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# COUNTRY STRATEGY PAPER

## MALDIVES

### 2003 - 2006

*including the National Indicative Programming, 2004-2006*

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## EXECUTIVE SUMMARY

The Maldives is an archipelago of about 1.200 coral islands, located in the Indian Ocean about 300 miles south of India and 450 miles south west of Sri Lanka. Only 33 islands have a land area of more than one square km. One third of all inhabited islands (200) have fewer than 500 people. This extremely dispersed and fragmented population of about 280.000 people (2001) makes the development problems of the Maldives unique.

Over the last two decades major progress has been made in the fields of education, health, and social and economic development. The country has achieved almost universal literacy, and gender differences are negligible compared to other Asian countries. The Maldives has achieved sound growth over the past two decades despite the dispersed geographical coverage, fragile environment, minimum natural resources and diseconomy of scale. The development of the tourism and fisheries sectors and inflows of external aid contributed to steady growth in the gross domestic product (GDP), averaging 9 % since the late 1970's. However, the economy is extremely vulnerable to external shocks, and lower performance in the tourism sector since the events of 11 September has led to an economic downturn.

In spite of the overall positive trends, the Maldives still faces several key development challenges. There is a marked discrepancy between Male and the outer-islands in terms of the availability of physical and social infrastructure such as schools, health care facilities, water & sanitation, etc. As a consequence, the continued migration to the capital with its already strained infrastructure (limited area for housing and diminishing job opportunities) will continue until there is a concerted effort to improve the quality of life and increase employment opportunities in the outer atolls.

High population growth rates over the past two decades have produced a youthful population with 47 percent of the population under 15 years of age. This will require a re-thinking of policies not only in relation to the economy, employment, training and resource allocation, but also in terms of environmental protection.

The economy of the Maldives is mainly dependent on tourism and fisheries which makes it vulnerable to the vagaries of the external environment. The possible graduation of the country from its status as Least Developed Country (LDC) due to its relative development is likely to severely hit the country's export sector mainly due to the loss of preferential market access.

Political developments in the Maldives have progressed over the past two decades with some amendments to the constitution resulting in enhanced democratic practises and to increased respect for human rights.

The Maldives is experiencing environmental threats arising from demographic, economic and development trends, particularly with respect to the depletion and pollution of groundwater, inadequate sewage and solid waste disposal facilities, coral reef degradation and land loss due to erosion. Maldives is the country which faces the greatest threat from global warming as around 80% of the total landmass of the Maldives is less than 1 meter above sea level. These problems are increasing the vulnerability of the island population.

The timing of the presentation of the CSP/NIP for the Maldives was chosen to take into account the transfer of responsibilities from the Delegation in Sri Lanka to the Delegation

in India. By the same token, this will allow timely presentation of interventions for programming in 2004.

Against this background and given the EC Co-operation budget available for the Maldives of €2 million, the EC/EU should address two priority areas:

- 1) Enhancing regional development (social, economic and physical infrastructure) in combination with human resources development taking into account environmental aspects.
- 2) Enhancing Trade Capacity and Economic Development.

The precise ventilation between the two components will be done on the basis of more detailed projects design. The total amount of €2 million should be committed in 2004.

### The Maldives at a glance

<b>People</b> (2001 unless otherwise specified)	
Population, total	280,300
Population Growth	2.2%
Life Expectancy (years)	68.7
Fertility Rate (births per woman)	4.1
Infant Mortality Rate (per 1000 live births)	58
Under 5 mortality rate (per 1000 children)	77
Illiteracy total (% age 15 and above)	3
Illiteracy female (% age 15 and above)	3.1
Nationality	Maldivian
Ethnic Divisions	Sinhalese, Dravidian, Arab, African
Religions	Sunni Muslims
Languages	Dhivehi (Indo-Aryan group; the script is Thaana unique to the Maldives), English (official and schools)
<b>Economy</b>	
GDP (current US\$)	583.7 million
GDP Growth Rate	2.1% (2001), 4.6% (2000), 7.4% (1999)
GDP per capita (current prices US\$)	2,082
GDP implicit price deflator (annual % growth)	-0.5
Total Revenue	US\$ 192.8 million, 2269.6 million Rf (2000)
Foreign grants	US\$ 17.1 million (2000)
Total Expenditure	US\$ 235.8 (2000)
Export	€192 million
Commodities	Fish, Clothing
Partners	US, Sri Lanka, EU, Canada
Imports	€482 million
Commodities	Consumer goods, intermediate and capital goods, petroleum products.
Partners	Singapore, EU, Sri Lanka, India, Japan, Malaysia, U.A. Emirates,
Present value of debt (current US\$)	177.1 million
Foreign direct investment, net inflows (current US\$)	11.7 million
Electricity Production (2000)	117 million kWh
Consumption	90 million kWh
Industries	Fishing, fish products, tourism, shipping, boat building, coconut processing, garments, woven mats, coir (rope), handicrafts
Agriculture	Fishing, coconuts, corn, sweet potatoes
<b>Currency</b>	
Exchange rate (Rufiyaa per US\$, 2000)	11.77

Source: World Bank World Development Indicators database, April 2003; Eurostat; ADB

## 1. EU/EC CO-OPERATION OBJECTIVES

There is no Co-operation Agreement on Partnership and Development or any other agreement between the European Commission and the Republic of Maldives.

The broad objectives of the EU Development Policy towards Maldives is founded on principles of sustainable, equitable and participatory human and social development. Past EC development assistance has been based on the specific needs/requests of the country on a case to case basis, taking into account the very limited financing available.

Future EC co-operation is likely to focus on two core objectives:

1. Enhancing regional development (social, economic and physical infrastructure) in combination with Human Resources development taking into account environmental aspects.
2. Enhancing Trade Capacity and Economic Development.

The precise ventilation between the two components will be done on the basis of more detailed projects design. The total amount of €2 million should be committed in 2004.

## 2. THE POLICY AGENDA OF THE MALDIVES GOVERNMENT

### 2.1 Vision 2020

First presented in July 1999, *Vision 2020* reflects the aspiration and provides the impetus of the Maldives to develop and become "a top-ranking middle-income developing nation with a diversified economy, high quality education and health services, social and gender equality, democratic governance, justice, peace and security"<sup>1</sup> over the next 20 years.

The vision 2020 policy is the main strategic goal of the country and explains how the Government's long-term planning system will be improved so that more effective co-ordination of all Donor assistance to the country can be achieved. At the same time vision 2020 outlines how the role for the private sector in the socio-economic development will be enhanced.

### 2.2 The 6<sup>th</sup> National Development Plan (NDP) 2001 – 2005

As a first step towards achieving the Vision 2020 long term development strategy the Government has made public its 6<sup>th</sup> NDP that lays out achievements for the first five years. Government officials, and private sector, as well as local administrators and Chiefs in the atolls were actively involved in the preparation process for the 6<sup>th</sup> NDP. In so doing, it became the Government's first attempt at a true participatory consultative process.

The 6<sup>th</sup> NDP presents broad strategic directions for future identification of sectoral targets and policies, and identifies the Planning and Policy Agenda along with the 2020 Vision Plan. The two key areas guiding economic development are promoting greater private participation and focussing on regional development.

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<sup>1</sup> Preface, *Sixth National Development Plan, 2001-2005*

The broad national development objectives upon which the 6<sup>th</sup> NDP is based includes the following elements:

- Diversify and expand the economy by further developing existing industries and by exploring new economic activities, while ensuring the sustainability of physical and natural resources.
- Increase the role of private sector in the development process, particularly in expanding the economic base of the country.
- Improve the quality and relevance of educational, health, and social services, while ensuring that the benefits of development are shared equitably among the population.
- Increase the human resource capacity and productivity by providing relevant training and employment opportunities.
- Pursue legislative, regulatory, governance, and administrative reform to facilitate rapid economic and social development.
- Develop a sustainable and cost-effective transportation and telecommunication infrastructure to facilitate economic social and regional development.
- Ensure socio-political stability and democratic participation of all in the development process, while upholding national unity and social cohesiveness based on shared social, cultural and religious values.

### **2.3 Strategic Economic Plan (Phase One)**

This study carried out by the International Trade Institute of Singapore and completed in 2001 aimed to identify potential lessons that the Maldives could learn from the way Singapore developed over the last twenty years. Its purpose was to review and analyse Maldives' economic structure, identify key economic sectors, formulate appropriate national policies and strategies towards rapid economic growth, and identify potential areas for diversification with linkages to major industries within the country.

The main recommendations of the study were to concentrate development using a regional cluster approach that incorporated traditional sectors needing expansion as well as upgrading and any new economic sectors in an integrated manner. Tourism, fisheries and agriculture have been identified as having a strong potential for further development. New sectors are Port and Logistics Services, Information and Communication Technology, and Offshore Banking and Financial Centres. Expansion of these economic sectors will create the need to upgrade other supporting sectors, for instance, construction, communication, transportation, human resource development, and institutional capacity building, as well as strengthening international and regional relationships with major trade and investment partners.

- These three core strategic planning documents represent a framework for both the Government and the donor Community within which co-operation activities will be carried out.

### **3. AN ANALYSIS OF THE POLITICAL, ECONOMIC, SOCIAL AND ENVIRONMENTAL SITUATION**

#### **3.1 Political and Legal Situation**

The Republic of Maldives has a parliamentary style of government with a strong executive. A republic since 1968, there is a unicameral Parliament, the People's Majlis, with 50 members (42 elected by popular vote, 8 appointed by the President). The President also appoints the Cabinet and members of the judiciary. The parliament and the President sit for five years. The Majlis selects a single presidential nominee, who must be a Sunni Muslim male, who is approved or rejected in a national referendum. The Majlis must approve all legislation and is empowered to enact legislation without presidential approval. The President is both the chief of state and head of government. President Gayoom who was first elected in 1978, is presently serving his fifth term without interruption. The President derives additional influence from his constitutional roles as the "Supreme authority to propagate the tenets of Islam." Citizens' ability to change their government is constrained, and the strong executive exerts significant influence over both the legislature and the judiciary. The Office of the President is thus the most powerful political institution. The President also is Commander in Chief of the armed forces, the Minister of Defense and National Security, the Minister of Finance and Treasury, and the Governor of the Maldivian Monetary Authority.

The first written constitution was adopted in 1932; the present constitution came into force on 1 January 1998.

No political parties are allowed to function. In February 2001, several dozens of people including academics, intellectuals, businessmen and members of parliament, handed a petition to the Minister of Home Affairs requesting permission to set up the Maldivian Democratic Party (MDP). By the end of the year, permission had not been granted and a number of signatories had been detained. Candidates for the unicameral legislature run as individuals. Women have the right to vote in all elections and are eligible for candidature to elected bodies and all public positions, except that of Head of State (see chapter 3.2 below).

The Republic of Maldives has a largely Muslim population and the laws of the country are consistent with Islamic Shari'ah law. Civil law is subordinate to Shari'ah, but civil law generally is applied in criminal and civil cases. Personal law, which includes family and inheritance laws are exclusively governed by Shari'ah law. Other legal areas, such as criminal law, contracts, and company law etc., are governed by laws enacted by Parliament based on Shari'ah law.

The Constitution does not provide for an independent judiciary, and the judiciary is subject to executive influence. In addition to his authority to review High Court decisions, the President influences the judiciary through his power to appoint and dismiss judges, and are not subject to confirmation by the Majlis. The President also may grant pardons and amnesties.

In 2002 the Parliament passed a Bill on Prevention and Punishment of corruption. The provisions of the law cover: definitions of the offences of bribery and improper pecuniary advantage, and prescribes penalties for the perpetrators of such offences. The Law also

outlines procedures for the confiscation of property and funds obtained through the commission of such offences. It will also broaden the mandate of the Anti-Corruption Board, established in 1991, to also investigate corruption in the private sector.

### 3.2 Human Rights and Gender Situation

The Government generally respects the human rights of its citizens; however, problems remain in some areas. Individual freedoms are restricted in areas such as speech and press<sup>2</sup>, freedom of assembly and association, religion<sup>3</sup>, the citizens' ability to change their government (as the President appoints one sixth of the members of parliament)., Although the Government has undertaken a number of programs addressing women's issues, women face a variety of legal and social disadvantages. The Government also restricted certain workers' rights. Other problems include arbitrary arrest, incommunicado detention and lack of an independent judiciary. Despite President Gayoom's commitment to democratisation, Western observers believe that these problems will mar the country's human rights record for the foreseeable future.

The Maldives is member to the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), which requires States parties to eliminate all forms of discrimination against women that prevent their enjoyment of their full civil, political, economic and cultural rights. The political will to work towards women's human rights as an integral dimension of national development is expressed through the programme "Vision 2020". The government has taken measures to increase the participation of women as atoll chiefs and in island women's committees and atoll development committees. It established in 1998 the Ministry of Women's Affairs and Social Security; the initiative to reconstitute the National Women's Council as a Gender Equality Council chaired by the President. Progress has been achieved and is reflected in a very high adult literacy rate for women, and parity among boys and girls in primary and secondary education, and improved indicators on life expectancy for women.

The Family Act, which was enacted in December 2000, came into force in July 2001. The Family Act contains provisions for the strengthening of family relations, for the protection of the rights of women, custody of children, care of elderly parents and to discourage divorce. Further provisions for guaranteeing and strengthening the rights of women are also included in the new Act.

However, concerns remain about a number of factors: women are excluded from the offices of president and vice-president; women's access to higher education, decision-making positions and legislative bodies at the national and local levels needs to be improved; absence of effective laws and law enforcement and a support system for

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<sup>2</sup> Freedom of expression is restricted by several laws, in particular banning speeches and articles criticising Islam. There are no independent electronic media in the country.

<sup>3</sup> **Freedom of religion** is restricted significantly. The Constitution designates the Sunni branch of Islam as the official state religion, and the Government interprets this provision to impose a requirement that citizens be Muslims. The practice of any religion other than Islam is prohibited by law. Foreign residents are allowed to practice their religion if they do so privately and do not encourage citizens to participate. President Gayoom repeatedly has stated that no other religion should be allowed in the country, and the Home Affairs Ministry has announced special programs to safeguard and strengthen religious unity. The President, the members of the People's Majlis, and cabinet members must be Muslims.

women who are victims of violence; the continuing high levels of maternal mortality and morbidity rates and the mortality rate of girls under the age of 5 years.

### **3.3 Economic Structure, Performance and Development**

The economy of the Maldives is largely dependant on tourism and fisheries which makes it vulnerable to the vagaries of the external environment. The economic downturn after the events of 11 September deteriorated the performance of the tourism sector and demonstrates the high degree of vulnerability of the economy to external shocks. The economy necessitates a high import content, creating a heavy dependence on foreign exchange earnings. The country lacks land based natural resources and mineral resources. Intensive agricultural production is almost impossible because of the hypercalcic soil. Therefore, all staple foodstuffs, basic necessities and items for the tourism industry have to be imported.

The overall economy of the Maldives experienced an average growth rate of around 10% per annum in the 1980s, slowing to 8.4% in the 1990-99 period and further dropping to 4.6% in 2000. This impressive, if slowing, economic growth rate coupled with a GDP per capita of \$ 2,061 in 2001 conveys the impression of a relatively advanced economy, yet, in reality, it is rather fragile.

Today tourism accounts for over 19% of GDP, a fifth of total employment, approximately 30% of tax revenues and 70% of foreign exchange earnings. Tourism, the dominant sector of the country's economy, is very dependent on choices made by external consumers, faces strong competition from other potential tourist destinations and is susceptible to collapse caused by any international terrorist act or Middle East crisis or report of any marine pollution in the Maldives.

Fisheries, the second largest sector of the economy, is the main activity outside of Male and the tourist islands. It employs 18.75% of the country's labour force but accounts for under 10% of the GDP. Fisheries exports, amounting to about 71% of the annual tuna catch, are mostly canned and fresh tuna, which is the second largest source of foreign exchange for the country. Motorization of the fishing vessels, Dhonis, has nearly tripled the annual tuna catch per fisherman. At present, the tuna industry has preferential access to EU markets. Even so, the industry is very sensitive to prevailing world market prices for tuna and fluctuations have greatly affected the industries total share of GDP. The contribution of fishing to GDP has fallen from 16 % in the eighties to just about 10% in the late nineties.

A member of the WTO since 1995, the Maldives' trade and investment regimes are relatively open. Tariffs are the main trade policy instrument. Non-tariff barriers are few; import licensing is mainly automatic and import quotas apply only to rice, flour and sugar.

The Maldives' main export markets are the United States followed by Sri Lanka, the EU and Canada. Its main export products are textiles and fish (fresh and canned). Main suppliers of goods are Singapore, the United Arab Emirates, Sri Lanka, India, the EU and Malaysia. In 2001 the Maldives had a negative trade balance of €290 million.

In 2002, the EU exported goods worth €40 million to the Maldives (mainly machinery). Imports from the Maldives into the EU were worth € 38 million, of which textiles accounted for 56% and fish 41%.

In 2000, the UN announced that it would graduate the Maldives from the list of Least Developed Countries (LDC) to “become” a Developing Nation<sup>4</sup>. With the graduation from the LDC status the international economic advantages that have contributed to the Maldives’ progress will disappear: preferential market access, development assistance and concessional finance programmes.

Currently, the size of population and per capita income are two of the determining factors of an LDC. The Maldives has the highest annual per capita income in South Asia, outranking India, Pakistan and Sri Lanka. But the world's small island developing states have rejected the use of per capita income as a yardstick to measure their fragile economies, claiming that the traditional measuring methodology does not take into account the special circumstances of their "ecological fragility" and "economic vulnerability." Thanks to the Maldives’ efforts, the criteria for graduation have been revised in a manner that would favour its case, and the members of the Committee for Development Policy now include experts in the economic peculiarities of small island states.

WTO members, in a recent trade policy review, have acknowledged that LDC graduation is a major challenge for the Maldives. The sudden withdrawal of such preferential treatment upon graduation could even retard its development.

In terms of the country’s GDP, the fishing industry is especially threatened by the graduation, the products (garments, fish, canned fish) will lose preferential access to the EU market. For instance, canned tuna is at present exempted from duties. If the Maldives loses its status as a LDC the duty rate will go up to 24%. This, compounded by high transportation costs, will reduce Maldives’ competitiveness even further and could result in a substantial loss of export earnings.

Intra-regional trade constitutes a significant proportion of Maldives imports and exports. The Maldives could be a beneficiary from intra-regional trade liberalisation, including South Asia Free Trade Area (SAFTA) drawn up in 1993, that is being pursued within SAARC South Asian Association for Regional Cooperation (SAARC<sup>5</sup>). SAARC was established in 1985, and provides for bilateral reductions in tariff and non-tariff barriers on specified commodities on a reciprocal basis, but with special treatment given to the least developed states. On the whole, the achievements of SAARC and SAPTA have been limited. Although tariff concessions have not been negligible, they have been introduced on items that represent no more than 1 percent of the total trade of the seven-country grouping.

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<sup>4</sup> Officially, a nation should graduate when it surpasses even one of the UN's three criteria (which relate to per-capita GDP, the strength of its human resources, and its level of economic diversification): Maldives was judged in 1997 to have improved in all three areas.

<sup>5</sup> The SAARC's member countries are India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, and the Maldives.

### 3.4 Social Indicators

Economic growth has been accompanied by impressive progress in the social field, which together have resulted in improvements in the standards of living and the quality of life of all Maldivians. Since the mid-1980's, more than a decade has been added to its people's life expectancy (70 years). Infant mortality has declined from 34 to 21 per 1,000 live births, the maternal mortality rate has fallen from 200 to 141 per 100,000 life births and improvement in the under five mortality rate from 48 to 27 per 1,000 live birth over the last decade. Adult literacy rate is at 98% and nearly half of school-age children are enrolled in secondary school.

The reduction in infant, child and maternal mortality rates has not been accompanied by measurable decline in the fertility rate and as a consequence, the nation's population growth rate is high. The growth rate appears to have peaked at around 3.4% in the early 90s but is now, after the year 2000 Census, down to 2.4%. 43% of the population is under 15 years of age.

Access to health services, education, in particular secondary and higher education, safe water and sanitation is a problem, especially for some of the more remote atolls. Only Male has an improved solid waste management system and desalinated drinking water.

In the Maldives abject poverty and severe malnutrition are almost non-existent. However, about 22 percent of the population is estimated to live below the income poverty line of Rf 10 per person per day (US\$ 0.85). The incidence of income poverty rises to 43 percent of the population when based on a higher income poverty line of Rf 15 per person per day (US\$ 1.27). In Male, the incidence of poverty for both income poverty lines is less than half of what is found in the outer atolls. The main poverty problem is caused by the disparity in living conditions between people living in the capital and those living in the remote atolls.

Overall the Maldives ranks within the top one hundred in the UN Human Development Index (for social indicators) and has an enviable position compared to its South Asia neighbours.

#### 3.4.1 Regional Comparisons

Country	GDP Growth (1999)	Industry as % of economy	Life Expectancy/ Years	Adult Literacy % (1999)	School Enrolment % (1998)	Infant Mortality Rate/1000
Maldives	8.5	17.5	72.56	98.19	75.0	20
Bangladesh	4.4	19.3	58.60	40.10	36.0	79
Bhutan	6.0	-	61.20	42.00	33.0	84
India	5.9	27.3	62.90	55.70	54.0	69
Nepal	3.3	19.2	57.80	39.20	61.0	72
Pakistan	3.9	26.7	64.40	44.00	43.0	95
Sri Lanka	4.2	27.2	73.30	91.10	66.0	17

### 3.5 The environment

The environment of the Maldives is extremely fragile and vulnerable. The threats of climate change and a rise in the sea level have been of particular concern to low-lying countries and small island states such as the Maldives. Since 1987, the Maldives has been vocal in drawing international and regional attention to the special vulnerabilities of small island developing states and low lying coastal areas<sup>6</sup>. The Maldives believes in the “polluter pays principle” and that global environmental issues, such a global warming and sea level rise, require global solutions, and thus seeks genuine commitment and positive action by the international community in protecting environmentally vulnerable states.

The protection of the environment is a national priority in the Maldives as articulated in the National Environment Action Plan (NEAP) formulated in 1989 and the second National Environment Action Plan (NEAP II) released by the Ministry of Home Affairs, Housing and Environment in 1999. The principal aims of the NEAP are to ensure environmental protection and sustainable development of the Maldives. Efforts have been made to incorporate environmental protection and preservation across all sectors. As such, the environment is granted Ministerial status (Ministry of Home Affairs, Housing and Environment), in addition to an Environment Protection Unit (EPU) and a high level National Commission for the Protection of the Environment (NCEP) having been set up.

Since the first NEAP, the Maldives has achieved considerable progress in environmental protection and management through the establishment of a regulatory and institutional framework for environmental protection. NEAP-II provides the comprehensive framework that will be used for the next six years to ensure environmental protection and sustainable development in the Maldives.

The main strategies the NEAP-II framework comprises are:

- continuous assessment of the state of the environment in the Maldives, including the impacts of human activities on land, the atmosphere, freshwater, lagoons, reefs and the ocean; and the effects of these activities on human well being;
- development and implementation of management methods suited to the natural and social environment of the Maldives, and maintenance or enhancement of environmental quality and the protection of human health, while at the same time utilising resources on a sustainable basis;
- consultation and working with all relevant sectors of society to ensure stakeholder participation in decision making;
- preparation and implementation of comprehensive national environmental legislation in order to provide for responsible and effective management of the environment;
- adhering to international and regional environmental conventions and agreements and implementation of commitments embodied in such conventions;

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<sup>6</sup> According to some scientific predictions, the country could be wiped off the map by the year 2050 because of a projected sea-level rise caused by global warming.

- strengthening of national capabilities, including institutional arrangements and human resource development for effective public participation, management and administration;
- Financial support, co-operation and commitment to enable the action plan to be implemented in an efficient and cost effective manner.

The following are the principal and immediate issues identified as current priorities:

- Climate change and sea level rise
- Coastal zone management
- Biological Diversity conservation
- Integrated reef resources management
- Integrated water resources management
- Management of solid wastes and sewage
- Pollution control and managing hazardous wastes
- Sustainable tourism development
- Land resources management and sustainable agriculture
- Human settlements and urbanisation

### **Energy and the environment**

The Maldives has no domestic source of energy and is 100% dependent on imported oil to fuel aircraft and the small domestic fleet and to generate 110 million kWh of electricity for the population and visiting tourists. No other source of energy is used. Security and diversity of energy supply is vital for the Maldives. The least disruption of oil supplies would have major consequences both for the population and the economy.

### **Tourism and the environment**

Tourism in the Maldives is managed and regulated through the country's tourism master plan covering the period 1996 to 2005, which identifies the underwater environment as a major attraction. The strategy has been to develop a limited number of quality resorts, each on its own uninhabited island, free from traffic and crass commercialism, hence incompatible with large-scale, low budget, mass tourism. The Maldives is internationally recognised as a model for sustainable, environment-friendly tourist development. It strives to keep the impact of tourism on the environment to a minimum.

### **3.6 SAARC/SAFTA/SAPTA and other Regional Groupings**

Participation in the work of international organisations has increased significantly over the past two decades. Of particular note are activities within the United Nations, the Organisation of the Islamic Conference, the Commonwealth and the South Asian Association for Regional Co-operation (SAARC). The Maldives is also a member of the Non-Aligned Movement and the World Trade Organisation.

The forum in which the Maldives is most active is SAARC because its long term security and economic interests are linked with the region. As a member of SAARC, the Maldives benefits from the Community's Generalised System of Preferences (GSP) subject to compliance with its rules of origin.

#### 4. MEDIUM TERM CHALLENGES TO THE MALDIVES

The Maldives faces a large range of development constraints, most of which stem from the small size and geographical/dispersed structure of the country as well as its high population growth rate.

Social and economic constraints:

- ◆ The small overall population and the large number of small dispersed islands translates into severe diseconomies of scale in production and transportation costs and the provision of essential (social) infrastructure and services<sup>7</sup>.
- ◆ Given the Maldives' relative development the country might graduate from its status as LDC in the near future.
- ◆ Although there is no abject poverty or widespread unemployment at present, the potential of population growth, coupled with continued reliance on expatriate labour, could result in increased unemployment among Maldivians. The development of the Maldives has also been impeded by a critical skills shortage. The country has to rely on the services of a large number of expatriates, which takes a heavy toll on the limited foreign currency available to the Maldives. Addressing this critical skills shortage is essential for the sustainable development of the Maldives' economy.
- ◆ The country's high population growth rate is aggravated by the concentration of the population on just a few islands. Migration to the capital continues. As a result, the infrastructure of Male is strained. Due to environmental concerns investments in the islands are limited.

Environmental problems

- ◆ The growing population in the Maldives is causing environmental damage in a number of different ways. The expanding population has started to use excessive amounts of fresh water from underground lens beneath the islands. As a result, saline intrusions have become a major problem. In most of the islands, groundwater is too saline to be used as a freshwater resource. The mean annual rainfall is the only viable resource of fresh water, and has to be harvested and stored in tanks. The high concentration of sodium chloride in the air causes corrosion and rapid deterioration of the storage tanks.
- ◆ Coral mining and sand dredging in the past for use as building materials has had a negative impact on the environment and left several important islands highly susceptible to the erosive effects of the sea<sup>8</sup>. Reclaiming land for building purposes and construction and dredging harbours for larger ships have begun to affect the fringing reefs that are the only barriers against the forces of the ocean.
- ◆ With concentrations of the population scattered throughout the country, solid waste management is becoming a problem, with one in five inhabited islands having no

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<sup>7</sup> Mainly because of high transport costs it has been calculated that it costs five times more to establish a school or vaccinate a child in the Maldives than it does in neighbouring countries such as Sri Lanka

<sup>8</sup> Coral mining and sand dredging are at present banned on house reefs of the inhabited islands. Permission is granted for mining on pre-determined locations in the atolls.

demarcated area in which to dispose or dump solid waste causing deteriorating effects on groundwater lens and certainly leaving a negative impression with visiting tourists.

- ◆ Over-exploitation of the inshore reef resources not only depletes the number of fish species but also contributes to reduced incomes for the local fishermen and local communities. Furthermore, damage to the marine environment will destroy the main inducement for tourists to visit the Maldives.
- ◆ The island is totally dependent on imported oil, the use of which risks damaging the environment.
- ◆ Maldives is the country which faces the greatest threat from global warming. Around 80% of the total landmass of the Maldives is less than 1 meter above sea level. Rising sea levels as a result of global warming threaten the very existence of this small island state.
- Most of the development needs of the country are closely related to overcoming, or at least minimising, the severity of these impediments.

## **5. AN OVERVIEW OF PAST AND ONGOING EC CO-OPERATION – INFORMATION ON PROGRAMMES OF EU MEMBER STATES AND OTHER DONORS**

### **5.1 Past and ongoing EC co-operation**

The Maldives has since 1981 benefited from EC aid totalling €5 million (including one NGO project). During the period 1993-1995, the EC funded three projects in the Maldives related to the tourism sector, fish inspection and the empowerment of women. The total EC contribution for these projects was €1.6 million. The Maldives has benefited from two regional tourism projects, supporting training, technical assistance and drafting of a Tourism Master Plan.

It should be noted, however, that as the Maldives is a small country and available funds have been limited, EC co-operation has only been carried out on a project by project basis. Despite these limitations the government was receptive of EC support.

Besides the EC's development assistance, the Maldives was supplied with two deliveries of food aid in the period 1980-89: in 1980 a quantity of 1.500 tons of rice was provided for an amount of €239,000 and in 1982 the country received 100 tons of soya for an amount of €19,000.

In organisational terms, the Maldives were covered by the Delegation in Sri Lanka until end 2002. As of 2003 the Maldives is being looked after by the Delegation in India. The latter office is de-concentrated.

The limited resources, in particular a lack of suitably trained resources in the Government line Ministries has to be taken into consideration when roles and responsibilities are determined and eventual allocations for special Technical Assistance are considered.

### **5.2 On-going EC Member State funded projects**

The current bilateral Member State development contribution is limited to 5 projects:

1. Small Grants Scheme (UK) – €1.7 million

Started in 1996, this focuses on human resource management by providing undergraduate study opportunities in the UK and short training courses.

2. Fuah Mulaku Harbour Project (DK) - €5.11 million.

To provide the island of Fuah Mulaku with basic harbour facilities, in part funded by a Danish government grant and in part by long term interest free loans from the Danish government.

3. Building of 2 collector Vessels for solid waste (Netherlands) - €2.62 million.
4. The Belgian Government is assisting in the land reclamation on Hulhumale for housing and development totalling €3.22m.

### **5.3 Major international donor co-operation**

Over the years, Maldives has received assistance from multinational development organisations, including the UN Development Programme, Asian Development Bank, Islamic Development Bank, World Bank as well as from bilateral donors, including Japan, Australia and India. Some European and Arab states have also contributed to the assistance received by the country.

External International Assistance has been focused primarily on projects relating to airport upgrading, power generation, water supply and sewage disposal, fisheries development, communication, and projects in the social sector such as education and training, development of schools and other educational institutions and medical facilities.

Assistance through the UNDP and other UN organisations has played a central role in regional development.

The Maldives has received loans and credits from the IDA and the World Bank totalling over US\$ 87 million for various development projects. The ADB has lent the Maldives a total of US\$55.2 million. The recent ADB country assistance plan proposes to lend US\$ 20 million during 2001-2003 to address macroeconomic instability, regional disparities, environmental vulnerability and skill shortages both in the public and private sectors.

A regional development project will concentrate on establishing a northern and southern development region.

The government of Japan has also contributed to development programmes in the Maldives with emphasis on coastal areas.

Other aid donors include Kuwait Fund, Korea, Malaysia, New Zealand, Australia, Norway, OPEC, Saudi Arabia, Singapore, USA, Canada, China and Egypt. However, the trend appears to be decreasing amounts of assistance being given.

## **6. WORK PROGRAMME**

The EC Co-operation budget available for the Maldives is € 2 million earmarked for commitment in 2004. With this in mind, and within the framework of existing objectives, co-operation projects should focus on selected areas where the EC/EU action is the most efficient and offers higher added value.

In line with the Commission's co-operation objectives and considering likely financial and human resources available, the EC/EU should address two priority areas:

- 1) Enhancing regional development (social, economic and physical infrastructure) in combination with Human resources development taking into account environmental aspects.
- 2) Enhancing Trade Capacity and Economic Development.

The precise ventilation between the two components will be done on the basis of more detailed projects design. The total amount of €2 million should be committed in 2004.

- 1) Enhancing regional development (social, economic and physical infrastructure) in combination with Human resources development taking into account environmental aspects

There is a danger that the Maldives will fast become a one city state unless there is an improvement in employment opportunities in the outer atolls in areas other than fishing and providing social conditions are also improved. With its heavily centralised government system, economic and social improvements in the outer atolls will remain limited unless reforms can be made in the regional administrative system and active local participation in the development process becomes institutionalised.

Since the 1970s the concept of regional development has been formulated by the Government as the method to accelerate development in the isolated atolls by providing physical and social infrastructure. Despite some positive results, the initiatives have failed to slow down the growth of Male and to close the development gap between the capital and the atolls.

The Government remains committed to the concept of regional development, but recognises that infrastructure development must be channelled to selected areas rather than spreading social and economic facilities too thinly across sparsely populated islands as was done in the past. The new development strategy includes the following objectives:

- i. Develop islands that could act as regional growth centres.
- ii. Develop the infrastructure necessary to support the development of the growth centres on clearly formulated plans.
- iii. Fostering economic and social development in growth centres.
- iv. Recognise and protect the natural environment of the regions identified for development.

Local administration must be strengthened and growth centres outside of Male created in order to achieve a more equitable spread of economic and social opportunities throughout the country.

The aim now is to focus growth around regional centres with the establishment of five Regional Development Management Offices (RDMOs). These five RDMOs will become management centres that over time will become responsible for development planning and gain local budgetary control within each of the regions.

The ADB has begun funding the development of two of the five regions, the Northern Development Region<sup>9</sup> (NDR) and the Southern Development Region<sup>10</sup> (SDR).

- **It is therefore proposed that the EU funds be partly used to enhance regional development.**

## 2) Enhancing Trade Capacity and Economic Development

The Maldives is highly dependent on trade in goods (fishery products) and services (tourism). Tourism accounts for over 19% of the GDP, a fifth of total employment, approximately 30% of tax revenues, and 70% of foreign exchange earnings. Fisheries, the second largest sector of the economy, is the main activity outside of Male and the tourist islands. It employs 18.75% of the country's labour force but accounts for under 10% of the GDP.

Both the Doha Development Agenda (DDA) negotiations and the likely graduation of the Maldives from Least Developed Country (LDC) status will have a substantial impact not only on the future of the Maldives' trade, but also on employment and the economy as a whole.

The DDA negotiations will set the trading rules of the future, which will almost certainly have consequences for the Maldives. The Doha Ministerial Declaration included commitments to help developing countries, and in particular the least developed ones, with trade related technical assistance and capacity building. The GATS negotiations are particularly pertinent given stated development objectives (information technology, offshore banking, environmental protection, ports and logistics and - of course - tourism).

The Maldives will very likely "graduate" as a LDC. Although this a very positive development, it will have serious consequences for trade preferences granted to the Maldives by its trading partners. In relation to the EU, this would mean that the Maldives would no longer qualify for the Everything but Arms (EBA) initiative and would "only" benefit from the normal General System of Preferences (GSP) rules. This is of particular concern for the tuna sector which would face considerable tariff increases and risks jeopardising the whole sector. While this issue is being considered in a broader sense by the United Nations, to see what can be done to ensure a smooth and gradual graduation process within the UN system, it would be justified for the EU to support the competitiveness of the export sector.

- **It is therefore proposed that the EU funds be partly used to enhance Trade Capacity and Economic Development.**

**The overarching goal of the two components of the programme is employment creation.**

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<sup>9</sup> Haa Alifu, Haa Dhaalu and Shaviyani Atolls

<sup>10</sup> Gaafu Alifu, Gaafu Dhaalu, Gnaviyani and Addu Atolls

10/10/03