

**The Maldives - European Community**

**Country Strategy Paper**

**2007-2013**

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## Abbreviations

ASEM	The Asia-Europe Meeting
ADB	Asian Development Bank
CAS	Country Assistance Strategy
CCA	Common Country Assessment
CEC	Chief Election Commissioner
CSP	Country Strategy Paper
CTD	Commission for Trade and Development
DFID	Department for International Development, UK
EC	European Commission
ECHO	European Commission Humanitarian Aid Office
EPI	Expanded Programme for Immunisation
EU	European Union
FDI	Foreign Direct Investment
GoM	Government of Maldives
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
HRCM	Human Rights Commission of the Maldives
IF	Integrated Framework
IFI	International Financial Institutions
IPR	Intellectual Property Rights
ITC	International Trade Centre
IFPRI	International Food Policy Research Institute
LDC	Least Developed Countries
LRRD	Linking Relief, Rehabilitation and Development
MDGs	Millennium Development Goals
MIP	Multiannual Indicative Programme
NIP	National Indicative Programme
PEFA	Public Expenditure and Financial Accountability
PIU	Project Implementation Unit
PRGF	Poverty Reduction Growth Facility
PRSP	Poverty Reduction Strategy Paper
RDMO	Regional Development Management Centre
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SEP	Strategic Economic Plan
SME	Small and Medium Enterprise
TRTA	Trade Related Technical Assistance
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNICEF	United Nations Children's Fund
UNHCR	United Nations High Commission for Refugees
WHO	World Health Organisation
WTO	World Trade Organisation

## EXECUTIVE SUMMARY

The Maldives is an archipelago of about 1 200 small coral islands. Of the 200 inhabited islands, one third have fewer than 500 inhabitants. The extremely dispersed and fragmented population of about 290,000 people makes the development problems of the Maldives unique. In addition, the survival of the country's low-lying islands is threatened by the constant rise in sea levels due to global warming. This adds an environmental imperative to development support in the Maldives that is very important to the EU: preventing the country from disappearing as the first and most visible victim of global warming.

Despite its dispersed geography, fragile environment, minimum natural resources and the absence of economies of scale, the country has achieved sound growth over the past two decades. The Maldives was graduated from Least Developed Country (LDC) status by the United Nations in 2004 with a grace period ending in 2010. Graduation from LDC status is likely to affect the country's export sector in the short-term due to loss of preferential market access. More critically, in spite of the relatively low death toll after the tsunami of December 2004, the country's economy was badly shaken. Financial damage was estimated at 62% of GDP or \$470 million<sup>1</sup>, aggravated by a non-tsunami budget deficit of approximately \$80 million in 2005 due to a significant fall in revenue from tourism. The Maldives has not attracted sufficient donor assistance to meet its needs and is currently faced with a financing gap of just over \$150 million.

In terms of Millennium Development Goals, the Maldives is one of the most advanced countries in Asia and certainly the most advanced in South Asia. Nevertheless, a large part of the population is living in poverty mainly as a result of regional disparities in living conditions due to the remoteness of the islands and the lack of infrastructure and social services in the atolls.

Politically, the Maldives is undergoing fundamental constitutional changes. The proposed reforms highlighted through its recently completed Road Map has the potential to transform the country to a multi-party democracy. There is popular support for the reforms but there is frustration at the slow pace of implementation.

The present Country Strategy Paper (CSP) for which an envelope of 10 MEURO has been set aside, is in line with the EC's established strategy of focusing on poverty reduction. The Commission in its aid strategy will address regional development as a focal sector to help the GoM to promote larger, safer, more economically and environmentally sustainable islands where the population will be better protected from natural disasters and have improved job opportunities. The economic development of the Maldives is a non-focal sector for EU cooperation to ease the country's transit from LDC status. A second non-focal sector is democratisation and good governance, where the EU will continue to help the Maldives to build a full democracy.

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<sup>1</sup> Joint Needs Assessment by World Bank-Asian Development Bank-United Nations on Tsunami Impact and Recovery, January 2005

## **1. EU/EC COOPERATION OBJECTIVES**

### **1.1. EU Treaty objectives for external cooperation**

In accordance with Article 177 of the Treaty Establishing the European Community, the Community's development cooperation policy shall foster the sustainable economic and social development of the developing countries, the smooth and gradual integration of these countries into the global economy and the fight against poverty. The Community's policy in this area shall contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respecting human rights and fundamental freedoms.

On the basis of Article 179 of the same Treaty, a new Development Cooperation Instrument (DCI) was adopted in December 2006. The Maldives are eligible to participate in cooperation programmes financed under the DCI [regulation (EC) N° 1905 of the European Parliament and the Council of 18 December 2006 establishing a financial instrument for development cooperation].

The Treaty also provides for the Community and the Member States to coordinate their policies on development cooperation and consult each other on their aid programmes, including with international organisations and during international conferences. Efforts must be taken to ensure that account is taken of Community development when formulating and implementing other policies which affect developing countries.

### **1.2. EU objectives laid down in other applicable documents**

Commission Communication COM(2001)469 'Europe and Asia: A Strategic Framework for enhanced partnerships' has the following 6 objectives: (i) contribute to peace and security in the region and globally, by increasing our involvement with the region; (ii) further strengthen our mutual trade and investment flows with the region; (iii) promote the development of the less prosperous countries in the region, addressing the root causes of poverty; (iv) contribute to the protection of human rights and to the spread of democracy, good governance and the rule of law; (v) build global partnerships and alliances with Asian countries, in appropriate international fora, to help address both the challenges and the opportunities offered by globalisation and to strengthen our joint efforts on global environmental and security issues, and (vi) help strengthen the awareness of Europe in Asia (and vice versa).

Council Regulation (EEC) 443/92 of 25 February 1992 provides for the multi-annual programming of European Community financial, technical and economic cooperation with Asia and Latin America (Article 9, to be read in conjunction with Art 14 and 15). The multi-annual programming process consists of Country Strategy Papers (CSPs) and National Indicative Programmes (NIPs). While CSPs present an analysis of the situation and needs in a partner country and establish priorities in terms of the focus of co-

operation, NIPs enumerate specific areas for European Community support and are the basis for identifying work to be carried out prior to the financing and implementation of projects and other forms of aid. It is planned that one MIP (2007-2013) will cover the lifetime of the present CSP. The CSP and MIP will be subject to a mid-term review at an appropriate time.

### **1.3 EU Development Policy**

The common **Declaration of the Commission, the Council and the Parliament on the Development Policy of the European Union** of 20 December 2005 defines the political framework, common objectives and principles of cooperation for Member States and the Commission. In its second part, the Declaration explains the implementation of the Development Policy at Community level.

### **1.4 Speeding up progress towards the Millennium Development Goals**

In its 12 April 2005 Communication on Speeding up progress towards the Millennium Development Goals,<sup>2</sup> the Commission takes stock of the EU's contribution to development and identifies the measures required to accelerate the achievement of the MDGs. The Commission's plans to: (a) set new intermediate targets for growth in the official aid budget by 2010 for both the EU and the Member States, ultimately achieving the target of 0.7% of gross national income (GNI) by 2015, (b) speed up reforms to improve aid quality, (c) re-evaluate the EU's influence on conditions for development and (d) ensure Africa's primacy as the beneficiary of these approaches with a renewed impetus of partnership between the two continents. The proposals on Development Financing and Policy Coherence are set out in detail in two other communications. Together these contribute to the three pillars of sustainable development (economic, social and environmental).

### **1.5 Financing for development and aid effectiveness**

In its Communication of 12 April 2005 on Financing for Development and Aid Effectiveness,<sup>3</sup> the Commission outlines the means of achieving interim targets of increased ODA volumes by 2010 and moving towards the UN target of 0.7% GNI by 2015. It suggests new forms of aid, innovative sources of funding, and includes proposals addressing the remaining post-HIPC debt problem of low income countries. It suggests redefining EU commitment regarding Global Public Goods. The main challenge to coordination and harmonisation is the credible implementation of the EU framework and the results of the High Level Forum on aid effectiveness and complementarity in aid delivery. More commitment is needed to reform the International Finance System.

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<sup>2</sup> COM 2005/0132 final

<sup>3</sup> COM 2005/0133 final

## **2. THE POLITICAL, ECONOMIC, SOCIAL AND ENVIRONMENTAL SITUATION**

### **2.1. Analysis of the political situation**

The Republic of Maldives has a parliamentary style of government with a strong executive. The country has a largely Muslim population and the laws of the country are consistent with Islamic Shari'ah law. 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 Office of the President is the most powerful political institution. The President appoints the Cabinet and members of the judiciary and is both the Chief of State and Head of Government. The President is also Commander in Chief of the armed forces, Minister of Defence and National Security, Minister of Finance and Treasury, and Governor of the Maldivian Monetary Authority. 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.

The present Constitution, which came into force in 1998, does not provide for an independent judiciary and therefore could be subject to executive influence. The President has the authority to review High Court decisions and through his power to appoint and dismiss judges without confirmation by the People's Majlis, he can influence the judiciary.

President Gayoom, who was first elected in 1978, is presently serving his sixth consecutive term. In June 2004, as a result of strong public demand for reform, he announced a programme of important constitutional changes which have the potential to transform the Maldives to a multi-party democracy. Since 2004, frustration with the slow pace of reform has led to internal unrest. The international community<sup>4</sup> has pushed for the reforms to be adopted.

In March 2006 the government made public a "road map for the reform agenda" which takes the form of an ambitious timetable of measures, broken down into the strengthening of governance system, human rights protection, independence of the judiciary, modernisation of the electoral system, enhancement of the role of the media and development of a multiparty political system.

This road map contains useful measures to strengthen the democratic system. The key component is the commitment to an election under a new multi-party electoral system, to be held in 2008.

Finally, since the summer 2006, the UK High Commissioner in Colombo has facilitated contacts between the government and the main opposition party, the Maldivian Democratic Party (MDP), in order to promote cross-party cooperation and work towards the drafting of the future Constitution. This has notably resulted in the release of main opposition leaders from house arrest.

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<sup>4</sup> EU issued a Declaration on 6 September and the European Parliament adopted a Resolution on 15 September. The EU, Commonwealth, USA and India continue to apply diplomatic pressure.

Human rights abuses are still of particular concern. Individual freedoms in many areas, including speech and religion, are restricted. Other problems include arbitrary arrest, incommunicado detention and the lack of an independent judiciary. Although the national Human Rights Commission was created in accordance with the requirements of the UN 'Paris Principles' which guarantees its independence from national government, the bill of law confirming its legal status has been blocked by government committees, rendering the HRCM virtually powerless. In October 2004, the International Committee of the Red Cross signed a Memorandum of Understanding on prison monitoring with the government. In January 2005, Amnesty International published a report which cited serious physical and mental abuse of detainees.

In line with the Government's Roadmap for the Reform Agenda, the Maldives ratified in September 2006 the accession to the International Covenant on Civil and Political Rights (ICCPR), the Optional Protocol to the ICCPR and the International Covenant on Economic, Social and Cultural Rights (ICESCR), in order to strengthen human rights protection and conform to international standards. A project was signed at the end of 2006 between the government and the UNDP to strengthen the Human Rights Commission of the Maldives.

## **2.2. Analysis of the economic situation including trade**

The small size of its economy, which is largely dependant on tourism and fisheries, makes the Maldives vulnerable to external shocks. The low-lying islands of which the country is composed are particularly vulnerable to natural risks, as witnessed by the economic recession following the tsunami of December 2004. The country's lack of land-based natural and mineral resources means that virtually all economic production is highly dependent on imports, creating a heavy dependence on foreign exchange earnings. Intensive agricultural production is limited because of the hypercalcic soil. All staple foodstuffs, basic necessities and items for the tourism industry have to be imported.

Despite its natural disadvantages, the country has achieved sound growth over the past two decades, mainly through the development of its tourism and fishing industries. Tourism has grown significantly (from 195 000 arrivals in 1990 to 617 000 in 2004) and currently accounts for 33% of GDP, a quarter of total employment and more than 60% of the Maldives' foreign exchange receipts.

Fisheries is the main activity outside of Male' and the tourist islands. It employs 19% of the country's labour force but accounts for only 6% of its GDP. Fisheries exports are mostly canned and fresh tuna, which is the second largest source of foreign exchange for the country. Industry, which consists mainly of garment production, boat building, and handicrafts, accounts for about 15% of GDP.

<b>Maldives, trade with the world</b>						
<b>Year</b>	<b>Imports</b>	<b>Yearly % change</b>	<b>Exports</b>	<b>Yearly % change</b>	<b>Balance</b>	<b>Imports + Exports</b>
<b>2000</b>	<b>420</b>		<b>82</b>		<b>-338</b>	<b>502</b>
<b>2001</b>	<b>436</b>	<b>3.9</b>	<b>85</b>	<b>4.2</b>	<b>-351</b>	<b>522</b>
<b>2002</b>	<b>412</b>	<b>-5.6</b>	<b>96</b>	<b>12.6</b>	<b>-316</b>	<b>508</b>
<b>2003</b>	<b>415</b>	<b>0.7</b>	<b>100</b>	<b>3.9</b>	<b>-315</b>	<b>514</b>
<b>2004</b>	<b>517</b>	<b>24.8</b>	<b>99</b>	<b>-0.9</b>	<b>-419</b>	<b>616</b>
<b>Average annual growth</b>		<b>5.4</b>		<b>4.9</b>		<b>5.3</b>

The Maldives was graduated from LDC status by the United Nations in December 2004 with a three-year grace period ending in November 2007. Because of the short- to medium-term losses caused by the tsunami, the United Nations decided on 30 November 2005 to defer until 2008 the start of the 3 year transition period for the graduation. This graduation will pose additional challenges in the medium term, due particularly to loss of preferential market access.

Prior to the tsunami, the overall economy of the Maldives demonstrated an accelerated growth rate with an increase in real GDP of 9% in 2004, fuelled by strong growth in the tourism, fisheries and construction sectors. This trend was expected to continue. After the tsunami, the World Bank estimated the damage caused at approximately 62% of GDP<sup>5</sup>, with tourism, fisheries and transport infrastructure being worst hit. The recovery and reconstruction needs<sup>6</sup> are currently showing a financing gap of over \$150 million and the GoM has announced a non-tsunami budget deficit of approximately 12% of GDP in 2005. The Maldives faces serious economic challenges in the medium term.

With graduation from LDC status, the Maldives may experience a loss of ‘potential’, since future export development diversification could be constrained by a lack of LDC preferences. The EC has supported the Maldivian Government through a capacity building project to develop its trade policy and to increase its technical expertise to defend its position in WTO negotiations.

The Doha Development Round of WTO negotiations is currently shaping the future multilateral trading environment within which the Maldives must operate, e.g. the GATS negotiations and rules. The country must develop the technical capacity needed to meet the obligations and opportunities it will have as a member of the international trading system. Services negotiations in particular will be important given the Maldives’ development objectives in areas such as tourism, information technology, offshore banking and environmental protection.

<sup>5</sup> Joint Needs Assessment by World Bank-Asian Development Bank-United Nations on Tsunami Impact and Recovery, January 2005

<sup>6</sup> as identified in World Bank/Asian Development Bank/United Nations ‘Joint Needs Assessment’ on ‘Tsunami: Impact and Recovery’ for the Maldives, published in February 2005

Of major significance is the Integrated Framework (IF), a global tool for Least Developed Countries to develop trade as a catalyst for growth. In the Maldives, IF is being used to mainstream trade into the GoM's National Development Plan since December 2005 and is expected to assist a coordinated delivery of trade-related technical assistance in response to the needs identified. The Maldives began the IF process in July 2005. The Commission has undertaken to act as Facilitator to engage the donor community in the IF process and to coordinate donor response to the action matrix. As Facilitator, the Commission will also encourage the GoM to keep up the momentum of this process.

On regional trade, the GoM has successfully negotiated a continuation of their LDC status under the South Asian Free Trade Agreement (SAFTA). This will ensure that the Maldives continues to benefit from preferential access to the other members' markets and from compensation of lost government revenue resulting from trade liberalisation.

### 2.3 Analysis of the social situation

In terms of Millennium Development Goals, the Maldives is currently one of the most advanced countries in Asia and certainly the most advanced in South Asia. In 2003, the literacy rate among females aged 15 and above reached 97% and the net primary school enrolment rate has risen rapidly from 38% to 92% over the last three decades. The health status of the population improved considerably, with average life expectancy at birth increasing from 50 years in 1970 to 68 years in 2003. However, the UN has warned that the economic recession caused by the slow recovery from the tsunami of 2004 may make it very difficult for the Maldives to meet its Millennium Development Goal targets in the medium term.

#### Regional comparisons (2003)

Country	GDP growth	Industry as % of economy	Life expectancy/ years	Adult literacy %	School enrolment %		Infant mortality rate/1000 >1 yr old
					primary	secondary	
<b>Maldives</b>	<b>8.5</b>	<b>18</b>	<b>68</b>	<b>97.2</b>	<b>92.4*</b>	<b>51.4*</b>	<b>17.6*</b>
Bangladesh	5.3	27.1	62.4	43.1	85.1*	44.5*	46
Bhutan	6.7	10	63.5	42.2	84.3	9	70
India	8.6	28.4	63.4	59.5	83*	48*	63
Nepal	3.1	20	60.2	45.2	70*	33*	61
Pakistan	5.1	24.1	64.1	45.7	46	45	74
Sri Lanka	5.9	26.2	74	92.3	98	70	13

\* 2002

Sources: World Bank, CIA, UNICEF, UNESCO, UNSTATS.

Poverty in the Maldives stems primarily from regional disparities in living conditions related to the remoteness of the islands and the lack of infrastructure and social services in the atolls. Women are particularly susceptible to isolation, as the culture of the country limits their ability to travel to other islands for employment or education. The island ecosystems are among the most vulnerable and environmental degradation can render an

island uninhabitable, increase its vulnerability to natural disasters and impact on key economic sectors, particularly tourism and fisheries.

Although the country's current GDP *per capita* is one of the highest in South Asia, significant disparities exist in income distribution. Just under half the population earn less than \$1.25 per day and the average income of three quarters of the population is \$1.60 per day.<sup>7</sup>

The population of the Maldives is relatively young, with 44% under 14 years of age<sup>8</sup>. Primary education facilities are adequate but there is a shortage of secondary education facilities, particularly in the more remote atolls. As a result the numbers of unemployed youths are increasing, partly because of their poor education and partly because of the limited job opportunities available. It is not surprising therefore that drug abuse has become a serious problem in the Maldives, especially among young, unemployed males who are the most vulnerable group<sup>9</sup>. Three quarters of the prison population<sup>10</sup> are serving sentences for drug offences, and the authorities have yet to develop a strategy to tackle the problem.

Giving the small size of the country, there is a shortage of labour, which leads employers to offer competitive pay and conditions to attract workers. In terms of workers' rights, there is no national laws governing health and safety conditions on the workplace, and the country does not recognise the right to join trade unions, which effectively do not exist. Furthermore, the country is not a member of the International Labour Organisation

Combating HIV/AIDS has been mainstreamed as a cross-cutting issue in the programming process by analysing the government's policy agenda on HIV/AIDS and sexual and reproductive health in particular, as well as the importance of the theme in the partner country. In the EC response strategy an assessment is made of the risks and opportunities in the proposed focal sectors for combating HIV/AIDS and other diseases.

There is an added element to the danger of HIV/AIDS in that drug dependency is a major social problem in Maldives and will require addressing. This social factor affects all aspects of Maldives including governance problems.

#### **2.4. Analysis of the environmental situation**

The environment of the Maldives is extremely fragile and vulnerable. The country's extremely dispersed and fragmented population makes the development problems of the Maldives unique. Many islands are no more than one metre high so that the threats of climate change and the constant rise in sea levels are a major concern, raising fears that the country could disappear. Environmental issues are consequently fundamental to the Maldives and have been mainstreamed into most policies. The country has adopted

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<sup>7</sup> 'Poverty in South Asia 2003: Civil Society Perspectives' by South Asia Alliance for Poverty Eradication (SAAPE), October 2003

<sup>8</sup> Source: CIA statistics 2005

<sup>9</sup> 'Rapid situation assessment of drug abuse in Maldives 2003', UNDP/FASHAN/UNESCAP

<sup>10</sup> 'Report on the criminal justice system of the Republic of Maldives: proposals for reform' by University of Pennsylvania Law School for UNDP

strong environmental laws but lacks the necessary technical capacity to enforce them effectively. There is also a lack of ownership of the numerous recommendations and policies that have been made by various development agencies.

The country's important tourist and fishing industries are entirely dependent on its fragile coral reefs. Strict national regulations, particularly in tourist resorts, ensure the protection of this precious resource. The islands' soil is too poor for intensive agriculture but some hydroponic farming has developed to provide a small home-grown foods industry.

The Maldives lacks natural resources. There is a lack of drinkable water with about a quarter of the population and all tourist resorts dependent on the production of desalinated water. There is no domestic source of energy and the country is entirely dependent on imported oil to fuel its transport and to generate electricity for the population and visiting tourists. Security and diversity of energy supply is vital for the Maldives. The slightest disruption in oil supplies or increase in oil prices has major consequences both for the population and the economy.

The country has become increasingly dependent on imported fuel as its main source of energy, leaving it vulnerable to external shocks such as increases in oil prices. The GoM has now identified research into the feasibility of sustainable energy-producing sources for the country as a priority in its environment strategy. The main areas of potential interest are solar, wind, biomass and bio-digestive material.

Many of the communities on the 200 inhabited islands are subject to extreme hardship and vulnerability because of overcrowding and/or environmental problems such as land erosion, desertification and fresh water depletion. Poverty and deprivation in the Maldives are also exacerbated by geographical constraints, especially in terms of the costs and feasibility of implementation and monitoring. In addition, a rapidly expanding modern sector, mainly located in Male', which exists alongside subsistence communities in the atolls, creates a dual economy which adds to the GoM's difficulties in effectively addressing poverty.

In terms of land tenure, a community ownership concept for coastal lands is practised in the Maldives. Given that the country is composed of small low-lying coral islands, the concept of 'coast' in the Maldives includes the total land area of each island and its surrounding lagoon, extending over the reef flat to the outer edge of its reef. Inhabitant communities of individual islands regard the surrounding lagoon and reefs as an integral part of their coast. While some individual home and agriculture plots are delineated in this 'coastal' area, the rest of the land area - the beach, lagoon and reef - are community wealth and used by all. Access to and from beaches is not a major issue as individual land plots are set back from the beach slope. Beach protection is regarded as a community activity.

## **2.5. Analysis of the effects of tsunami disaster**

The tsunami hit the Maldives in December 2004 at a delicate time in its political and economic development. Politically, the country was in turmoil after the Government had arrested opposition leaders, including members of the constitutional assembly, who had protested at the lack of progress on promised constitutional reforms. The country was about to vote in parliamentary elections on 31 December and international teams were in

the Maldives to observe. Economically, the UN had just approved the graduation of the Maldives from the group of Least Developed Countries and had given the country until November 2007 to adapt to its new obligations.

The consequences of the tsunami went well beyond the apparent damage. In terms of immediate impact, one third of the country's population was directly affected and 29 000 people had to leave their homes. Severe damage was caused to houses, tourist resorts, boats and other fishing equipment, schools, health facilities, transport and communication equipment, water and sanitation, and electricity infrastructure. There has also been substantial damage to agricultural crops and perennial trees.

Environmentally, the damage from the tsunami graphically illustrated just how vulnerable the low-lying islands of the Maldives are to natural disasters. At one point, the entire country was underwater. The country's delicate eco-system was put under great strain and the country's transport and communication systems were severely affected. The island populations were forced to depend on international aid for drinking water and food as their normal supplies were contaminated with salt water. The peoples of the Maldives are now wary of isolation in their island communities and are keen to move to bigger islands with better infrastructure and greater safety.

Economically, the Maldives has been the country worst affected by the disaster. Its two major industries, tourism and fisheries, were badly hit. Damage and losses have been estimated at \$470m, i.e. the equivalent of 62% of the country's GDP and the GoM has announced serious losses in revenue from tourism in 2005. The country is also faced with a financing gap of just over \$150 million to meet its recovery needs. The IMF estimated that its GDP contracted by 3.6% in 2005, as tourist arrivals fell by a third. With the decline in tourism, foreign exchange earnings also fell, and a current account deficit of 37% of GDP is estimated for 2005. Fiscal management is becoming difficult, with a budget deficit of 12% in 2005, and the risk of a similarly large deficit in 2006. Moreover, the Maldives also faces the challenge of recovering its previous economic position and of adapting to graduation from LDC status which will come into effect in November 2010.

Politically, the President changed his political stance and called for unity. He pardoned all those previously detained, and announced that constitutional reforms would be in place by the end of 2005. Parliamentary elections, postponed until January 2005, resulted in a marked increase in votes for pro-reform candidates. Since then, some political reforms have been implemented, if slowly, including a multi-party system adopted in mid-2005.

### **3. THE POLICY AGENDA OF THE BENEFICIARY COUNTRY**

#### **3.1. Government strategy documents**

The Maldives' current development strategy is based on three core documents: Vision 2020, the Seventh National Development Plan (2006-2010), and the Strategic Economic Plan.

In 2000, the Government of the Maldives launched its long-term development strategy, *Vision 2020*. It reflects the aspiration and provides the impetus for 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>11</sup>.

The 7<sup>th</sup> National Development Plan (2006-2010) has six broad aims:

1. reduce vulnerability and poverty through human development and wider employment opportunities;
2. improve access to opportunities and services through regional development and population consolidation;
3. achieve development beyond pre-tsunami levels through rapid recovery and reconstruction;
4. promote good governance through strengthening legal, administrative and political institutions and civil society;
5. promote sustainable and equitable economic and social development through economic diversification and promotion of corporate social responsibility;
6. strengthen family values and national unity through investing in social, cultural and religious harmony.

The Strategic Economic Plan (SEP) for the Maldives was produced in 2001 by the International Trade Institute of Singapore (ITS) with the aim of identifying key economic drivers together with respective opportunities and threats; suggesting appropriate national policies to achieve rapid economic growth, and identifying potential areas for economic diversification. The SEP recommends basing future economic growth in the Maldives on a holistic cluster approach, incorporating and integrating traditional sectors which need expanding and upgrading (tourism, fisheries and agriculture) with new economic sectors (port and logistic services, information and communication technology, offshore banking and financial services).

In addition to the three core development documents described above, the Maldives drafted a separate action plan designed to help the country recover as quickly as possible from the tsunami disaster of December 2004. The National Recovery and Reconstruction Plan (NRRP) sets out the objectives and priorities for recovery and reconstruction, including: disaster relief to help survivors cope with the immediate aftermath of the disaster; macro-economic recovery and livelihoods revival to restore community livelihoods, revise key economic sectors and maintain macroeconomic stability; community empowerment to rebuild lives with local ownership; environment protection to protect and regenerate vulnerable marine ecosystems and to strengthen disaster preparedness and mitigation measures; public services to restore access to basic services for all.

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<sup>11</sup> Preface, *Sixth National Development Plan, 2001-2005*

### **3.2. Political agenda**

In June 2004, President Gayoom announced fundamental constitutional reforms to build a fully functioning democracy. The proposed reforms include separating judicial and executive powers, removing the gender bar to allow women to contest the office of President, restricting the number of terms any one person can be President, giving greater powers to parliament and the judiciary, establishing a multiparty system, and an independent national Human Rights Commission. In parallel, the GoM is also reviewing its penal and judicial systems and following recommendations made in recent studies<sup>12</sup>, and plans reforms to separate them from executive influence.

In general, reforms are moving slowly forward because of political constraints. The EU has encouraged political parties to participate in this process. In September 2004, the GoM created a new national police force to act independently of the military body, the National Security Service. In December 2004, the national Human Rights Commission was set up. In June 2005, for the first time in over 50 years, the parliament of the Maldives unanimously voted to allow a multi-party system. Finally in March 2006, President Gayoom made public a road map of a timetable of key measures for the strengthening of governance system. The international community is supportive of those reforms and help is being provided by the Commonwealth Secretariat in terms of implementation and facilitator for constitutional reforms.

### **3.3. Environmental policy**

Protection of the environment is a national priority in the Maldives. At macro level the GoM's policy is reflected in 'Vision 2020' and the 'Sixth National Development Plan'. The GoM has incorporated environmental protection and preservation into several sectors.

Since 1987, the country has been vocal in drawing international and regional attention to the specific vulnerabilities of small, developing island States and low-lying coastal areas. The Maldives believes that global environmental issues, such as global warming and rising sea levels, require global solutions, and seeks genuine commitment and positive action from the international community to protect environmentally vulnerable States.

The main regulatory and institutional framework for the protection of the environment in the Maldives is the Law on the Protection and Preservation of the Environment. The law contains provisions on the conservation of biological diversity, protected area management, environmental impact assessment, waste management and the transboundary movement of hazardous waste.

The Maldives is currently implementing its second National Environment Action Plan (NEAP II) 1999. 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. The main strategies of the NEAP-II framework range from continuous assessment of the state of the environment in the Maldives to financial support, co operation and commitment to enable the action plan

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<sup>12</sup> Reports by Australian custodial services and crime research

to be implemented in an efficient and cost effective manner. Current priorities are numerous and include urbanisation and climate change.

As a national priority, the environment is not only granted ministerial status (Ministry of Environment, Energy and Water) but an Environment Protection Unit and a high-level National Commission for Environmental Protection have been set up. However, there are weaknesses in the GoM's strategy. Sound environmental planning, management and conservation is not sufficiently harmonised with the policies of other ministries and agencies. Similarly, implementation lacks a plan with clearly identified timeframes and resources requirements embedded in the work plans of the different line ministries and departments.

Since 2005, following the destruction wreaked by the tsunami in December 2004, GoM's regional development policy has been enhanced. The development of larger, safer and more environmentally sustainable islands on which to concentrate the population has become a top priority. The main part of this strategy (see 3.3) is expected to be completed by 2012.

#### **3.4. Regional development & environmental sustainability**

In 1998, the government established a policy on regional development<sup>13</sup> to encourage the population to move to larger islands and to discourage migration to the overcrowded capital, Male'. The small, dispersed islands were identified as sources of poverty and barriers to development.

In 2002, the GoM initiated a programme to provide incentives for voluntary migration to larger islands. The long-term objective was to reduce the number of inhabited islands and consolidate the population in smaller groups of settlements across 5 Regional Development Management Centres (RDMOs), each comprising a 'focus' island and 'primary' islands. In time, each RDMO would gain local budgetary control and take on the responsibility for planning in its region. Each RDMO 'focus' island would ensure social, economical and environmental development at a sustainable level and provide incentives for voluntary resettlement. The social and physical infrastructure of these islands would be improved to render them more attractive to resettlement, with the possibility of fixed land links and/or communication and transportation linkages between islands. Incentives would be provided for private sector investment in all economic sectors. The GoM also proposed developing long- and medium-term strategies and land-use plans through consultation, participation and dialogue with local and potential residents.

In 2005, incorporating lessons learnt from the tsunami disaster, the government improved its policy to create at least one 'focus' or 'safe island' for each atoll. Each of these islands would also incorporate sea wall defences, environmental protection zones, specially constructed areas of high ground and better constructed buildings. The policy has been accelerated and is expected to be fully implemented by 2012.

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<sup>13</sup> Sixth National Development Plan 2001-2005, Ministry of Planning and National Development

### **3.5. Economy and trade**

Following the recommendations of the Strategic Economic Plan (see 3), the GoM has concentrated on a regional cluster approach that integrates traditional sectors needing expansion as well as upgrading any new economic sectors. Tourism, fisheries and agriculture were considered priority areas for development, with potential being seen in new sectors such as information and communication technology, and offshore banking and financial centres. It was noted that expansion of these economic sectors would create the need to upgrade other supporting sectors such as construction, transportation and institutional capacity building, and to strengthen international and regional relationships with major trade and investment partners. The GoM does this through bilateral relations with its neighbours and through its membership of the South Asian Association for Regional Cooperation. The GoM has also developed strong bilateral relations with EU Member States as the majority of its tourists are from the UK and Italy, and the EU has become an important international trading partner for the country's second biggest industry, tuna exports.

The Maldives' first industry, tourism, 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 commercialism, hence incompatible with large-scale, low budget, mass tourism. As a result, 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. Social sectors/ poverty alleviation**

Poverty in the Maldives is mainly located in the remote atolls. Approximately half of the poorest population is located on 50 islands<sup>14</sup>. The Maldives does not have a Poverty Reduction Strategy Paper, but its poverty reduction strategy is articulated within the framework of the GoM's Seventh National Development Plan (2006-2010). The strategy relates directly to policies on health care, education, housing and utilities, employment, economic development, community mobilisation, population consolidation and social security.

The GoM's regional development strategy also targets poverty alleviation through population consolidation. The development of 'focus' islands in each atoll would group the dispersed population and offer them improved social facilities and better job opportunities.

On social and gender issues, the GoM has restricted certain workers' rights and, although it has undertaken a number of programmes addressing women's issues, women still face a variety of legal and social disadvantages.

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<sup>14</sup> 'Vulnerability and Poverty Assessment 1998' by UNDP/GoM; 'Poverty in South Asia 2003: Civil Society Perspectives' by South Asia Alliance for Poverty Eradication (SAAPE), October 2003

The Maldives is a member of the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), which requires States to eliminate all forms of discrimination that prevent women's enjoyment of their full civil, political, economic and cultural rights. The government has taken measures to increase the participation of women as atoll chiefs and in island women's committees and atoll development committees. In 1998, it established the Ministry of Women's Affairs and Social Security and launched the initiative to reconstitute the National Women's Council as a Gender Equality Council chaired by the President. The Family Act of July 2001 contains provisions on the strengthening of family relations, the protection of women's rights, custody of children, care of elderly parents and discouraging divorce. Further provisions guaranteeing and strengthening the rights of women are also included in the Act.

#### **4. OVERVIEW OF PAST AND ONGOING EC COOPERATION, COORDINATION AND COHERENCE.**

Since 1981, the Maldives has benefited from EC aid totalling €5 million. A further €20 million was programmed in 2005-2006 for post-tsunami humanitarian and reconstruction assistance. Technical assistance was also provided through a FWC consultant to assist the Maldives in developing its Trade Policy and increasing its WTO negotiation capacity.

##### **4.1. Development aid**

During the period 1993-1995, the EC funded three projects totalling €1.6 million in the Maldives. These were in the sectors of tourism, fish inspection and empowerment of women. The Maldives has also benefited from two regional tourism projects, supporting training, technical assistance and the drafting of a Tourism Master Plan.

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 €239 000, and in 1982 the country received 100 tons of soya for €19 000.

As concerns higher education, the Maldives can benefit from the general Erasmus Mundus programme since 2004. Moreover, the Maldives is one of the 16 Asian countries eligible under the regional Erasmus Mundus Asian Window (10M€ for the period 2005-2006). This initiative is aimed to facilitate the participation of Maldivian students, among others, in European masters courses.

Current aid programmes were identified in the context of the post-tsunami actions (see 4.2). As implementation is underway there is no feedback on any specific problems encountered or any results in relation to targets.

##### **4.2. EC post-tsunami response**

In 2005, the country benefited from €2.7 million in humanitarian aid for the installation of water tanks in households, community buildings, IDP camps and damaged schools, repairs to small-bore sewage systems, restoration of cold rooms and freezers in damaged hospitals, repairs to houses, support for cash for work schemes and restarting of livelihoods. From the Rapid Reaction Mechanism, €1 million is destined for

reconstruction of houses on one or more 'safe islands'. In 2005 and 2006, €2 million has been identified for restoring livelihoods and €14 million for the development of 'safe islands'. Particular attention has been paid to Linking Relief, Rehabilitation and Development (LRRD). In the case of post-tsunami support, this has been done through an unusually long implementation period for ECHO projects (18 months), allowing for take-over by longer-term reconstruction funding where appropriate.

Account is taken of limited resources, in particular a lack of suitably trained resources in the Government's line Ministries, when roles and responsibilities are determined and eventual allocations for special technical assistance are considered.

#### **4.3. Economy and trade**

In December 2004, a mission team was fielded to identify the needs of the Maldives in terms of trade-related assistance. The team recommended certain actions<sup>15</sup> to improve the GoM's policies in international trade and in trade development. On the basis of these recommendations, the EC has supplied technical assistance (2005-2006) to help the GoM develop an integrated approach in its trade policy framework and to build 'on-the-job' local researching and negotiating capacity. Support is being provided for the implementation of a second project (2005-2006) to help enhance the competitive position of the fisheries sector.

#### **4.4. Donor coordination and harmonisation**

The focus of EC aid is the result of an examination of where national funding and other donors' aid is focused. The EC complements the actions of others and build on areas of natural EC competence (e.g. trade). Government and international financial institutions have focused on the larger investment projects (World Bank) as well as the overall macroeconomic framework (IMF). Commission also undertook to support democratisation and good governance sector, where it has an added value in terms of expertise And where it can provide support to the reform agenda.

The Commission Delegation in Sri Lanka is an active participant in donor coordination and information meetings on the Maldives hosted by the British High Commission. Since very few Member States or other donors are active in the country, the most effective way of ensuring harmonisation and coordination is by supporting large-scale multi-donor schemes. Channelling funds through the World Bank ensures harmonisation of procedures and thereby lowers the administrative burden of the Government. Finally, the EC is facilitator for the trade "Integrated Framework Process" in order to engage the donor community in the IF process and to coordinate donor response to the defined action matrix.

Aid meetings are held between donors and government on an ad-hoc basis. These coordination efforts have expanded significantly with the arrival of new funds and large number of new donors following the tsunami disaster. Coordination is undertaken bilaterally by the EC but also by government structures (notably TRRF) established to coordinate donors' tsunami funding.

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<sup>15</sup> 'Identification Mission for Technical Assistance in Enhancing Trade Capacity and Economic Development in Maldives', IBM Belgium, EuropeAid/116548/C/SV/lot n°6, 01/03/2005.

#### 4.5 Consultation with civil society and other stakeholders

Due to the extremely embryonic nature of civil society in the Maldives, there is no organised forum for consultation with civil society, and the Commission is not aware of any Maldivian NGOs that could be engaged in a policy dialogue. In contrast, opposition parties are well organised, and the Commission Delegation in Sri Lanka has a continued dialogue with representatives of the opposition.

The Delegation has participated in meetings and discussions with other stakeholders, such as human rights organisations and regional NGOs.

### 5. THE EC RESPONSE STRATEGY (INTERVENTION SECTORS)

The Maldives has had strong social and economic growth over the last 20 years. Nevertheless, there are two imperatives that justify support: *environmental sustainability*, given the country's fragile ecosystem and vulnerability to rising sea levels, and *economic development*, given the country's need to recover from the damaging economic effects of the tsunami disaster and to graduate successfully from LDC status.

In view of the need to concentrate our development efforts and funds, the Country Strategy for 2007-2013 will focus on **environmental sustainability through regional development**, i.e. 'safe islands' (*focal areas*) which is also reflected in the GoM's National Recovery and Reconstruction Plan.

These priorities are also fully consistent with the 'European Consensus' on Development priorities<sup>16</sup> which point to governance, human rights and economic development as key concerns of EU development policy. Furthermore the selected priorities correspond to areas where the EC has developed a solid expertise and understanding and can thus offer added value to programme design and monitoring.

In terms of policy mix, the European Commission will reinforce this broader policy framework as set out in this CSP through trade and economic assistance. Under the non focal sectors, the EC will provide support for the economic losses due to the Tsunami. Democratisation and good governance will also be supported through the promotion of human rights and constitutional reforms.

A total envelope of 10 MEURO has been set aside for the Maldives for the period of validity of the CSP, 2007-2013. The CSP will be implemented in two stages: the MIP 2007-2010 and the MIP 2011-2013. As regards the method of implementation, the EC will actively pursue a joined-up approach with other donors, including the World Bank and the UNDP. Aid action will build on and complement previous support, especially post-tsunami reconstruction assistance.

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<sup>16</sup> Joint Statement on European Union Development Policy 'the European Consensus', Council of the European Union, 14820/05.

### **5.1. Priority sector: regional development**

To develop a healthy and safe home for the population, the strategy must ensure that the vulnerability of the Maldives' islands to natural disasters is addressed both at international and national level.

At international level, the EC will help the Maldives to strengthen its 'voice' in international fora on climate change and in its bilateral campaigns to seek the support of powerful organisations and nations that can help it fight for survival.

At national level, the EC will support the government in its established policy to develop safer and more sustainable islands for the population. An important component of the 'safe islands' strategy is environmental sustainability. This policy addresses social questions as it aims to fight poverty by realising economies of scale in the provision of public and private services in the atolls and by improving the quality of services offered, as the remoteness of the islands and lack of infrastructure in the atolls is the main cause of poverty. It also encourages people to remain in the atolls by reducing the risks of rising sea levels through better environmental planning.

The EC will also support initiatives at the national level to tackle youth employment and the recent escalation of drug abuse among the youth.

On the 'safe islands' the EC will encourage the development of sustainable infrastructure services such as access to safe water and to sustainable and affordable energy services, promotion of renewable energy and energy efficiency, air and maritime transport, adequate sewage and waste disposal, protection of fragile coral reefs, etc. The EC will also encourage the development of adequate education and health facilities<sup>17</sup>, social amenities and employment opportunities as part of the 'safe islands' strategy. The EC will also support measures to strengthen economic governance, including strengthening of local and related central government capacities, the weakness of which at present is undermining long term development of the country. These facilities will attract families to the 'safe islands' and will also help to address a growing need for better schools and clinics/hospitals in the atolls. As well as reducing the country's dependence on Male', 'safe islands' would act as economic hubs to help diversify and strengthen local and national economies and help create improved job opportunities for the growing numbers of young people.

A close dialogue should also be launched in the field of air transport services with a view to further development of relations in the field of air transport

The EC will encourage consultation with local communities on decisions concerning local governance, regional development and the needs of vulnerable groups (e.g. female-headed households, the elderly and the disabled). The EC will encourage the use of the 'safe islands' programme as an opportunity to develop a strong civil society, an important

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<sup>17</sup> Within the framework of national health and education policies.

part of any democracy. Gender issues and cultural disparities will be addressed by raising the level of development on less developed islands and strengthening the role of women.

The risks of this strategy are that it may prove extremely expensive. Everything must be imported which adds significantly to the cost of basic materials. Development may therefore be 'scaled back', making it less sustainable and less safe for the population. Another risk is that the safe islands do not attract families in sufficient numbers, although, post-tsunami, people are far more willing to move and demands for re-location are encouragingly high. The success of these plans will also depend on continued political backing by the government.

## 5.2. Non-focal sectors

In parallel with the main focus on support for the development of 'focus'/'safe' islands, the EC will continue to devote part of its development programme to non-focal sectors.

The first non-focal sector will be **economic cooperation**. The Maldives' remarkable economic growth over recent years should be maintained through enhanced competitiveness. The EC will continue to support a certain flexibility to ensure the country can recover sufficiently from economic losses due to damage to its tourist and fishing industries after the tsunami of 2004. Trade is important for the economic development of the Maldives and needs to be mainstreamed into its overall development policy and be coherent with other policy areas (e.g. industry, competitiveness, employment etc.). The Maldives needs a trade policy that is not only responsive to its development needs but also takes account of the obligations and opportunities of the international trading system (WTO, SAFTA, bilateral relations). The EC will support the country's economic diversification strategy and its efforts to integrate them into the global economy by enhancing the country's trading capacity. This would allow the EC to take on board the recommendations of the trade needs assessment 2005<sup>18</sup> as well as the findings of the ongoing Integrated Framework process for which a draft Diagnostic Trade Integration study has already been completed. The EC has provided through two FWC's experts to provide trade policy and international trade negotiation capacity support to Maldives 2005-2006 and an expert for the IF Facilitator process starting 2007. The EC therefore would build on these two actions its future trade related support for the GoM's.

The second non-focal sector will be **democratisation and good governance**. The EC will continue its bilateral contacts with the GoM, the Commonwealth Secretariat and political parties on human rights and constitutional reforms. The EC will ensure that its strategies incorporate the development of environmental and economic governance and integrate gender issues, worker's rights recognition and the promotion of local cultures.

Within the DCI area of cooperation on governance, democracy, human rights and support for institutional reform, in particular related to co-operation and policy reform in the fields of security and justice, the Community might carry out measures which shall fully

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<sup>18</sup> 'Identification Mission for Technical Assistance in Enhancing Trade Capacity and Economic Development in Maldives', IBM Belgium, EuropeAid/116548/C/SV/lot n°6, 01/03/2005.

respect OECD-DAC guidelines, taking also into consideration relevant European Council Conclusions.

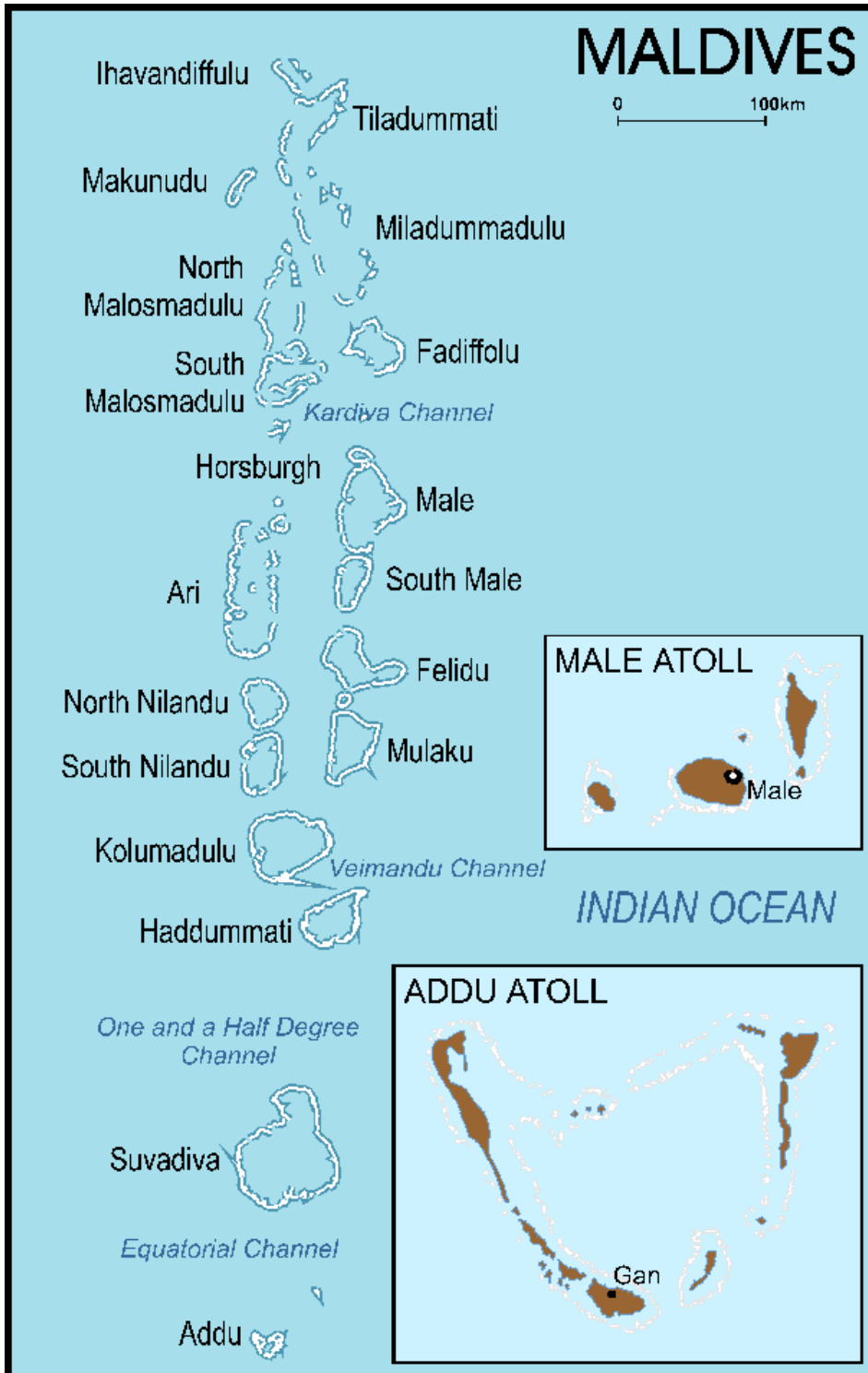
### **5.3. Coordination with other donors**

The coordination section 4.4 above indicates the main lines of coordination currently in place and to be continued, notably coordination with EU Member States and other agencies. However, some additional specific aspects are needed:

1. assessment of needs with government and other donors. The EC identification stage will need not only to ensure the EC's activities still fit in with the government's overall plans but also that EC activities complement those planned by other donors. This is especially important in terms of action by the international financial institutions.
2. coordination of the implementation of planned activities with national agencies involved in the development area.
3. seeking common actions. A key conclusion of EU policy on aid efficiency is that teaming up with other agencies on projects increases efficiency (one system instead of many equals lower administrative costs) and effectiveness (economies of scale equal impact). For this reason, the EC will continue its efforts to cooperate directly on projects with other donors.
4. government ownership and the involvement of communities are key elements of previous successful projects in the Maldives and elsewhere. Efforts will therefore be made to ensure the active involvement of the GoM at every stage.

ANNEXES

Annex 1. Map of the Maldives



## Annex 2. Country at a glance

<b>Land area</b> 298 sq Km	<b>Population</b> 289,000 (2005 est.)	<b>Population density</b> 1171 per sq km
<b>Population of main town Male'</b> : 81,000 (2004)		
<b>Annual population change</b> (% per year) Year 2000: +1.5%; Year 2001: +2.2%; Year 2002: +1.6%; Year 2003: +1.6% Year 2004: ;Year 2005: +2.82% (est.)		

### Economic Summary

Indicator	2001	2002	2003	2004	2005 Pre- Tsunami est.	2005 Post- Tsunami est.
Real GDP growth (%)	3.5	6.5	8.5	8.8	7.5	-3.6
GDP US\$ millions (p.p.p.)	627	640.7	690.8	799.6	866.0	816.4
Exports US\$ millions	110	132.3	151.9	181	188.2	169.6
Imports US\$ millions	346.3	344.7	414.3	567.3	568.5	686.8
Fiscal deficit (% GDP)	4.7	4.9	3.4	1.7		12.3

Source: World Bank, IMF 2005 Article IV Consultations

### Selected Social Indicators

<b>Indicator</b>	<b>Year 2001</b>	<b>Year 2002</b>	<b>Year 2003</b>
Adult literacy rate over 15s %	96.9	97.1	97.2
Primary school enrolment %	96.2	92.4	
Secondary school enrolment %		51.4	
Life expectancy at birth	62.5	67.2	68
Underweight children <5 (%)	30	29	43
<5 mortality rate (per 1,000 live births)	77	74	72
Maternal mortality rate (per 100,000 live births)	145	159	100
Children <2 fully immunised (%)			
Infants <1 fully immunised (%)	99	99	99
Births supervised by trained personnel (%)	70.3	70	
Households with access to safe water (%)		84	100

**Annex 3. EC cooperation CSP 2000-2006 period**

**EC COOPERATION**

**Tsunami Aid for the Maldives 2005-2006**

<p align="center"><b>Humanitarian Aid</b> Total €2.7 million</p>	<p align="center"><b>Reconstruction Aid</b> Total €17 million</p>
<ul style="list-style-type: none"> <li>▪ Installation of water tanks in damaged schools</li> <li>▪ Reparation of small bore sewage systems</li> <li>▪ Restoration of cold rooms and freezers in damaged hospitals</li> <li>▪ Reparation of houses</li> <li>▪ Restart of activities in fishing and agriculture sectors</li> </ul>	<p align="center"><u>Rapid Reaction Mechanism</u> €1 million in 2005:</p> <ul style="list-style-type: none"> <li>▪ Contribution to emergency housing reconstruction on one or more “safe islands”</li> </ul> <p align="center"><u>ALA funding</u> €16 million over 2005-2006:</p> <ul style="list-style-type: none"> <li>▪ Restarting of livelihoods (UNDP)</li> <li>▪ Development of safer and more sustainable islands to better protect the population from natural disasters (Tsunami Relief and Rehabilitation Fund)</li> </ul>

**Annex 4. Donor Matrix for Tsunami reconstruction funding**  
**Amounts are in millions of USD (source Government of Maldives)**

The table focuses on Tsunami reconstruction funding as other interventions are rather limited, both in terms of scope and funding.

Donor Sector of concentration	Rehabilitation	Health and Education	Safer islands development	Housing	Water and sanitation	Fisheries	Tourism	Transport	Miscellaneous	Total
<b>Multilateral</b>										
ADB					5	3,2		3,6	11,2	23
World Bank		5							9	14
UNDP				10,7				4,2	7,9	22,8
Other UN		13,5		0,4	1,8	1,1			1,8	18,2
<b>EC</b>	2,7		14	1					2	19,7
EIB							50			50
<b>Bilateral</b>										
EU MS										
- NL								10,2		10,2
Other Bilateral				3,8	4,1	3,7		14,2	7,4	33,2
<b>Others including Tsunami appeal responses (NGOs, Red Cross...)</b>		6,4		64,6	14,9				36,4	122,3
<b>Total</b>	<b>2,7</b>	<b>24,9</b>	<b>14</b>	<b>80,5</b>	<b>25,8</b>	<b>8</b>	<b>50</b>	<b>32,2</b>	<b>75,7</b>	<b>313,4</b>

## **Annex 5 Country Environmental Profile**

The Country Environmental Profile (CEP) was undertaken by the EC during 2005. The main objective was to identify issues that needed to be considered for the Country Strategy Paper (2007-13).

### **State of the environment**

The tropical island environment and the marine biological diversity of the Maldives have proved to be unique marketable assets, in a country, which is devoid of any other commercially exploitable resources. Therefore habitat destruction and over-exploitation are some of the major threats to its biological diversity. In addition, effects of global warming are a major concern because of its adverse impact on the coral reefs. The country is no exception to the global problem of loss of biodiversity. Marine biodiversity is threatened by coastal development activities, including harbour development, land reclamation and coastal protection, increased demand of natural resources due to population expansion and rapid economic development. Land clearance for housing endangers the sparse terrestrial biodiversity of many islands particularly the densely populated islands as nearly 300,000 inhabitants have to share 300 square km of islands. As the emission of greenhouse gas will increase by 65 % over the next 25 years with dramatic consequences on climate change, increase in sea temperature due to climate change is already a major threat to the coral reefs of Maldives.

Maldives' population and economy have to take into serious consideration threats such as global warming and sea level rise caused by activities elsewhere that will subject Maldives to frequent natural disasters and erode its unique natural advantages currently enjoyed by the country in the long run. The recent tsunami has severely affected the inhabited islands mainly with regard to local population livelihoods. Moreover revenues from tourism have severely decreased for several consecutive months. Such a degree of vulnerability, associated with low level of economic diversification, means that structurally the Maldives will still face several economical and environmental challenges.

The economic foundation of the country is very narrow, as well as its human resources are developed insufficiently to sustain a dynamic, knowledge-based economy. Fisheries producers are exposed to periodic constraints of earning linked to external price fluctuations. Tourism sector is vulnerable to a number of natural and manmade threats. A decline in either the tourism or the fisheries industry could have a serious impact on the cost and the standard of living, development activities, provision of public services, level of domestic economic activity and employment in the Maldives. The underemployment level is high as people are poorly trained for medium level jobs. There is a general lack of qualified personnel in various sectors of the economy. The expansion of secondary school curricula to include more studies on the specific environmental issues of the Maldives should be undertaken as well as research to establish sound foundations for environmental education should be fostered. Special efforts should be undertaken to enhance environmental education in the training of the teachers. Qualified Maldivian

personnel are particularly reluctant to accept jobs in remote islands. There is still a lack of associating the population to the benefits of the tourism sector.

There is malnutrition still present in many inhabited islands due to a lack of a diversified alimentation. Poverty level is still severe as 42 % of the population still lives with 1 Euro/day, mostly in remote areas. Many inhabitants of isolated islands do not have access to hospitals and basic social services. Unsafe waste disposals and non-adapted sewerage systems represent a continuous threat for the health of the population. Transport represents 40% of any governmental projects high cost. The country is highly dependent on fossil energy as alternative energy sources are poorly developed. Many environmental recommendations for guidelines have been proposed by the MEC in several sectors. Despite the fact that the country has also joint a number of international environmental agreements, there is still a great need of regulation enforcement, monitoring and inspection capacity.

The tsunami of 26 December 2004 was the country's greatest natural disaster ever. When loss of life, fortunately low, physical damage on many islands was great. A curtailment of peak-season tourism means that growth will plummet in 2005, but should rebound in 2006 as the tourist facilities themselves are largely intact. However, substantial aid will be required for the reconstruction of infrastructure necessary to sustain the past high-growth path that had reduced poverty in previous years. The tsunami has set back the high levels of social progress and prosperity achieved in recent years. Severe damage was caused to houses, tourist resorts, boats and other fishing equipment, schools, health facilities, transport and communication equipment, water and sanitation, and electricity infrastructure. There is high environmental damage and substantial soil erosion on many affected islands which to great extent rely on agriculture and home based market gardening for their livelihoods.

The transition of the physical damage into an economic shock occurred to a large extent through contraction of the tourism and fisheries sectors, which sustained the largest losses. Lost tourism and fisheries income cause the reduction of GDP growth, employment, and government revenues. The revival of the Maldivian economy depends critically on how rapidly the two leading sectors, tourism and fisheries, recover. Proper environmental management is more than ever a sensitive issue for the sustainable economic growth. Public financing for the reconstruction of lost or damaged assets and infrastructure, and for temporary income support to the affected, should take into a close consideration a lot of physical / biological / human / social / economical factors linked to environment issues: sea level rise, tsunami risks, fresh water supply, sustainable solid waste and sewerage management, adapted energy supply.

The recent disaster has yet again underlined the critical importance of providing environmentally safe zones for isolated communities living in distant islands that are largely exposed to the dangers of wave action, erosion and flooding. Meanwhile the strategy to regroup population is not sufficient to create the framework of sustainable development. The GoM promotes the Safe Island Policy to develop measures to mitigate

ecological disasters and enable the communities to sustain social and economical development. In terms of impacts on the Government's long-term development strategy, the tsunami has reinforced the established policy of encouraging voluntary population movements to the less vulnerable islands, which has now assumed even greater urgency than in the past. This policy aims to mitigate the risks of future tsunamis and rising sea levels, help realise economies of scale in the strengthening of public and private services, improve welfare, and help retain the population in the selected safe islands.

## **Conclusions**

While the Maldives economy is highly dependant on 2 sectors directly linked to natural resources, the country faces a lack of natural resources to improve the welfare of its population. Many of the communities among the 200 inhabited islands are subjected to extreme hardships and vulnerability, because of high population density or environmental problems such as land erosion, desertification and fresh water depletion. Food products (except fish), fossil energy and construction materials such as wood have to be imported. Inadequate access to good quality health care and education also contributes to the poverty in the Maldives, particularly in the Atolls. Poverty is also further aggravated by lack of access to adequate transport and communication services, drinking water, electricity and essential consumer goods.

Though possible adaptation strategies to climate change are identified, the country lacks the capacity to adapt both financially and technically. Human resources capacity building in all major sectors is identified as a critical component in order to successfully respond to the impacts of climate change.

In education, the overall learning achievement among primary students is very low and a significant gap exists between Male' and the Atolls population. Secondary terminal examinations also show poor results. The low quality of education is the result of 40 percent of the teachers being untrained, lack of teaching/learning facilities and lack of an adequate national system to manage, monitor and supervise education process.

The ever-increasing consumption of imported fuel for electricity generation and in sectors such as fisheries, tourism, and transport is an issue of concern. Although the country's equatorial exposure to sunlight would seem to make the country especially conducive to solar power, this clean, renewable and abundant source has scarcely been tapped to date.

In the tourism sector, there is a lack of prospect of alternatives for higher financial return to the population.

In order to reduce the concentration of economic opportunities in Male' and to ensure a broader based equitable development, the GOM promotes the regional development process including economic development, provision of health care services, education and infrastructure. Regional development is designed with the principle of sustainable development and aimed at promoting, expanding and strengthening of economic diversification. A Regional Development Management Office (RDMO) will be set up in

any of the 5 regions defined as North/North Centre/Centre/South Centre/ South. Actually only 2 offices are operational while facing deficiency of management capacity.

The Safe Island Policy promotes the concentration of dispersed population on safer islands. Many investments need to be realised in order to help settle the newcomers: construction of schools, hospitals, housing, sea shelter, drainage zone, desalination plants, airport and development of income generating activities. This programme shows clear challenges of promoting environmentally friendly activities such as alternative energy sources, sustainable solid waste and sewerage systems, coastal management.... Meanwhile land reclamation could lead to severe environmental damages and risks to the population due to the loss of natural barriers such as coastal reefs and mangroves.

### **Recommendations for future EC assistance**

The following recommendations are related to possible EC projects for the CSP period 2007-2013 according to its priority to support the Safe Island Policy.

As the Maldives is one of the world countries facing the highest environmental stress, livelihood development through the sustainable management of its natural resources will provide its population with new types of income generating activities and also train them to live in a closer positive relations with the environment. Environment should be regarded more as a vulnerable friend rather than a menacing enemy. Safe islands are considered as growth centres. Environment should be more related to creation of employment as most of the state revenue depends on the sustainable management of natural resources. There should be promotion of resort development involving a higher financial return for the Maldivian population. Environment friendly activities should be prioritised in the Safe islands such as smoked tuna factories, clean energy production, solar desalination plants, organic agriculture, raw fish and bioethical restaurants... It should be necessary to increase the environmental standards for any human related activities that could have a negative environmental impact. The standard ISO 14001 should be adopted as much as possible.

The secondary curriculum needs to be diversified to meet the needs of the growing number of secondary students and to make learning more relevant to social and economic needs. Emphasis has to be made on expanding higher education opportunities, facilitating private sector participation in education, and increasing the number of local secondary school teachers. Establishment of good governance is also needed through community-based system for sustainable management of marine resources and promoting sustainable use of fish resources at the grassroots level through formal, non-formal, and adult education system. Apart from a general need of qualified medical personnel, training in public health issues is also necessary since it is closely linked to the environmental concerns.

In the Safe Islands, it is recommended to adopt a communal sewerage system rather than individual ones. The burning of garbage with a co-generation system has the advantage of producing electricity and reducing the volume of garbage. Alternative sources of

renewable energy have to be tapped to reduce the dependence on imported fuel. Measures need to be taken to introduce alternative sources of energy. Any process of land reclamation should consider the risk for its population facing the loss of natural protecting zones as coral reefs and mangroves.

It is recommended to support the decentralised process of regional management with capacity building and training courses. This support should help the RDMOs in defining the best development strategies in poverty alleviation and regional development. The EC Safe Island support programme to Muli and Kudahuvadhoo should be realised through the strengthening of the RDMO of the South Centre region.