilities in atolls are in general not as good as those in Malé. According to the Government's survey of 22 schools in the selected atolls, 55% of the schools have no toilet facilities; 60% have no drinking water; and few have science laboratories and/or libraries. Qualified Maldivian teachers trained in Malé are not willing

to go to the atolls. In fact, almost 79% of teachers for secondary education in the atolls are expatriates. In primary and secondary education local teachers have distinct advantages over expatriates in terms of local language and cultural awareness, although this is less important for technical and professional education.

### Labor Market

As stated in the *"Memorandum Containing Observations and Comments of the Government of the Republic of Maldives on the Recommendation by the Committee for Development Policy to Graduate the Maldives from the list of LDCs"* (2000), the Maldives depends on imported raw materials and expatriate labor for the production of goods and services.

There is a tendency for the incomes of lower paid Maldivians to be suppressed to minimize costs and maximize productivity and profits throughout the economy, e.g., in the principal industries of tourism, garment manufacture, and construction. In the case of tourism, as noted by the World Bank (*Maldives Country Economic Memorandum*, 1999), the liberal expatriate labor policy has been a crucial factor for the successful development of the Maldives' tourism industry. The wage levels that expatriate workers from Bangladesh and Sri Lanka receive (as low as \$80 per month) are lower than the wage that Maldivian workers are willing to accept as a minimum. The memorandum goes on to recommend that the Government avoid policy measures that would restrict hiring of expatriates and that any proposed new regulation affecting this pool of workers needs to be carefully screened to make sure that labor costs are not raised through discriminatory measures.

While foreign labor force has been significantly contributing to economic development, there is the need to involve more local Maldivians in the mainstream of economic activities so that they can share the benefits of economic growth. This is particularly important in view of the large number of local graduates who are expected to enter the labor market in the coming years.

There is a significant loss to the economy from the remittances sent abroad by foreign work-

ers, which also means that the money is not being spent in the Maldives. This also aggravates foreign currency liquidity problems. In the meantime, the need to accommodate foreign workers, even if some of them actually sleep in shifts, inflates house values and rents in Malé and increases the overcrowding of the Maldivian population.

In addition to wages, there are other factors that promote foreign labor participation in the country. There is much talk of a "skill gap" and the need to educate and train Maldivians so that they will obtain skills that markets demand. The advantage of contracted foreign labor is that it is held to a contract, while local labor is more lax in its responsibilities. Thus, during the last decade, foreign labor has been engaged more and more by businessmen and householders not only as experienced managers but also as hairdressers, tailors, shop assistants, roomboys, waiters, and personal household maids.

The response of Maldivians to the increase in foreign labor force is to stay on their islands or, in the case of those in Malé, to wait for employment at an acceptable wage, while in the meantime minimizing their expenses by living in grossly overcrowded conditions on a frugal diet. There are some recent reports of a distinct and accelerating tightening of the job market for Maldivians. They are said to be under increasing pressure to search more enthusiastically for employment and to more willingly accept what is available.

### Employment Opportunities and Access to Credit in the Atolls

Limited employment opportunities are among the serious constraints to the development of the atolls. The scope for both community and private sector development is hindered by limited availability of credit to enable the implementation of investment schemes in the fisheries sector, agricultural business, and other potential economic activities. Particularly in the fisheries sector, businessmen and families in the islands are now venturing into the building of third generation fishing boats made of fiberglass as much as 100 feet long that can accommodate 20 persons and refrigerated

holds at a cost of Rf1.6 million compared with the wooden 45-foot second generation boats that cost Rf0.6 million. With the introduction of cheaper and more reliable electricity supply, they are also venturing into shore-based refrigeration and ice-making equipment as well as processing facilities to generate island-based employment. Agricultural communities are contemplating capital investment, marketing initiatives, and such infrastructure improvements as modifying boats so that their products such as bananas are better conserved while in transit to Malé, thus giving them a stronger negotiating position with fruits that have a longer life. Such schemes require finance that is not available or can only be slowly aggregated by many years of savings from working at sea or in the tourism industry. For example, the taxis in Malé are driver-owned and many of the owners were able to buy their vehicles after spending many years at sea.

Microcredit schemes have been successfully introduced by several projects, but do not cater for the relatively high capital requirements of many potential projects and business opportunities, particularly fishing industry developments. The Bank of Maldives has difficulty serving all sectors of the economy and, as a commercial operation, prefers to lend to established clients with low risk ventures.

### **The Fisheries Sector**

Fishing remains the biggest employing activity in the outer islands, and is therefore of central importance to any poverty strategy. Fisheries resources are underexploited overall, although some reef fisheries are overfished and urgently require effective regulation; nevertheless their proportionate contribution to GDP has fallen in recent years. The sector has been facing major constraints including (i) reliance on a single species (tuna) and limited diversification of fish products; (ii) insufficient credit to small private investors for upgrading vessels or other facilities; (iii) limited marketing skills; and (iv) lack of trained manpower to lead the industry both in the government and private sectors.

The Maldives is not ecologically self-contained, and, while there are no comprehensive data available on fish resources and sustainable fishing yields, the situation is complicated by the changing movements of tuna and other migratory fish through the country. More research needs to be done to establish a sound management framework for a modern and sustainable industry. The management framework should be developed in close coordination with international bodies, as the tuna migrates over a long distance and local fishing will be affected by fishing in international waters. Data collection on social and economic aspects of fishermen is also of importance in formulating a comprehensive strategy for the development of the fisheries sector.

Another issue for consideration is the presence of the state-owned enterprise, Maldives Industrial Fisheries Company (MIFCO). The fish processing infrastructure of MIFCO was originally financed by Japanese private investment, and subsequently nationalized. It has since been improved with the assistance of the World Bank, including three substantial loans, despite current financial difficulties. The Felivaru tuna canning plant employs mainly foreign labor. MIFCO has been extremely valuable to the fishing communities in providing a ready market for their live catches. However, it simultaneously caused the loss of female employment in on-island processing, with adverse consequences for poverty and gender diversity in the islands.

MIFCO is now technically insolvent, with losses rising to over \$10 million since 1995. It is unable to purchase the full catch because of collecting and processing limits, but it sets the price for the tuna industry and fishermen are thereby prevented from selling to the private sector at undistorted market prices, thus depressing their incomes. The industry has become atrophied around MIFCO. ADB's *Private Sector Strategy Study for Maldives* (1999) described the fishing monopoly of MIFCO as a continuing roadblock to maximizing the potential of this key industry.

A recent development in the industry has been the licensing of fishing by foreign vessels in the 75-mile distant exclusive economic zone (EEZ), which generated over \$1 million in 1999 and has greater potential if open competitive bidding is used. (Fees



in the non-EEZ are eight times those in the EEZ, even for Maldivian fishermen, thus constraining domestic activity.) It is understood that this policy change might have been an unfortunate trend for the island fishing communities. As the fishing industry begins to be liberalized entrepreneurs are already planning to bring in Sri Lankans to process fish, simply paying fishermen for their catches. Thus there is a danger that the substitution of foreign for local labor, which has been taking place during the last decade, could in the near future spread to the fishing industry and the islands, with consequent severe impacts on the Maldives' already disadvantaged families and communities.

### Malnutrition

Malnutrition is a serious and widespread disadvantage requiring urgent attention. In addition, the food security of the remote islands with little agricultural produce is vulnerable to weather conditions, etc. People on such islands who subsist on daily earnings and supplies are the worst affected. However, diet and eating habits are more important causes of malnutrition.

Even when fruit and vegetables are available at little cost they are usually ignored;<sup>4</sup> and while nutrition is better although very far from satisfactory in Malé than in the atolls, this attitude is not limited to the atolls. *The Household Income and Expenditure Survey* (1993) found that the expenditure elasticity for vegetables was greater than 1.0. This implied that they were regarded as luxuries with

greater amounts being bought as incomes increase. Elasticities for the other food items analyzed were inelastic, and rice and flour were regarded as most and equally essential, with sugar next ahead of fish and milk.

On the basis of advances in the understanding of human nutrition during the 20th century, many communities and societies in developed countries have, quite recently, adjusted their traditional diets and eating patterns to improve their health. As indicated above this has not yet been achieved in the Maldives.

The *Enabling Development: The Role of Food Assistance in South Asia* (2000) states that malnutrition is caused by a number of factors including dietary habits and preferences, poor infant and child care practices, and the reportedly high incidence of some infections such as respiratory infection, diarrhea, hookworm infestation, etc., which are likely to cause anemia in many mothers. Traditional practices followed during pregnancy and the postdelivery period seem to adversely affect intrauterine growth and lactation or composition of human breast milk postpartum in a number of cases. The incidence of worm infestation and other intestinal parasites exacerbates these problems. Moreover, whatever is consumed is not fully utilized by the system due to a high incidence of intestinal parasites affecting, according to a recent survey, 50–75% of children below 5 years. Worm infestation is linked to poor sanitation and to lack of potable and safe water supply on many islands.

<sup>4</sup> Even on Fiaori, which is a predominantly agricultural island where fruit and vegetables are readily available, the doctor at the new health center made an unprompted report to the mission that malnutrition was the main health problem.

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### III. RESPONSES TO POVERTY TO DATE

#### Government Policies, Public Expenditures, and the Poor

In light of the nature of poverty in the country, the Government's approach to poverty reduction planning has been that successive national development plans lay emphasis on the promotion of regionally balanced economic growth, where benefits are spread more widely and equitably. A number of atoll development projects have been undertaken to reduce the level of poverty and continue to be implemented at regional and island levels. Service centers in the atolls will continue to provide an efficient means of delivery of a wide range of services. Regional growth centers are being constructed to cater for employment needs and serve surrounding catchment areas of expanding population. The Government will continue to develop the atoll development centers as the most efficient means of delivering basic services in the dispersed island archipelago.

Thus, while none of the national objectives of the FNDP directly acknowledge or address the issues of poverty reduction as conventionally defined, improvements in living standards, alleviation of vulnerability, and reduction of geographic disparities are central to the first three of its six objectives. These objectives were used to generate 10 key issues as follows.

- (i) *Reduce the high population growth.* The outstanding success in reducing the population growth rate has been achieved.
- (ii) *Enhance the national education and skills level for employment.* This is being dealt with through improvements in the quality of academic education and the vocational training system. However, the reliance on foreign labor remains. The FNDP does state that maintaining a large number of semi-skilled foreign workers on an indefinite basis is not desirable.
- (iii) *Pursue appropriate growth strategies.* To foster regionally balanced growth, the Government has supported many employment-generating microcredit operations in the atolls, and, with the involvement of the Bank of Maldives' Development Banking Cell, these have enjoyed a level of administrative sophistication rarely achieved internationally. They are now an important element in all atoll development projects. The Ministry of Women's Affairs and Social Security with the assistance of the United Nations Population Fund and the EU operates a Women's Loan Scheme and provides workshops in income-generating activities for women, particularly in the islands.
- (iv) *Establish sustainable and balanced provision of infrastructure and delivery of services and facilities.* In the context of outer island development, two regional growth centers are being established in the far north and south, which will facilitate the balanced provision of economic and social services.
- (v) *Implement sound environmental and natural resources management.* The Government has imposed a ban on the use of coral rock for construction, implemented stringent solid waste management systems, and made the preparation of an environmental impact assessment mandatory for all new projects.<sup>5</sup> The Government also provides incentives for the import of cement for construction.
- (vi) *Strengthen legal, regulatory, and justice systems.* The development of legal aid mechanisms, especially for the poor,

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<sup>5</sup> There is still much to do here to ensure the enforcement of these policies. The cases have been observed for a disregard for the gear ban on harvesting sea cucumbers (diving gear is prohibited) by entire island communities and administrations.



- was identified as a priority issue by the working group on UNDP's *Common Country Assessment*, 2000. Capacity for legal education and judiciary training is being strengthened.
- (vii) *Maintain prudent management of the economic system and public finances.* Recent deteriorating fiscal and external balances are of concern, while the overall economic performance has been favorable. The Government is working on improving the audit and public accounting system for better management of public finances.
  - (viii) *Resettle and consolidate inhabited islands.* A number of related policies have been attempted over recent years, and there appears to be growing support for the consolidation of populations by depopulating uneconomic islands and concentrating people where they can support higher levels of service and economic activity. The FNDP acknowledges that human settlement programs have not done enough to redress the imbalances between Malé and the islands.
  - (ix) *Establish regional growth centers.* Two regional development centers are currently being established, as described in (iv) above.
  - (x) *Manage growth and development of Hulhumale.* Development of Hulhumale should be conducted under careful planning so as to minimize conflict with outer island development and avoid further population migration from the atolls. Since Hulhumale will operate as a suburb of Malé, and as it develops and provides more population capacity for the capital, it will tend to decrease rental housing prices and thus attract even more people from the islands.

The Government has made great strides in tackling the enormous task of modernizing social services, even though much remains to be done. In 1990, 33% of government expenditure was on social services compared with 31% on economic services; but by 1998 social expenditure had, after falling as low as 27% in 1992, increased to 41% while economic services had fallen to a 12% share. Within social services, education increased its share from 32% in 1990 to 46% in 1999; with health experiencing a complementary decrease from 47% in 1990 to 25%. Community programs increased from 15% to 24% during the same period.

While the private sector is very active in the Maldives, especially in the sectors such as tourism, the public sector still plays a major role in economic and social development. The Government's public expenditures account for more than 40% of GDP. This implies that the public sector intervention is a powerful tool for economic and social development. Good governance or improved public sector management is the key to enhancing the effectivity of public sector interventions toward achieving development goals. Among others, efficient utilization of public money is a prerequisite for maximizing the benefits of any development program. The Government has been working vigorously toward more efficient public finance system and expenditures, with the assistance of external agencies, so that public money will be utilized to benefit the people, especially the poor in remote islands. A public expenditure review, currently being undertaken by the World Bank, ADB, and the International Monetary Fund (IMF), will examine how much room there is to rationalize and reorient public expenditures toward programs with stronger benefits for the income-poor, particularly those in the outer islands.

### **Nongovernment Organizations and the Private Sector**

NGOs play an increasingly important role in Maldivian society, although they are small in scale. The Voluntary Service Overseas works with the Ministry of Education in particular to provide strengthen-

ing of teaching service, and the Society for Health Education is supporting the Government's health program. Other major NGOs include the Foundation for the Advancement of Self-Help in Attaining Needs, which provides workshops on income-generating activities for women, particularly in the outer islands; the Kanduhulhudhoo Island Development; and the Volunteers for Environmental and Social Harmony and Improvement. Many of their activities are concerned with youth and, at a time of high youth unemployment and a flood of external cultural influences, some of which are highly undesirable, they provide increasingly valuable services in assisting adolescents in adjusting to society in a healthy way. NGOs have also been playing an increasingly important role in the outer islands, especially in the areas of community development, education, health and sport.

The private sector has been very active in the country, particularly in tourism, and significantly contributed to the past rapid economic development. However, the extent of its contribution to economic development shows a large difference between Malé and nearby tourism islands, and the atolls. In the former, the Government's past concentrated development efforts through the provision of necessary public goods (particularly economic infrastructure such as ports, airports and power plants) have complemented and fostered private sector activities. In contrast, this has not been the case in the atolls.

The Government puts a high priority on the regional development, led by the several regional growth centers. However, it is very important to note that the provision of necessary infrastructure by the Government alone will not solve the problem. The key issue would be how to promote private sector led-sustainable growth in the regions. Efforts should be made to help the private sector in establishing income-generating activities in the atolls possibly through development of credit-schemes, promotion of more affordable communication, development of an effective logistics network, and provision of extension service for business development, among others.

## External Assistance to Date for Poverty Reduction

### Outer Island Development

A good example of the new style of atoll development projects that have been fully supported by the Ministry of Atoll Administration and is now included in all relevant project assistance, is the Noonu Atoll Development Programme. In 1996, UNDP's South Asia Poverty Alleviation Programmes began working with the Government on the 14 islands of Noonu using social mobilization techniques, whereby the community makes development decisions. Its objectives have been to (i) harness islanders' potential to help themselves; (ii) upgrade human skills; and (iii) generate capital through savings. These objectives have been achieved to the extent that there has been a marked behavioral and attitudinal change toward development, including the emergence of women as important agents in island development. Improvements in electrification have had the biggest single impact, typically improving from a 4-hour per day supply costing Rf10 per kilowatt-hour (kWh) to a community managed 24-hour service at Rf4 to Rf6 per kWh. Consequent improvements in the quality of life have included not only access to television, but also the use of washing machines by 90% of the households. A mobile banking service has been established with the help of the Bank of Maldives and visits all islands on a monthly basis.

The project sensitized communities to the recognition that some households were living in poverty, and particular efforts were made to improve their situation. In comparison with the 1997 baseline survey, 62.5% of such disadvantaged households do not regard themselves as disadvantaged anymore, and some 80% of them are saving money on a regular basis. This has given people a sense of security to face health emergencies, finance marriages, etc.

Training in midwifery, electrical wiring, carpentry, circumcision, etc. has made services available within communities that were previously only available from other islands at great expense. However, there is now an identified need to introduce

more sophisticated assistance to enhance economic activity. Major achievements have been made in harbor improvement, augmentation of drinking water supply, skills upgrading, agricultural development, and income-generating activities. In 1996, the islands were asked to list their development objectives for the next 10 years, and some 75% of these have already been achieved. The main outstanding areas of concern are access to health services and upgrading education services.

Outer island development is considered to be the key to easing the development pressures on Malé and at the same time to addressing priority equity concerns. ADB's ongoing Regional Development Project aims to provide the focus for regional development in the northern development region (NDR) and southern development region (SDR), thereby supporting more equitable development in the country and taking some of the pressure off Malé. The populations of the islands are about 19,000 on 9 islands in the NDR and 21,000 on 4 islands in the SDR; some 20% of the country's population outside Malé. A study of the sea transport within the NDR will establish the demand and supply among the 9 focus islands and recommend priorities for service improvements to assist employment, health, education, trade, shopping, and recreation. This should prove generally useful in encouraging intra-atoll transport improvements.

### **Education and Human Resource Development**

For primary and secondary education, major external assistance in the past goes back to 1980, when bilateral aid agencies including Japan and UNICEF assisted the Government in building schools, both in Malé and the atolls. The World Bank's Third Education and Training Project is a recent major assistance. The scope of the project includes (i) increasing the number of secondary schools in the atolls; (ii) expansion of the in-country teacher training capacity and other skills training facilities; (iii) updating of primary/secondary education curriculum and educational materials; and (iv) assistance to the Government

in strengthening education planning and financing. The "22 Schools Project" to be launched by the Government and UNICEF aims to provide basic resources and training inputs to the least served schools in the country.

For postsecondary education, ADB's Postsecondary Education Development Project, for \$10.5 million, focuses on capacity building for the recently created MCHE and for upgrading the quality of seven subsidiary existing postsecondary institutions.

### **Credit and Income Generation**

Microcredit schemes are now an established element of the Government's development program. Since 1989 the International Fund for Agricultural Development (IFAD) has supported the Atoll Credit and Development Banking Project (\$6 million) and the Southern Atolls Development Project (\$8.1 million), and these have successfully implemented Community Development Funds. ADB's ongoing Regional Development Project is following established practice by developing a social development fund along the same lines, financing it by cost recovery from the rainwater tanks. At least 50% of the funds will go to income-generating activities targeting the poor, and the balance to social infrastructure, including the health, environmental, educational and recreational needs of the community as a whole. EU's assistance program includes a microcredit scheme to assist women in generating income for their families.

### **Nutrition**

The Maldives has received food aid from Australia, US, and particularly Japan, which has contributed annually for many years, rising to 3,507 tons in 1998/99. The food is understood to be sold by the State Trade Organization at market prices and the proceeds are used as counterpart funds for development projects.

One of the three principal objectives of the Atolls Credit and Development Banking Project is to develop a framework for supporting future programs to improve nutritional standards in the outer atolls. A pilot nutrition program was accordingly

implemented by the Ministry of Atolls Administration in cooperation with the Ministry of Health, Ministry of Fisheries, Agriculture and Marine Resources, Ministry of Women's Affairs and Social Security, and UNDP. The Government's 10-year Health Master Plan also provides for improved nutrition. The National Nutrition Program in 1997 is another major exercise by the Government.

There have been a number of projects aimed at stimulating agricultural production, for example, the Food and Agriculture Organization has provided assistance for the Agricultural Intensification and Water Control Component of its Special Programme for Food Security. While these are most welcome, the high costs of labor and transport are inhibiting factors. Thus eggs reputedly cost Rf2 each to produce while imported ones are on sale at Rf1; and Chinese bananas undercut local ones in Malé's shops.

### **ADB's Strategy and Assistance to Date**

At the end of 2000, ADB had approved nine loans from its Special Funds resources to the Maldives for a total of \$55 million. Three loans were provided in each of the transport and the energy sectors, and one loan each for the education, outer-island development and multi (mainly energy and ports) sectors. All but two loans to date were focused on Malé, mainly for the improvement of power supply and port facilities. ADB assistance enabled a reliable electricity supply and significantly improved port operations in Malé. ADB assistance has also supported human development and institutional capacity building in these two sectors, as the shortage of technical experts in engineering, finance, accounting, planning, and management has been a key constraint. Thus past ADB loan projects have mainly contributed to the development of Malé.

Technical assistance (grant) for 37 projects (\$12.6 million) provided by ADB has had a wider sectoral coverage than the loan program, and has

included assistance for national planning, financial sector development, and improved public sector management and good governance.

ADB's current Country Operational Strategy (COS) for the Maldives was prepared in 1995 when macroeconomic instability, geographic disparities, environmental vulnerability, and skill shortages were the major concerns. Accordingly, the operational priorities included (i) improvement of fiscal management, (ii) promotion of outer-island development together with improvement of quality of and access to education, and (iii) the protection of environment. As the macroeconomic position improved, the Government advised ADB and IMF that it would no longer need external assistance to implement a program of macroeconomic reforms and that it would proceed with the reforms using its own resources. The Government, accordingly, requested ADB to redirect assistance to support improvements in public sector management and human development.

ADB's Regional Development Project (1999) is its first assistance to the Government to achieve a more equitable and cost-effective distribution of basic economic and social services and to ease the development pressures on Malé by developing a northern development region and a southern development region. ADB also has been supporting human resource development by raising the education and skills level of the population to meet the demands of a rapidly modernizing economy and to reduce the heavy reliance on expatriate workers.

With respect to the environment, the Government had been able to mobilize grant assistance from bilateral and multilateral sources to address its main concerns. Accordingly, ADB operations do not include stand-alone environment projects, but incorporate environmental issues in ADB-funded projects. Given the logistical challenge of monitoring about 200 inhabited and 1,000 uninhabited islands over a vast stretch of ocean, this approach is realistic and practical.

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# POVERTY REDUCTION STRATEGY: RECOMMENDATIONS FOR THE GOVERNMENT AND EXTERNAL ASSISTANCE AGENCIES

## Overall Framework

Poverty in the Maldives is largely characterized by geographic disparities between Malé and the atolls. Personal incomes are significantly lower in the atolls than in Malé. Economic and social infrastructures including ports, roads, schools, hospitals, and water and sanitation system have accumulated largely in Malé, but access to these is disadvantaged in the atolls. Employment opportunities are very limited in the outer islands. The disparities have led to the recent accelerating trend of migration to Malé from the atolls, which could further deplete the development prospects of the outer islands, and worsen the living conditions in Malé, possibly intensifying urban poverty. On the public sector institutional aspect, the limited capacity of local authorities and communities at atoll and island levels has prevented adequate planning and management of the development of the outer islands.

From the countrywide macro perspective, there are factors that can affect poverty both in direct and indirect ways. The smallness of the economy and its vulnerability to external shocks have major implications not only for country's macroeconomic performance, but also for the people's quality of life as the economy relies on earnings from export items and on imports for the necessities. The increasing reliance on foreign workers can be a constraint to employment of Maldivians and put pressure on foreign exchange reserves because of the outward flow of their foreign exchange remittance. Malnutrition is also a concern, which is prevalent with nearly 50% of children suffering from stunting and wasting due to poor nutrition.

Unlike its regional neighbors, Maldivian society has not been subjected to colonialism, and has consequently developed its own forms of government and administration. With the increasing need to interface with the rest of the world, how-

ever, it is necessary to bring certain elements of administration and practice into line with international norms within the Maldivian context, e.g., elements of the legal, financial, and accounting systems in both the public and private sectors. This can only be done with external assistance.

A future strategy for poverty reduction in the Maldives, therefore, is required to address these concerns. Key strategic areas are listed below, but they are not mutually exclusive and are closely related in some cases:

- (i) Outer island development through the provision of basic social and economic infrastructure and credit to spur household income generation and the creation of economic and employment opportunities, to promote an equitable distribution of the benefits of economic growth to the disadvantaged island populations, supported by population consolidation;
- (ii) Human resource development, especially through improved education and training to meet the skill demands of a modern economy and a reduced reliance on foreign labor through improved labor regulations, together with the creation of new employment opportunities;
- (iii) Nutrition improvement, particularly in the outer islands, by changing people's diet and eating habits;
- (iv) Further development of the fisheries sector, a major industry, employer, and exporter; and
- (v) Decentralized decision-making system and capacity building to meet the development needs of outer island populations and facilitate their development planning and management.



This strategy should be complemented by the following policy initiatives, which would have an indirect but significant effect on poverty reduction in the country.

- (i) Prudent macroeconomic policy and a proactive industrial policy for diversified industrial structure to reduce the country's vulnerability to external shocks;
- (ii) Fiscal consolidation to ensure macroeconomic stability and to allow more room for strategic budgetary allocation targeting the poor;
- (iii) Higher and sustainable economic growth led by the private sector in tandem with an enabling legal and institutional environment for increased private sector activities, supported by the development of the financial sector aiming at domestic resource mobilization;
- (iv) Capacity building of the public sector institutions for improved public sector management; and
- (v) Environmental management through institutional capacity building in monitoring and enforcing environmental rules and regulations and taking appropriate mitigating measures for environmental protection.

## Key Strategic Areas

### Outer Island Development

Outer island development comprises multi-dimensional development activities including, but not limited to, (i) establishment of regional development centers, (ii) provision of economic and social infrastructure, (iii) promotion of social mobilization for participatory community development, and (iv) facilitation of economic activities and employment generation through micro and possibly larger scale credit. Future development programs in the outer islands may combine these components according to the communities' needs.

While traditional movement patterns have been overwhelmingly from individual islands to Malé, there appears to be a growing awareness of the potential for integration of islands within atolls. Secondary schools and health centers are being established outside Malé. As for transport, at present the only ferry in the Maldives is that between Villingili and Malé, but it was found that an individual has applied for permission to adapt a boat and provide a ferry service connecting the islands in Gaaf Dhaal.<sup>6</sup> Such developments would also increase opportunities for bulking up produce for shipment to Malé and could connect a privately provided scheduled national service linking the atolls Malé in the future.

### Human Resource Development

During each of the next few years around 5,000 children will enter the school system and around 5,000 adolescents will complete their education and join the labor force. The gainful employment of this labor force is a major ongoing challenge to the Government.

An important aspect of human development is the development of real skills. Maldivians will require training on a much larger scale than has been available hitherto. This has been provided on the scale of dozens of beneficiaries each year when the demand is however numbered in thousands. While the existing institutions are of a high quality, they are not capable of providing the required scale of training. Another area of concern is that skills acquired through currently available education and vocational training do not necessarily match those required in the labor market. There have been limited attempts to survey skills demand in the labor market and to integrate this into training programs. The reluctance to take up nondesk-bound employment that is symptomatic of a widespread attitude of Maldivians is another issue to be addressed.

<sup>6</sup> Some of the islands are so close together here that they could be connected by bridges, thus saving on harbor investments and allowing economies of scale for electricity production, etc.

In 1994, the Government established a skills development fund to financially assist students taking up vocational training courses. However, the fund, with the amount of only \$100,000, is not large enough to accommodate the needs of the youth, especially considering the scale of entrants to the labor market. Strengthening the fund would be one of the options that would significantly contribute to help upgrade the skills of Maldivians.

Assistance for skills training should also be available in the atolls. Currently there are several vocational training centers in the atolls, but their capacity is limited. Expansion of skills development opportunities in atolls through upgrading these centers and/or establishing new facilities, together with creation of new employment in the atolls, will be a significant contribution to outer island development.

If the upgrading of vocational and skills training is to carry its maximum effects, it should be accompanied by the upgrading of basic education. Students who are to receive education and training at postsecondary levels need to have acquired sufficient basic academic background including functional literacy and numeracy in primary/secondary education. However, poor quality of basic education has been an acute problem in the atolls.

### **Nutrition Improvement**

The VPA found that the figures for the Maldives in 1998 suggest that the nutritional situation in the country is worse than that of Sub-Saharan Africa. There is obviously an urgent need for a vigorous assault on malnutrition.

A national intervention program is required to modify the diet and eating behavior of vulnerable groups. Nutrition education and communication strategies need to be developed and directed primarily at the dietary behavior of reproductive-age women and stress that young children need to be fed the right kinds of food more often.

It is understood that a vigorous nutrition education program in the 1980s successfully reduced vitamin A deficiency (*Human Resources Development in Maldives, Guidelines for Programme Development*, 1991). While the difficulties of changing the behavior patterns of centuries should not

be underestimated, the recent changes in reproductive behavior apparent in the sharply reduced birth-rate, despite the apparently only moderate impact of the family planning campaign, demonstrate that it is quite possible.

### **Development of the Fisheries Sector**

Guidance on a future strategy for the industry is provided in the FNDP, which expresses the intention to stimulate and foster the fishing industry. It particularly focuses on the operations of MIFCO and encourages further private sector investment to maximize returns to local fishermen.

There has been for some time a lack of clarity about how the industry should be developed, regulated, and managed, but concrete proposals are now being implemented. Key areas for future work will include (i) how to reduce reliance on a single species of tuna and facilitate diversification of fish and fish products; (ii) how to provide credit to small private investors for upgrading vessels or other facilities; and (iii) how to develop human resources for better production management, marketing, and advanced research in marine resource development. On top of that, comprehensive survey and collection of data in the fisheries sector are of particular importance in providing a basis for developing a strategy for the fisheries sector.

### **Decentralization**

A bottom-up and participatory approach through community mobilization is one of the important factors for the success of outer island development to adequately address the real needs of communities, especially in view of the different characteristics of islands even in the same atolls. For instance, of the 10 islands studied in ADB's technical assistance for Preparing the Outer Islands Electrification Project, only 1 was not dominated to at least 50% by a single economic activity. While 3 of the 10 had a dependency on fishing of at least 80%, Nolvivaramu was 77% agricultural, Haa Alifu Dhidhdhoo, Hanimaadhoo and Muli were between 50% and 66% dependent on public sector jobs, and Funadhoo was 60% dependent on carpentry.

It may not be feasible or effective, however, to delegate all development planning and management functions to the island level. Communities vary greatly in their ability to practise new skills of articulating and implementing development schemes; and regional offices, existing atoll offices, or central resources will have to be strengthened so that they can facilitate the participation of the island populations and exercise appropriate responsibilities as necessary.

Moreover, effective decentralization cannot be independent of effective communication with the central Government. Close interaction between the central and local authorities and communities would ensure the consistency between national and outer island development programs. The Government Network in Maldives to be established among all government agencies and major atoll/islands offices concerned, with the assistance of ADB, will enable effective data and information collection, consolidation, and dissemination between Malé and the outer islands.

### **ADB's Proposed Poverty Reduction Strategy for the Maldives<sup>7</sup>**

#### **Overall Strategic Direction**

ADB's future strategy for poverty reduction in the Maldives will focus on key core competence areas where ADB has its comparative advantages to maximize the poverty reduction impact of its assistance. The areas would include (i) outer island development, (ii) human resource development, and (iii) capacity building and decentralization. The assistance to core areas should be supported by measures to promote sustainable economic growth through development of the private sector and the financial sector.

#### **Outer Island Development**

Past ADB assistance to the country has focused on the improvement of power and port facilities in Malé. However, another infrastructure investment in Malé would have only marginal impacts on poverty reduction. It can widen the disparities between Malé and the outer islands, and indeed would have an adverse impact on an already overcrowded Malé by promoting additional population inflows to Malé and discouraging potential outer island development. While ADB assistance has already started moving away from Malé to the atolls, a new ADB strategy needs to be clearly focused on outer island development. Key aspects of this may include the establishment and strengthening of regional development centers in key atolls, the provision of economic and social infrastructure, creation of employment opportunities, and capacity building of local authorities and communities.

#### **Human Resource Development**

ADB has been assisting the Government in human resource development through strengthening the postsecondary education subsector. As there is still much to be done and ADB has a comparative advantage in the subsector, ADB would continue to provide assistance to the subsector. Considerations that should be given in future programs include: capacity building of postsecondary education institutions to accommodate more students; improvement of vocational training to meet the needs of labor markets; and expanding educational opportunities in the outer islands. In view of direct poverty impact, ADB may consider providing assistance to upgrade the quality of primary education in the atolls.

#### **Capacity Building and Decentralization**

Capacity building of the public sector should continue to be a high priority of ADB's future interventions. In the context of outer island development, decentralized decision making and planning capacity should be enhanced. Also assistance for

<sup>7</sup> The strategy proposed in this paper is only for discussion; a formal strategy will be presented in ADB's Country Strategy and Program for the Maldives, which is currently under preparation.



improved public sector management in general terms is imperative to enable the Government to undertake prudent macroeconomic policies, establish an enabling policy and institutional environment with accountability and credibility that will allow more active private sector participation, enhance customer orientation of public services, and minimize the cost of the public sector activities to allow room for strategic budgetary allocation.

### **Private Sector and Financial Sector Development**

The private sector has been playing an active role in the Maldivian economy, particularly in the two major sectors of tourism and fisheries. However, further private sector development will be needed to achieve higher economic growth and thus reduce poverty supported by the equitable distribution of benefits of economic development through creation of employment opportunities in the outer islands. One of the major constraints to private sector development is nonavailability of long-term finance, which is critical to the development of small and medium enterprises, particularly in the fishing industry. The lending capacity of domestic commercial banks is not adequate to meet the financial needs of the private sector, even of resort development projects in the tourism subsector. The importance of capital market developments as an alternative measure to mobilize

medium-and long-term financing of capital investment has been recognized. ADB is conducting a comprehensive review of the financial sector and has formulated a paper on Strategic Thrust on the Financial Sector for Maldives. ADB will continue its dialogue with the Government on possible assistance to further reforms in the financial sector in future. ADB also could consider providing further assistance, either for privatization of or for improvement of corporate governance of the public enterprises remaining in the public sector to expand business opportunities for the private sector and improve public sector efficiency.

### **Noncore Areas**

Other key areas identified, including nutrition improvement and fisheries sector development, would not be immediate key areas for ADB's assistance in the light of ADB's comparative advantages and limited financial resources available. With respect to the environment, the Government has been able to mobilize grant assistance from bilateral and multilateral sources to address its main concerns as environment projects are not financially viable in general and are not suitable for loan projects. Accordingly, ADB operations will not include stand-alone environment projects, but will address environmental issues through streamlining them into ADB-funded projects.

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## Appendix 1

### KEY ECONOMIC AND SOCIAL DATA

Indicator	1987	Most Recent
<b>Population</b>		
Total Population	192,275	270,101 (2000)
Population Growth Rate	3.4 (1985-1990)	1.9 (1995-2000)
Crude Birth Rate (per '000 people)	43	24 (1997)
Crude Death Rate (per '000 people)	8	5 (1997)
<b>Economic Development</b>		
GDP per capita (US\$ at 1995 prices)	512.0	2,049(2000)
Mean per capita income per day (Rf)		35 (1998)
– Malé		
– Atolls		20 (1998)
Total Fish Catch ('000 metric tons)	60	124 (1999)
Marine Exports (US\$ million)	18.7	39.3 (1999)
Tourist Arrivals	131,399	395,725 (1998)
Government Revenues from Tourism (Rf million)	60.3	480.8 (1997)
<b>Social Development</b>		
Human Development Index	0.497 ((1990)	0.725 (1998)
Human Development Index Rank	112/173 (1990)	98/174 (1998)
Maternal Mortality Rate	478	158 (1998)
Infant Mortality Rate (per '000 live births)	50	24 (1998)
Under 5 Years Mortality Rate (per '000 live births)	73	39 (1997)
Population per Practicing Doctor	3,985	1,354 (1997)
Population per Staff Nurse	10,278	1,369 (1997)
Population per Community Health Worker	4,649	3,919 (1997)
Population per Hospital Bed	1,538	705 (1997)
Life Expectancy at Birth (years)	61.29	66 (1999)
Number of Students Enrolled	50,297	93,375 (1997)

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Sources: *Population and Housing Census, 2000*; *Vulnerability and Poverty Assessment, 1998*; *Maldives National Human Development Report, First Draft, July 2000*, UNDP; *Maldives and Its Development Partners: An Agenda for Co-operation, Volume I – Country Presentation*; and the Government of Maldives.

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## Appendix 2

# MALDIVES: HIGH-LEVEL FORUM ON POVERTY REDUCTION AND COUNTRY STRATEGY

Malé, 21 May 2001

### A. INTRODUCTION

The High-Level Forum on Poverty Reduction and Country Strategy (HLF) organized by the Government of Maldives and the Asian Development Bank (ADB) was held in Malé on Monday, 21 May 2001. The purpose of the HLF was to discuss with all stakeholders the manifestations and causes of poverty and vulnerability in the Maldives and ADB's future strategy for poverty reduction for the country, based on a poverty analysis prepared by ADB. The HLF was attended by about 50 participants including senior government officials and representatives of funding agencies, nongovernment organizations (NGOs), and the private sector.

### B. SUMMARY OF DISCUSSIONS

#### 1. Sectoral Review of Poverty and Vulnerability

**Regional disparities:** As a major reason for regional disparities, limited employment opportunities in the atolls other than in the fisheries and agriculture sectors were noted. There has been limited empowerment in spite of the infrastructure development; hence there should be a strategy to create more employment with introduction/propagation of more economic activities. It was also stressed that the regional disparities can be reduced by providing greater linkages and connectivity among islands and atolls in terms of transport and communications.

The importance of greater involvement of people in the development process was recognized. People's participatory process would be more ef-

fective than external agencies or government-driven development. Therefore, community mobilization needs to be further developed. Contribution by and involvement of NGOs would be important for effective poverty reduction.

**Fisheries:** The fisheries sector is one of the key areas in addressing poverty issues in the country, since atoll communities largely depend on fishing. The reasons for the fisheries sector's limited contribution to poverty reduction include (i) reliance on a single species (tuna) and limited diversification of fish products; (ii) insufficient credit to small/private investors for upgrading vessels or other facilities; (iii) limited marketing skills; and (iv) lack of trained manpower to lead the industry both in the government and the private sector. Participants noted the need for greater effort in data collection, which will be necessary in developing a strategy for the sector.

**Human resources and labor:** It was noted that, while the country is reliant on expatriates, they have contributed to the Maldives' rapid economic development. However, it was also stressed that there is a need to take action on labor issues in light of a large number of youth who are expected to enter the job market in the coming years. The focus in future labor policies should be on developing employer-oriented vocational training and a labor market data system.

**Education:** Participants noted that there were disparities between Malé and the atolls in quality of education, particularly primary education, in terms of facilities including classrooms, libraries, laboratories, and water supply and sanitation, as well as teacher quality. Some islands still do not have adequately trained teachers. The country is also experiencing a shortage of secondary school teachers, around 79% of whom are expatriates. Some suggested that supporting systems could be introduced for the atolls, such as provision of

scholarships to deserving candidates from the outer islands. Distance education in the atolls could work if local capacity in terms of human resources and information technology is enhanced. A thorough research should likewise be undertaken on the potential for vocational training in the atolls before facilities are established.

**Health and nutrition:** In addition to malnutrition, areas such as health, water supply, sanitation, and caring practices were recognized as major issues. Inadequate human resources are major problems in the health sector, leading to reliance on expatriates and insufficient availability of health services in the atolls. Participants noted that maternal health care was a serious issue in the atolls. High transport costs, as well as women's unwillingness to leave their families and travel to the hospital until the last possible minute, are among the reasons for poor maternal health. As for cost recovery, at present one fifth of the cost is recovered in Malé, while service is free in the atolls. However, it was noted that plans are being developed to introduce some level of cost recovery in the atolls as well.

**Vulnerability of the economy to external shocks:** It was noted that strategies for reducing poverty should address the diversification of industry and economic base, which are the key factors in absorbing external shocks. There is a scope for diversification within the tourism and fisheries sectors. The need for bolstering revenue generation measures was suggested to insulate the fiscal position from external shocks. Participants recognized the adverse effects on the poor of economic adjustments needed to manage external shocks. As for social safety nets, tax reform is being looked at to strengthen the income transfer mechanisms. A reform of the national pension fund is also being undertaken.

It was recognized that the development of the private sector and the financial sector was the key to achieving poverty reduction and growth. The financial sector needs to be developed to minimize the impact of external shocks, and to make available the necessary investment finance for

the economy. While privatization of state-owned companies (SOEs) is considered as a means to further promote private sector development, there has to be a tax mechanism in place prior to the privatization to replace the revenue which is currently being collected from SOEs.

## 2. Poverty Reduction Strategy: Recommendations for the Government and ADB

ADB's future assistance strategy to the Maldives was discussed. A proposed strategy was as follows. For pro-poor growth, ADB will assist in (i) the creation of an enabling environment for private sector development; (ii) regional development including the provision of basic infrastructures and capacity building; (iii) financial sector development; and (iv) development of communication. For social development, ADB will assist in (i) postsecondary education development and skills development, and (ii) population consolidation. For good governance, ADB will assist in building the capacity of key public institutions to improve public sector management efficiencies.

The proposed strategy was generally endorsed by the participants. However, it was agreed that the strategy would be further refined during ADB's Country Strategy and Program Formulation Mission that will be fielded after the HLF.

## C. CONCLUSION

The HLF provided a useful opportunity for the Government, ADB, and stakeholders to discuss extensively poverty and vulnerability in the Maldives and to consider future strategic directions in reducing poverty. It was agreed that the ADB's poverty analysis would be further revised to reflect the comments raised at the HLF. The discussions at the HLF would be fully taken into account in formulating ADB's new Country Strategy and Program for the Maldives.