



# Evaluation Study

---

Reference Number: CAP:MLD 2011-21  
Country Assistance Program Evaluation  
September 2011

## The Maldives

Independent Evaluation Department

**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 1 August 2011)

Currency Unit	–	rufiyaa (Rf)
Rf1.00	=	\$0.065
\$1.00	=	Rf15.38

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ADTA	–	advisory technical assistance
BML	–	Bank of Maldives
CAPE	–	country assistance program evaluation
COS	–	country operational strategy
CPS	–	country partnership strategy
CSP	–	country strategy and program
CSPU	–	country strategy and program update
EIRR	–	economic internal rate of return
ESTP	–	Employment and Skills Training Project
ERP	–	Economic Recovery Program
GAD	–	gender and development
GDP	–	gross domestic product
HDFC	–	Housing Development Finance Corporation
ICT	–	information and communication technology
IED	–	Independent Evaluation Department
IEM	–	Independent Evaluation Mission
IMF	–	International Monetary Fund
JFPR	–	Japan Fund for Poverty Reduction
LDC	–	least-developed country
MDG	–	Millennium Development Goal
MFLC	–	Maldives Finance Leasing Company
MMA	–	Maldives Monetary Authority
MOFT	–	Ministry of Finance and Treasury
NDP	–	national development plan
PEDP	–	Postsecondary Education Development Project
PPAR	–	project performance audit report
PPP	–	public–private partnership
PRMRP	–	Public Resource Management Reform Program
PSDP	–	Private Sector Development Project
PSM	–	public sector management
RETA	–	regional technical assistance
SMEs	–	small- and medium-sized enterprises
TA	–	technical assistance
TEAP	–	Tsunami Emergency Assistance Project
UNDP	–	United Nations Development Programme
WSS	–	water supply and sanitation

## NOTES

- (i) The fiscal year of the government follows the calendar year.
- (ii) In this report, "\$" refers to US dollars.

## KEYWORDS

adb, asian development bank, development impact, education, effectiveness, efficiency, energy, finance, ict, ied, independent evaluation department, industry and trade, maldives, multisector, program relevance, public sector management, psm, strategic positioning, sustainability, transport and information and communication technologies, tsunami emergency assistance

<b>Director General</b>	V. Thomas, Director General, Independent Evaluation Department (IED)
<b>Director</b>	H. Feig, Officer-in-Charge, Independent Evaluation Division 1, IED
<b>Team leader</b>	R. Vasudevan, Evaluation Specialist, IED
<b>Team members</b>	C. Infantado, Evaluation Officer, IED V. Melo, Evaluation Assistant, IED

**Independent Evaluation Department, CE-26**

In preparing any evaluation report, or by making any designation of or reference to a particular territory or geographic area in this document, the Independent Evaluation Department does not intend to make any judgments as to the legal or other status of any territory or area.

## CONTENTS

	Page
EXECUTIVE SUMMARY	i
I. INTRODUCTION	1
A. Objectives and Goal	1
B. Scope and Coverage	1
C. Organization of Chapters	2
II. BACKGROUND INFORMATION	3
A. Country's Development Context and Binding Constraints	3
B. Government Development Strategies and Plans	5
C. ADB's Country Partnership Strategies and Country Operations Business Plans	6
D. Key Development Partners' Strategies and Programs	13
E. Key Issues, Lessons, and Recommendations of the Previous CSP Validation and How These Were Addressed in Subsequent CPS	15
III. EVALUATION METHODOLOGY	17
A. Evaluation Framework, Approach, and Method	17
B. Limitations of the Evaluation Methodology	18
C. Evaluation Criteria and Rating System	18
D. Key Evaluation Questions	19
IV. EVALUATION FINDINGS AND PERFORMANCE RATINGS BY EVALUATION CRITERION	20
A. Strategic Positioning	20
B. Program Relevance	23
C. Efficiency	25
D. Effectiveness	27
E. Sustainability	30
F. Development Impact	32
G. ADB and Borrower Performance	35
V. OVERALL PERFORMANCE RATING AND ADDRESSING THE QUESTIONS	37
VI. CONCLUSIONS	39
A. Opportunities and Threats	39
B. Key Lessons	40
C. Key Issues	41
D. Recommendations	42

The guidelines formally adopted by the Independent Evaluation Department (IED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. The report was prepared under the guidance of H.S. Rao (former Director General, IED) and R.B. Adhikari (former Director, IED1) who were also involved in government consultations. R. Nangia, B. Prakash, Z. Waheed, and I. Patron were the consultants. To the knowledge of the management of IED, there were no conflicts of interest among the persons preparing, reviewing, or approving this report.

## APPENDIXES

1.	Country Development Indicators	44
2.	Asian Development Bank Country Program in the Maldives	48
3.	Field Visits to Selected Project Sites	58
4.	Portfolio Performance, Summary of Perception Survey Findings, and Status of Implementation of the 2007 CSP Completion Report Recommendations	59
5.	Evaluation Ratings	71
6.	Sector Assessments and Performance Ratings	72
7.	Sector Results Framework	108

## SUPPLEMENTARY APPENDIXES: Detailed Sector Assessments (Available Upon Request)

A.	Public Sector Management
B.	Transport and ICT
C.	Energy
D.	Multisector
E.	Tsunami Emergency Assistance
F.	Education
G.	Industry and Trade
H.	Finance

## EXECUTIVE SUMMARY

This country assistance program evaluation (CAPE) report assesses the country strategies and programs of Asian Development Bank (ADB) in the Republic of the Maldives from 1978, when it became an ADB developing member country, until the end of 2010. This is the first CAPE for the Maldives to be prepared by ADB's Independent Evaluation Department (IED), following a validation of the country strategy and program (CSP) completion report for the years 1995 to 2006, which was finalized in 2007.

**Context.** The country has a population of 319,738 (2010 midyear projection) excluding about 80,000 foreign workers, and is faced with many of the constraints and challenges typical to small island economies. These include remoteness, limited land area, narrow resource base, capacity constraints particularly in the public sector, high degree of openness, and vulnerability to exogenous shocks. The country depends on imports for its basic consumption needs and energy requirements. Despite these constraints, high gross domestic product (GDP) growth rates were achieved through the late 1990s with the per capita income reaching \$2,894 in 2010.

The country was initially scheduled to be officially removed from the list of least developed countries in December 2004, which eventually happened in January 2011. During the past decade, the country was confronted with a fall in international tuna prices in 1999–2000, combined with a near doubling of the cost of oil imports, zero growth in tourism in the first half of 2002 after the 11 September 2001 events, the 2004 Asian tsunami with estimated economic losses of \$470 million, an increase in global food and fuel prices, and the global financial crisis, which reduced tourist arrivals and translated into a contraction of the GDP by 3% in 2009. An expensive recovery and reconstruction program after the 2004 tsunami and an expansion of civil service wages by over 150% between 2004 and 2008, combined with an inelastic and narrow revenue base heavily dependent on import duties, a flat \$8 per night tourism bed-tax, and tourism resort rentals, led to the buildup of a large fiscal deficit.

ADB's Asian Development Outlook for 2006 highlighted that a fiscal crisis that had commenced in 2005 was to persist until government reduced expenditure, increased revenues from tourism through progressive tax changes, and promoted private sector participation in fisheries and tourism. Despite this, the previous government withdrew from the policy dialogue with ADB on the proposed Public Resource Management Reform Program in 2006, and the subsequent Strengthening Economic and Financial Management Program in 2007.

Due to domestic pressure for political reforms that gained momentum from 2003, multiparty presidential elections in 2008 led to the installation of a new government after 30 years of single-party rule. This political transition has offered significant points of entry for ADB to initiate policy dialogue with the government and identify areas for support. The new government has initiated remedial actions to address the large fiscal deficit, current account imbalance, and rising public debt through improvements in the efficiency and accountability of government institutions, reductions in public expenditures, the privatization of state-owned enterprises, and the creation of an enabling environment for private sector development. These measures are supported by ADB's Economic Recovery Program, which focuses on policy reforms on the revenue side, World Bank's program on expenditure contraction, and International Monetary Fund's standby arrangement.

**ADB strategy and program.** ADB's first lending strategy was the country operational strategy (COS), 1995. Before this, projects were primarily selected in the transport and energy sectors based on country needs and government priorities. The COS, 1995 was followed by the

CSP, 2002–2006 and its updates, and the country partnership strategy (CPS), 2007–2011. From 1978 to 2010, ADB has provided a total of \$201.5 million to the Maldives. This includes \$140.8 million in Asian Development Fund (ADF) loans as well as an ADF grant of \$20 million (for a total of 18 sovereign projects), technical assistance (TA) of \$23.2 million (for 41 advisory TA activities totaling \$18.2 million and 17 project preparatory TA activities totaling about \$5 million), a Japan Fund for Poverty Reduction grant for \$1 million, and \$16.5 million in two nonsovereign loans and an equity investment. In addition, 13 regional TA projects totaling \$5.3 million have also included the country and funded primarily knowledge sharing activities.

Although the CAPE covers the period between 1978 and 2010, majority of projects were implemented, or were ongoing during 2002–2010. Out of the total 18 sovereign projects and 41 advisory TA projects approved by ADB, 6 sovereign projects and 23 advisory TA projects were completed up to 2001. Of these six sovereign projects, three were in transport, two in energy, and one was in multisector. The remaining 12 sovereign projects and 18 TA projects have been implemented since 2002 or are still ongoing.

Support has been provided for power generation and distribution, outer islands electrification, postsecondary education, employment-oriented skills training, port development, interisland services, information infrastructure, fiscal management, tax system reforms, national development plans, statistics development, regional development, tsunami emergency response, and the promotion of small and medium enterprises.

**Overall assessment.** The overall rating of ADB support to the Maldives from 1978 to 2010 is *partly successful*. ADB support was assessed to be *satisfactory* in terms of strategic positioning, and *relevant, less efficient, effective, less likely sustainable, and partly satisfactory* in terms of development impact. The performance in education, energy, and transport and information and communication technology (ICT) has been *successful*, while public sector management (PSM), the tsunami emergency, and multisector support has been *partly successful*. Support for industry and trade is given a preliminary rating of *likely partly successful*, which is subject to review upon completion of ongoing sector activities.

Evidence was collated from the desk review of country strategy and programming documents; consultations with headquarters-based country team and mission leaders; in-country consultations, including a half-day consultation workshop with key stakeholders from the executing agency, implementing agencies, central government agencies, other development partners, and civil society organizations. Further, a perception survey was administered to the focal persons in executing and implementing agencies. Field visits were undertaken for three projects in the transport, multisector, and education sectors.

In addition to the evidence being gathered from the above multiple sources and data gathering techniques, the overall rating was arrived through weights allotted to each of the seven sectors in terms of the amount of support. Finance and agriculture were excluded due to their small allocations. Further, within each sector more weight is given to more recent projects.

**Contributions to sector and development impacts.** The three decades of support from ADB have been marked with economic growth fuelled by the development of tourism. ADB played a facilitating role in the development of complementary sectors including transport and ICT, energy, education, and PSM to support the country's growth. However, ADB support for regional development to reduce vulnerability of remote communities, the tsunami emergency response, and financial sector development have had limited impact. Moreover, most advisory TA projects have produced limited outcomes.

The interventions for port development have contributed to reducing capacity constraints at the main ports on Malé, promoted interisland movement of passengers and cargo, and increased maritime safety. Similarly, support to the energy sector has helped address the shortfall in electricity supply required to meet the rapidly growing demand on Malé and contributed to providing reliable power supply in several other islands. In ICT, the implementation of reforms (with important inputs from other international agencies), has had a positive impact in increasing sector competition, improving connectivity, and indirectly improving the enabling environment for investment.

In education, ADB's engagement resulted in improved postsecondary education and led, indirectly, to the establishment of the first university in the country. It contributed to skills development and improved employment opportunities for women, although impact of this intervention has been limited by the absence of complementary labor market reforms and the continued reliance on expatriate workers.

Efforts towards regional development of the outer islands under multisector support have had limited impact on institutional strengthening, and existing integrated programming approaches to deliver basic services such as water supply, sanitation, solid waste management for atolls and islands are still at the pilot stage. There is a need for scaling-up successful pilot projects through the creation of uniform service delivery standards that cover policy, regulation, technology solutions, and sustainability of assets after completion.

ADB's contribution to the tsunami emergency response was below expectations as several subprojects were not implemented, interventions are not sustainable, and a sizeable percentage of approved funds were not utilized. However, much of the built infrastructure is of better quality than before and meets higher environmental standards, although cost recovery and operations and maintenance issues need to be resolved at the island level.

ADB's limited engagement in the finance sector did not succeed in achieving its goal of creating a deeper and more efficient financial sector to support availability of term finance and facilitate private sector-led growth. This was due to a change in government priorities and the absence of a commitment to reforms and continuity.

Recent efforts to improve fiscal management and strengthen the tax system under PSM will likely have a substantial positive impact once fully implemented. The ongoing Economic Recovery Program is anticipated to be effective in light of the initial outcomes achieved from its continued focus on the revenue side (conversion of a flat \$8 per night tourism bed-tax into an ad-valorem goods and service tax on tourism, business profit tax, withholding tax, airport passenger charge), the expectation of further tax reforms, and reduction of government expenditure over time. By comparison, the development impact of completed activities within the PSM portfolio (consisting of Strengthening Public Accounting System project that was cancelled in 2005 and completed advisory TA projects) has been limited.

**Sustainability issues.** The continued problems with the availability of financing to meet recurrent costs, together with the weak financial position of project entities are factors that affect sustainability of ADB supported activities. Although electricity tariffs have been raised under the ongoing reforms package, no fees are in place for the use of domestic and island harbors, water supply, sewerage treatment, solid waste management, and basic and secondary education. These services will continue to be dependent for the foreseeable future on budget support. However, the ongoing fiscal situation has made government financing of recurrent costs, including those related to operation and maintenance, more challenging. Reorganization within

government resulting in frequent changes in the institutional context, reassignment of staff, and departure of key personnel (because of low government salaries) are factors that have undermined capacity development.

**Efficiency issues.** Though the available economic internal rates of return for completed physical infrastructure components of ADB-supported projects during the evaluation period were greater than 12%, some projects were affected by the lack of completion of subcomponents.

Delays were experienced across the portfolio; moreover the average delay nearly doubled from 22.5 months (ADB average 33.2 months) in 1991–2000 to 43.5 months (ADB average 24.8 months) in 2001–2010. For several projects, the delays occurred both at the start of physical implementation (due to the weak capacity of implementing agencies, as well as their unfamiliarity with ADB procedures common across the portfolio) and during implementation. Delays also resulted in increases in project cost that lead to truncation of planned activities.

The South Asia Regional Department has taken steps since 2010 to improve portfolio performance by instituting a mechanism for semiannual tripartite reviews of ongoing projects. This has helped to expedite the closure of recent projects and improve portfolio performance.

**Challenges.** The country faces pressing challenges related to climate change and reductions in grant and concessional aid given its recent graduation to middle-income status in January 2011. In response to the latter, the government promotes private sector development and seeks to attract more foreign investment. The need for greater private investment raises new challenges for capacity development. There are also immediate needs for the government to formulate and implement a road map on long-term expenditure contraction and develop regulations and modalities for management of the newly created city, atoll, and island councils.

**Key Lessons.** The key lessons identified are as follows:

**Continued engagement within a sector and a long-term focus will enable better policy dialogue, improved sector outcomes, and increased development impact.** In the past, support was provided to as many as nine sectors, often based on decisions to finance specific projects. This has contributed to a lack of continuity, intermittent engagement, and constrained resources available to any one sector over time. A long-term focus in sectors of demonstrated comparative advantage, combined with adequate resources, analysis of constraints, regular policy dialogue, and project lending and capacity development is needed.

**Dependence on consultants to support project implementation has mainly resulted in capacity substitution.** There is a need to take into account country conditions in project design and implementation, in particular inadequate capacity in implementing agencies. However, the appointment of implementation consultants has itself been responsible in many cases for start-up delays due to the time taken to select such consultants, which has then held up design, bid preparation, procurement and implementation. Though such implementation support is mainly meant to assist local institutions, evidence demonstrates that it ends up substituting for inadequate assignment of human resources.

**An incremental approach for capacity development through advisory TA is likely to be more effective, although demonstrable results take time.** Interventions for developing sector capacity incrementally over a longer period of time have succeeded in strengthening capacity, whereas ambitious single interventions have not.

**Key Issues.** The key issues identified are as follows:

**Small resource envelope.** Its support for addressing the country's infrastructure deficit has placed ADB in a key position to influence the country's development agenda. However, due to the limited resource envelope, delivery of support and interventions has been intermittent. More efforts are needed to collaborate with other development partners to position and leverage its support and decide where to develop complementary reforms in related sectors.

**Delays in project implementation.** Reasons for delays have included insufficient project preparatory work, unfamiliarity of implementing agencies with ADB policy and procedures, lack of in-country presence, and weak capacity of the government's Office of Programs and Projects, which was created in 2008 to expedite project startups and ensure timely implementation. In 2010, semiannual tripartite reviews of projects were initiated by the South Asia Regional Department, which is addressing implementation issues.

**Limited effectiveness of past capacity development efforts.** Across the board, TA activities have produced varying levels of outputs and outcomes due to limited government commitment, absence of a long-term strategy to strengthen sector capacity, and staff turnover as a result of reorganizations. Earlier capacity development efforts focused on the provision of TA rather than comprehensive approaches including policy dialogue on required institutional powers, changes and incentives. Further, the absence of benchmarks and performance indicators has made assessments of the effectiveness of interventions difficult.

**Recent government reforms need to be fully implemented.** Although policy dialogue was initiated with the previous government from 2006 through the then proposed Public Resource Management Reform Program, the government withdrew its commitment just before its approval for unspecified reasons, despite a deteriorating fiscal situation. The new government has shown greater commitment to undertaking macroeconomic reforms under the 2009 Economic Recovery Program, although there have been delays with the implementation of the redundancy programs for civil servants.

**Future strategies and programs need to be informed by implications of the recent decentralization efforts.** The 2010 Decentralization Act has created a three-tier structure with two city councils, 19 atoll councils, and 181 island councils. However, related regulations and modalities for management of these local councils are still at the preparatory stages. Such changes will carry increased challenges for project design, implementation and sustainability. Greater attention needs to be paid to obtaining buy-in of all relevant stakeholders during the formulation of strategies and preparation of programs.

**Recommendations.** The CAPE proposes the following recommendations for management consideration. More details on the recommendations are provided in Chapter VI. Sector-specific findings are summarized in Appendix 6.

- (i) **Improve effectiveness of country strategy and program by**
  - (a) maintaining sector selectivity while ensuring development effectiveness through coordination with development partners on complementary support in related sectors,
  - (b) preparing long-term sector support strategies, including for capacity development, as a basis for new infrastructure operations, and
  - (c) widening consultative efforts during the formulation and implementation of sector strategies and sector programs (paras. 221–224).

**(ii) Enhance project delivery by**

- (a) using phased approaches, providing adequate project preparation support, and allocating sufficient time for implementation of investment projects, and
- (b) exploring the option of assigning a dedicated focal point in ADB's Sri Lanka Resident Mission; or setting up a liaison office in Malé to increase interaction with government counterparts (paras. 225–228).

Vinod Thomas  
Director General  
Independent Evaluation Department

## I. INTRODUCTION

### A. Objectives and Goal

1. This country assistance program evaluation (CAPE) report assesses the Asian Development Bank (ADB) country strategies, programs, projects, and technical assistance (TA) activities in the Republic of Maldives from 1978, when it became an ADB developing member country, to 2010.

2. The objectives of this CAPE are to (i) review ADB's country program and provide a credible assessment; (ii) identify factors that affected implementation of ADB-supported country strategies, programs, projects, and TA activities; and (iii) draw key lessons, and identify key issues and recommendations to serve as inputs for the preparation of the next country partnership strategy (CPS) in particular.

3. A validation of the country strategy and program (CSP) completion report was prepared by the Independent Evaluation Department (IED) in 2007 that covered 1995–2006.<sup>1</sup> This CAPE, the first for the Maldives, covers an assessment of ADB country strategies and program since 1978. The 2010 IED guidelines<sup>2</sup> for preparing CAPEs were used for this report (paras. 78–93).

### B. Scope and Coverage

4. The CAPE covers the country strategies and program from 1978 to 2010 totaling \$201.5 million. This consists of \$140.8 million for 18 sovereign projects, a \$20.0 million grant from the Asian Tsunami Fund, \$23.2 million for 58 TA projects, a Japan Fund for Poverty Reduction (JFPR) grant for \$1.00 million, and two nonsovereign loans and an equity investment totaling \$16.5 million.

5. The country portfolio remained relatively small until the end of 2010, with the annual program averaging \$6 million in lending and \$1 million in nonlending activities. However, in December 2009, a loan and TA package of \$39.5 million was approved to support the government's Economic Recovery Program (ERP).<sup>3</sup>

6. The first country strategy was prepared in 1995. The country strategies during the evaluation period include the country operational strategy (COS), 1995;<sup>4</sup> country assistance plan, 2001–2003;<sup>5</sup> CSP updates (CSPUs), 2001, 2003, 2004, and 2005;<sup>6</sup> CSP, 2002–2004;<sup>7</sup> CPS, 2007–2011;<sup>8</sup> and the country operations business plan, 2007–2009.<sup>9</sup>

---

<sup>1</sup> ADB. 2007. *Validation of the Country Strategy and Program Completion Report: Republic of the Maldives*. Manila. A CSP completion report validation prepared by the Independent Evaluation Department.

<sup>2</sup> ADB. 2010. *Revised Guidelines for the Preparation of Country Assistance Program Evaluation*. Manila.

<sup>3</sup> Details of these loans and TA projects are in Appendix 2. They are not footnoted when they are referred to in the text.

<sup>4</sup> ADB. 1995. *Country Operational Strategy Study: Maldives*. Manila.

<sup>5</sup> ADB. 2000. *Country Assistance Plan: Maldives: 2001–2003*. Manila.

<sup>6</sup> ADB. 2001. *Country Strategy and Program Update: Maldives, 2002–2004*. Manila; ADB. 2003. *Country Strategy and Program Update: Maldives, 2004–2006*. Manila; ADB. 2004. *Country Strategy and Program Update: Maldives, 2005–2007*. Manila; and ADB. 2005. *Country Strategy and Program Update: Maldives 2006–2008*. Manila.

<sup>7</sup> ADB. 2002. *Country Strategy and Program: Maldives, 2002–2004*. Manila.

<sup>8</sup> ADB. 2007. *Country Partnership Strategy: Maldives, 2007–2011*. Manila.

<sup>9</sup> ADB. 2006. *Country Operations Business Plan: Maldives, 2007–2009*. Manila.

7. The CAPE reviewed the 2007 assessments of poverty, sources of growth, borrowing capacity, environment, gender and development; and the 2006 assessment of private sector development. The extended period covered by the CAPE allows for consideration of changes over time in strategies, program and project implementation, and ADB performance. The CAPE assesses the formulation of strategies, alignment of programs with strategies, and performance of ADB's lending and nonlending interventions.

8. Sector assessments were prepared for education, energy, industry and trade, multisector, public sector management (PSM), transport and information and communication technology (ICT), and tsunami emergency assistance.<sup>10</sup> Each sector assessment generated performance ratings based on the current IED guidelines, and identified lessons, and issues.

9. Although a separate sector assessment has been prepared for the finance sector covering three advisory TA (ADTA) activities totaling \$780,000, it has not been included in arriving at the overall rating of ADB support as these activities were closed between 1992 and 1997. For agriculture and natural resources, no separate sector assessment has been prepared for the three ADTA activities totaling \$1.1 million as two of the three activities were closed between 1990 and 1991.

### **C. Organization of Chapters**

10. The report consists of six chapters, including this introduction.

11. Chapter II presents background information during the CAPE period, discussing the country development context, key binding constraints, and government priorities. It covers the eight national development plans prepared as of 2010 and ADB's country strategies and programs. It also describes the roles of other development partners and takes stock of the extent to which lessons identified and key actions from the 2007 CSP completion report validation and other assessments have been incorporated into subsequent activities.

12. Chapter III presents the evaluation framework and methodology. It discusses the sequenced approach adopted that consists of a desk-review of country strategy and programming documents; consultations with the headquarters-based country team; preparation of sector assessments; in-country consultations with key stakeholders; site visits to selected project sites; feedback from the 1 March 2011 consultation workshop organized in Malé with government agencies, and findings from a perception survey administered to selected officials of executing and implementing agencies.

13. Chapter IV presents a summary of the evaluation findings and the performance of the country program in terms of the six assessment criteria: strategic positioning, program relevance, efficiency, effectiveness in achieving outputs and outcomes, sustainability, and development impact. It includes conclusions on ADB and borrower performance. Chapter V summarizes performance ratings and findings on key evaluation questions. Chapter VI identifies lessons, issues, and recommendations.

---

<sup>10</sup> For purposes of this CAPE, the Regional Development Project, Phase II—Environmental Infrastructure and Management (ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of the Maldives for the Regional Development Project, Phase II—Environmental Infrastructure and Management*. Manila [Loan 2170]) initially classified under water supply and other municipal infrastructure and services is included under multisector. A separate assessment was prepared for ADB's Tsunami Emergency Assistance (ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of the Maldives for the Tsunami Emergency Assistance Project*. Manila.)

## II. BACKGROUND INFORMATION

### A. Country's Development Context and Binding Constraints

14. The Maldives has a population of 319,738,<sup>11</sup> excluding about 80,000 foreign workers, and is faced with many of the development constraints typical to small island economies.<sup>12</sup> These include remoteness, vulnerability to external shocks, a narrow resource base, limited areas of comparative advantage, small labor markets, high degree of openness to international trade, and capacity constraints in both the public and private sectors.

15. The country consists of a total of 1,192 islands stretching about 900 kilometers north to south—181 are inhabited. The main island of Malé, which is less than 2 square kilometers, is the only island in the country with a population of more than 10,000 and accounts for about 35% of the country's total population. Only 15 islands have a population of more than 2,000.<sup>13</sup> The scope for agriculture is constrained, freshwater resources are limited, and vulnerability to natural disasters and climate change effects is extreme as about 80% of the landmass is less than 1.5 meters above mean sea level. The small size of the national market has made it difficult for domestic industries to grow and the economy is highly dependent on tourism and fisheries.

16. Despite the many constraints, the country's gross domestic product (GDP) growth rate has averaged about 10% since the mid-1970s and was close to 9% during 1986–1989. After registering an expansion of 16.2% in 1990, the growth rate reduced to 6.3% during 1991–1993. The increase in salaries of government employees and provision of infrastructure resulted in deficits that reached about 17.7% of GDP in 1989, 26.7% in 1991, and 19.2% in 1993. The deficit was largely financed by monetization of the government debt, resulting in rapid growth of the money supply and higher inflation, which rose from 3.6% in 1990 to 20.2% in 1993. The government initiated the medium-term macroeconomic strategy in 1994 with International Monetary Fund (IMF) and World Bank support; and identified macroeconomic stability, reduction of public sector expenditures, deregulation of the financial sector, and reduction of the government's direct involvement in the economy as key priorities.

17. The country has faced new challenges in the last decade. Major exogenous events include a fall in international tuna prices in 1999–2000 combined with a near doubling of the cost of oil imports, zero growth in the tourism sector in the first half of 2002 after the 11 September 2001 events, the Asian tsunami of 2004, increases in global food and fuel prices, and the global financial crisis starting from 2007.

18. Losses from the tsunami in December 2004 were estimated at \$470 million—about 62% of GDP. The following recovery and reconstruction program resulted in public expenditures increasing by 50.0% in 2005 and 40.1% in 2006, which highlighted the need for the government to improve its fiscal management efforts through greater revenue mobilization, as well as better expenditure management. A further doubling of government expenditure as a share of GDP occurred during 2004–2008 primarily due to the rapid increase of civil service staff numbers and

<sup>11</sup> Government of the Maldives. 2006. *Population of Housing and Maldives 2006*. Malé.

<sup>12</sup> Commonwealth Secretariat and The World Bank. 2000. Joint Task Force on Small Economies. *Small States Meeting Challenges in the Global Economy*. Washington, DC.

<sup>13</sup> Of the 181 inhabited islands, 119 have a population of less than 1,000; 47 with 1,000–2,000; 11 with 2,000–4,000; and 4 with 4,000–10,000.

salaries.<sup>14</sup> Simultaneously, revenues were inelastic, which was heavily dependent on import duties, a flat \$8 per night tourism bed-tax, and tourism resort rentals. The net effect of this narrow and inelastic revenue base was the buildup of a large fiscal deficit (4.4% of GDP in 2000 to 16.9% in 2008), current account imbalance (8.2% of GDP in 2000 to 51.4% in 2008), and rising public debt (40% of GDP in 1999 to about 57% in 2008).

19. ADB's Asian Development Outlook<sup>15</sup> for 2006 highlighted that a fiscal crisis, which had commenced in 2005 was to persist until the government reduced expenditure, increased revenues from tourism through progressive tax changes, and promoted private sector participation in fisheries and tourism. Despite this, the previous government withdrew from policy dialogue with ADB on the then proposed Public Resource Management Reform Program in 2006, and subsequent Strengthening Economic and Financial Management Program in 2007.

20. Limited fiscal space reduced the ability of the new government from 2008 to mitigate effects of the financial crisis, including a recession-induced drop in tourist arrivals, which translated into a contraction of the GDP by 3% in 2009. The new government initiated emergency reforms in 2009 supported by ADB's Economic Recovery Program<sup>16</sup> that focuses on reforms on the revenue side, World Bank's program on expenditure contraction and right-sizing the civil services, and International Monetary Fund's standby arrangement.

21. In 2010, real per capita income grew at a compounded annual growth rate of 5% to reach \$2,894 (the average for South Asian countries was \$1,082). Five of the eight Millennium Development Goals (MDGs) have been achieved or are on track with respect to the 2015 deadline: education and health-related—eradicating extreme poverty and hunger (MDG1); achieving universal primary education (MDG2); reducing child mortality (MDG4); improving maternal health (MDG5); and combating HIV/AIDS, malaria, and other diseases (MDG6). Varied progress has been made to achieve gender equality and women's empowerment (MDG3), ensure environmental sustainability (MDG7), and develop global partnership for development (MDG8).

22. The country also witnessed a shift from 30-year long single-party rule to a multiparty presidential form of government in 2008. There are 14 ministries and 7 independent agencies, in addition to Parliament and the judiciary. The priorities of the present government are to ensure greater democratization and decentralization. The 2008 Constitution created 7 provinces and 21 administrative divisions. A three-tier governance structure was created through the 2010 Decentralization Act. Two city councils, 19 atoll councils, and 181 island councils have been created, which not only receive annual funds from Treasury, but also have the authority to generate own-source revenues. The first local council elections were held in February 2011.

23. The country was to be officially removed from the list of least-developed countries (LDCs) in December 2004.<sup>17</sup> It was granted a 3-year pregraduation transition period to negotiate

<sup>14</sup> The total number of permanent government employees as of December 2007 was 32,788 and it is estimated to account for about one third of the total labor force in the country. The share of government administration rose from 12% of the GDP in 2000 to 18% by 2010, making it the highest ratios among all comparable small island countries.

<sup>15</sup> ADB. 2006. *Asian Development Outlook 2006*. Manila.

<sup>16</sup> ADB provided a loan and TA package of \$39.5 million in December 2009 to support the ERP. This was provided in conjunction with a \$92.5 million stand-by arrangement under the Exogenous Shocks Facility of the International Monetary Fund and \$13.7 million from the World Bank for an economic stabilization and recovery program for the Maldives.

<sup>17</sup> The United Nations introduced the concept of LDCs in November 1971 based on three criteria: (i) gross national income per capita less than \$905, low index of human resource development, and economic vulnerability.

with development partners on phasing out benefits such as tariff-free exports (for example, preferential access for tuna exports 30% of which goes to the European Union) and reduced official development assistance (primarily through concessional loans and grant assistance).

24. The tsunami in December 2004 resulted in estimated losses valued at \$470 million or about 62% of the country's GDP. The United Nations General Assembly granted an exceptional 3-year moratorium in 2005 to ensure postdisaster recovery and reconstruction. This moratorium ended in 2007, which was then followed by a 3-year pretransition period to December 2010. The Maldives fully graduated from the LDC list on 1 January 2011.<sup>18</sup> The country's development indicators are listed in Appendix 1.

## **B. Government Development Strategies and Plans**

25. By 2010, the government had prepared eight national development plans (NDPs). The primary objectives of the first NDP (1985–1987), second (1988–1990), and third (1991–1993) were to improve living standards, achieve balanced and equitable development, and establish greater self-reliance.<sup>19</sup>

26. The fourth NDP (1994–1996)<sup>20</sup> was guided by the Perspective Plan 2005<sup>21</sup> and was the first of three NDPs developed during the Perspective Plan period of 1994–2005. Its priority areas included economic management and development, social development, institutional development, and the environment.

27. The fifth NDP (1997–2000) focused on regional development, good governance, financial management, and accountability in the public sector. The sixth NDP (2001–2005) added to this list the creation of an enabling environment for private sector development. It covered pursuing legislative, regulatory, governance, and administrative reforms to enable rapid economic development. It identified steps to diversify and expand the country's economy and to create a cost-effective transportation and telecommunication infrastructure.

28. Related to this, a Strategic Economic Plan (2005)<sup>22</sup> was prepared by the International Trade Institute of Singapore. This analyzed traditional sectors (i.e., tourism, fisheries, agriculture), and potential new growth clusters (i.e., port and logistics services, ICT, and off-shore banking and financial services), in addition to accompanying required changes in the policy and regulatory frameworks. A National Recovery and Reconstruction Plan (2005)<sup>23</sup> was also prepared in response to the 2004 tsunami.

---

Botswana (1994), Cape Verde (2007), and the Maldives (2011) are the only three countries to have graduated to developing country status since the LDC list was created.

<sup>18</sup> Ministry of Foreign Affairs. Impacts of Graduation from LDCs. Background paper prepared by the Ministry of Foreign Affairs for the Maldives Partnership Forum held in the Maldives, 23–24 March 2009.

<sup>19</sup> ADB. 1991. *Third National Development Plan, 1991–1993*. Volume 1. Republic of the Maldives, Final Report. Prepared by BMB Group, Management Consulting for Development. Malé.

<sup>20</sup> ADB. 1993. *Maldives: National Development Plan 1994–1996*. Volume I. Prepared for the Ministry of Planning and Environment. Manila.

<sup>21</sup> Financed by ADB. 1992. *Technical Assistance to the Republic of the Maldives for Perspective Plan 2000: Maldives*. Manila. Its main objectives included financial management, domestic resource mobilization, regional development, environment, and women in development issues.

<sup>22</sup> Ministry of Planning and National Development. 2005. *Strategic Economic Plan: Republic of the Maldives*. Malé.

<sup>23</sup> Ministry of Planning and National Development. 2005. *National Recovery and Reconstruction Plan: Programmes and Projects*. Republic of the Maldives. Malé.

29. The seventh NDP (2006–2010) identified four priority areas: economic growth, social equity, environment protection, and good governance. It set 12 specific goals and 88 targets to guide decision-making and prioritize investment. The Strategic Action Plan for 2009–2013<sup>24</sup> presently serves as the principal development planning document of the new government. It identifies five overarching priorities: a nationwide transport network, affordable housing, affordable health care, reduced costs of basic goods and services, and elimination of abuse and trafficking of narcotic drugs. Another important policy document is Vision 2020 (1999),<sup>25</sup> which provided the direction and framework for NDPs during 2000–2008.

### **C. ADB's Country Partnership Strategies and Country Operations Business Plans**

30. The country strategies during the evaluation period include the COS, 1995 (footnote 4); country assistance plan, 2001–2003 (footnote 5); CSPUs, 2001, 2003, 2004, and 2005 (footnote 6); CSP, 2002–2004 (footnote 7); CPS, 2007–2011 (footnote 8); and the country operations business plan, 2007–2009 (footnote 9). In addition, assessments of poverty, sources of growth, borrowing capacity, environment, and gender and development were prepared in 2007 to inform the CPS, 2007–2011.

31. The first formal lending strategy for the country was the COS, 1995; and prior to it, projects were primarily selected in transport and energy based on country needs and government priorities. The COS, 1995 addressed three issues that included fiscal management, regional development in terms of education and health, and the environment.

32. The country assistance plan, 2001–2003 prepared an assessment of the overall economic performance of the country in terms of the macroeconomic stabilization package adopted in 1994. It noted that the revenue side remained vulnerable to the external environment due to the heavy reliance on its narrow and inelastic revenue base, which consisted of import duties and a flat tourism tax.

33. The CSPU, 2001 highlighted the need for the program to shift its focus from macroeconomic imbalances to promotion of regional development aimed at equitable development across islands and economic growth for alternative centers to Malé. Two new areas of ADB support were internet connectivity, and public utility regulation.

34. The CSP, 2002–2004, which was developed on the basis of the country's sixth NDP (2001–2005) and Vision 2020 (1999), identified pro-poor growth, social development, and good governance as its three priority areas. Under good governance, the focus was to improve access to information, increase public sector connectivity, and strengthen capacity of key public institutions to enhance PSM efficiency.

35. Prior to the CSP, 2002–2004, a Poverty Partnership Agreement of 2002 between ADB and the government stressed monitoring and periodic assessments of the institutional capacities of implementing agencies.

36. The central theme of CSPU, 2003 was the implications to the country program in view of the country's then imminent graduation from LDC status. The program from 2004 onward was to focus on economic diversification and employment creation, and mitigate any adverse impacts

<sup>24</sup> The President's Office, Government of the Maldives. 2009. *Aneh Dhivehi Raajje—National Framework for Development 2009–2013*. Malé.

<sup>25</sup> Vision 2020 was outlined by former President Maumoon Abdul Gayoom in his Independence Day address to the Nation on 26 July 1999.

from resulting changes to existing preferential treatment in trade and other areas. The CSPU also highlighted human resource constraints and how they resulted in weak performance of procurement that resulted in project delays.

37. The CSPU, 2005 was prepared after the tsunami of December 2004. Its focus areas under good governance included strengthening project monitoring and implementation capacity of the Ministry of Finance and Treasury (MOFT) through the creation of the Office of Programs and Projects; capacity development of the Public Services Division within the Office of the President; and assisting the Ministry of Planning and Development in preparing the seventh NDP. The Tsunami Emergency Assistance Project (TEAP) incorporated good governance and transparency, and ADB collaborated with the World Bank to establish an extended joint mission in the Maldives for 2 years in August 2005.

38. The CPS, 2007–2011 adopted a two-phase sequential approach. The first phase focused on capacity development to strengthen the government’s ability to efficiently manage public expenditure and create an enabling environment for private sector development. In addition, it was felt that this would provide space for the country to finish implementation of a large number of ongoing projects, especially following the 2004 tsunami. In a second phase (after 2010), ADB was expected to resume investment lending for transport, energy, and small and medium-sized enterprise (SME) development.

39. The CPS stipulated that the transition of the program to the second phase be based on performance on three select readiness filters. The three filters were fiscal consolidation and better debt management, ratio of disbursements to outstanding ADB commitments, and use of a medium-term fiscal framework to allow prioritized public investments.<sup>26</sup>

40. The government has embarked on a medium-term fiscal consolidation program through additional tax effort and expenditure contraction. The World Bank’s Debt Management Performance Assessment was undertaken to evaluate strengths and weaknesses in public debt management. The ratio of disbursements to outstanding commitments during 2001–2009 improved sharply from 16% in 2007 to 17% in 2009 and 43% in 2010, although this was mainly due to the up-front first tranche disbursement of the ERP and partly due to special efforts by the country team to monitor and close projects. Progress has been made in developing a medium-term fiscal framework and an inception report for the 2011 TA for Strengthening Economic Management covers fiscal management, debt management, and cash-flow projections issues.

41. Initial results have thus been achieved through these efforts, even though the first phase of the CPS focusing on capacity development was completed, and ADB moved into the second phase in 2010.

## 1. Country Program

42. The total program from 1978 to 2010 amounted to \$201.5 million, comprising \$140.8 million in Asian Development Fund (ADF)<sup>27</sup> loans and a grant of \$20 million (for 18 sovereign projects), TA support of \$23.2 million (for 41 ADTA projects and 17 project preparatory TA projects), one JFPR grant for \$1 million, and \$16.5 million in two nonsovereign loans and an equity investment (Table 1).

<sup>26</sup> ADB. 2010. *Issues Paper for Regional Management Team Meeting*. Manila.

<sup>27</sup> The ADF was created in 1973 as a multilateral source of concessional assistance and is designed to provide loans on concessional terms and grants to developing member countries with low per capita incomes and limited debt repayment capacity.

**Table 1: Country Program in the Maldives, 1978–2010**

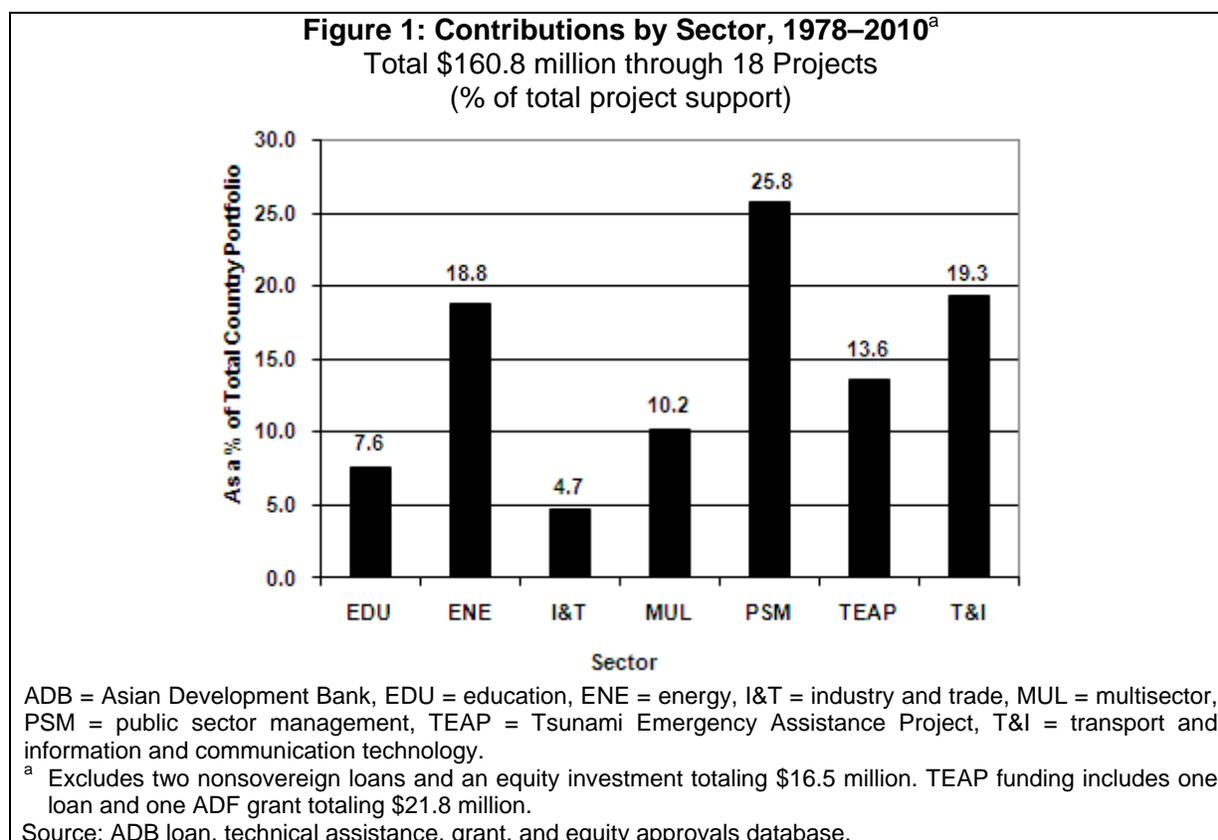
Item	Sovereign Operations		Nonsovereign Operations		Total
	Lending <sup>a</sup>	Nonlending	Loan	Equity	
Amount (\$ million)	160.8	24.2	12.0	4.5	201.5
% of Total	79.8	12.0	6.0	2.2	100.0

ADB = Asian Development Bank.

<sup>a</sup> Includes one ADF grant totaling \$20.0 million as part of TEAP.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

43. The country program has been spread across nine sectors through the evaluation period (Figure 1). In terms of sector spread, PSM, transport and ICT, and energy account for nearly 64% of the \$160.8 million in total project funding (loans, and grants, excluding the two nonsovereign operations). PSM at \$41.5 million has had the largest share equivalent to 25.8% of total approvals mainly due to the ERP, followed by transport and ICT at \$31.0 million or 19.3%, and energy at \$30.3 million or 18.8%. TEAP received funding of \$21.8 million, comprising a \$20 million grant under the Asian Tsunami Trust Fund and \$1.8 million in reallocated loans, accounting for 13.6% of total project funding. The remaining sectors include multisector 10.2% (\$16.4 million), education 7.6% (\$12.3 million), and industry and trade 4.7% (\$7.5 million).

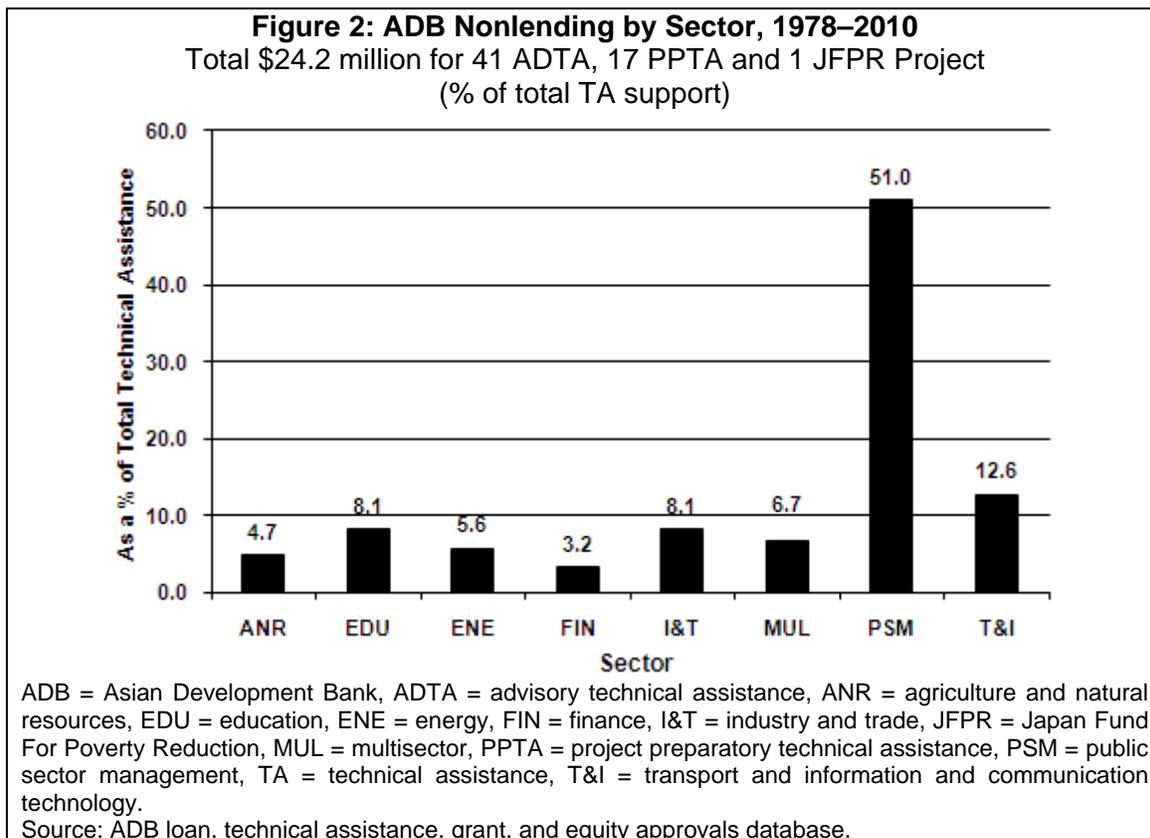


44. Of the 14 closed projects as of December 2010 (1 was canceled), 10 projects have project completion reports, while 8 also have either validation reports or other evaluation

reports. Of these 8 projects, 3 are rated *generally successful*,<sup>28</sup> 3 *successful*, 1 *partly successful*, and 1 *unsuccessful* (Appendix 2, Table A2.1).

45. The TA portfolio includes 58 TA projects and 1 JFPR grant for a total of \$24.2 million. Of this amount, \$18.2 million was for 41 ADTA projects, about \$5.0 million for 17 project preparatory TA projects, and \$1 million for a JFPR grant (Appendix 2, Tables A2.2 and A2.3). As of December 2010, of the 38 closed ADTA activities, 21 TA completion reports were available, of which 1 is rated *highly successful*, 16 either *generally successful*, or *successful*, 3 *partly successful*, and 1 *unsuccessful*. Table A2.2 in Appendix 2 lists TAs approved, Table A2.3 lists JFPR details, and Table A2.4 presents two nonsovereign loans and equity investment.

46. In terms of sector spread, 51%<sup>29</sup> of total TA support went to PSM (\$12.3 million), followed by transport and ICT 12.6% (\$3 million), education 8.1% (\$2 million), industry and trade 8.1% (\$2 million), multisector 6.7% (\$1.6 million), energy 5.6% (\$1.4 million), agriculture and natural resources 4.7% (\$1.1 million), and finance 3.2% (\$0.8 million). Figure 2 lists the sector distribution of TA projects. In addition, 13 regional TA projects totaling \$5.3 million have covered knowledge sharing activities for the country.



47. The sector selectivity of the country program has varied in response to the government's NDPs and country needs, as well as ADB's corporate strategies. Infrastructure sectors, namely,

<sup>28</sup> In 2000, IED's rating system was changed from three categories (*generally successful*, *partly successful*, and *unsuccessful*) to four categories (*highly successful*, *successful*, *partly successful*, and *unsuccessful*).

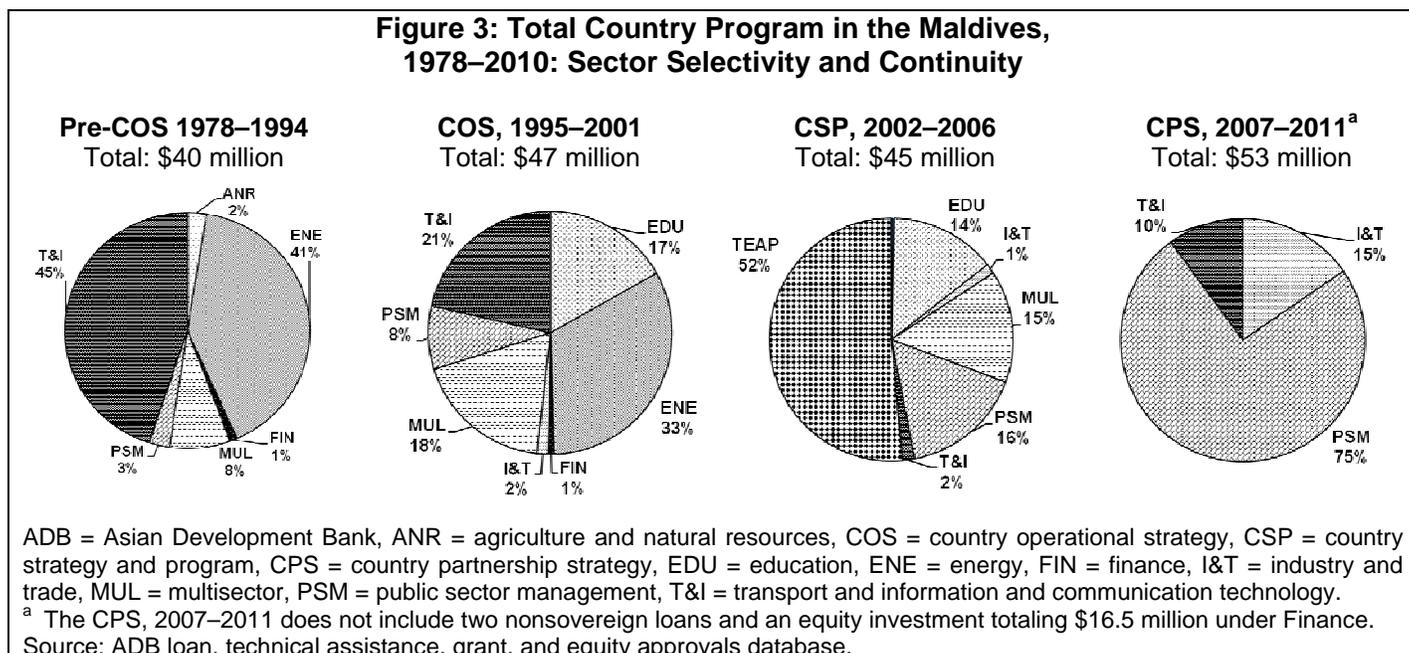
<sup>29</sup> For purposes of this discussion, total ADB TA assistance includes the \$1 million JFPR grant, which was part of the Tsunami Emergency Assistance Project. Thus, the percentage shares may be different from those presented in Appendix 2, Table A2.2.

transport and energy, were the initial priority sectors and accounted for close to 90% of approvals prior to 1995 (even subprojects within multisector focused on these two sectors).

48. The poverty focus in the late 1990s and early 2000s led to a shift to multisector, education, as well as PSM due to greater appreciation of public sector capacity constraints. Because of these factors (and the 2004 tsunami), the number of sectors increased and focus on infrastructure sectors was reduced, to the extent that transport and energy accounted for only 2% of the country program during 2002–2006. In all, ADB had operations in nine sectors.

49. However, the CPS, 2007–2011 sought both a renewed focus on infrastructure and to concentrate more narrowly on four areas of engagement—PSM, transport, energy, and industry and trade (in particular, private sector development). Figure 3 presents sector selectivity and continuity in ADB's country programs through the evaluation period.

**Figure 3: Total Country Program in the Maldives, 1978–2010: Sector Selectivity and Continuity**

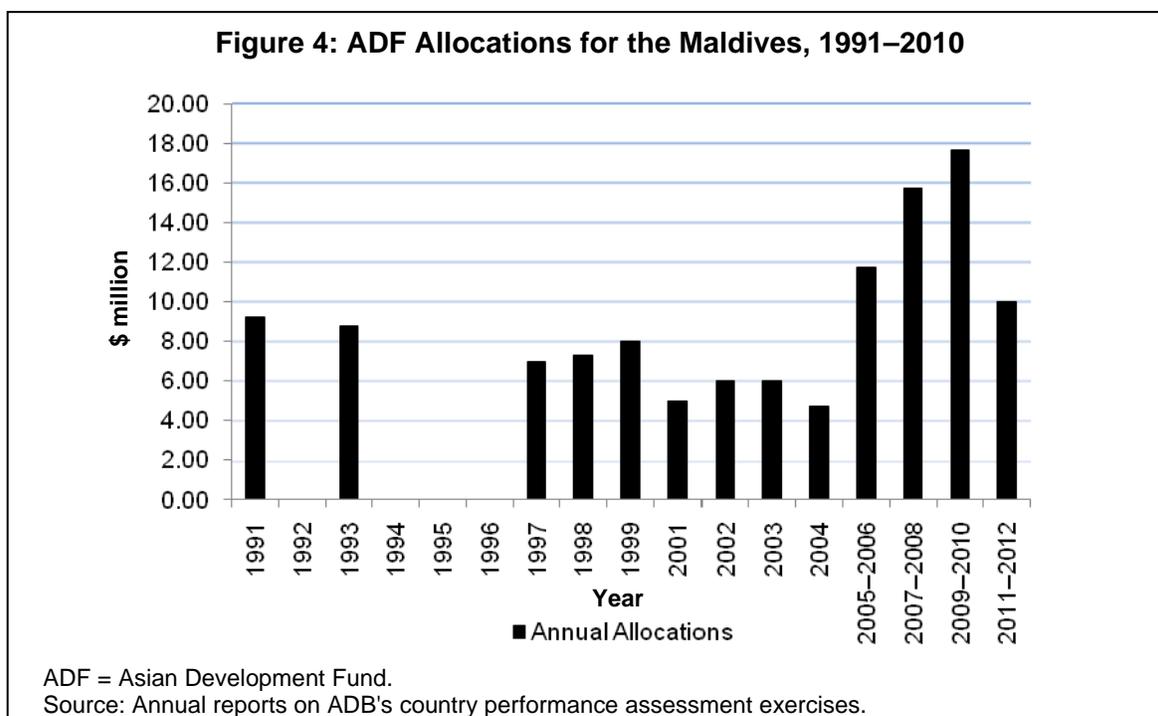


## 2. Portfolio Implementation

50. The resource envelope has been within the ADF under Group A countries.<sup>30</sup> From 1991 to 1998, annual allocations averaged \$3.9 million or 0.3%. This roughly equaled the annual amounts allocated to countries like Federated States of Micronesia, Samoa, Solomon Islands, Tonga, and Vanuatu. It was higher than allocations to Bhutan, which received \$3.3 million or 0.2% of the share. In 1999, the ADF allocation increased to \$8 million. ADB's country performance assessments have guided allocations from the ADF pool since 2001 and the scores secured by the Maldives as part of the country performance assessments exercise have dropped since the 2004 tsunami. Despite this fall in scores, country allocations have increased in the last 5 years in the context of the special clause for countries with populations less than 1 million and biennial allocations less than \$40 million. The special clause indicates that approvals could vary from 0% to 175% of the biennial volume.

<sup>30</sup> Group A countries are eligible for ADF financing; the two main criteria used to classify ADB developing member countries are gross national income per capita and creditworthiness.

51. The country program is modest and averaged \$2.5 million per year during 1978–1994, \$6.7 million during 1995–2001, \$9 million during 2002–2006 (including emergency assistance for reconstruction following the 2004 tsunami), and \$13.25 million during 2007–2010 (boosted by loans of \$36.5 million in 2009 for the ERP). See Figure 4 for annual allocations between 1991 and 2011. Details of loans, grants, and TA support are in Appendix 2, Tables A2.1–A2.4.



52. The average number of months required for start-up, from approval to signing has increased in absolute terms and also in comparison to the ADB-wide average (Table 2). During 2001–2010, the country's average number of months from approval to signing was 4.1 months compared with the ADB average of 2.9 months, and the average startup period from approval to effectiveness was 7.2 months as compared with the ADB average of 7.1 months.

**Table 2: Start-Up Period for Loans to the Maldives and ADB-Wide, 1981–2010**

Item	1981–1990		1991–2000		2001–2010	
	Maldives	ADB	Maldives	ADB	Maldives	ADB
Loans that became effective						
OCR	0	258	0	345	0	340
ADF	4	284	5	310	9	443
Average months from approval to signing						
OCR	0.0	2.3	0.0	2.6	0.0	4.1
ADF	1.5	1.9	3.0	3.4	4.1	2.9
Average months from signing to effectivity						
OCR	0.0	4.2	0.0	4.1	0.0	3.1
ADF	4.8	5.1	3.1	3.3	3.0	4.1
Average start-up period in months						
OCR	0.0	6.4	0.0	6.7	0.0	7.2
ADF	6.4	7.0	6.2	6.7	7.2	7.1

ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources.  
Source: ADB loan financial information system.

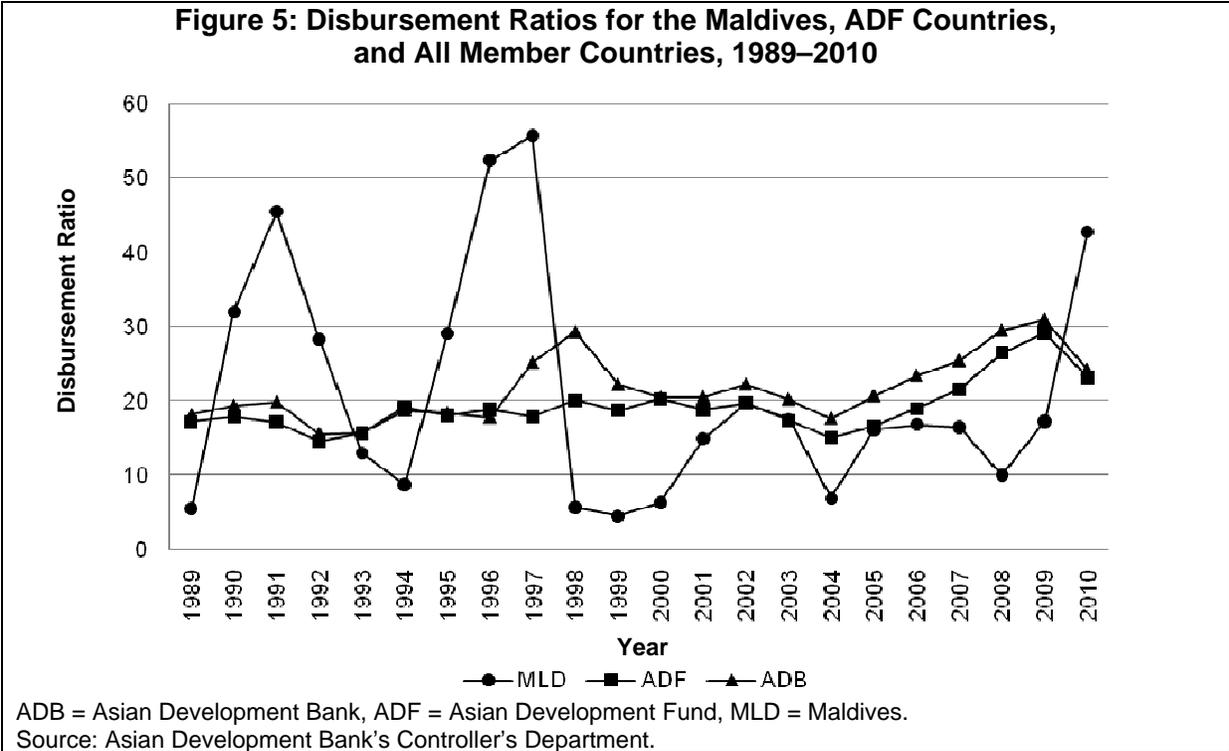
53. The time taken for implementation has also increased. All 14 projects closed have been delayed. Moreover the average number of months of delay nearly doubled from 22.5 months during 1991–2000 to 43.5 months during 2001–2010 (Table 3). During the same period, the ADB-wide average dropped from 33.2 months to 24.8 months.

**Table 3: Delays in Loans Closed during 1991–2010**

Item	1991–2000		2001–2010	
	Maldives	ADB	Maldives	ADB
Total number of ADF loans closed during period <sup>a</sup>	4	333	6	420
Number of ADF loans with closing delays	4	298	6	357
% of ADF loans with closing delays	100.0	89.5	100.0	85.0
Average delay in months <sup>b</sup>	22.5	33.2	43.5	24.8

ADB = Asian Development Bank, ADF= Asian Development Fund.  
<sup>a</sup> Canceled loan not included.  
<sup>b</sup> Number of months beyond original closing date based on actual closing date.  
 Source: Asian Development Bank loan financial information system.

54. Figure 5 tracks the disbursement ratio for the country, for all ADF countries, and for ADB’s overall portfolio. The graph for Maldives shows large variations from year to year since relatively few active projects have been in the portfolio at any time and the disbursement performance for a single project can have a significant effect on overall portfolio performance. However, overall it does show deterioration in performance after 1997, which illustrates the slow implementation and delayed completion of projects. The improvement in the disbursement ratio in 2010 reflects the large first tranche disbursement of the ERP loan and special efforts made during the year to bring to closure certain long ongoing projects.



55. There was also a gap between approvals and actual utilization of approved funds for closed projects in the Maldives during the evaluation period. Overall utilization was about 92%,

though it was higher for multisector and tsunami assistance, implying that the limited funding allocations available to the country were not fully utilized.

#### **D. Key Development Partners' Strategies and Programs**

56. From 1994 to 2010, the share of ADB support to the Maldives as a proportion of overall external contributions received by the country was gradually reduced. While ADB was a lead multilateral development partner prior to the December 2004 tsunami, a large number of new development partners emerged after it, including the six Red Cross societies that extended more than \$120 million for tsunami recovery and reconstruction since 2005 (Figure 6).

57. The overall level of development support is projected to fall from the peak achieved in the post-tsunami years. The country's transition to a middle income status in January 2011 has coincided with a time of high fiscal and current account deficits. The new government has been compelled to implement its committed socioeconomic programs, which has increased the importance of financial support from international sources.

58. The reduced role for ADB was further manifested in the United Nations and the World Bank co-sponsoring the government's March 2010 Donor Forum in which pledges for \$320 million for a period of 3 years were secured from 24 countries and 20 attending agencies. Nevertheless, it is to be noted that the country's capacity remains constrained despite the increase in the number and amount of development assistance received since 2005. Further, the government is yet to implement its draft international cooperation strategy, which aims to increase efficiency of aid from international sources and increase quality of donor coordination for strengthened development effectiveness at national and local levels.

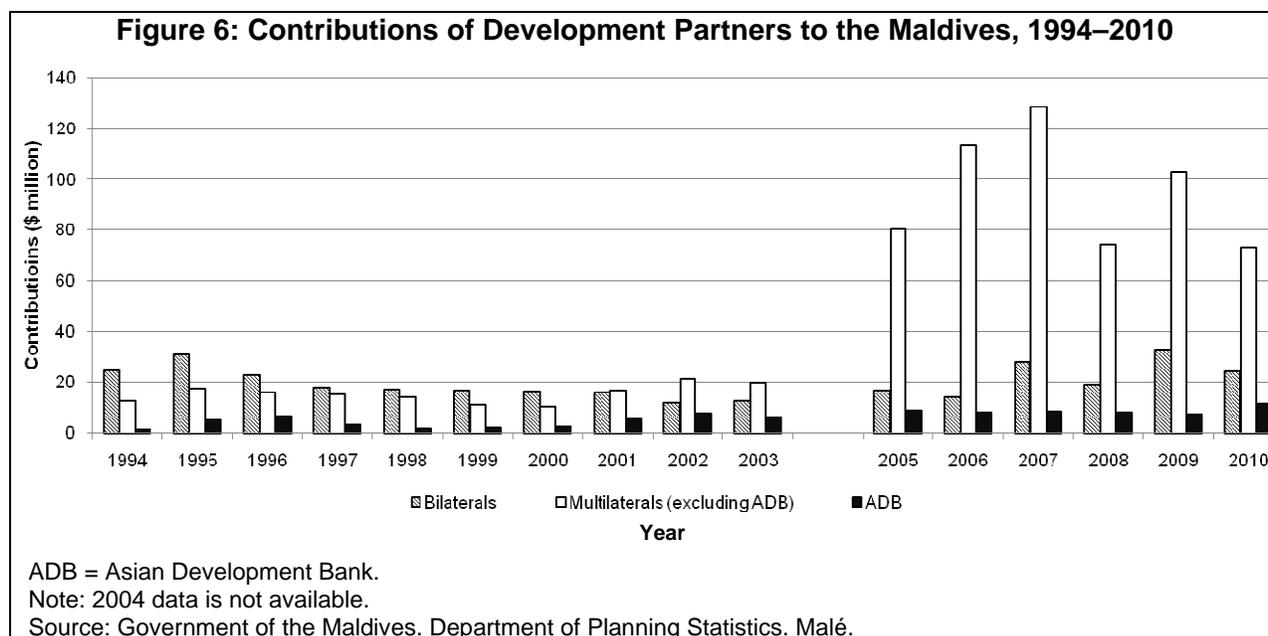
59. The United Nations Development Programme (UNDP) has had the largest presence amongst development partners in the country and assumed the principal role in donor-coordination. The United Nations Development Action Framework, which serves as the strategic framework for program activities of United Nations agencies, was signed in March 2007. The priorities for 2011–2015 are social equity, economic development and environment, good governance, and gender equality. Before this, the thrust of UNDP was to assist in achieving the MDGs and reducing poverty, improve disaster management and environmental management for sustainable development, and ensure democratic governance.<sup>31</sup>

60. The World Bank's 2008–2012 country assistance strategy<sup>32</sup> is based on three pillars: economic governance and investment, human development and social protection, and environmental management. The first pillar supports improving the management of government finances and the country's investment climate. The second pillar focuses on public service delivery for improved human development. The third pillar is to strengthen environmental management capacity, improve environmental infrastructure, and support climate change adaptation. Its resource envelope for the present country program for 4 years is about \$45 million. Before this, the World Bank's 2000 and 1995 country strategies focused on poverty reduction and reduction of regional disparities in access to social and infrastructure services.

61. The focus of the Islamic Development Bank and other development partners of the Gulf Cooperation Council including the Kuwait Fund is on physical infrastructure.

<sup>31</sup> UNDP. 2007. *Country Programme Action Plan 2008–2010*. Malé.

<sup>32</sup> World Bank. 2007. *Country Assistance Strategy for the Maldives 2008–2012*. Washington, DC.



62. Total external contributions from bilateral development partners during 1994–2003 equaled \$187.46 million and from multilateral development partners \$154.86 million.

63. The contributions from bilateral partners for 1994–2003 have been in the form of grants for \$158.98 million and loans for \$28.48 million. The top five bilateral partners for external assistance during 1994–2003 were Japan (\$89.74 million), Australian Agency for International Development (\$17.54 million), Kuwait Fund (\$15.53 million), Saudi Fund (\$10.55 million), and India (\$9.92 million).

64. The contributions from multilateral partners for 1994–2003 totaled \$45.56 million in grants and \$109.30 million in loans. The top five multilateral agencies were ADB (\$41.40 million), World Bank (\$32.3 million), Islamic Development Bank (\$21.6 million), Nordic Development Fund (\$13.12 million), and UNDP (\$10.2 million). ADB's portfolio comprised \$10.52 million in grants and \$30.88 million in loans, while the World Bank provided \$0.29 million in grants and \$32.01 million in loans.

65. Total external contributions from bilateral and multilateral partners rose substantially during 2005–2010, with bilateral contributions reaching \$135.63 million and multilaterals at \$589.85 million.

66. The bilateral partner contributions during 2005–2010 were in the form of grants totaling \$74.56 million and loans for \$61.07 million. The top bilateral partners, excluding for tsunami assistance, during 2005–2010 were India (\$32.17 million), Japan (\$19.41 million), Denmark (\$15.86 million), Kuwait Fund (\$18.40 million), and Saudi Fund (\$15.46 million).

67. The contributions from multilateral partners during 2005–2010 totaled \$242.31 million in grants and \$347.54 million in loans. The top five multilateral agencies, excluding tsunami assistance, were the European Investment Bank (\$70.39 million), ADB (\$36.07 million), Islamic Development Bank (\$34.12 million), World Bank (\$33.90 million), and United Nations agencies (\$16.22 million). ADB's portfolio, excluding the tsunami assistance, comprised \$0.23 million in

grants and \$35.84 million in loans, while that of the World Bank was \$0.01 million in grants and \$33.89 million in loans.

68. ADB's tsunami assistance (the TEAP) consisted of a grant of \$20 million from the Asian Tsunami Fund and a loan of \$1.80 million (by reallocating and consolidating unutilized assistance from six ongoing projects). ADB also provided a JFPR grant for \$1.0 million to help restore the livelihoods of affected farmers by providing inputs, training and extension services, small loans to farming families, and to complement its interventions in the agriculture sector. An ADTA grant of \$0.4 million was included to promote sound environmental management through reconstruction of physical infrastructure in the water and sanitation sector. Further, \$0.25 million was also allocated for saving damaged fruit trees from a regional TA for a poverty and environment program.<sup>33</sup>

69. TEAP was divided into a quick-disbursing component of \$6.5 million to finance imports from a list of pre-approved items urgently needed for the government's recovery programs and a project component of \$15.3 million to fund rehabilitation of tsunami-damaged infrastructure and facilities. The project component was further divided into suballocations for five sectors: water supply and sanitation (WSS), transport and ICT, energy, fisheries, and agriculture. During 2005–2010, about \$16.9 million was disbursed.

70. UNDP provided \$44.0 million for a countrywide recovery program targeting the most affected islands and focusing on shelter response and recovery, harbor restoration, livelihoods restoration, improved disaster risk management, and aid coordination. Japan Bank for International Cooperation provided \$21.5 million for reconstruction of ports, harbors, and sewerage systems; while the European Union provided a grant of \$17.1 million to fund a public accounting system, education, health, and solid waste management facilities on tsunami-affected islands, the administration of which was managed by the World Bank. World Bank assistance totaled \$14.0 million through a loan of \$8.4 million and a grant of \$5.6 million.

#### **E. Key Issues, Lessons, and Recommendations of the Previous CSP Validation and How These Were Addressed in Subsequent CPS**

71. In 2007, IED prepared a validation of the CSP completion report, which was a self-assessment prepared by ADB's country team on the performance of ADB country operations during the period of COS, 1995 and CSP, 2002–2006 and its updates. The overall assessment of the results of the country strategies and programs were rated *partly successful* based on four combined sector ratings: infrastructure development (*partly successful*), human development (*successful*), good governance promotion (*unsuccessful/partly successful*), and tsunami recovery assistance (*partly successful*).

72. The CSP completion report validation identified four sets of issues to be considered during preparation of the subsequent CPS. These issues related to:

- (i) limited institutional capacity and staff in most government agencies, which has among other things, adversely affected portfolio quality;
- (ii) lack of selectivity in sectors for ADB intervention;
- (iii) absence of an integrated approach with sector programs largely based on annual budgets that did not sufficiently support the country's strategic priorities and needs; and

<sup>33</sup> ADB. 2003. *Technical Assistance to Maldives for the Poverty and Environment Program*. Manila.

- (iv) frequent changes of assigned ADB staff, and the absence of a resident mission, which limited interactions between ADB, the government, and consultants.

73. The CSP completion report validation identified four lessons for the subsequent CPS:
- (i) Create a strong project management unit in the executing agency equipped with adequate technical staff to improve project implementation;
  - (ii) Assess weaknesses in institutional capacity, strengthen human resource management systems, build capacity in selected agencies, and make assistance for capacity development conditional on the government appointing suitable qualified staff in the organizations to be supported by ADB TA;
  - (iii) Undertake a more integrated approach based on common themes across projects and sectors;
  - (iv) Assess operating costs and benefits of maintaining a local office in Malé to facilitate greater interaction between ADB and the government.

74. The CPS, 2007–2011 adopted a sequential approach that provided for a pause of at least 2 years in project lending activities during which time only capacity development and analytical work were to be undertaken. The focus of this first phase was to strengthen economic, financial, and fiscal management capabilities of the government and to create an enabling environment for private sector development. However, a similar pause does not appear to have been observed by other development partners. ADB's program was then to transition to the second phase, where it was to resume investment lending in three priority sectors—transport and ICT, energy, and SME development.

75. The CPS stipulated the transition from the first phase to the second phase was to be based on the country's performance on three readiness filters. The filters were: (i) fiscal consolidation and improved external debt management, (ii) increase in ratio of disbursements to outstanding ADB commitments, and (iii) implementation of a medium-term fiscal framework to prioritize public investments and ensure macroeconomic stability.<sup>34</sup> Within each of the three priority sectors, ADB support was to (i) combine investment with measures to support capacity development of priority sector agencies, (ii) develop project designs in a participatory manner and make concerted efforts to keep the design simple and manageable, (iii) ensure arrangements are made for the sustainability of project assets, and (iv) undertake nonsovereign operations in the context of the impending graduation of the country from LDC status.

76. The CPS, 2007–2011 did, in principle, address two of the issues raised and suggestions made in the validation, by increasing sector selectivity and emphasizing capacity development by making it the focus of the first phase of the CPS. An assessment of the implementation of the recommendations in the validation report is presented in Chapter V. Three (non-investment) projects were approved after the CPS approval: a TA loan of \$7.5 million for the Private Sector Development Project in June 2008, a program loan of \$35.0 million for the ERP in December 2009 (with a TA grant for \$3 million and a TA loan for \$1.5 million), and a nonsovereign loan and equity investment of \$12.0 million in a housing finance institution in April 2008.

---

<sup>34</sup> ADB. 2010. Issues Paper for Regional Management Team Meeting. Manila. The three readiness filters were (i) a reduction in the government's ratio of external debt to GDP that was to be used as evidence of progress made in fiscal consolidation and sound debt management, (ii) increase in ratio of disbursements to outstanding commitments of ADB support, and (iii) progress made in developing a medium-term fiscal framework to ensure that new public investment was prioritized and realistically financed without undermining macroeconomic stability.

77. Efforts to assess the operating benefits and costs of maintaining a local office in Malé are yet to be undertaken. A subsequent evaluation of IED in October 2007<sup>35</sup> on the policy of ADB's resident missions highlighted the need for an ADB local office in light of the significant absorptive capacity weakness in government agencies, despite the small ADB portfolio. It added that a permanent local office equipped with technical capacity would help improve the quality of project implementation, accelerate disbursement, and reduce number of missions from ADB headquarters. It further noted that the then existing one-person extended mission that was created as part of TEAP was inadequate to make a meaningful impact. In-country consultations as part of the CAPE report included similar feedback.

### III. EVALUATION METHODOLOGY

#### A. Evaluation Framework, Approach, and Method

78. The 2010 IED guidelines for CAPE preparation have been used for this report. A five-step sequenced approach was followed (footnote 2): (i) desk review of available country, sector, project, and TA documentation; (ii) consultations with headquarters-based country team and mission leaders of projects; (iii) preparation of draft sector assessments for education, energy, finance, industry and trade, multisector, PSM, transport and ICT, and tsunami emergency assistance; (iv) in-country consultations with key stakeholders including the executing agency, implementing agencies, central government agencies, development partners, and civil society organizations, field visits to selected project sites (Appendix 3), in addition to a perception survey (Appendix 4); and (v) preparation of the final sector assessments and the CAPE report.

79. An Independent Evaluation Mission (IEM)<sup>36</sup> was fielded to the Maldives from 21 February to 2 March 2011. The objectives were to gather necessary evidence for the completion of the CAPE, administer a perception survey for selected stakeholders, and conduct a consultation workshop on 1 March 2011 to share and discuss preliminary findings with government representatives.

80. The IEM undertook consultations with representatives of MOFT and its External Resources Management Unit, Public Enterprises Monitoring and Evaluation Board, and Department of National Planning. It also met with concerned ministers and staff of the Ministry of Transport and Communications; Ministry of Economic Development; Ministry of Home Affairs; National Center for Information Technology; Bank of Maldives (BML); Ministry of Fisheries and Agriculture; Ministry of Housing and Environment; Ministry of Human Resources, Youth, and Sports; Maldives National University; and Maldives Monetary Authority (MMA). Meetings were also held with the Housing Development and Financing Corporation (HDFC), and Maldives Finance Leasing Company (MFLC) in connection with ADB's two private sector operations, and with the UNDP resident representative.

81. A half-day workshop was organized on 1 March 2011, in collaboration with MOFT that was attended by 27 senior government officials, including a state minister, permanent secretaries, and directors general. Preliminary findings of the CAPE were presented. The

<sup>35</sup> ADB. 2007. *Special Evaluation Study on Resident Mission Policy and Related Operations: Delivering Services to Clients*. Manila.

<sup>36</sup> H. Satish Rao (former Director General, IED) and Ramesh B. Adhikari (former Director, IED1) joined the IEM on 26 and 27 February 2011, respectively, to undertake high-level consultations with the government counterparts, and also lead the IED Workshop on 1 March 2011. The mission was led by Rajesh Vasudevan, Evaluation Specialist, IED1, and included Christine Infantado, Evaluation Officer, IED1; Ravi Nangia, consultant, IED1; and Zaha Waheed, in-country consultant.

participants shared their experience of working on ADB-supported projects and provided comments and suggestions on the preliminary findings. A perception survey was designed and administered to assess ADB's responsiveness and client orientation in its country program. This was administered to 18 implementing agencies, and responses were received from 10. Findings from this have contributed as inputs for the formulation of the CAPE recommendations. The findings are included in Appendix 4.

82. Field visits were undertaken to Fonadhoo Island in Laamu Atoll on 24–25 February 2011 for the Regional Development Project, Phase II—Environmental Infrastructure and Management Project. Stakeholder consultations were undertaken with representatives of the South Central Utility, Minister of State for the South Central Province, elected representatives of the Fonadhoo Island Council, former island administrator, members of the local project implementation unit, and the site manager of Shin Nippon Air Technologies Company contracted to lay the sewerage network and wastewater treatment facility under the project.

83. Field visits was also undertaken on 2 March 2011 to Malé North Harbor for the Domestic Maritime Transport Project and discussions held with representatives of Maldives Ports, the proposed operator of the harbor. The IEM visited Maldives College of Higher Education, which had been recently converted into the country's first deemed university, established with support from ADB under the Postsecondary Education Development Project. The IEM held discussions with the university's vice chancellor and other staff members. The current vice chancellor was associated with implementation of the Postsecondary Education Development Project, and played an important role in its successful implementation and the setting up of Maldives College of Higher Education.

84. The IEM took a short tour of the National Center for Information Technology (previously known as the National Computer Centre) created under ADB's Information Technology Development Project.

## **B. Limitations of the Evaluation Methodology**

85. This is the first CAPE undertaken by IED to assess ADB's country strategies and program for the Maldives from 1978 to December 2010. Some limitations of the CAPE methodology need to be acknowledged, especially in the context of the long duration of the CAPE period and the limited availability of baseline information and monitoring data.

86. Government reorganizations have been frequent across the whole of government, in addition to the shift from the 30-year single-party rule to a multiparty presidential form of government in 2008. Frequent reorganizations and high staff turnover have meant suboptimal levels of institutionalization of knowledge acquired during implementation of ADB-supported projects through on-the-job training.

87. The focus of the sector assessments within this CAPE has been to assess the extent to which the country program contributed to development results through qualitative methods rather than attempting quantification to estimate impact in sectors.

## **C. Evaluation Criteria and Rating System**

88. The performance of the country program has been evaluated using the six standard criteria (and weights) of strategic positioning (10%), program relevance (10%), and efficiency, effectiveness, sustainability, and development impact (20% each).

89. The overall rating across all sectors has then been calculated using the support (in terms of amount) to each sector—PSM 29%, transport and ICT 18%, energy 17%, tsunami emergency assistance 13%, multisector 9%, education 8%, and industry and trade 6%. See Table A2.5 in Appendix 2 for sector spread and sector weights allotted by the CAPE report.

90. In the sector assessment for industry and trade, the criterion on development impact has not been rated, since the private sector development project within it is ongoing and there is not much evidence available yet to assess its long term consequences on SME development.

91. Under the finance sector, although a separate sector assessment has been prepared for its three ADTA activities totaling \$780,000, it has not been included in arriving at the overall rating of the country program, as these three activities were closed between 1992 and 1997.

92. For agriculture and natural resources, no separate sector assessment has been prepared for the three ADTA activities totaling \$1.1 million as two of the three activities were closed between 1990 and 1991. Within each sector assessment that has been prepared, greater consideration has been given to more recent projects.

#### **D. Key Evaluation Questions**

93. The CAPE addressed the following key evaluation questions and areas:

- (i) At the strategic level, were the CPS priorities and/or objectives designed to be relevant in relation to the Maldives' development needs and challenges? The development needs and challenges include widely dispersed, small island communities; limited resource base and high dependence on imports; reliance on aid and foreign capital; weak public sector capacity and financial and fiscal management; and a weak enabling environment for investment and SME development. The CAPE also assessed if ADB's country strategies were well positioned (e.g., in terms of focus, long-term continuity, modalities, and partnerships)?
- (ii) At the program level, were the country program series of cumulative project, program, and TA interventions by sector, designed to be relevant to the country partnership's strategic objectives and development constraints? Were they implemented efficiently to cumulatively achieve development results (outcomes and impacts) under such strategic objectives in a sustainable manner?
- (iii) Has ADB, as an institution, done well in terms of responsiveness to client needs, supervision, policy dialogue, aid coordination, and other value addition, in facilitating its assistance to achieve such strategic objectives?
- (iv) What are the key issues and factors affecting these performance aspects?
- (v) What are the key lessons and recommendations that can be drawn? Further, an assessment of individual projects and TA activities has been undertaken for ongoing and completed interventions.

#### IV. EVALUATION FINDINGS AND PERFORMANCE RATINGS BY EVALUATION CRITERION

94. This chapter summarizes the performance of the program at the overall country level taking account of ratings from seven sector assessments: PSM, transport and ICT, energy, multisector, tsunami emergency assistance, education, and industry and trade. These were rated using the standard six evaluation criteria. The chapter also includes a discussion of ADB's performance on five cross-cutting themes: environment, regional integration and cooperation, private sector development, gender and development, governance and capacity development.

95. This evaluation covers the entire period of engagement in the country from 1978 to 2010, during which the country context has undergone transformation and development needs have changed, as have ADB's own strategic frameworks and corporate focus.

96. The first formal country strategy was prepared in 1995 through its COS, 1995. This was followed by CSP, 2002–2006 and its updates, and CPS, 2007–2011. Although the CAPE covers the period between 1978 and 2010, a majority of projects were implemented, or were ongoing during 2002–2010. Out of the total 20 financial assistance<sup>37</sup> and 41 ADTA projects approved by ADB, 6 financial assistance and 23 ADTA projects were completed up to 2001. Of the financial assistance projects, 3 were in transport and ICT, 2 in energy, and 1 in multisector. The remaining 14 loans and 18 TA projects have been implemented since 2002 or are still ongoing. These have been assigned substantially higher weights, ranging from 50%–100%, depending on the number of activities in each sector.

##### A. Strategic Positioning

97. The overall strategic positioning of ADB country strategy and program is rated *satisfactory*. The designs of the country strategies were responsive to country development needs, and remained so throughout. Their design was aligned with national development plans and closely followed ADB's changing corporate strategies over the years.

98. While the CPS, 2007–2011 is still ongoing, its design was likely appropriate given the conditions prevailing during its formulation. The CPS used a sequential approach, with a pause for at least 2 years in lending activities during which time only analytical and capacity development work were to be undertaken, to strengthen government abilities to improve economic and financial management, and create an enabling environment for private sector development. However, ADB continued to approve some project assistance during the initial years when a pause on such lending was in place, indicating that the planned pause was not wholly appropriate given that preparatory work on these projects had been initiated earlier.

99. The performance of the country program would have benefited from greater continuity of key sector efforts. Sector focus has varied over the years as a result of the (i) actual program being based on specific projects during the COS, 1995 period, indicating that the support was still project driven to an extent at the time and did not fully use country strategies to guide operations, and (ii) partly due to the changing focus of corporate strategies (Figure 3).

100. While early interventions focused on basic transport and energy needs, the CSP, 2002–2004 added interventions in education, water supply, and multisector to reflect the poverty focus since the late 1990s. Overall, the country program has provided project or TA assistance in as

---

<sup>37</sup> Includes two nonsovereign operations.

many as nine sectors<sup>38</sup> over the years. However, sector focus improved in the CPS, 2007–2011 and focused on just three sectors alongside PSM within the core areas identified in Strategy 2020.<sup>39</sup>

101. Engagement with other development partners has varied over the country strategy periods. In general, engagement appears to have been greater during the earlier years, when ADB was the largest multilateral development partner to the Maldives.

102. The focus on financial management in the COS, 1995 reflected the fiscal issues of the early 1990s and the need for a medium-term macroeconomic strategy worked out in 1994 with the IMF and the World Bank. This was followed with the public expenditure review carried out jointly with these two institutions in 2002, and extensive consultations carried out during the formulation of CSP, 2002–2004. ADB also partnered with UNDP and other development partners in jointly carrying out a needs assessment after the 2004 tsunami in coordinating rehabilitation and reconstruction efforts, and created a joint office in Malé with the World Bank to expedite implementation of tsunami emergency assistance activities.

103. Collaboration with other key development partners appears to have been limited, after the above efforts mentioned in the preceding paragraph, until the latter half of 2009, when ADB partnered again with the IMF and the World Bank through the ERP (footnote 16). This could partly be explained in terms of reduced project lending during the first phase of the CPS, 2007–2011 and partly due to the entry of several new development partners, who expanded the scope of their activities in the Maldives after the 2004 tsunami.

104. Nonetheless, more could have been done to continue to engage with other development partners for programming. For example, the CPS, 2007–2011 provided for an initial pause in project lending, which was not observed by other institutions. At the project level, three operations were cofinanced with other lenders, all of them before 1999, while two ADTA projects<sup>40</sup> were approved through trust funds in 2005.

105. At the sector level, all seven sector strategies, (i.e., PSM, transport and ICT, energy, multisector, tsunami emergency assistance, education, and industry and trade) are rated *satisfactory*.

106. The approach for PSM took cognizance of capacity constraints in the public sector, anticipated fiscal management issues, and was well sequenced. In both the energy and transport sectors, the sector approaches were broadly aligned with ADB's own corporate and sector strategies, country needs, and government priorities; and showed continuity over time and broad internal coherence particularly with regard to investment projects.

107. Three port projects in the transport sector addressed the growing constraints to international and interisland shipping on Malé because of the country's rapid growth and improved connectivity within the country. These were interspersed with a few island harbor projects aimed at improving interisland transport, with a view to reducing the isolation of island communities and stimulating production and trade in commodities. Similarly, interventions in the

<sup>38</sup> It also provided assistance for three TA projects in the agriculture and natural resources sector.

<sup>39</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

<sup>40</sup> ADB. 2005. *Technical Assistance to the Maldives for Developing a Results-Oriented 7th National Development Plan*. Manila; ADB. *Technical Assistance to the Maldives for Promoting Sound Environmental Management in the Aftermath of the Tsunami Disaster*. Manila.

energy sector addressed growing electricity shortages on Malé, and together with support for power facilities on outer islands, sought to provide the basic infrastructure needed to improve the quality of life and reduce an important constraint to investment across the country.

108. The positioning of the country program in other sectors too was consistent with the government's plans, the country's needs, and ADB's corporate strategies. In the education sector, the interventions were targeted at meeting skills constraints by promoting postsecondary education (while other development partners provided assistance for secondary education), and covered regional development across the atolls. Support for private sector development in the industry and trade sector, though late, sought to address the country's increasing need to diversify its economic base and sustain growth.

109. More attention could have been paid towards developing and supporting complementary strategies for related areas, while formulating some sector approaches. For example, in education, although the two projects emphasized training and entry of students into the labor force and the employment market, its focus was narrow and changes needed in labor market policies and regulations were not considered. In the transport sector, early experience demonstrated that assistance to develop interisland transport services was not adequately integrated with complementary efforts to promote island development to generate an economic demand for interisland services.

110. The changes in sector focus over the years, coupled with the small size of the country program and limited resources, also limited continuity of efforts in sectors. For example, although the strategy for the transport sector exhibited continuity and broad internal coherence, there were long intervals between projects—about 14 years between the Second Malé Port Development Project approved in 1993 and the Domestic Maritime Transport Project approved in 2007. The situation was similar for the energy sector, which like the transport sector received assistance over a long period. In finance, while interventions were highly pertinent at the design stage, sector development was not pursued further once the three TA projects were completed, primarily due to changes in the government's priorities during implementation and its limited interest in pursuing reforms and restructuring the sector.

111. In terms of cross-cutting themes, under regional cooperation and integration, which is an important development agenda of Strategy 2020, future country strategies and programs need to be further informed by, and reflect such regional considerations. This is necessitated by the country's existing openness; and effective and beneficial use of imported factors of production such as regional capital through the branches of regional banks located in Malé, and labor—both skilled and semi-skilled—from other South Asian countries to meet domestic constraints. A study was commissioned through a small-scale TA in 2002 to identify subregional economic cooperation potential with Sri Lanka and Pakistan. However, it is unclear as to what extent findings from it informed subsequent country strategies and program.

112. Despite these areas for improvement, the overall rating of strategic positioning is *satisfactory*. This rating is on balance appropriate, given the overall alignment of the country strategies with government priorities, country needs, and challenges, in addition to ADB corporate strategies over the years. A summary of numerical ratings for positioning by sector and overall program is presented in Appendix 5.

## B. Program Relevance

113. The overall relevance of the country program is rated *relevant*, including assistance to six out of the seven sectors assessed for this CAPE. However, it is rated *less relevant* for tsunami emergency assistance.

114. Support for PSM, transport, multisector, education, and industry and trade was consistent with the corporate and country strategies (and in the years before the formulation of the first country strategy—the COS, 1995 with the country’s sector needs). The TEAP in 2005 and ERP in 2009 in response to the 2004 tsunami and country’s fiscal crisis, respectively, were appropriate and flexible responses even though they were not included in the corresponding country strategies. The country program during the COS period for 1995–2001 however included two projects in energy and one project in ICT that were not in alignment with the strategy, even though the interventions were appropriate in terms of needs,<sup>41</sup> indicating that programs were still project driven at that time. This alignment between the country strategy and country program improved during the CSP period and its updates during 2002–2006, as well as under the ongoing CPS.

115. Support for key programs and projects in transport, multisector, education, finance, and industry and trade, were well aligned with the country and sector approaches. In addition, the design of sector programs and individual project interventions was appropriate in the major sectors, including PSM, transport and ICT, energy, and industry and trade. Design issues were apparent in an energy project for outer islands electrification, the TEAP, and TA activities.

116. The significant outlier to the *relevant* assessment rating of sectors was the emergency assistance provided following the 2004 tsunami.

117. TEAP was marked by several design deficiencies. These relate to the decision to include sectors, specifically fisheries, agriculture, and WSS in which there had very limited previous country involvement. In contrast, there had been five projects and seven TA projects in the transport and ICT sector, and four projects and several TA activities in the energy sector.

118. Activities for agriculture and fisheries subsequently proved either *unsuccessful* or *partly successful*, which supports the contention that these sectors should not have been included for assistance, despite the arguments of poverty focus or other considerations that might have been made at the time. In addition, since projects were selected for assistance in five sectors, namely agriculture, fisheries, WSS, energy, and transport; allocations for each sector were limited as a result of which targeted reconstruction subprojects could not be fully implemented.

119. Further, during the subsequent selection of subprojects, problems arose involving the development of cooperatives and inclusion and design of microcredit programs in agriculture and fisheries. Demand for such loans in both areas was extremely low as microcredit was also

---

<sup>41</sup> Two energy projects, including one for Malé were approved during the COS, 1995 period, which instead focused on fiscal management, regional development in terms of better education and health facilities, and the environment. However, no new energy projects were approved during the CSP, 2002–2004 and, so far, during the CPS, 2007–2011, which identified electrification of the outer islands as a priority to foster regional development and pro-poor growth. The Outer Islands Electrification Project approved in 2001 during the COS, 1995, and the Information Technology Development Project, also approved in 2001, went beyond the scope of the COS, 1995, but were aligned with the country strategies in the subsequent CPS. This can partly be explained by the rapidly changing economic environment during 1995–2001, the period covered by the COS, which reduced the relevance of the COS, 1995, and partly due to the fact that assistance to the country was at the time still often project-led.

offered by other sources on substantially more favorable terms. Clearly not enough was done to ensure that the loans from all sources were on comparable terms. In the agriculture sector, needs were wrongly identified<sup>42</sup> and assistance poorly targeted.

120. Support to industry and trade through the Private Sector Development Project was consistent with the country's evolving needs. The project design included the use of a pilot approach to guide future interventions, identification of specific responsibilities, and provision of targeted support for capacity building,<sup>43</sup> which is appropriate, as is the plan to have a follow-up project. Such an approach is expected to provide scope for extended policy dialogue, deriving benefits from lessons identified during implementation of the earlier intervention, and improve the likely sustainability of the interventions.

121. The importance of the government's continuing commitment to ensure program relevance during implementation was earlier underscored in Strengthening of the Public Accounting System project approved in August 2002, but canceled in November 2005 due to noncompliance with loan effectiveness conditions. The design had identified this requirement as a potential risk during preparation. In a few other cases, such as in finance, the government changed its commitment to reforms that it had agreed to during preparation.

122. There are also reservations about the design of capacity development TA activities. With the exception of PSM, capacity development TA activities were provided alongside individual projects rather than as part of a long-term strategy to meet institutional development needs. As a result, little continuity and sequencing of assistance is apparent in such sectors. Also, the provision of training under TA usually did not take account of the ability, or otherwise, of implementing agencies to provide suitable personnel to benefit from the training.

123. Findings from analysis of the design and monitoring frameworks include the need for more refined and measurable indicators that have baselines. Case studies on gender equality results highlight the need for inclusion of more indicators in a systematic manner that go beyond participation rates in training activities, for example, to tracking what factors influence whether new skills that have been acquired are actually applied by beneficiaries. Similar deficiencies were noted in the design and monitoring frameworks of recent projects<sup>44</sup> such as the Domestic Maritime Project in the transport and ICT sector, and the Private Sector Development Project in the industry and trade sector.

124. In terms of cross-cutting themes, emphasis on gender and development (GAD) since 2001 has been to increase the role and contribution of women to the country's labor-force. A country gender assessment in 2001<sup>45</sup> and a GAD assessment in 2007<sup>46</sup> have been prepared. Findings from these assessments have informed the CSP, 2002–2004, and the CPS, 2007–2011. Two GAD category II projects—Employment Skills Training Project and Regional Development Project, Phase II have been programmed. Although the Private Sector Development Project was not categorized as a GAD project at entry, it was subsequently added

---

<sup>42</sup> For example, all individuals identified as farmers were provided standard assistance in the form of farm implements, seeds, and other inputs even when they had requested assistance to reconstruct homes rather than resume farming.

<sup>43</sup> With the possible exception of capacity development assistance to the Bank of Maldives (BML). BML has considerable experience of lending to small enterprises, with and without collateral, and is well placed to develop new technologies, such as credit scoring, with its own resources. The constraint on increased lending to micro-SMEs in the case of BML does not therefore appear to be a lack of capacity, but rather incentives.

<sup>44</sup> Design and monitoring frameworks were introduced in 2005.

<sup>45</sup> ADB. 2001. Country Briefing Paper. *Women in the Republic of the Maldives*. Manila.

<sup>46</sup> ADB. 2007. *Maldives: Gender and Development Assessment*. Manila.

by the executing agency during implementation. The gender-related activities that were informed by GAD issues include creation of business development support centers, access to credit, training, and business incubation. Going forward on GAD issues, additional focus is required to improve preparation and use of sector and project-specific analysis, including a stronger focus on country-specific sociocultural dimensions.

### C. Efficiency

125. The efficiency of the country program is rated *less efficient*. While education and TEAP are rated *efficient*, and industry and trade sector *likely efficient*, the overall ratings of other sectors are *less efficient*.

126. Though the economic internal rates of return (EIRRs) for most of the physical infrastructure components of projects completed during the evaluation period were more than 12%, this positive aspect was diminished by delays and cost increases, leading to the noncompletion of subcomponents of certain projects, factors that are not reflected in EIRR computations.

127. Delays were experienced across portfolio in the country for all loans closed during 1991–2010 (Table 3). The delays can be divided into start-up delays, which were common to all projects, and delays during implementation, which affected several projects. Moreover, portfolio performance has not improved over time.

128. The average delay ADB-wide during 1991–2000 was 33.2 months, while that for the country portfolio was 22.5 months. Although the average ADB-wide delay during 2001–2010 decreased to 24.8 months, the average delay for Maldives almost doubled to 43.5 months.

129. This significant increase in the average months required for start-up and completion can be partly explained by the lack of experienced and competent mid-level staff in government ministries and agencies. The change in government in 2008 after 30 years, with the uncertainty prior to it, led to a reorganization of the whole of government and turnover of staff at various levels. In general, delays were greater where projects were extended to the atolls, i.e., beyond Malé, or where a sector modality was adopted, or wherever subprojects had to be appraised and/or assessments of compliance with requirements had to be carried out after approval.

130. In the transport and ICT sector, most infrastructure projects<sup>47</sup> had positive EIRRs. However, the failure of the Interisland Transport Project, the extended delay of 5.5 years in the implementation of the Information Technology Development Project, and the average delay of 18 months for transport projects, overall, adversely affected the sector ratings.

131. In the energy sector, while the basic design of the projects was based on the least-cost approach and the EIRRs as computed were mostly satisfactory, implementation delays were experienced by all the projects. On average, sector projects were delayed by about 3 years, while the Outer Island Electrification (Sector) Project took nearly 9 years to be implemented.

132. Similarly, the multisector portfolio performance was marked by delays, disruptions, frequent changes in components, and consequent adjustments in costs and financing. Disbursements were slow and delayed. The Multiproject loan was delayed by 5 years and the

---

<sup>47</sup> In several cases, the reestimated EIRRs at completion were actually higher than at approval due to a substantial unanticipated increase in cargo and passenger traffic over the extended implementation period.

project performance audit report concluded that this was due to lack of preproject studies and emphasized the need for a more rigorous evaluation of subprojects to minimize uncertainties relating to design, cost estimates, and construction. The Regional Development Project, on the other hand was delayed by only 12 months, while the closing date of the ongoing Regional Development Project, Phase II has been extended to March 2012, as during the midterm review in December 2010, 52% of contracts had been awarded and the disbursement rate was 30%.

133. For the TEAP, estimated EIRRs for subprojects implemented in the energy, transport and ICT, and WSS sectors were satisfactory, and exceeded the cut-off rate of 12% (EIRRs were not computed for subprojects in agriculture and fisheries). Further, the overall implementation period of 3.25 years compares favorably with the time taken and delays to implement similar emergency projects in other countries.

134. In the education sector, the two projects were implemented by two different agencies, which had some familiarization issues initially. Despite delays, frequent changes in components, allocations, and implementation arrangements, the Postsecondary Education Development Project was generally well implemented and successful. The Employment Skills Training Project faced its own share of similar disruptions, reorganizations, and modifications. The implementing agency was reorganized thrice after the loan was approved. The delivery of training programs was delayed for about 2 years from the start of the project, due to delayed appointment of consultants. From late 2006, the delivery of training gathered momentum, but slowed again during and after the elections in November 2008. The limited implementation capacity was essentially the main impediment in achieving more efficiency. The TA components were, however, well implemented.

135. The reasons for delays across all projects in the country include the effects of insufficient project preparatory work,<sup>48</sup> unfamiliarity of implementing agencies with ADB policy and procedures, and weak capacity of the government's Office of Programs and Projects (created in 2008 to expedite project start-ups and ensure timely implementation). A consequence of such delays during implementation has been cost escalation that resulted in scaling-down of project components. This was particularly in the Outer Island Electrification (Sector) Project, which took nearly 9 years to be implemented and as a result, only 19 of the planned 40 island power projects could be implemented within the budgeted funds due to cost escalation. The efficiency of other assistance was also affected because some components could not be implemented.

136. The overall efficiency was also affected by only partial acceptance or implementation of policy recommendations made as a result of TA activities. Since many advisory TA activities for capacity development were unable to fully achieve their objectives, components had to be repeated in subsequent TA that reduced efficiency of the assistance. Feedback from government counterparts included the point that the results of TA activities (including those under PSM) were not visible. Capacity development through the supply of consultants has also not worked well and has led to capacity substitution. Feedback received from implementing agencies included the need for a new approach to promote institutional development.

137. Almost 20% of approved assistance for all closed projects remained unutilized for the reasons discussed in the sector assessments. The suboptimal portfolio performance is reflected in the country's performance assessment ratings with implications for future ADF allocations.

---

<sup>48</sup> A site visit by IEM for the ongoing Regional Development Project, Phase II, to Fonadhoo Islands, highlighted the importance of adequate stakeholder consultation in informing overall project design, to mitigate the possibility of delays during implementation because of the objections and concerns of island communities.

138. In response, the country team has taken steps since 2010 to improve portfolio performance by instituting a mechanism for semi-annual tripartite reviews by ADB, government, and implementing agencies. This has helped to expedite and bring about closure of some ongoing projects. However, this effort needs to be sustained to contribute to better project performance and reduce delays in the future, and to focus on all stages of project implementation, not on expediting project closure.

139. More collaboration is needed to improve the quality of monitoring and evaluation across sectors. In a related effort, although ADB has initiated collaboration with UNDP to develop and deploy a results-based management framework to implement the government's Strategic Action Plan for 2009–2013, in-country consultations with the government and other development partners highlight the need for simple yet robust monitoring and reporting approaches. This has been cited as the necessary first steps before attempting to develop and deploy holistic systems covering planning, monitoring, budgeting, and aid coordination functions.

#### **D. Effectiveness**

140. The country program in terms of overall effectiveness in achieving outputs and outcomes is rated *effective*. Programs in transport and ICT, energy, and education sectors have been rated *effective*. The engagement in PSM is rated *likely effective* in light of the initial outcomes achieved from its continued focus on the revenue side of the ongoing ERP, expectation of further tax reforms, and reduction of government expenditure over time. Similarly, the support in industry and trade through its ongoing Private Sector Development Project is also rated *likely effective* based on encouraging initial outcomes achieved in some components such as the promotion of public–private partnerships (PPPs) and establishment of the credit information bureau. The activities under multisector and tsunami emergency assistance are rated *less effective*.

141. Support in PSM through the ERP has yielded favorable initial outcomes on the revenue side. The government introduced tax administration changes in late 2010 and 2011. Parliament passed an ad-valorem tourism goods and service tax in August 2010 (introduced in January 2011) that is a levy of 3.5% on tourism-related goods and services, and replaced the flat tax of \$8 per bed night. It approved a business profit tax in December 2010 that is to be administered from mid-2011 onward, which is to be at a maximum rate of 15% of the annual profits of companies. Revenues from the goods and service tax on tourism during January and June 2011 have reached \$29.9 million, while measures to improve tax administration include the creation of an independent Maldives Inland Revenue Authority in March 2010.

142. The rating for PSM is in light of these initial outcomes achieved from its continued focus on the revenue side of the ongoing ERP, the expectation of further tax reforms, and reduction of government expenditure over time. It needs to be noted that fiscal consolidation and improved financial management has been pushed since 2006 as part of the policy dialogue under the planned Public Resource Management Reform Program. Further, focus of ADB under the ERP has been on revenue enhancement, while IMF's focus is on macroeconomic policy and tax reforms, and World Bank's focus was on medium term expenditure reforms, budget implementation, and social safety nets.

143. The government has been faced with a series of political economy-related challenges on the expenditure contraction side of reforms. Although MOFT implemented a 15% cut in the civil service wage bill, the Civil Service Commission contested this in court and restored salaries to September 2009 levels earlier than anticipated. This has had direct implications on overall

effectiveness of the medium term adjustment strategy. The IMF's standby arrangement has been on hold as of June 2011; and the World Bank reallocated its funds for the recovery program in June 2011 to an ongoing sewerage project. The second tranche of ERP is scheduled to be disbursed in 2012. There is some progress on the corporatization and privatization of selected state-owned enterprises. The other PSM loan for the public accounting system was approved in August 2002, but canceled in November 2005 due to noncompliance with effectiveness conditions.

144. While most of PSM-related TA activities prior to the ongoing ERP achieved their stated outputs, despite delays in implementation, progress in terms of achieving outcomes has been mixed. Although earlier TA projects that assisted the government in formulating its national development plans were found to be useful, the outcomes that have been achieved and sustained have been varied. For example, while the TA for Developing a Results-Oriented Seventh NDP prepared the planned outputs, no costing or prioritization of activities for required actions to translate core elements of the NDP into results were undertaken, especially given the context of the large budget deficit in 2007.

145. The IMF's 2010 Action Plan for Public Financial Management Reforms noted that the ADB-supported debt sustainability analysis in 2006 through the TA for Strengthening of Debt Management was not prepared through the direct involvement of MOFT's External Resources Management staff and, hence, findings from the analyses were not used to influence policy. The ongoing TA grant under the ERP, as part of its debt management-related work, includes an item to revisit earlier recommendations and reconsider them for implementation.

146. There have been favorable outcomes in the development of statistics through three ADTA activities totaling \$1.5 million and regional TA on Statistical Capacity Building in the Asia and Pacific Region that included the Maldives. The countries covered by the regional TA were Cambodia, Lao People's Democratic Republic, Maldives, Mongolia, Nepal, and Timor-Leste. Results were most promising for the Maldives in that a systematic diagnosis of the country's statistical priorities was undertaken, and the National Strategy for Development of Statistics with a 10-year action plan prepared.

147. Interventions in the transport and ICT sector have had mixed results. While most of the physical facilities are well-constructed and have delivered or are likely to deliver the desired outcomes, one loan—Interisland Transport project, and a TA on Transport Master Plan failed; and other TA projects were not always effective in inducing changes in policy, such as the introduction of user charges for domestic harbors, or delivered only limited improvements in capacity. The relative headway made in capacity development efforts in the Information Technology Development Project compared with those in the transport sector demonstrates the difference that the degree of government commitment and the availability of technically competent personnel can make.

148. In the energy sector too, with the exception of the Outer Islands Electrification Project, all projects achieved the expected outputs and desired outcomes, while TA outcomes were mixed. The State Electricity Company has largely emerged with the support of three TA activities as a technically competent commercial organization, although with limited board independence; while TA support provided to the Maldives Electricity Authority, the agency responsible for sector regulation, policy setting, and planning is seen to be ineffective. Despite numerous TA activities, the authority remains understaffed, with extremely limited capacity to regulate tariffs and no capacity for policy setting and planning.

149. The weak capacity of implementing agencies is compounded in multisector projects where multiple layers of national, atoll, and island governments are involved, in addition to numerous departments and agencies. Any infrastructure activity in atolls and islands outside of Malé requires consultations with local communities at design and continued flow of information with reference to technical specifications of the network to local communities during implementation. The recent creation of regional utility companies, while likely to improve the operation, maintenance, and viability of island facilities in the long run, have raised ownership issues that have yet to be fully resolved. The weak capacity for implementing projects greatly reduces the effectiveness of interventions across all sectors.

150. TEAP has been rated *less effective*. Under the transport component, only one of three targeted harbors were completed; while in the water supply subsector, one of two sewerage systems was implemented. Moreover, several planned activities in agriculture and fisheries including the development of pilot demonstration farms or fishery cooperatives did not materialize.

151. The importance of government commitment cannot be overstated, especially in accepting and acting on recommendations. The numerous reorganizations across the whole of government have resulted in not only changes to overall implementation plans, but also staff reassignments that have reduced the effectiveness of capacity development efforts. The Private Sector Development Project in the industry and trade sector is presently ongoing. While some components, such as the promotion of PPPs and establishment of the credit information bureau have shown encouraging initial outcomes, other components are still being implemented. Support to this sector is rated *likely effective* on the grounds that these ongoing components are implemented as planned.

152. Feedback from government counterparts included the point that the results of TA activities (including those under PSM) were not visible. The TA activities have achieved expected outputs to varying degrees, and limited outcomes.

153. An assessment of the TA portfolio was undertaken through desk review of available country strategy and country programming reports, and in-country consultations. The focus of in-country consultations for assessing TA included the extent of prioritization to assure relevance of activities, design and delivery issues, and extent to which outputs were prepared and intermediate outcomes achieved.

154. Evidence from country strategies and country programming reports do not demonstrate the presence and use of a distinct strategy for TA to strengthen sector capacities. Only PSM-related TA activities had a long-term approach, while the other TA projects have tended to be add-ons to projects, which in turn have been few within each sector. In general, TA projects are rated *less effective* or *ineffective* for the following reasons:

- (i) limited government commitment to accept or implement recommended policy measures, and changes in government objectives after approval of the TA or TA-components of projects;
- (ii) absence of a long-term strategy for building sector capacity;
- (iii) many TA activities have been aimed at reducing implementation risks or have served to substitute for the lack of domestic capacity rather than focused on strengthening capacity;
- (iv) unavailability of staff for training and, in many cases, the availability of experienced or qualified staff to benefit fully from the training provided; and

- (v) staff turnover either due to reorganization of work and reassignment of staff, or the departure of key personnel; this has in particular affected capacity development efforts in line ministries.

155. As of December 2010, of the 38 closed ADTA projects, 21 TA completion reports were available of which one TA project is rated *highly successful*, 16 either *generally successful* or *successful*, three *partly successful*, and one *unsuccessful*. So, although outputs were delivered as documented in the TA completion reports, the evidence is especially weak on the extent to which outcomes were achieved.

156. The absence of measurable performance indicators established at approval, including measures to cover intermediate outcomes, makes a more meaningful assessment of the effectiveness of interventions difficult.

157. TA outcomes could be improved through application of sequenced approaches as elaborated in ADB's 2007 Medium-Term Framework and Action Plan for Integrating Capacity Development.<sup>49</sup> This emphasizes developing a holistic understanding of objectives and country ownership, including creation of enabling framework conditions for achieving institutional effectiveness.

158. Further, a Pacific Capacity Development study of 2007,<sup>50</sup> which is pertinent to the Maldives case given its focus on small island economies, includes actionable measures to sequence such capacity development efforts during formulation of country strategies (participatory process for prioritization, understand local political economy), preparation of country programs (undertake island level capacity assessments, innovate island managed capacity development funds, focus on use of local consultants), and overall assistance (increased role for governments in design, consultants' selection and implementation, and firmer public sector management).

## **E. Sustainability**

159. The sustainability rating of overall outcomes from the country program is *less likely sustainable*. The ratings for transport and ICT, energy, and education are *likely sustainable*; while for PSM, tsunami emergency assistance, multisector, and industry and trade are *less likely sustainable*.

160. The government's commitment to reforms and organizational change has varied across sectors and projects. The political transition in 2008 was a watershed with changes in government priorities and objectives, with greater willingness to increase the private sector's role. However, implementation of macroeconomic reforms continues to face challenges. In PSM, for example, the government has implemented reforms relating to the revenue side. At the same time, only partial and limited progress has been made towards meeting other non-tranche conditions to curtail public expenditure due to political economy considerations.

161. The disbursement of the second tranche of the ERP could be affected as the IMF's standby arrangement is being renegotiated due to insufficient progress in reducing the wage bill and the risk of policy reversals. ADB's earlier loan for public accounting was canceled a few

---

<sup>49</sup> ADB. 2007. *Integrating Capacity Development into Country Programs and Operations Medium-Term Framework and Action Plan*. Manila.

<sup>50</sup> ADB. 2008. *Pacific Choice. Capacity Development in the Pacific: Learning from Success*. Manila.

years after approval due to noncompliance with conditions for loan effectiveness. These conditions were related to the preparation and promulgation of a public finance act, public enterprises (accountability) act, and amendments to the Public Audit Act. Evidence also suggests that until 2008, the previous government adopted a wait-and-watch approach and postponed implementation of reforms and recommendations of ADB-supported TA activities to address structural issues. Although the PSM program has been anticipatory, the development impact of completed activities within the PSM portfolio (consisting of Strengthening Public Accounting System project that was cancelled in 2005 and completed advisory TA projects), while excluding ongoing activities (under the Economic Recovery Program), has been limited.

162. In transport and ICT, as well as energy, the sustainability of physical assets has been partially offset by reservations on the part of the government to accept some policy recommendations and wholeheartedly support the development of sector institutions. As a result, the benefits of several advisory TA activities have not been sustained. Capacity, or the lack thereof, has been a factor lowering the sustainability rating across sectors. However, the recent formation of seven regional utilities companies is expected to improve the operation and maintenance of facilities currently managed by small island communities. The regional utilities companies are presently in the process of taking over electricity systems, and are expected to progressively manage WSS and other utilities on the islands. However, the available evidence on operation and maintenance is presently scarce, partly because of inadequate information regarding operations and weak financial and accounting data.

163. Changes in the institutional context, staff turnover, and unavailability of suitable personnel are other factors that make the sustainability of institutional capacity interventions in many organizations less likely. However pockets across government departments and agencies have adequate capacity and continuity, e.g., MMA, education, information technology, planning, and statistics. In energy, while the State Electricity Company has been able to internalize capacity, Maldives Electricity Authority has not been able to sustain the benefits of training provided. This is also the case in the transport and ICT sector, where Maldives Ports Authority (now Maldives Ports) has largely developed technical and commercial capacity, while the capacity of the ministry responsible for planning, policy, and regulation remains constrained. In education, the Employment Skills Training Project faces sustainability issues in terms of staffing (and funding resources) of the Technical, Vocational Education, and Training Division of the Ministry of Human Resource, Youth and Sports.

164. The continued availability of financing, in terms of funding of recurrent costs, and financial security of project entities are other factors that have affected the sustainability ratings. In the energy sector, due to the high cost of power generation for small, diesel-based power plants and the already high tariffs for electricity compared with other countries in the region, the island utilities are unlikely to achieve breakeven and will have to continue to rely on financial subsidies from the government. Moreover, currently no user charges are in place for domestic and island harbors, water supply, sewerage, solid waste management, and basic and secondary education. These sectors will thus continue to be dependent for the foreseeable future on budget support. However, financing of recurrent costs may face severe problems in the context of the ongoing debt and financial crisis, which is likely to impinge on their operation and maintenance.

165. In industry and trade, the combination of government commitment to reforms and organizational change, capacity constraints, and funding questions are likely to affect the sustainability of the ongoing Private Sector Development Project.

166. This Private Sector Development project is rated *less likely sustainable* for three reasons. The first reason is whether capacity and institutional development support provided to various institutions under the project will be sustained. The expectation is that those institutions that are able to offer market-based remuneration to their staff, such as MMA, Credit Information Bureau, and BML will be able to retain trained staff and in-house capacity. However, given past experience, many government line ministries and subordinate organizations like the business development service centers proposed under the project could face high rates of staff turnover and lose people with skills provided to them over the medium term. The second reason relates to the future financial viability and funding of organizations and businesses. The Credit Information Bureau will operate under and be supported by MMA for 2–3 years. Thereafter, it is to be spun-off as an independent self-financing organization. While preparatory surveys indicate that it would be able to generate sufficient fees, this is not entirely certain. On the other hand, the business development service centers will be dependent on government funding. Third, the SME financial intermediation mechanism supported under the Private Sector Development Project (PSDP) is not likely to be sustainable.

167. There is the risk too of political opposition and consumer resistance to paying full cost recovery user charges for infrastructure projects under PPPs (and, hence, the viability of the PPP approach).

#### **F. Development Impact**

168. The development impact of the country program is rated *partly satisfactory* overall, but varies across sectors. While ratings for transport and ICT, energy, and education are *satisfactory*, the ratings of other sectors are *partly satisfactory*. It is to be noted that for industry and trade, this criterion has not been rated as the private sector development loan under it is ongoing and there is not much evidence to assess its long term contributions to SME development.

169. The three decades through which the country program has assisted the Maldives, have broadly coincided with a period of strong growth and the country's attainment of several MDGs. The country has undergone a major transformation and greater integration with the global economy. Much of the growth in national income, though, has been due to the development of the tourism industry (which currently accounts for nearly 30% of GDP, and when indirect purchases of goods and services are included, to nearly twice that amount according to some estimates) and value-added fish exports. ADB's direct contribution has, thus, been mainly in terms of its contribution to the development of complementary sectors, especially transport, energy, and education, to support the country's growth and regional development to reduce vulnerability and higher rates of poverty prevailing in the outer islands. The impact of ADB's country program on overall growth and regional development is, however, difficult to quantify.

170. In addition, the funding, mainly on concessional terms or as grants, provided by ADB and other development partners has also freed government resources for the provision of social services, which has contributed to progress in achieving the MDGs. However, despite (or perhaps partly because of) the large assistance it has received, the country consistently ran a fiscal deficit due to a narrow tax base and limited efforts to increase tax revenues, or impose fees for government-provided services, and control government expenditures until the ongoing ERP. Consequently, it has lacked the fiscal resources to undertake countercyclical measures during economic downturns, and faced periodic fiscal crises. Efforts to improve fiscal management and strengthen the taxation system under PSM will likely have a substantial

impact once fully implemented. However, although advisory TA in PSM produced expected outputs, the anticipated outcomes were not achieved.

171. The cumulative interventions in maritime transport and power supply, where ADB has played a leading role over many years, have helped to transform these sectors. Interventions in the transport sector have favorably contributed to reducing capacity constraints in support of economic growth, promoted interisland movement of passengers and cargo in support of the goal of reducing disparities between Malé and the outer islands, and increased maritime safety. The impact in the transport sector would clearly have been greater if related policy measures had been adopted, if development of sector institutions had been more effective, and if the interventions had been guided by a strategic plan for the development of the sector.

172. In ICT, the implementation of reforms under the TA component of the Information Technology Development Project, have had a positive impact on increasing competition within the telecommunications industry, improving connectivity, reducing internet charges to support greater regional integration, improving business communications, and indirectly improving the enabling environment for investment. The network component of the project, when fully complete, is expected to provide further benefits in terms of easier and more cost-effective public access to information and online services, and help improve service delivery.

173. Similarly, cumulative assistance to the energy sector has helped to meet the shortfall in electricity supply on Malé and contributed to providing reliable power supply on several other islands. This increase in generating capacity and geographic coverage has undoubtedly helped to improve the quality of life across the country, contributed to improving the environment for economic development, and improved energy efficiency.

174. An analysis shows that during 2002–2008, the country's nontourism GDP grew at a compounded annual growth rate of 8.5%. Since tourist resorts have their own captive power supply, the growth in nontourism GDP can be partly attributed to the increase in the general electricity supply. It can thus be postulated that the expansion of power supply enabled the Maldivian economy to grow, or at the very least, did not inhibit growth. Together with this, the relocation of the power plant on Malé and the installation of equipment to control emissions and noise have had environmental benefits. Activities in this sector have also helped improve the capacity of some institutions, though efforts to improve the capacity of the sector regulator have not been successful.

175. In education, though the support has been limited, it has nevertheless contributed to an improvement in postsecondary education standards and led, indirectly, to the subsequent establishment of the first university in the country. This is expected to continue to contribute to the country's need for individuals with higher education in the future to contribute to human resource development. ADB has contributed to skills development and improved employment opportunities for women, through its Employment Skills Training Project, though the impact of this intervention has been limited by the absence of complementary labor market reforms and the country continues to be reliant on expatriate skilled and semi-skilled workers. Further, training is proposed to be provided to women entrepreneurs under the ongoing Private Sector Development project.

176. In general, the impact has been greater in sectors with multiple interventions and continuity, and involved the construction of physical infrastructure. The presence of strong government counterparts, as for example, in the education sector; a conducive enabling environment; and scaling-up actions are further determinants that have enhanced the

development impact. Continuity of assistance in sectors of engagement through a sequenced approach, while important, was in itself not sufficient to make a major impact without strong government commitment.

177. The TEAP, with assistance provided by other development partners, helped the country to recover relatively quickly from widespread devastation and mitigate the effect of recovery and reconstruction efforts on the country's fiscal and current accounts. However, while much of the built infrastructure is of better quality than before and meets higher environmental standards, overall, the results from ADB's support was below expectations as several subprojects were not implemented, and interventions are not sustainable.

178. Support to the finance sector did not succeed in achieving its goal of creating a deeper and more efficient financial sector to support investment and economic growth due a change in government priorities and the absence of whole-hearted government commitment to reforms after the TA program had been set in motion, and to the consequent lack of continuity. The TA activities in the financial sector were grounded on the need to develop what was a narrow, controlled, and poorly supervised financial sector. They sought to strengthen the financial system and enhance availability of term finance to facilitate private sector-led growth.

179. The TA activities under the finance sector did, though, appear to have influenced thinking and contributed to progressive, if limited, later reforms. The notion of developing a strategy for the financial sector was recently revived by the government with the World Bank, which has drafted a financial sector strategy paper.

180. Efforts to enhance the availability of credit have recently been taken up again through the Private Sector Development Project approved in 2008. Support for the industry and trade sector is recent, perhaps overdue, and limited, but has the potential over time, if continued, to make an important contribution in terms of diversifying economic activities and maintaining the country's growth momentum.

181. The contribution to development impact in thematic areas has been more visible in environment, and governance and capacity development than in regional cooperation and integration, and gender and development. In the environment sector, the regional development projects with their integrated programming approaches with water supply, sanitation, solid waste management, transportation, and energy atoll and island subprojects, have contributed to increased resilience of communities and their ecosystems. UNDP is presently developing such integrated atoll and island programming in a bid to move forward from the existing pilot approaches followed.

182. In governance and capacity development, efforts to strengthen capacity has translated to increases in contract awards for consulting services under loans and TA activities during 2007–2011 (from \$0.49 million in 2007 to \$4.25 million in 2010). However, evidence has demonstrated that this dependence on consultants has in many cases resulted in capacity substitution. Overall, the contributions to institutional development outcomes have been limited at best. For gender and development issues, more needs to be done to improve the preparation and use of sector- and project-specific analysis, and increase the number of gender-related indicators in the sector and thematic road maps, and design and monitoring frameworks of projects. More emphasis is needed to strengthen the tracking of gender results in project performance monitoring systems through implementation and completion.

183. Under regional cooperation and integration, the country is marked by its openness and effective and beneficial use of imported factors of production. Examples of this include regional capital through the branches of regional banks located in Malé, and expatriate labor, both skilled and semi-skilled, from other South Asian countries to meet domestic constraints. Despite this, the regional cooperation and integration theme has not been adequately reflected in CSPs, even though it is an important objective of Strategy 2020.

184. There has been limited impact on private sector development in the country. Support to the financial sector has failed to improve access to finance for SMEs. However, in addition to the ongoing Private Sector Development Project, a follow-up project for inclusive microenterprises and SMEs is planned.

185. There were two nonsovereign operations undertaken in 2007 and 2008. The contribution of the MFLC loan to overall private sector development has been mixed, partly because the bulk of MFLC's leased assets were in fisheries and tourism, two sectors that were already relatively well-served by commercial banks in the Maldives, and partly because the company's operations have been constrained by unresolved legal issues. As a result, the company has been winding down its operations and repaid the ADB loan.

186. The other nonsovereign operation, a senior loan and equity investment in HDFC, has enabled it to increase availability of finance for housing, including to lower- and middle-income groups, and simultaneously lowered the cost of borrowing. As a privatized institution, it has reduced the government's direct involvement in the financial sector, and with technical support from HDFC India, HDFC is now better placed to become a self-sustaining institution. Additional nonsovereign loans for infrastructure projects under consideration will support further private sector development in the Maldives.

## **G. ADB and Borrower Performance**

### **1. ADB Performance**

187. ADB's overall performance is rated *partly satisfactory*. The country program consistently responded to country needs and to the evolving country context. However, issues like insufficient institutional capacity were not treated systematically affecting the effectiveness and sustainability of its activities. The limited absorptive capacity of line ministries was also not recognized adequately, reducing the impact of capacity development support provided to the country.

188. A perception survey conducted as part of this CAPE reveals that most ADB counterparts agreed that ADB was responsive to the country's development needs, and sensitive to the country context and to changing conditions. About 80% of respondents also felt that ADB provided timely responses to inquiries. However, this was partly contradicted by other responses indicating that ADB could improve by "having specific and definite time lines" to give feedback on project-related matters. This confirms the IEM findings that the responsiveness varied across projects.

189. In the earlier part of the evaluation period, economic, thematic and sector work was limited, and as a result key constraints and alternatives were not rigorously identified. Sector work in preparation for the CSP, 2002–2006 and its updates was also limited. More extensive work was carried out prior to the CPS, 2007–2011. However, it is not clear if findings adequately informed the preparation of subsequent country programs and project designs.

190. ADB could have done better than it has, by focusing more narrowly, and using program-based approaches to ensure greater continuity, predictability of funding, and long-term engagement. Similarly, TA for capacity development linked to individual or intermittent projects (other than in PSM), instead of long-term approaches to develop capacity, have proved to be largely inadequate. Given ADB's role as a major development partner, greater policy dialogue and firmer insistence on acceptance and implementation of policy reforms would have been desirable.

191. Coordination and strategic positioning among development partners has been limited, in terms of cofinancing and program or sector coordinated approaches (with the exception of the TEAP and the ERP). This meant that interventions by ADB and other development partners did not always complement each other optimally. Although two advisory TA projects were cofinanced in 2005, ADB needs to explore cofinancing options more actively considering the limited resource envelope available and as no lending projects were cofinanced since 1999.

192. ADB has a significant role in the country. According to data provided by the government, it provided about 12.1% of total development assistance from 1994 to 2004 and nearly 7.8% from 2006 to the present,<sup>51</sup> with a larger share in some sectors. Given this and its 3-decade long involvement in the development of the Maldives, ADB has had the potential to make a larger contribution to the country's development.

## 2. Borrower Performance

193. The overall performance of the borrower is rated *partly satisfactory*. The government's commitment to reforms and organizational change has varied across sectors and projects. Before 2008, the government adopted a wait and watch approach, postponing implementation of most ADB-supported macroeconomic and structural reforms. The political transition in 2008 was a watershed with changes in government priorities and objectives, with greater willingness to increase the private sector's role, but the implementation of macroeconomic reforms continue to face challenges.

194. Evidence has shown that in addition to strong government ownership, the capacity of executing and implementing agencies is an important determinant of improved development outcomes. Delays in bid preparation, evaluation, and procurement have been due to unfamiliarity with the process and lack of capacity in line ministries. To address this, the government centralized such activities under the Office of Programs and Projects in MOFT since 2008, to act as a central project management unit for all externally funded activities. Ensuring that the unit is adequately staffed and has the capacity to carry out its functions competently and in a timely manner will be important.

---

<sup>51</sup> This includes the period covered by the pause in lending instituted under the CPS, 2007–2011.

## V. OVERALL PERFORMANCE RATING AND ADDRESSING THE QUESTIONS

195. Based on the performance ratings by criterion, the overall rating for the country program to the Maldives from 1978 to 2010 is *partly successful*. The performance ratings by criterion and by sector are summarized in Table 4 (Appendix 5, Table A5.2). The performance in the energy, education, and transport and ICT sectors is rated *successful*, while PSM, tsunami emergency assistance, and multisector is rated *partly successful*, with industry and trade rated *likely partly successful*. Appendix 6 provides sector assessments, and Appendix 7 the sector results framework. Detailed sector assessments are available in the supplementary appendices.

**Table 4: Performance Ratings by Criterion and by Sector**

Sector	Strategic Positioning	Relevance	Efficiency	Effectiveness	Sustainability	Development Impact	Overall Assessment
Public Sector Management	Satisfactory	Relevant	Less Efficient	Likely Effective	Less Likely Sustainable	Partly Satisfactory	Partly Successful
Transport and ICT	Satisfactory	Relevant	Less Efficient	Effective	Likely Sustainable	Satisfactory	Successful
Energy	Satisfactory	Relevant	Less Efficient	Effective	Likely Sustainable	Satisfactory	Successful
Tsunami Emergency Assistance	Satisfactory	Less Relevant	Efficient	Less Effective	Less Likely Sustainable	Partly Satisfactory	Partly Successful
Multisector	Satisfactory	Relevant	Less Efficient	Less Effective	Less Likely Sustainable	Partly Satisfactory	Partly Successful
Education	Satisfactory	Relevant	Efficient	Effective	Likely Sustainable	Satisfactory	Successful
Industry and Trade	Satisfactory	Relevant	Likely Efficient	Likely Effective	Less Likely Sustainable	Not Rated	Likely Partly Successful
<b>Overall</b>	<b>Satisfactory</b>	<b>Relevant</b>	<b>Less Efficient</b>	<b>Effective</b>	<b>Less Likely Sustainable</b>	<b>Partly Satisfactory</b>	<b>Partly Successful</b>

ICT = information and communication technology.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

196. The *partly successful* overall rating is based on the cumulative impact of the country program in addressing the country's development needs given its constraints. Overall, ADB operations have contributed to improving physical infrastructure, especially in the energy sector, including on remote islands, and transport connectivity. However, despite several TA activities, it has only partially succeeded in improving public sector capacities in the sectors in which ADB was engaged, and in financial and fiscal management. Its forays into financial sector development and TA for agriculture and fisheries were not pursued for a variety of reasons and have shown little or no results. The economy continues to be highly dependent on imports, foreign aid, capital, and skilled workers; and reliant on increasing expensive imported energy. Despite satisfactory overall growth, a reduction in overall poverty, and improved island connectivity and infrastructure, poverty rates on the outer islands continue to be high.

197. Similarly, public sector capacity remains weak. Interventions have not succeeded in improving institutional development with a few exceptions. The benefits of training have trickled into the wider economy and to some extent improved human development in the country as a whole, as have the benefits of its interventions in education. The country program has so far had only a limited effect in helping to diversify the economy and improve the environment for private sector development. This can change if ADB continues to support a well-designed program of policy reforms to create an enabling environment supportive of private investment and SME development. The focus needs to be on improving the investment climate through reforms in trade policies, laws, the financial sector and regulations, which promote overall investment not necessarily just in SMEs. These policy changes must address the issue of incentives for investment and for increased financing.

198. The issues and lessons identified by the 2007 validation of the CSP completion report are to a great extent still valid, as many of the required actions have not been undertaken, recorded, or tracked over time. Sector selectivity has improved and, in principle, focus on capacity development increased; although the present evaluation shows that improvement in capacity has been limited so far.

199. As part of the strategy to improve capacity for economic and financial management, a TA grant of \$3.0 million for Institutional Strengthening for Economic Management was approved along with a TA loan of \$1.5 million for Capacity Development for Economic Recovery. The government has undertaken initial efforts on a medium-term fiscal consolidation program through additional tax effort and expenditure contraction. The World Bank's Debt Management Performance Assessment is evaluating strengths and weaknesses in public debt management. The ratio of disbursements to outstanding ADB commitments improved sharply from 16% during 2001–2009 to 17% during 2007–2009, to 43% in 2010, although this was mainly due to the up-front first tranche disbursement of the ERP and partly due to special efforts by ADB's country team to monitor and close projects.

200. There has been some progress in developing a medium-term fiscal framework with ADB support. An inception report for the TA project on Strengthening Economic Management was prepared in February 2011 and covers fiscal management, debt management, and cash-flow projections. However, limited results were achieved in capacity development efforts in other sectors during the first phase of the CPS, although this was the specific focus, and ADB moved into the second phase in 2010. There is no evidence of efforts that were undertaken to address institutional shortcomings in transport and energy, which have been identified as focus sectors for ADB.

201. With regard to the creation of a strong project management unit in executing agencies (para. 73), while the Office of Programs and Projects was created as a centralized project management unit within MOFT in 2008 to expedite project start-up and faster implementation, it has not been adequately staffed and is unable to expedite project implementation. In fact, the introduction of a centralized agency has inserted another level into the procurement process and consequently has led to complaints of delays from other organizations. In addition, little has been done too to undertake an integrated approach within the priority sectors targeted or to improve engagement with the government for reducing frequent staff changes and improving staffing capabilities. Table A4.3 in Appendix 4 provides information on implementation of the lessons identified in the 2007 CSP completion report validation.

202. Table A4.4 in Appendix 4 presents the updated CPS, 2007–2011 results framework. The results framework identified contributions of activities that were programmed in five areas

following the approval of the country strategy in September 2007. Overall, there has been a truncation of activities in four sectors (power, SME development, private sector, and transport) with the exception of PSM-related assistance. The results areas of the framework remained valid despite reconfiguration of the seventh NDP into the existing strategic action plan.

203. However, the quality of the 20 outcome indicators has varied across sectors in terms of their usefulness in periodically tracking progress towards stated outcomes. While outcome indicators for power and SME development are clear, adequate and monitorable, those for transport and private sector development have tended to be at the activity level. The outcomes and indicators for public sector economic and financial management are also high level. Further, there is an overlap of outcomes and indicators across SME development and private sector. Out of the 20 outcome indicators, there has been progress in 7 indicators primarily related to support for power and SME development.

## **VI. CONCLUSIONS**

### **A. Opportunities and Threats**

204. In the 33 years since the beginning of ADB's engagement with the Maldives, the country has made substantial progress. Real per capita incomes have risen at a compounded annual growth rate of 5% to \$2,894 in 2010, while five of the eight MDGs have been achieved ahead of schedule. Basic physical infrastructure (other than water supply and sewerage systems) and social services have been extended to the remote islands. The national capacity, while increased, is still not adequate to shape the development agenda.

205. The country has been able to leverage its limited resources to emerge as a premier tourism destination and a major exporter of fish and fish products, and maintained an open economy, which, among other benefits, has allowed it to meet domestic skills shortages. The country remains poised to grow its tourism industry, maintain a satisfactory rate of economic growth, and meet most of the remaining MDGs as it builds on its newly acquired middle-income country status from January 2011.

206. However, its development model is vulnerable and the country continues to face risks and significant threats. These include a high degree of vulnerability to external shocks, periodic fiscal imbalances due to external and domestic factors, a narrow revenue base and large public sector, disincentives to work at lower skill levels, as well as many of the other factors common to small island economies. These factors include a narrow resource base, widely dispersed population, and capacity and human resource constraints. Its limited capacity and shortage of skills have continued to constrain its absorptive capacity, the effectiveness of aid interventions, and the development of its legal and judicial systems.

207. The country faces a number of threats and challenges, including from reduced grant and concessional aid as a result of its graduation to middle-income status, a secular decline in fish catch and exports, and climate change adaptation. It also faces challenges as it seeks to promote a dynamic private sector and increase foreign investment.

208. Changes in the political environment have resulted in greater democratic rights and offer the potential for greater accountability and improved governance. The new government has promised to decentralize decision-making powers, which were previously concentrated in the Office of the President, and increase its commitment to an increased role for the private sector. The 2010 Decentralization Act created a three-tier governance structure comprising two city

councils, 19 atoll councils, and 181 island councils. They receive annual funds from Treasury and have the right to generate own-source revenues. The first local council elections were conducted in February 2011.

209. However, the development of decentralization-related regulations and modalities for the management of these newly created local councils are still at the preparatory stage. This implies that in the short-run, such changes carry increased challenges for project implementation given the complexity of relations between the national government and elected city, atoll, and island councils.

## **B. Key Lessons**

210. **Continued engagement within a sector and a long-term focus will enable better policy dialogue, improved sector outcomes, and increased development impact.** Given the limited resource envelope available to the Maldives, ADB will have to focus about which sectors it wishes to engage in. In the past, it has been involved in as many as nine sectors, often based on decisions to support specific projects. This has contributed to lack of continuity, intermittent engagement, and constrained resources available to any one sector over time. A long-term focus in sectors of demonstrated comparative advantage, combined with adequate resources, analysis of constraints, regular policy dialogue, and project lending and capacity development programs is required for improved results.

211. **Effective engagement in core sectors necessitates a phased approach with analysis, policy dialogue, lending, and capacity development.** Interventions have largely been made in response to immediate needs. However, a long-term approach founded on sound analytical work for rigorously identifying binding sector constraints, recognizing the need for parallel efforts in related areas, developing a comprehensive strategic plan, and ensuring continuity of interventions results in closer policy dialogue, better institutionalization of capacity, and more effective interventions. Since ADB clearly cannot engage in all areas, parallel efforts need to be coordinated with other development partners.

212. **Dependence on consultants to support project implementation has led mainly to capacity substitution.** Country conditions needs to be taken into account in project design and implementation, in particular inadequate capacity in implementing agencies. However, the appointment of implementation consultants has itself been responsible in many cases for start-up delays due to the time taken to select such consultants, which has then held up design, bid preparation, procurement and implementation. Though such implementation support is mainly meant to assist local institutions, evidence demonstrates that it ends up substituting for inadequate assignment of human resources. This means that implementing agencies do not get to benefit from learning on-the-job. Further, any training activities are often assigned a lower priority by the TA consultants. It may therefore be desirable to separate implementation support from provision of training. Since the quality of consulting support is variable, supervision of consultants is important, particularly when projects are complex or drawn out, such as projects using a sector approach with subproject selection after loan approval.

213. **An incremental approach for capacity development through advisory TA activities is likely to be more effective, although demonstrable results take time.** Feedback received from counterpart agencies included the need for a new approach on the part of ADB and other development partners to promote institutional development. Interventions for developing sector capacity incrementally over a longer period of time have succeeded in strengthening and institutionalizing capacity, where a more ambitious single intervention has not.

## C. Key Issues

214. **Small resource envelope.** ADB's long-time engagement and its support for addressing the country's infrastructure deficit has placed it in a key situation to influence the country's development agenda. However, a limited resource envelope has meant that delivery of support and interventions have been intermittent. Despite increases in the annual assistance provided, its relative share has declined in terms of total external assistance received by the country, especially after the 2004 tsunami following the entry of several development partners and expansion of the scope of their activities. ADB will also have to work more closely with other development partners to leverage its assistance and where complementary interventions and reforms are needed in related sectors. While sector focus was improved in the most recent CPS, this will need to be combined with the other measures to increase sector engagement and linkage across projects and sectors.

215. **Delays in project implementation.** Reasons for delays include insufficient project preparatory work, unfamiliarity of implementing agencies with ADB policy and procedures, and weak capacity of the government's Office of Programs and Projects. While 4 of the 14 projects closed were delayed by more than 4 years, the average delay for all projects is about 3 years. A consequence of such delays has been cost escalation that has caused a scaling-down of project components. In 2010, the South Asia Regional Department initiated the semi-annual tripartite reviews of ongoing projects to help address implementation issues.

216. **Limited effectiveness of past capacity development efforts.** TA activities across the board have produced varying levels of outputs and outcomes due to limited government commitment, absence of a long-term strategy to strengthen sector capacity, and staff turnover as a result of reorganizations. Earlier capacity development efforts focused on the provision of TA rather than policy dialogue about required institutional changes and incentives.

217. **Low availability and use of monitoring and reporting systems.** Baseline information and monitoring data is not available in many projects and TA activities. The absence of benchmarks and performance indicators, at approval and during implementation, including the lack of outcome indicators, has made an assessment of the effectiveness of interventions difficult. Findings from in-country consultations included the point that focus throughout implementation tends to be more on disbursements instead of maximizing development effectiveness, and that more time needs to be provided for closer supervision during project implementation given the country's special context and needs.

218. **Recent government reform initiatives still have to be fully implemented.** The government's commitment to reforms and organizational changes has varied across sectors, loans, and TA activities. Until 2008, the previous government predominantly adopted a wait-and-watch approach and postponed implementation of most reforms and recommendations of loans and TA activities. By comparison, the new government has shown greater commitment to undertake fiscal and macroeconomic reforms. While progress has been made on the revenue side, which has been the focus of the ADB supported reforms, there has been little progress achieved to formulate a clear road map on long-term expenditure contraction.

219. **Future strategies and programs need to be informed by implications of the recent decentralization efforts.** In addition to the ongoing ERP, the government has also initiated the decentralization of decision-making powers previously concentrated in the Office of the President. The 2010 Decentralization Act has created a three-tier structure with two city councils, 19 atoll councils, and 181 island councils. However, related regulations and modalities

for management of the newly created local councils are still at the preparatory stages. This implies that in the short term, such changes carry increased challenges for implementation and sustainability given the complexity of relations between the national government and directly elected city, atoll, and island councils.

#### **D. Recommendations**

220. Based on these lessons and issues, the CAPE puts forward the following recommendations for consideration by ADB Management during the formulation of the next CPS and the implementation of ongoing operations.

**221. Improve effectiveness of ADB strategy and program by maintaining sector selectivity while ensuring development effectiveness through coordination with development partners on complementary support in related sectors, basing new lending on long-term sector support strategies, and widening consultative efforts during the formulation and implementation of sector strategies and programs.** Sector interventions have been intermittent and in response to immediate needs. Better results can be obtained by taking a long-term approach for priority sectors, with a strong analytical base, a strategic plan, continuity of efforts; tracking wider contributions to complementary sectors; and increasing collaboration with other development partners to develop reforms in complementary sectors.

222. Efforts need to be undertaken to ensure that new infrastructure operations are based on better-informed long-term support strategies. A sequenced approach to develop sector results step-by-step including through any necessary changes in its operating environment and institutional reforms would be appropriate.

223. The effectiveness of TA in developing capacity has been limited due to the absence of comprehensive strategies to improve related policy environment, institutional powers, or incentives. A holistic understanding of objectives and country ownership, including creation of enabling framework conditions to achieve institutional effectiveness need to be undertaken as elaborated in ADB's 2007 Medium-Term Framework and Action Plan for Integrating Capacity Development.

224. Buy-in also needs to be accompanied with suitable government commitments through consultative efforts at the national and local levels during the formulation of sector strategies and preparation of sector programs.

**225. Enhance project delivery by using phased approaches, providing adequate support for project preparation, allocating sufficient time for implementation of investment projects, and exploring the option of assigning a dedicated focal point in ADB's Sri Lanka Resident Mission; or setting up a liaison office in Malé to increase interaction with counterparts.** ADB projects have faced delays at start-up and during physical project implementation. Start-up delays can be minimized by conducting better project preparatory work, providing guidance during implementation, and avoiding a sector modality. Where a sector modality is unavoidable or particularly desirable, additional time for implementation relevant to the context of the Maldives should be provided. Similarly, phased approaches need to be considered in terms of timing and geographic coverage, especially for investment projects that are implemented beyond Malé. This implies the implementation of smaller pilot projects prior to larger scale roll-out in line with local capacity.

226. Implementation delays occur because of several factors, some of which are specific to individual projects. Common factors have included changes in project design or scope due to technical reasons and changes in scope at the behest of the national government or island communities. Better project preparatory work, firm government commitment to project objectives, and adequate stakeholder consultations could minimize such delays.

227. ADB does not have a resident mission in the country. While a full-fledged resident office may be difficult to justify given the limited size of the portfolio, ADB should explore other potential options. These include assigning a dedicated focal point in Sri Lanka Resident Mission; setting up a liaison office in Malé to help coordinate activities and provide guidance and assistance to executing and implementing agencies in meeting ADB requirements as needed, and expediting project processing and implementation.

228. Distance from ADB headquarters as a constraint for more frequent interaction can be overcome through the use of modern technologies like video conferencing, since the Maldives has good broadband and telecommunication facilities. Coordination would also be helped if staff rotation in the country teams at ADB headquarters was reduced. This has been an issue in some of the sector divisions.

## COUNTRY DEVELOPMENT INDICATORS

**Table A1.1: Select Economic and Social Indicators, 2000–2010**

Series	Year										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Output and Prices</b>											
GDP (current \$, million)	624.3	625.1	640.7	692.4	776.5	749.7	915.4	1,054.4	1,260.2	1,318.7	1,479.8
GDP (constant 1995 \$, million)	539.1	557.7	594.1	644.8	706.1	673.4	794.5	852.0	905.6	883.7	926.0
Real GDP growth (annual %)	4.8	3.5	6.5	8.5	9.5	(4.6)	18.0	7.2	6.3	(3.0)	4.8
GDP per capita (constant 1995 \$)	1,986	2,021	2,118	2,262	2,439	2,293	2,648	2,795	2,922	2,810	2,894
Inflation, (consumer prices Malé, annual %)	(1.2)	0.7	4.2	(1.3)	(1.7)	1.3	2.7	6.8	12.0	4.5	6.2
<b>Composition of GDP (% of GDP)</b>											
Primary	9.4	9.5	10.4	9.7	9.1	10.7	9.1	7.2	6.5	6.1	5.7
Fisheries	6.0	6.1	7.1	6.6	6.1	7.5	6.3	4.6	4.0	3.6	3.2
Agriculture	2.7	2.8	2.7	2.6	2.5	2.6	2.2	2.0	2.0	1.9	1.9
Industry	14.4	15.1	15.6	15.6	16.1	17.3	17.0	17.5	17.9	16.2	15.9
Services	80.1	79.3	77.9	78.6	78.8	75.8	77.9	79.3	79.6	81.5	82.4
Tourism	33.0	31.9	30.9	32.7	32.4	22.7	27.4	27.9	27.1	26.3	28.7
Transport and information and communications	14.5	14.2	14.3	14.2	15.2	18.4	18.5	18.6	19.2	20.0	19.8
Government administration	11.8	12.7	12.6	12.4	12.8	15.3	14.8	15.9	17.0	18.7	17.5
(Permanent government employees, number)	20,336	21,705	23,464	24,233	26,357	27,636	30,243	32,788	(...)	(...)	(...)
<b>Government Accounts (Rf million)</b>											
Revenue and grants	2,373	2,523	2,715	3,088	3,425	4,613	6,154	7,571	7,457	5,735	6,594
(of which, grants)	166	212	133	124	73	825	867	1044	517	422	506
Expenditure and net lending	2,694	2,886	3,117	3,388	3,583	5,658	6,957	8,283	10,176	10,953	9,696
Overall balance (including grants)	(321)	(363)	(402)	(300)	(158)	(1,045)	(803)	(712)	(2,720)	(5,219)	(3,102)
% of GDP	(4.4)	(4.7)	(4.9)	(3.4)	(1.6)	(10.9)	(6.9)	(5.3)	(16.9)	(30.9)	(16.4)
<b>External Accounts</b>											
Exports (\$, million)	108.7	110.2	132.4	152.0	181.0	161.6	225.2	228.0	331.1	169.0	199.9
Imports (\$, million)	388.6	393.5	391.7	470.8	641.8	744.9	926.5	1,096.3	1,387.5	967.3	1,095.1
Total trade (exports + imports, % of GDP)	79.7	80.6	81.8	90.2	106.0	120.9	125.8	125.6	136.4	86.2	87.5
Current account balance (% of GDP)	(8.2)	(9.4)	(5.6)	(4.5)	(15.8)	(36.4)	(33.0)	(41.5)	(51.4)	(31.8)	(38.9)
Net foreign debt (\$, million)	(...)	203	252	279	316	379	558	828	894	933	943
As % of GDP	(...)	32.4	39.3	40.4	40.7	50.6	60.9	78.6	70.9	70.8	63.7
Debt service ratio (public and publicly guaranteed)	(...)	4.3	4.3	3.7	4.1	6.4	4.1	4.5	5.1	6.1	5.6
Gross international reserves (\$, million)	(...)	93.1	133.1	159.5	203.6	186.4	231.6	308.4	240.6	251.0	350.0
Official exchange rate (Rf/\$, period average)	11.8	12.2	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
Broad Money (M2) (Rf million)	(...)	3,254	3,957	4,637	6,091	6,737	8,009	9,939	12,110	13,616	15,860

Series	Year										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Population</b>											
Total population, census and intercensal estimates ('000)	271	276	281	285	289	294	300	305	310	315	320
Birth rate, crude (per 1,000 people)	20	18	18	18	18	19	19	22	22	23	(...)
Death rate, crude (per 1,000 people)	4	4	4	4	3	3	4	4	3	4	
Population growth, census (annual %)	2						2				
Employment ratio, female (% of females aged 15 and above)	30.7	32.8	34.5	36.3	38.2	42.3	40.5	41.7	42.9		
Employment ratio, male (% of males aged 15 and above)	66.9	67.5	68.0	68.6	69.3	70.8	70.1	70.7	71.4		
Employment ratio, total (% of population aged 15 and above)	49.0	50.4	51.4	52.6	53.9	56.7	55.5	56.3	57.3		
<b>Health and Other Social Indicators</b>											
Life expectancy at birth, female (years)	70	71	71	71	72	73	73	74	74	74	
Life expectancy at birth, male (years)	70	70	70	70	71	72	72	72	73	73	
Mortality rate, infant under 5 (per 1,000 live births)	30	26	23	18	22	16	18	12	14	12	
Literacy rate, adult female (% of females ages 15 and above)	96.4						98.4				
Literacy rate, adult male (% of males ages 15 and above)	96.2						98.4				
Literacy rate, adult total (% of people ages 15 and above)	96.3						98.4				
School enrollment, primary (% net)	98	98	100	100	100	100	105	99	92	95	
School enrollment, lower secondary (% net)	37	43	44	52	52	65	71	69	67	77	
School enrollment, higher secondary (% net)	1	1	2	2	4	7	8	4	6	14	
Gini index					37.4						

( ) = negative value, (...) = no data available, GDP = gross domestic product, Rf = rufiyaa.

Note: Data from 2006 based on the methodological framework of the International Monetary Fund.

Sources: Maldives Monetary Authority. 2011. *Monthly Statistics (March)*. Malé; Department of National Planning. 2010. *Statistical Yearbook of Maldives 2010*. Malé.

**Table A1.2: Maldives: Millennium Development Goals – Targets<sup>a</sup> and Progress**

Goals and Targets	Earliest Data	Data Year	Latest Data	Data Year	Remarks
<b>Goal 1: Eradicate extreme poverty and hunger</b> Target 1: Halve \$1 per day (PPP) poverty.	3%	1997	1%	2004	Achieved
Target 2: Halve the proportion of people suffering hunger (Indicator: Proportion of underweight children)	43%	1994	27%	2004	On track (Target 23%–24%)
<b>Goal 2: Achieve universal primary education</b> Target 3: Ensure boys and girls alike complete a full course of primary schooling.	86.7%	1990	100% enrolment (98% attendance)	2002 2006	Achieved
<b>Goal 3: Promote gender equality and empower women</b> Target 4: Eliminate gender disparity in primary and secondary education by 2005 and at all levels by 2015. Gender parity ratio in primary enrolment Gender parity ratio in secondary education Gender parity ratio in tertiary	0.24	1990	1.0 (F=M) 1.2 (F>M) 0.58 (F<M)	2005 2005 2006	Achieved partially
<b>Goal 4: Reduce child mortality</b> Target 5: Reduce the under-5 mortality rate by two-thirds.	48/1,000	1990	18/1,000	2006	On track (target 16/1,000)
<b>Goal 5: Improve maternal health</b> Target 6: Reduce the maternal mortality rate by three-quarters.	259 per 100,000	1997	69 per 100,000	2006	On track (target = 65 per 100,000)
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b> Target 7: Halt and then begin to reverse the spread of HIV/AIDS.  Target 8: Halt and then begin to reverse the incidence of malaria and other major diseases.					Achieved. Needs to be sustained.  Low incidence, only 13 local cases detected during 1990–2003  Malaria eradicated; low incidence of other communicable diseases
<b>Goal 7: Ensure environmental sustainability</b> Target 9: Integrate sustainable development into country policies and programs, and reverse loss of environmental resources.  Target 10: Halve the proportion of people without sustainable access to safe drinking water and sanitation.  Ratio with access to safe water	<40%	1990	94%	2006	Needs strengthening. Policies incorporate sustainable development. Major activities of tourism and fisheries conducted sustainably. Firewood use reduced from 79% of households in 1990 to 14% in 2006. However, extreme vulnerability to global climate change remains.  100% of population of Malé provided with desalinated water of good quality; however, highly energy dependent. 76% of population on atolls is dependent on rainwater of

Goals and Targets	Earliest Data	Data Year	Latest Data	Data Year	Remarks
<p>Ratio with access to improved sanitation</p> <p>Target 11: Significantly improve the lives of at least 100 million slum dwellers by 2020.</p>					<p>variable quality.</p> <p>Achieved. Issues: Improperly constructed septic tanks leak and untreated sewage is discharged into the sea.</p> <p>No slums. Issues: Post-tsunami repair and reconstruction, and upgrading of housing stock are needed. Increased crowding in Malé raises challenges.</p>
<p><b>Goal 8: Develop a global partnership for development</b></p> <p>Target 13: Address the special needs of least-developed, landlocked, and small island countries.</p> <p>Target 9: Deal comprehensively with developing countries' debt.</p>					<p>The Maldives has been a recipient of significant amounts of ODA both in the form of grants and concessional loans. Issue: graduation from least-developed country status in 2011.</p> <p>High dependence on external assistance for development and narrow export base make debt service a challenge; graduation to middle-income category will make debt management more difficult. Steps are being taken under an IMF-supervised program.</p>

IMF = International Monetary Fund, ODA = official development assistance, PPP = purchasing power parity.

<sup>a</sup> Except where otherwise indicated, targets are to be achieved during 1990–2015.

Source: Government of the Maldives. *Millennium Development Goals, Maldives Country Report 2007*. Ministry of Planning and Development, Malé, October 2007. Data shown in *World Development Indicators* varies in certain instances from that in the *Country Report*. However, the trend is similar and indicates that the targets for under-5 child mortality and improved sanitation have also been met.

## ASIAN DEVELOPMENT BANK COUNTRY PROGRAM IN THE MALDIVES

### Table A2.1: Sovereign Loans and Grant Support, 1978–2010

Project Reference Number/Title	Amount (\$ million)	% of Total	Date Approved	Status*	PCR Rating	PPER/ PVR Rating
<b>1. Education</b>	<b>12.30</b>	<b>7.65</b>				
2028 Employment Skills Training	6.00		2-Dec-03	Active		
1637 Post Secondary Education Development	6.30		30-Sep-98	Closed	S	S (PVR)
<b>2. Energy</b>	<b>30.30</b>	<b>18.84</b>				
848 Power System Development	6.10		27-Oct-87	Closed	NR	GS
1121 Second Power System Development	9.20		19-Nov-91	Closed	GS	S
1532 Third Power System Development	7.00		9-Sep-97	Closed	S	
1887 Outer Islands Electrification (Sector)	8.00		18-Dec-01	Closed	No PCR yet	
<b>3. Industry and Trade</b>	<b>7.50</b>	<b>4.66</b>				
2427 Private Sector Development	7.50		20-Jun-08	Active		
<b>4. Multisector</b>	<b>16.38</b>	<b>10.19</b>				
681 Multiproject	2.38		29-Mar-84	Closed	NR	GS
1695 Regional Development	8.00		2-Sep-99	Closed	PS	PS (PVR)
2170 Regional Development Project Phase II – Environmental Infrastructure and Management <sup>1</sup>	6.00		28-Apr-05	Active		
<b>5. Tsunami Emergency Assistance</b>	<b>21.80</b>	<b>13.56</b>				
2160 Tsunami Emergency Assistance Loan	1.80		31-Mar-05	Closed	S	
Grant Tsunami Emergency Assistance Project 00001	20.00		31-Mar-05	Closed	S	
<b>6. Public Sector Management</b>	<b>41.50</b>	<b>25.80</b>				
1915 Strengthening of the Public Accounting System	5.00		27-Sep-02	Cancelled		
2597 Economic Recovery Program	35.00		9-Dec-09	Active		
2598 Capacity Development for Economic Recovery	1.50		9-Dec-09	Active		
<b>7. Transport and ICT</b>	<b>31.03</b>	<b>19.30</b>				
1882 Information Technology Development	9.50		17-Dec-01	Closed	No PCR yet	
513 Interisland Transport	1.00		18-Jun-81	Closed	NR	US
911 Male Port Development	6.40		20-Oct-88	Closed	NR	GS
1226 Second Male Port	8.80		1-Apr-93	Closed	GS	S
2327 Domestic Maritime Transport	5.33		24-Apr-07	For financial closing		
<b>Total</b>	<b>160.81</b>	<b>100.0</b>				

GS = generally successful, ICT = information and communication technology, NR = not rated, PCR = project completion report, PVR = project completion validation, PPER = project performance evaluation report, PS = partly successful, S = successful.

Source: Asian Development Bank databases.

<sup>1</sup> L2170-MLD: Regional Development Project Phase II - Environmental Infrastructure and Management, initially classified under Water Supply and Other Municipal Infrastructure and Services has been included under Multisector. A separate assessment has been prepared for ADB's Tsunami Emergency Assistance.

Table A2.2: Technical Assistance: By Type and Sector, 1978–2010

TA Reference Number/Title	TA Type	Amount (\$)	% of Total	Date Approved	Current Status	TCR Rating
<b>Agriculture and Natural Resources</b>		<b>1,140,000</b>	<b>4.9</b>			
1369	Fisheries Sector Strategy Study	ADTA	490,000	7-Sep-90	Closed	
1601	Preparation of an Environmental Management Strategy	ADTA	500,000	15-Nov-91	Closed	
4337	Commercialization of Agriculture	ADTA	150,000	19-May-04	Closed	
<b>Education</b>		<b>1,950,000</b>	<b>8.4</b>			
2324	Education Masterplan	ADTA	300,000	26-Apr-95	Closed	GS
2894	Postsecondary Education Rationalization and Development	PPTA	150,000	16-Oct-97	Closed	
3057	Postsecondary Education Management Development Study	ADTA	150,000	20-Aug-98	Closed	
3405	Science and Technology Masterplan	ADTA	600,000	2-Mar-00	Closed	S
3826	Postsecondary Education and Skills Development	PPTA	400,000	21-Dec-01	Closed	
4338	Strengthening the Framework of Education Toward Vision 2020	ADTA	350,000	19-May-04	Closed	S
<b>Energy</b>		<b>1,360,000</b>	<b>5.9</b>			
771	Power System Development	PPTA	60,000	19-May-86	Closed	
911	Institutional Improvement of MEB	ADTA	350,000	27-Oct-87	Closed	
1338	Second Power System Development	PPTA	100,000	13-Jul-90	Closed	
1605	Institutional Improvements in the Maldives Electricity Board	ADTA	450,000	19-Nov-91	Closed	
1944	Third Power System Development	PPTA	100,000	2-Sep-93	Closed	
3232	Outer Islands Electrification Project	PPTA	300,000	30-Jul-99	Closed	
<b>Finance</b>		<b>780,000</b>	<b>3.4</b>			
1673	Study the Feasibility of Establishing a Long-Term Credit Bank in the Maldives	ADTA	95,000	26-Feb-92	Closed	
2265	Development of a Strategic Framework for Financial Sector Restructuring	ADTA	300,000	27-Dec-94	Closed	PS
2311	Maldives Monetary Authority	ADTA	385,000	13-Mar-95	Closed	PS
<b>Industry and Trade</b>		<b>1,950,000</b>	<b>8.4</b>			
3496	Capacity Building for the Maldives Customs Service	ADTA	700,000	5-Sep-00	Closed	S
4745	Small and Medium-Sized Enterprise Development	PPTA	600,000	19-Dec-05	Closed	
7672	Supporting Inclusive Micro-, Small- and Medium-Sized Enterprise Development	PPTA	650,000	6-Dec-10	Active	
<b>Multisector</b>		<b>615,000</b>	<b>2.6</b>			
589	Appraisal of Subprojects under Multiproject	ADTA	215,000	29-Mar-84	Closed	
4614	Promoting Sound Environmental Management in the Aftermath of the Tsunami Disaster	ADTA	400,000	19-Jul-05	Closed	S
<b>Public Sector Management</b>		<b>12,322,000</b>	<b>53.2</b>			
309	Project Identification, Programming and Planning	ADTA	170,000	25-Oct-79	Closed	
1328	Project Identification and Planning	ADTA	305,000	27-Jun-90	Closed	
1813	Perspective Plan 2000	ADTA	600,000	22-Dec-92	Closed	GS
2159	Regional Development Planning	ADTA	600,000	21-Sep-94	Closed	GS
2440	Development of a System of National Accounts	ADTA	400,000	9-Nov-95	Closed	S
2759	Capacity Building for the Maldives Audit Office	ADTA	600,000	11-Feb-97	Closed	GS
2895	Atoll Development	PPTA	625,000	16-Oct-97	Closed	
2896	Strengthening the Maldivian Legal System	PPTA	150,000	17-Oct-97	Closed	
2988	Further Development of the System of National Accounts	ADTA	950,000	12-Feb-98	Closed	GS

TA Reference Number/Title	TA Type	Amount (\$)	% of Total	Date Approved	Current Status	TCR Rating
3320	Capacity Building for the Maldives Public Accounting System	ADTA	510,000	2-Dec-99	Closed	HS
3389	Strengthening Legal Education and Judicial Training	ADTA	995,000	23-Dec-99	Closed	S
3797	Enhancement of the Social Security System	ADTA	150,000	12-Dec-01	Closed	
3824	Strengthening of the Public Accounting System	PPTA	150,000	19-Dec-01	Closed	
3896	Regional Development Project (Phase II)	PPTA	400,000	12-Jul-02	Closed	
3925	Revenue Diversification	ADTA	350,000	13-Sep-02	Closed	PS
4103	Capacity Building for the National Statistical System	ADTA	350,000	2-May-03	Active	
4196	Strengthening of Debt Management	ADTA	350,000	14-Oct-03	Closed	S
4261	Capacity Building for Regional Development	ADTA	350,000	16-Dec-03	Closed	S
4591	Developing a Results-Oriented 7th National Development Plan	ADTA	377,000	25-May-05	Closed	S
4623	Strengthening Project Management and Monitoring for Ministry of Finance and Treasury	ADTA	250,000	25-Jul-05	Closed	GS
3824	Strengthening of the Public Accounting System (Supplementary)	PPTA	40,000	22-Aug-05	Closed	
4735	Strengthening of Public Service Division	ADTA	250,000	14-Dec-05	Active	
4879	Restructuring and Privatization of State-Owned Enterprises	ADTA	400,000	1-Dec-06	Active	
7424	Institutional Strengthening for Economic Management	ADTA	3,000,000	9-Dec-09	Active	
<b>Transport and ICT</b>			<b>3,058,000</b>	<b>13.2</b>		
291	Interisland Transport and Related Telecommunications	PPTA	98,000	16-Apr-79	Closed	
679	Inter Island Transport Operations Review	ADTA	200,000	25-Apr-85	Closed	
855	Malé Port Development	PPTA	260,000	12-Feb-87	Closed	
1044	Institutional Strengthening of the Maldives Port Authority	ADTA	480,000	20-Oct-88	Closed	
1371	Maldives Port Authority	ADTA	100,000	11-Sep-90	Closed	
1044	Institutional Strengthening of the Maldives Port Authority (Supplementary)	ADTA	100,000	21-Sep-90	Closed	
1656	Second Malé Port	PPTA	250,000	13-Jan-92	Closed	
1841	Second Maldives Port Authority	ADTA	90,000	8-Jan-93	Closed	
1865	Institutional Strengthening of Ministry of Public Works and Labor	ADTA	200,000	1-Apr-93	Closed	
3099	Private Sector Participation in the Maldives Port	ADTA	400,000	20-Nov-98	Closed	GS
3597	Information Technology Development	PPTA	150,000	19-Dec-00	Closed	
3922	Transport Master Plan	ADTA	230,000	6-Sep-02	Closed	US
4394	Domestic Maritime Transport	PPTA	500,000	22-Sep-04	Closed	
<b>Total</b>			<b>23,175,000</b>	<b>100.0</b>		

ADTA = advisory technical assistance, GS = generally successful, HS = highly successful, ICT = information and communication technology, MEB = Maldives Electricity Board, PPTA = project preparatory technical assistance, PS = partly successful, S = successful, TA = technical assistance, TCR = technical assistance completion report, US = unsuccessful.

Source: Asian Development Bank loans, technical assistance, grants, and equity approvals.

**Table A2.3: Japan Fund for Poverty Reduction-Funded Grant**

<b>Grant No.</b>	<b>Title</b>	<b>Amount (\$)</b>	<b>Date Approved</b>	<b>Current Status</b>
<b>Multisector<sup>a</sup></b>				
9066	Restoration of Livelihoods of the Tsunami Affected Farmers in the Maldives	1,000,000	29-Apr-05	Closed

<sup>a</sup> Although this is classified under Agriculture and Natural Resources in ADB database, the Country Assistance Program Evaluation team has treated this as Multisector since this is a part of the Tsunami Emergency Assistance Project.

Source: Asian Development Bank databases.

**Table A2.4: Nonsovereign Operations**

<b>Project Number</b>	<b>Title</b>	<b>Month and Year of Approval</b>	<b>Type of Assistance</b>	<b>Program (\$ million)</b>		
				<b>Approved</b>	<b>Disbursed</b>	<b>Outstanding</b>
<b>Finance</b>						
40935	Maldives Finance Leasing	Mar-07	Loan	4.5	1.5	(...)
41914	Housing Development Finance Corporation	Apr-08	Equity	4.5	2.25	2.25
			Loan	7.5	4.0	4.0

(...) = no data available, ADB = Asian Development Bank.

Source: ADB databases.

**Table A2.5: Total Sovereign Program—Loans, Grants, Advisory Technical Assistance Activities, Sector Wise and Sector Weights Allotted, 1978–2010**

Project Reference Number/Title		Amount (\$ million)	% of Total Amount	Weights Allotted in CAPE
<b>1. Public Sector Management</b>		<b>52.46</b>	<b>29.14</b>	<b>29</b>
L1915	Strengthening of the Public Accounting System	5.00		
L2597	Economic Recovery Program	35.00		
L2598	Capacity Development for Economic Recovery	1.50		
ADTAs	19 Advisory Technical Assistance Activities	10.96		
<b>2. Transport and ICT</b>		<b>32.83</b>	<b>18.24</b>	<b>18</b>
1882	Information Technology Development	9.50		
513	Interisland Transport	1.00		
911	Male Port Development	6.40		
1226	Second Male Port	8.80		
2327	Domestic Maritime Transport	5.33		
ADTAs	8 Advisory Technical Assistance Activities	1.80		
<b>3. Energy</b>		<b>31.10</b>	<b>17.28</b>	<b>17</b>
848	Power System Development	6.10		
1121	Second Power System Development	9.20		
1532	Third Power System Development	7.00		
1887	Outer Islands Electrification (Sector)	8.00		
ADTAs	2 Advisory Technical Assistance Activities	0.80		
<b>4. Tsunami Emergency Assistance</b>		<b>23.20</b>	<b>12.89</b>	<b>13</b>
2160	Tsunami Emergency Assistance Loan	1.80		
Grant 00001	Tsunami Emergency Assistance Project	20.00		
JFPR	1 JFPR grant	1.00		
ADTA	1 Advisory Technical Assistance Activity <sup>a</sup>	0.40		
<b>5. Multisector</b>		<b>16.59</b>	<b>9.22</b>	<b>9</b>
681	Multiproject	2.38		
1695	Regional Development	8.00		
2170	Regional Development Project Phase II – Environmental Infrastructure and Management	6.00		
ADTA	1 Advisory Technical Assistance Activity	0.21		
<b>6. Education</b>		<b>13.70</b>	<b>7.61</b>	<b>8</b>
L2028	Employment Skills Training	6.00		
L1637	Post Secondary Education Development	6.30		
ADTAs	4 Advisory Technical Assistance Activities	1.40		
<b>7. Industry and Trade</b>		<b>8.20</b>	<b>4.56</b>	<b>6</b>
2427	Private Sector Development	7.50		
ADTA	1 Advisory Technical Assistance Activity	0.70		
<b>8. Agriculture and Natural Resources</b>		<b>1.14</b>	<b>0.63</b>	<b>0</b>
ADTA	3 Advisory Technical Assistance Activities	1.14		
<b>9. Finance<sup>b</sup></b>		<b>0.78</b>	<b>0.43</b>	<b>0</b>
ADTA	3 Advisory Technical Assistance Activities	0.78		
<b>Total<sup>c</sup></b>		<b>180.00</b>	<b>100.00</b>	<b>100</b>

ADB = Asian Development Bank, ADTA = advisory technical assistance, CAPE = country assistance program evaluation, ICT = information and communication technology, JFPR = Japan Fund for Poverty Reduction, L = loan, TA = technical assistance.

<sup>a</sup> Although this is classified under “Multisector” in ADB database, the CAPE team has classified this under “Tsunami Emergency Assistance” since this is a part of the Tsunami Emergency Assistance Project.

<sup>b</sup> Finance does not include 2 nonsovereign loans and an equity investment totaling \$16.5 million

<sup>c</sup> Does not include 17 project preparatory technical assistance activities totaling \$4.9 million.

Source: ADB databases.

**Table A2.6: Summary Descriptions of Approved Projects by Sector**

Objectives	Components	Location
<b>A. Education</b>		
<b>Loan 1637: Postsecondary Education Development (approved on 30 September 1998 for \$6.3 million)</b>		
Strengthen the institutional quality and capacity of the seven existing postsecondary education institutions; and establish Maldives College of Higher Education (MCHE) to consolidate and coordinate postsecondary administration and academic programs for these institutions.	Support for the existing Centre for Maritime Studies, Centre for Open Learning, Faculty of Education, Faculty of Engineering Technology, Faculty of Hospitality and Tourism Studies, Faculty of Management and Computing, and Institute of Health Sciences; and development of MCHE.	Nationwide
<b>Loan 2028: Employment Skills Training (approved on 2 December 2003 for \$6.0 million)</b>		
Increase the number of Maldivians, men and women, actively participating in the labor force and employed.	(i) Increase access to good quality employment-oriented skills training; (ii) undertake social marketing, and improve career guidance and awareness of employment opportunities; and (iii) strengthen capacity of the Ministry of Human Resources, Employment and Labor (MHREL).	Three geographic regions: Malé island and adjacent atolls, the Northern Development Region, and the Southern Development Region
<b>B. Energy</b>		
<b>Loan 848: Power System Development (approved on 27 October 1987 for \$6.1 million)</b>		
Augment the power generating capacity and improve electricity distribution in Malé.	(i) Provide a diesel power station and rehabilitate and expand the distribution system; (ii) procure construction machinery, office equipment, vehicles, instruments, and tools; (iii) engage consultants to assist in design and implementation of the project.	Malé
<b>Loan 1121: Second Power System Development (approved on 19 November 1991 for \$9.2 million)</b>		
Augment the power generation capacity of Maldives Electricity Board ([MEB] now the State Electric Company Ltd. [STELCO]) and expand and rehabilitate the electricity distribution system in Malé.	(i) Supply and install two diesel-generating units for the new power station on Malé and extend the power station to accommodate them; (ii) supply and install auxiliaries, switchgear, addition fuel storage facilities, and other ancillary plants for item (i); (iii) expand and improve the distribution system comprising the provision of additional substations, power factor correction equipment, high voltage and low voltage cabling, and low voltage equipment; (iv) supply distribution system analysis software, personal computers, and a photocopier; and (v) provide consulting services for project implementation.	Malé
<b>Loan 1532: Third Power System Development (approved on 9 September 2007 for \$7.0 million)</b>		
Increase generating capacity in Malé by 12 megawatts (MW), to serve the rapidly growing power demands and strengthen STELCO.	Provide (i) two new 6 MW diesel generating units at Malé, to be commissioned in 2000; (ii) civil works for an extension of the power station building to house the new generating units; (iii) distribution system development on Malé, including 11 kilovolt (kV) distribution cables, additional 11 kV/400 volt (V) distribution transformers, and a new 11 kV double bus-bar switching facility at the second power station, which will replace the existing	Malé

Objectives	Components	Location
	switchgear; (iv) engineering consulting services for project design, preparation of tender documents, assistance in bid evaluation, and construction supervision; and (v) consulting services to assist STELCO with management strengthening and human resources development.	
<b>Loan 1887: Outer Islands Electrification Sector Project (approved on 18 December 2001 for \$8.0 million)</b>		
Achieve balanced economic growth and equitable regional development, and thereby reduce poverty and vulnerability in the selected outer islands and reduce the significant population pressures on the capital island of Malé.	(i) Expand and augment the power supply systems in about 40 outer islands to serve about 8,500 households with 45,000 people; (ii) strengthen the capacity of the sector regulator, Maldives Electricity Bureau, and the Ministry of Planning and National Development to carry out benefit and poverty monitoring and evaluation; (iii) strengthen the legal framework for the outer islands power supply utilities to increase their accountability and ownership of the power supply systems.	Select outer islands and Malé
<b>C. Finance</b>		
<b>Loan 2322: Maldives Finance Leasing Company (approved on 27 March 2007 for \$4.5 million)</b>		
Provide assistance to small and medium-sized enterprises through lease financing that results in additional capital formation, employment, foreign exchange earnings and savings, as well as promotion of new entrepreneurs.	Provide loan to Maldives Finance Leasing Company.	Malé
<b>Loan 2418: Housing Development Finance Corporation of the Maldives (approved on 27 March 2007 for \$4.5 million)</b>		
Strengthen the capital base of Housing Development Finance Corporation (HDFC) and enable it to provide financing for critically needed housing in the Maldives.	Provide long-term mortgage financing in the Maldives and privatization of HDFC through an equity investment and loan.	Malé
<b>D. Industry and Trade</b>		
<b>Loan 2427: Private Sector Development (approved on 20 June 2008 for \$7.5 million)</b>		
Develop and expand a micro, small-, and medium-sized enterprise (MSME) subsector leading to broad-based, private sector-led, and sustainable inclusive growth.	(i) Establish business development service center operations and a cost-sharing facility to facilitate demand-oriented private sector business development services and assist the MSMEs, both existing and start-ups, and develop the capacity of related stakeholders; (ii) provide a credit line for providing finance to MSMEs and develop supporting credit infrastructure to facilitate credit decision-making and making collateral requirements less restrictive.	Northern and southern regions
<b>E. Multisector</b>		
<b>Loan 681: Multiproject (approved on 29 March 1984 for \$2.38 million)</b>		
Implement high-priority subprojects in transport, communications, and power.	(i) Develop a new commercial harbor in Malé; (ii) deepen harbors of priority islands; (iii) provide meteorological equipment; (iv) upgrade Malé power supply system; and (v) provide electrification of two atoll islands.	Malé; Thinadhu and Kulhuduffushi islands

Objectives	Components	Location
<b>Loan 1695: Regional Development (approved on 2 September 1999 for \$8.0 million)</b>		
(i) Provide institutional strengthening (strengthened regional development management office (RDMO) operations and staff training for initiating a decentralization program); (ii) provide social infrastructure (water supply and sanitation programs); (iii) develop physical infrastructure (a road development program for facilitating travel, trade, economic development, and reduction of coastal erosion); and (iv) improve the environment.	(i) Provide institutional strengthening (constructing permanent RDMOs in Kulhudhuffushi and Hithadhoo, and providing furniture, equipment, and staff training); (ii) develop social infrastructure (rainwater tanks, septic tanks, pilot sewerage scheme, desludger, and social development fund to help achieve cost recovery in the water sector); (iii) provide physical infrastructure (upgrading a 17-kilometer road from Gan to Hithadhoo, and streets in urban areas of the focus islands, coastal protection, bridge, and road equipment); and (iv) improve the environment (solid waste management, freshwater lens investigations, coastal erosion investigations, and marine ecology monitoring).	
<b>Loan 2160: Tsunami Emergency Assistance (approved on 31 March 2005 for \$1.8 million)</b>		
<b>Grant 0001: Tsunami Emergency Assistance (approved on 31 March 2005 for \$1.8 million)</b>		
Contribute to the sustainability of economic growth by minimizing the devastating impact of the tsunami. To attain this, economic recovery needs to be accelerated by reconstructing damaged infrastructure and restoring means of livelihood, especially of the poor living in the affected islands.	The project comprises a quick-disbursing component and (a project component. The quick-disbursing component will partially finance the high and unexpected government expenditures on tsunami-related rehabilitation, and reconstruction. The project component will rehabilitate high-priority, tsunami-damaged infrastructure and facilities by providing civil works; equipment and materials; working capital; and consulting services for project design, implementation, monitoring, and evaluation.	Tsunami-affected areas.
<b>F. Public Sector Management</b>		
<b>Loan 1915: Strengthening of the Public Accounting System (approved on 27 September 2002 for \$5.0 million) – Canceled</b>		
Improve the quality of governance by introducing a new public accounting system with institutional reorganization and capacity building aiming to enhance efficiency, accountability, and transparency; and contributing more effectively to public sector management; as well as the development of effective fiscal operations and macroeconomic policy.	(i) Restructure the organization of ministries and departments (by establishing finance sections in ministries, assigning accounting and internal audit function to MOFT, and establishing accounting units in the atolls and islands); (ii) strengthen the PAS by introducing core government funds; chart of accounts; a ledger structure; and a voucher system for ministries, atolls, and islands; and prepare annual financial statements; (iii) streamline the function of the Maldives Monetary Authority (MMA) for the PAS by reassigning the banking function to MMA, and establishing one public account; and (iv) support human resource development.	Malé
<b>Loan 2597: Economic Recovery Program (approved on 9 December 2009 for \$35.0 million)</b>		
<b>Loan 2598: Capacity Development for Economic Recovery (approved on 9 December 2009 for \$1.5 million)</b>		
Correct deep-rooted economic imbalances and restore the economy to a sustainable growth trajectory over the medium term.	Support specific reform initiatives, including (i) rationalizing, prioritizing, and aligning public spending with available resources; (ii) broadening the tax base; (iii) reducing economic subsidies; (iv) supporting privatization of state-owned enterprises; (v) strengthening internal audit functions; and (vi) changing the role of the government in the economy from a provider of all services to an enabler of sustainable and equitable growth.	Malé

Objectives	Components	Location
<b>G. Transport and ICT</b>		
<b>Loan 1882: Information Technology Development (approved on 17 December 2001 for \$9.5 million)</b>		
<p>Improve the efficiency, transparency, and accountability of public sector management by networking government agencies and electronically providing information and services for the public.</p>	<p>(i) Network government agencies in Malé by installing a fiber optic cable, and connecting 20 atolls by carrier service for government agencies to share their information and for the public to get access to government information electronically; (ii) enable electronic delivery of public services including the provision of applications for national citizen identification; public health services; and registration for vessels, vehicles, and aircraft; (iii) establish a national computer center, which will centrally coordinate ICT policies, standards, and practices for government work; (iv) build internet kiosks to provide the public with better access to government information and services; and (v) implement telecommunications sector reform, which will eventually enable the public to get access to the internet at an affordable price.</p>	Malé
<b>Loan 0513: Interisland Transport (approved on 18 June 1981 for \$1 million)</b>		
<p>Introduce a reliable, scheduled, and efficient interisland transport service to foster economic and social development, particularly in the outer atolls. Encourage the development of tree crops and vegetables in the outer atolls to partly substitute for imports to Malé and the tourist islands. The project was expected to return motorized fishing boats (dhonis) to fishing activities; they were being diverted to transport of cargo and passengers.</p>	<p>(i) Construct two specially designed cargo-and-deck passenger steel-hulled motorized ships; (ii) procure and install six navigational aids for night navigation along the southern atoll route; (iii) procure and install telecommunications equipment to permit reliable ship-to-shore communications; (iv) procure basic weather-reading instruments, some items of office equipment, and 15 cargo-weighting scales; and (v) provide working capital for vessel operations.</p>	Malé
<b>Loan 0911: Malé Port Development (approved on 20 October 1988 for \$6.4 million)</b>		
<p>Alleviate existing congestion at the Commercial Harbor to adequately handle the forecast growth in imports; provide urgently needed interisland and fishing vessel facilities by constructing the southwest harbor and breakwaters; and protect the exposed south-west harbor site to facilitate urban development generally.</p>	<p>(i) Rehabilitate and improve the Commercial Harbor and existing harbor basins; (ii) construct the southwest harbor; and (iii) provide institutional strengthening for Maldives Port Authority.</p>	Malé
<b>Loan 1226: Second Malé Port (approved on 1 April 1993 for \$8.8 million)</b>		
<p>Improve foreign cargo handling and enhance port productivity at the Commercial Harbor in Malé Port.</p>	<p>(i) Construct an alongside berth, 70 m in length, at the outer reef margin of the Commercial Harbor to service vessels of up to 6,000 DWT; the alongside depth as well as fenders and deck fittings adequate for mooring 1 5,000 DWT vessels; the berth will be provided with 50-ton bollards along the seaward edge of the apron and 60-ton and 75-ton bollards at recessed locations inshore and behind the apron; (ii) complete ancillary civil works including earthworks and paving to the berth backup area</p>	Malé

Objectives	Components	Location
	including adjustments to pavement levels and drainage; reclamation east of the workshop building including stabilization and edge protection; additional lighting and power reticulation; extension of fire main; seawall rehabilitation adjacent to the berth; and construction of a staffed workshop; (iii) provide cargo-handling equipment, port service craft, workshop fittings and tools, and navigation aids; and (iv) provide consulting services for detailed design, preparation of tender documents, prequalification of bidders, bid evaluation, construction supervision, and a container storage and transportation planning study.	
<b>Loan 2327: Domestic Maritime Transport (approved on 24 April 2007 for \$5.33 million)</b>		
Ensure redistribution of benefits; and sustained, equitable, and regionally balanced economic growth within the Maldives.	Improve the country's main interatoll transport hub, supported by institutional and capacity building initiatives in the domestic maritime transport sector.	Maldives
<b>H. Water and Other Municipal Infrastructure and Services</b>		
<b>Loan 2170: Regional Development Project Phase II—Environmental Infrastructure and Management (approved on 28 April 2005 for \$6 million)</b>		
Improve environmental and land management using a community-centered approach.	(i) Improve environmental infrastructure; (ii) strengthen planning and environmental management; and (iii) build management and implementation capacity in the central regions.	Naifaru-Lhaviyani, Mahibadhoo-Alif Dhaal, and Fonadhoo-Laamu atolls

HDFC = Housing Development Finance Corporation, MCHE = Maldives College of Higher Education, MEB = Maldives Electricity Board, MHREL = Ministry of Human Resources, Employment and Labor, MMA = Maldives Monetary Authority, MOFT = Ministry of Finance and Treasury, MSME = micro, small-, and medium-sized enterprise, PAS = Public Accounting System, RDMO = regional development management office, STELCO = State Electric Company Ltd.

Source: Asian Development Bank databases.

**Table A2.7: Projects in the Pipeline**

Sector	Project Name	Loan Amount (\$ million)	Indicative Approval Date
Finance	Inclusive Micro-, Small- and Medium-Sized Enterprise Development Project	4.05	June 2012
Energy	Island Electrification Project	10.50	December 2011

Source: Asian Development Bank operations dashboard.

### FIELD VISITS TO SELECTED PROJECT SITES

Projects Visited	Location	Key Persons Interviewed
Regional Development Project, Phase II Environmental Infrastructure and Management	Fonadhoo Island, Laamu Atoll	Elected representatives of the Fonadhoo Island Council Former island administrator Project implementation unit Site manager of contractor
Maldives National University (formerly the Maldives College of Higher Education)	Malé	The vice chancellor and other officials
Domestic Maritime Transport	Malé	Representatives of the Ministry of Housing and Environment and Maldives Ports Limited (operator of the harbor)

Source: Independent Evaluation Mission, Asian Development Bank.

**PORTFOLIO PERFORMANCE, SUMMARY OF PERCEPTION SURVEY FINDINGS, AND STATUS OF IMPLEMENTATION OF THE 2007 COUNTRY STRATEGY AND PROGRAM COMPLETION REPORT RECOMMENDATIONS**

**Table A4.1: Portfolio Performance**

Item		2006	2007	2008	2009	2010	Region	ADB							
<b>I. Public Sector Loans</b>															
<b>A. Loan Portfolio</b>															
1. Active Loan Portfolio	No.   \$mn	7	47.4	7	47.3	8	54	9	83.4	6	58.9	188	18047	519	47437
(i) Project loans	No.   \$mn	7	47.4	7	47.3	8	54	8	49.2	5	25.9	162	14448	465	41661
(ii) Program loans	No.   \$mn	0	0	0	0	0	0	1	34.2	1	33	15	2489	41	6692.1
(iii) DFI, credit loans	No.   \$mn	0	0	0	0	0	0	0	0	0	0	8	998.4	13	1260.8
(iv) Combined project and DFI loans	No.   \$mn	0	0	0	0	0	0	0	0	0	0	3	111.8	5	165.8
2. Average Age of the Active Loan Portfolio	Years		4.6		4.5		4.9		4		3.5		3.4		3.5
3. Inactive Loan Portfolio	No.   \$mn	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>B. Start-Up Compliance</b>															
1. Loans Approved During the Year	No.   \$mn	0	0	1	5.3	1	7.5	2	36.5	0	0	37	3980.6	105	10410
2. Loans Not Yet Signed	No.		0		0		1		2		0		21		48
3. Loans Awaiting Effectiveness	No.		0		0		0		0		0		9		35
4. Average Time from Approval to Signing	Months		3.847		3.997		3.997		4.302		4.57		3.47		3.88
5. Time from Signing to Effectivity	Months		3.25		3.1		3.1		3.076		3.326		3.354		3.616
6. Loans that Became Effective more than 90 Days after Signing	No.   %	2	28.6	2	28.6	2	28.6	2	28.6	2	33.3	68	43	231	53.1
<b>C. Financial Performance</b>															
1. Contract and/or Commitment Achievement	\$mn		7.647		4.134		4.456		6.934		20.977		2682.7		7302.1
2. Contract and/or Commitment Ratio <sup>a</sup>	%		40.92		21.18		19.16		12.76		45.9				28.38
3. Disbursement Achievement	\$mn		4.925		5.083		2.723		5.347		25.918		2624.1		6842.9
4. Disbursement Ratio	%		16.84		16.43		9.99		17.25		42.83				24.24
5. Imprest Fund Turnover Ratio <sup>b</sup>	%		1.17		0.38		0.13		0.96		0.78				1.47
6. Submission of APA and AFS (PC & NC)															
(i) =< 6 months overdue	No.   %	4	57.1	1	16.7	3	42.9	5	71.4	1	25	34	25.6	72	20.5
(ii) > 6 =<12 months overdue	No.   %	0	0	0	0	0	0	0	0	0	0	4	3	7	2
(iii) > 12 months overdue	No.   %	0	0	0	0	0	0	1	14.3	0	0	2	1.5	4	1.1
7. Loan Service Payments	\$mn		1.29		1.363		2.165		2.353		3.377				3930
8. Net Resource Transfer	\$mn		3.635		3.72		0.559		2.993		22.542				2912.8
<b>D. Portfolio Performance</b>															
1. Project Ratings (no. of loans)															
(i) Highly satisfactory	No.   %	0	0	0	0	0	0	0	0	0	0	4	2.1	7	1.3
(ii) Satisfactory	No.   %	6	85.7	5	71.4	4	50	5	55.6	6	100	179	95.2	490	94.4
(iii) Partly satisfactory	No.   %	1	14.3	2	28.6	3	37.5	3	33.3	0	0	2	1.1	13	2.5
(iv) Unsatisfactory	No.   %	0	0	0	0	1	12.5	1	11.1	0	0	3	1.6	9	1.7

Item		2006		2007		2008		2009		2010		Region		ADB		
2. Projects at Risk (no. of loans)	No. %	1	14.3	2	28.6	4	50	5	55.6	1	0	6	3.2	27	5.2	
(i) Problem projects (IP or IO is rated PS or U)	No. %	1	14.3	2	28.6	4	50	4	44.4	0	0	5	2.7	22	4.2	
(ii) Potential problem projects (4 or more flags)	No. %	0	0	0	0	0	0	1	11.1	1	0	1	0.5	5	1	
(iii) Problem projects																
(a) Implementation progress (PS & U)	No. %	1	14.3	2	28.6	4	50	4	44.4	0	0	5	2.7	19	3.7	
(b) Impact and outcome (PS and U)	No. %	0	0	0	0	0	0	0	0	0	0	0	0	4	0.8	
3. Risk Ratios <sup>c</sup>																
(i) Project implementation delays	No. %	2	28.6	3	42.9	4	50	5	55.6	3	50	45	25	101	20	
(ii) Loan utilization delays	No. %	0	0	0	0	0	0	0	0	0	0	65	590.9	1	5.6	
(iii) Established, staffed, and/or operation of PMU/PIU	No. %	1	14.3	1	14.3	1	12.5	3	37.5	0	0	0	0	11	2.3	
(iv) Fielding of consultants	No. %	0	0	0	0	0	0	0	0	0	0	5	2.8	18	3.6	
(v) Environmental or social problems	No. %	0	0	0	0	0	0	0	0	0	0	4	2.4	14	3	
(vi) Poor compliance with APA and AFS	No. %	0	0	0	0	2	25	4	50	1	20	1	0.6	36	7.5	
(vii) Poor compliance with other covenants	No. %	1	14.3	1	14.3	0	0	2	22.2	1	16.7	7	3.7	16	3.1	
(viii) Shortage of counterpart funds, cofinancing	No. %	0	0	0	0	0	0	0	0	0	0	5	2.8	8	1.6	
(ix) Unsettled cost overrun	No. %	0	0	0	0	0	0	0	0	0	0	4	2.4	7	1.5	
(x) Significant disbursement delays	No. %	2	28.6	2	28.6	4	50	5	55.6	2	33.3	8	4.3	129	24.9	
(xi) In risk sector or country with history of past problems	No. %	0	0	0	0	0	0	0	0	0	0	8	4.3	48	9.2	
(xi) Project fielded missions	No. %	2	28.6	3	42.9	3	37.5	4	44.4	1	16.7	43	22.9	163	31.4	
4. Overall Risk Ratio of the Portfolio <sup>d</sup>	%	10.4		13		15.9		24.2		12.9		9.9		10		
<b>E. Portfolio Supervision</b>																
1. Proactivity Index <sup>e</sup>	No. %	0	0	0	0	0	0	1	25	5	100			30	78.9	
2. Average Supervision Intensity (staff-days/project)	days	18.8		13.6		10.6		25.3		8.7		23.1		24.9		
3. Loans with Settled Cost Overruns	No.	0		0		0		0		0		7		39		
4. Loans with Changes in Project Scope	No.	3		1		2		1		1		11		51		
5. Loans with Changes in Implementation Arrangements	No.	2		4		0		1		1		18		87		
6. Loans with Extensions	No.	4		4		4		5		2		62		143		
7. Loan Cancellations	\$mn	0		0.169		0		0.025		1.155		92.584		1634.4		
<b>II. Technical Assistance</b>																
1. Active TA Portfolio	No. \$mn	10	3.8	7	2.7	6	2.2	5	4.6	3	4.05			948	1200.7	
2. Average Time from Approval to Signing of TA Letter, Agreement	Months	3.711		3.551		3.496		3.682		2.214				2.625		
3. TA Completed but Not Financially Closed (potential savings)	No. \$mn	0	0	0	0	0	0	0	0	1	0.138			27	6.659	

" " = not applicable, ADB = Asian Development Bank, AFS = agency financial statement, APA = audited project accounts, DFI = development finance institution, IO = impact outcome, IP = implementation progress, NC = not complied, PC = partly complied, PIU = project implementation unit, PMU = project management unit, PS = partly satisfactory, TA = technical assistance, U = unsatisfactory.

<sup>a</sup> For 2006 to 2001, figures are based on the contract awards and exchange rates as of 31 December 2001.

<sup>b</sup> The annualized turnover rate is computed as the ratio of total liquidation over the time-weighted average fund balance for 12 months.

<sup>c</sup> Percent of problem-flagged projects (loans) to the total number of loans in the various loan portfolio categories.

<sup>d</sup> The weighted average of the 12 risk ratios.

<sup>e</sup> Percent of problem projects changed through upgrading, restructuring, closure, or cancellation during the last 12 months.

Source: Portfolio Management Indicators (Country Operations Services Office website).

## A. Summary of Perception Survey Findings

1. A perception survey was conducted during the Independent Evaluation Mission as part of the country assistance program evaluation (CAPE) to gather indications of client and stakeholder perceptions of the responsiveness of the Asian Development Bank (ADB) to the development needs of the Maldives. A structured questionnaire was distributed to 20 executing and implementing agencies and two private sector beneficiaries who have interacted with or have an understanding of ADB. The respondents assessed ADB services and operations in the context of (i) ADB's interaction with the in-country stakeholders, (ii) country context and development needs, (iii) country partnership strategy formulation and programming, (iv) policy dialogue, (v) project design, (vi) project administration and portfolio management, (vii) economic and sector-related work, (viii) technical support, (ix) efficiency, (x) aid coordination, and (xi) development or aid agency comparison. The questionnaire also has three open-ended questions, designed to solicit views on ADB products and services, and suggestions on how ADB could improve delivery of products and services. The survey had 10 respondents, translating to a 50% response rate.

2. For personal interaction of ADB staff, 60% of the respondents agree that ADB staff have insights in the country and the relevant sectors, have strong technical expertise and good management skills, are accessible to stakeholders, and have enough delegated authority to operate effectively. However, only 50% of respondents rated the ADB country program to the country's development as *relevant* to *highly relevant*.

3. On country partnership strategy formulation and country programming, 60% of respondents agreed that ADB staff adequately considered realities, development issues, and country priorities, whereas only 40% of respondents agreed that ADB consulted relevant stakeholders and adequately explained ADB policies. While respondents rated contributions of ADB staff higher in the project design stage, only 40% agreed that sufficient use of local expertise was being ensured. The ratings were lower for ADB's contribution to country policy dialogue and economic sector and thematic work. In project administration, more than 70% of respondents agreed that ADB staff worked closely with project managers to resolve issues, ensured that procurement and disbursements were not delayed, and provided training opportunities for executing agency and project staff.

4. For efficiency-related issues, ADB staff members were perceived to provide timely responses to inquiries as assessed by 80% of the respondents. However, ratings were low for maximizing outputs and outcomes and minimizing costs (50% of respondents) and in ensuring that benefits from given actions exceed their costs (40% of respondents). Response rates were low for aid coordination and development, and aid agency comparison with other development partners; about 50% of the respondents either did not give their assessments or indicated they had no basis for the assessment.

5. Eighty percent of respondents are satisfied with ADB headquarters-based services. Seventy percent had somewhat or little awareness of ADB's knowledge management products. However, only 50% perceived ADB's knowledge management products to be relevant.

6. On areas where ADB could improve, responses included that (i) a country strategy in delivering programs and training needs of ADB programs needed to be conducted more often; (ii) delivery periods should be shortened and tenure of lending products lengthened; (iii) have specific and definite time lines for ADB to give feedback on project-related matters; (iv) have other methods to measure project progress than just disbursements; (v) increase consultations

with in-country stakeholders and have findings inform the overall program or project activities; (vii) increase the role of civil society organizations; and (viii) strengthen monitoring and evaluation capabilities of relevant government counterparts. Table 4.2 compares findings from the 2007 and 2010 surveys that share many findings. All findings of the 2007 perception survey emerged at various points of the in-county consultations during February–March 2011.

**Table A4.2: Comparison of Findings from the 2007 and 2010 Perception Surveys**

<b>Criteria</b>	<b>2007 Perception Survey Findings</b>	<b>2010 Perception Survey Findings</b>
Respondents	13 responses	10 responses from 20 implementing agencies
Personal interaction, country needs and context, and frequency of interaction	<p>ADB staff demonstrate a full grasp of country context and needs in the way they understand the development needs</p> <p>All respondents agreed that ADB should attempt to be as effective a development partner as possible</p> <p>91% of respondents regard ADB staff members as possessing good personal interaction skills, know the country and relevant sectors well, and make good use of local expertise</p>	<p>70% of respondents agreed that ADB staff demonstrate a full grasp of the country context and the development priorities</p> <p>70% of respondents agree that ADB should attempt to be as effective a development partner as possible</p> <p>70% of respondents regard ADB staff as possessing good personal interaction skills, and know the country and relevant sectors well</p>
CPS formulation, economic sector and thematic work, technical support, policy dialogue, project design, portfolio management	<p>ADB staff members were seen to be effective in assisting with project design owing to adequate consideration of country realities, sector context, past experience, and use of available local expertise among others</p> <p>Technical support in terms of advisory TA provided by ADB was effective. Based on the response rate, there was room for improvement in the areas of country strategy and formulation, and economic sector work</p>	<p>ADB staff were rated higher by 70% of respondents for their assistance and roles at the project level, while 40% felt that ADB made good use of local expertise and consulted with relevant stakeholders</p> <p>ADB staff continue to be rated lower in terms of policy dialogue and economic sector and thematic work, while they are rated higher in project design and administration issues</p>
Efficiency of ADB staff	Nearly 64% of respondents agreed that ADB staff responses to inquiries and requests from local agencies were timely, and noted how past lessons have improved subsequent interactions of ADB staff	Although 80% of respondents felt ADB responses to inquiries and requests from local agencies were timely, the rates were lower than half on the point that ADB staff try to ensure that benefits outweigh costs
Others	<p>Project formulation: need for long-term focus</p> <p>Processing: strengthen expert advice by ADB staff, review project time line, more time in country for negotiations, streamline processing time</p> <p>Project implementation: less cumbersome procedures, less bureaucracy and less need for advisors and consultants; capacity building workshops to improve sustainability of benefits</p> <p>Procurement-related: Streamline procurement procedures, attach long-term staff training component focusing on degree level training.</p>	<p>Project formulation: increase number of country strategy formulation and programming cycles</p> <p>Processing: shorten delivery period and lengthen project duration of lending products.</p> <p>Project implementation: analyze conditions and local conditions, consult stakeholders widely, increase role of civil society organizations, and make monitoring and evaluation stronger for ADB projects</p> <p>Procurement-related: Streamline procurement procedures, Attach long-term staff training component focusing on degree level training.</p>

Criteria	2007 Perception Survey Findings	2010 Perception Survey Findings
	Economic and sector work: Conduct in-depth and innovative studies on macroeconomic dynamics of the Maldives with emphasis on fragmented markets	Technical assistance: increase number of technical assistance activities; strengthen monitoring and evaluation capabilities of government counterparts

ADB = Asian Development Bank, CPS = country partnership strategy, TA = technical assistance.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

## B. Status of Implementation of the 2007 Country Strategy and Program Completion Report Recommendations

**Table A4.3: Status of Implementation of the 2007 CSP Completion Report Recommendations**

IED Validation of CSP Completion Report	CPS, 2007–2011 Approach	Status
Assess weaknesses in institutional capacity, strengthen human resource management systems, and build capacity in selected agencies	Adoption of a sequential approach that first started with a “pause” for at least 2 years in lending activities during which time only capacity development and analytical work to be undertaken	<p>ADB TA activities have been linked to addressing project implementation risks or concerns at approval about sustainability rather than as part of a larger capacity development strategy for the sector, with the exception of certain TA projects in public sector management</p> <p>The Private Sector Development Project, a TA loan was approved in June 2008 for \$7.5 million; the Economic Recovery Program loan of \$35 million approved in December 2009, with a TA grant of \$3.0 million, and TA loan for \$1.5 million. However, support for capacity development for PSM and private sector development was not matched by similar efforts in other sectors. For example, little has been done to address institutional shortcomings of the Ministry of Transport and Communications (now Ministry of Housing and Environment) or the Maldives Electricity Authority even though they are vital to the functioning of their sectors, which the CPS, 2007 identified for future lending.</p> <p>Diminished role for ADB relative to other development partners, partly due to reduced engagement as a result of the “pause” in project lending in the CPS, larger funding required by the growing economy, and smaller resource envelope available to ADB compared with others.</p>
Improve selectivity in sectors for ADB interventions	<p>Country program was to transition to the second phase, where ADB was to resume investment lending in three priority sectors: transport and ICT, energy, and small and medium-sized enterprise development</p> <p>The CPS stipulated the transition from the first phase to the second phase was to be based on the country's performance on three readiness filters: (i) fiscal consolidation and debt management, (ii) ratio of disbursements to outstanding ADB commitments, and (iii) use of a medium-term fiscal framework to</p>	<p>Improvement in the three readiness filters that resulted in transition to the second phase with projects in the three identified sectors.</p> <p>(i) The government has embarked on a medium-term fiscal consolidation program through additional tax effort and expenditure contraction. The World Bank's Debt Management Performance Assessment evaluated strengths and weaknesses in public debt management.</p> <p>(ii) The ratio of disbursements to outstanding ADB commitments increased from 16% during 2001–2009 to 17% during 2007–2009, to 43% in 2010, due to the up-front first tranche disbursement of the ERP and special efforts to monitor and close projects.</p> <p>(iii) Progress in developing a medium-term fiscal framework. (The 2011 inception report for the Strengthening Economic Management TA covers fiscal management, debt management, and cash flow projections.)</p>

IED Validation of CSP Completion Report	CPS, 2007–2011 Approach	Status
	<p>allow prioritized public investments and macroeconomic stability.</p> <p>ADB was to undertake nonsovereign operations in the context of the impending graduation of the country from LDC status.</p>	<p>One nonsovereign operation was approved during the CPS cycle:</p> <p>(i) senior loan and equity investment in Housing Development Finance Corporation in 2008</p>
<p>Undertake a more integrated approach based on a common theme across projects and sectors</p>	<p>Within each of the three priority sectors—transport and ICT, energy, and small and medium-sized enterprises development—ADB support was to combine investment support with capacity development of core sector agencies.</p>	<p>ADB interventions have been largely made in response to immediate needs. Evidence is weak to suggest the presence of a long-term approach founded on analytical work to identify binding sector constraints, recognize the need for parallel efforts in related areas, and a comprehensive strategic plan, as well as continuity of interventions. Except for public sector management and private sector development, little focus has been on themes.</p>
<p>Create strong project management units in executing agencies, equipped with adequate technical staff to improve project implementation, given limited institutional capacity and staff in most government agencies</p>	<p>Develop project designs in a participatory manner and make a concerted effort to keep the design simple and manageable, and pay additional attention to sustainability of project activities undertaken and completed.</p>	<p>Reasons for implementation delays include insufficient project preparatory work, unfamiliarity of implementing agencies with ADB policy and procedures, and weak capacity of the government's Office of Programs and Projects (created in 2008 to expedite projects start-up and ensure timely implementation to compensate for weaknesses in implementing agencies, but faces staffing constraints of its own).</p>
<p>Assess operating benefits and costs and benefits of maintaining a local office in Malé to primarily enable greater interaction between ADB and government staff on technical issues.</p>	<p>Although the CPS was silent about having a local office in Malé, its absence for most development partners, combined with the government's lack of capacity to utilize aid resources in a coherent and timely manner, was stated as a risk for duplicated or insufficient complementarity in development partner interventions.</p>	<p>Yet to be undertaken. Dialogue with the government and other development partners continue to need improvement and more intensive project supervision is required.</p>

ADB = Asian Development Bank, CPS = country partnership strategy, HDFC = Housing Development Finance Corporation, ICT = information and communication technology, IED = Independent Evaluation Department, LDC = least developed country, TA = technical assistance.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

C. Updated 2007–2011 Country Partnership Strategy Results Framework

**Table A4.4: Updated Country Partnership Results Framework, including Country Assistance Program Evaluation Outcomes and Indicators**

Country Development Goals	Key Areas of ADB's Intervention (Planned)	Key Areas of ADB's Intervention (Actual)	Country Partnership Strategies Outcomes (Planned)	Country Assistance Program Evaluation Outcomes (Actual)	Country Partnership Strategy Outcome Indicators (Planned)	Country Assistance Program Evaluation Outcome Indicators (Actual)
<p>Reliable power supplies are required to broaden and diversify economic activities on the atolls. A specific Seventh NDP objective is to provide 12 hours or more of electricity to 100% of the population.</p>	<p>Existing Outer Islands Electrification Project.</p> <p>Proposed Islands Electrification Project (Phase II) to contain a renewable energy component with particular attention on how to augment diesel generators with solar or wind power hybrid technology.</p> <p>Phase II TA to develop human resources of Maldives Energy Authority and island power suppliers.</p> <p>TA for new codes and training staff to monitor adherence and implement codes.</p>	<p>Existing Outer Islands Electrification Project.</p> <p>Economic Recovery Program (reforms on electricity tariff schedule and fuel surcharge).</p> <p>Capacity Development for Maldives Energy Authority (CDTA to be approved in 2011)</p>	<p>Improved quality and reliability of electricity supply on 10–20 outer islands by 2010.</p> <p>Increased renewable energy share in the total energy mix from 2% to 12% by 2011.</p> <p>Improved institutional capacity for policy formation, sector regulation, and project implementation.</p>	<p>Nineteen of the 40 planned subprojects were completed in 2010 that contributed to improved quality and reliability of electricity supply. Outer Islands Electrification (Sector) Project implementation took 9 years, instead of planned 4 years.</p> <p>Emergence of seven regional utility companies, although with weak institutional capacities. Given high cost of power generation for small, diesel-based power plants, the seven regional utility companies are unlikely to breakeven and are likely to depend on government subsidies.</p> <p>While electricity tariffs cover operating costs on Malé, operations on other islands continue to run at a deficit requiring government subsidies.</p> <p>Shortfall in electricity supply on Malé that resulted in shortages and restrictions on electricity use has been overcome.</p>	<p>Quality and reliability of electricity improved on 22 islands by 2007 and on an additional 10–20 islands by 2011.</p> <p>Electricity supply on underserved islands to be increased from 6–8 hours in 2006 to 24 hours by 2011, including pilot trials of renewable energy generation.</p> <p>Passing of uniform industry codes, standards, and relevant laws by 2011.</p>	<p>Improved quality and reliability of electricity supply for 5,720 homes in 19 outer islands by 2010.</p> <p>Strengthened management of outer island electricity utilities through the formation of seven regional utility companies.</p> <p>Increase in electricity tariff by the State-Owned Electricity Company averaging about 35% for the residents of Malé.</p> <p>Approval of additional levy through a fuel surcharge for price rises in diesel rates beyond a threshold.</p>
<p>Making Maldivian businesses more competitive by supporting small entrepreneurs is</p>	<p>ADB analytical and capacity development support during Phase I to establish business development service</p>	<p>Private Sector Development Project (TA Loan).</p>	<p>An integrated SME development model will be established and include (i) a network of business</p>	<p>Increased private sector participation in the development of social and physical infrastructure facilities through four public-private partnerships (PPPs) for a</p>	<p>2–3 self-sustaining SME development centers operable by 2011</p>	<p>Strengthened capacity of the Enterprise Development Unit of the Ministry of</p>

Country Development Goals	Key Areas of ADB's Intervention (Planned)	Key Areas of ADB's Intervention (Actual)	Country Partnership Strategies Outcomes (Planned)	Country Assistance Program Evaluation Outcomes (Actual)	Country Partnership Strategy Outcome Indicators (Planned)	Country Assistance Program Evaluation Outcome Indicators (Actual)
one of the key planks of the Seventh NDP	centers and project support for SME development during Phase II		development service centers on 2–3 atolls; (ii) innovative financing (iii) the introduction of a system of branding local products, hosting business fairs, and helping local businesses supply resort islands.	school, hospital, drug rehabilitation center and port.  Likely improvements in the capacity of SMEs and improve their access to markets, technology and other information.	Innovative SME financing modalities (guarantees, etc.) established on 2 atolls and operated by 2011  Credit information bureau established and includes coverage of SMEs  Branding system introduced by 2010	Economic Development and Trade to structure, and manage four PPP deals.  Increased access to finance with creation of two business development support centers through its program grants and user grants for creation of 55 SMEs.  Improved access to business training and counseling services through two business development support centers for 4,000 beneficiaries.
Private sector development is critical to achieving the levels of sustainable economic growth required to address the complex array of socio-economic issues facing the Maldives.	Maldives Leasing Development Company (MLDC) strengthened by possible equity participation; Other PSOD operations will be undertaken during CPS Phase II  Phase I support for capacity development in public-private partnerships (power, transport, and SMEs).  Phase II: Investment support for SME,	Two loans and an equity investment in two non-banking financial institutions - Maldives Finance Leasing Company Pvt. Ltd. (MFLC) and Housing Development Finance Corporation Plc. (HDFC).  Economic Recovery Program (component related to privatization of state-owned enterprises)	New financial leasing services established  PPPs will be introduced and encouraged in all sectors of ADB involvement.  First 2–3 SOEs privatized in a transparent, rules based manner;  Credit information bureau established and operable at MMA.	Finance leasing affected partly by due to global financial crisis, but to a greater extent due to secular decline in performance of fishing industry to which MFLC had built up an excessive exposure, and unresolved legal issues that arose following its efforts to repossess assets relating to non-performing leases.  ADB's support to HDFC has enabled it to increase availability of finance for housing and as a privatized institution, it has reduced government's direct footprint in the financial sector. Together with technical support from HDFC India, it is now better	Financial leasing company in operation by 2009.  First set of PPPs established in SMEs, transport, and power sectors by 2011.  Nasandhura Palace Hotel (NPH), Maldives National Shipping Corporation (MNSC), and Maldives Industrial Fisheries Company Limited (MIFCO) privatized by 2009; corporate governance	Wind down of finance leasing investment in 2009.  Increased availability of finance for housing, including to lower and middle-income groups, and simultaneously lowered the cost of borrowing.  Credit information bureau inaugurated in February 2011 and preparatory work completed for the central moveable

Country Development Goals	Key Areas of ADB's Intervention (Planned)	Key Areas of ADB's Intervention (Actual)	Country Partnership Strategies Outcomes (Planned)	Country Assistance Program Evaluation Outcomes (Actual)	Country Partnership Strategy Outcome Indicators (Planned)	Country Assistance Program Evaluation Outcome Indicators (Actual)
	power, and transport sectors.			<p>placed to become a self-sustaining institution.</p> <p>Increased access to information through facilitation of credit decisions with provision of standardized credit information as reported by credit providers.</p>	<p>guidelines developed by 2010; SOE privatization list has at least an additional 3–5 SOEs for restructuring and eventual privatization by 2011; credit information bureau operating by 2008 or early 2009.</p>	<p>assets registry.</p> <p>Management contract completed for Maldives Airport Companies Limited.</p> <p>MNSL and MIFCO canning facilities to be brought to point of sale. Upcoming divestiture of a portion of government shares in the Maldives Water and Sewerage Company Limited.</p>
<p>Improving access to essential social services by improving transport facilities and services is central to improving the quality of life of the poor and the vulnerable on the remote atolls of the Maldives.</p>	<p>Phase I analytical support for preparing a multimodal transport master plan.</p> <p>Ongoing Domestic Maritime Transport Project.</p> <p>During CPS Phase II, a second phase of multimodal transport sector development project.</p>	<p>Analytical support for preparing a multimodal transport master plan.</p> <p>Ongoing Domestic Maritime Transport Project.</p>	<p>Lower transport cost from the remote islands to Malé as a result of improvements in the overall transport Network.</p> <p>Well structured, organized, and capable central and outer island transport sector in which government institutions operate as facilitators and enablers of the private sector, and in which public assets are managed and maintained in a more effective and sustainable manner.</p>	<p>Completion of enhancements to Malé North Harbor, the main gateway for interisland transport of passengers and goods, to ease bottlenecks and chronic congestion, together with consulting services for design and implementation. It also included a component for institutional development and capacity building for the Ministry of Transport and Communications responsible for policy, planning and regulation of the sector, and the Ministry of Construction and Public Infrastructure the operator of the Harbor.</p> <p>Inadequate time and resources provided in the design for research, consultation, analysis, and preparation of the transport master plan TA were reasons that contributed to shortcomings in the</p>	<p>Construction of quay wall and ancillary civil works, provision of cargo handling equipment, and construction of a temporary transit area for goods and passengers completed and operational by end February 2009</p> <p>Preparation of a multimodal transport master plan by 2010</p> <p>Identification of a set of priority harbors and jetties for upgrading under Phase II multimodal transport sector support by 2010.</p>	<p>Implementation of the physical infrastructure components of the domestic maritime transport project completed at the end of 2010-early 2011.</p> <p>Delays in commencement of port operations due to differences between concerned ministries and Malé City Council which owns the harbors, as to who the port operator would be.</p> <p>Recent Presidential decision handing over the operations of the North Harbor</p>

Country Development Goals	Key Areas of ADB's Intervention (Planned)	Key Areas of ADB's Intervention (Actual)	Country Partnership Strategies Outcomes (Planned)	Country Assistance Program Evaluation Outcomes (Actual)	Country Partnership Strategy Outcome Indicators (Planned)	Country Assistance Program Evaluation Outcome Indicators (Actual)
				TA report. Further, lack of agreement among different government agencies on proposed recommendations also contributed to the government's decision not to adopt the document.	Launch of a system for maritime asset management and maintenance by 2011	to the Maldives Ports Authority, a government-owned corporation, currently managing the adjacent Malé Commercial Harbor.  Rejection of TA report on transport master plan by the government as there was a lack of consensus.
Fostering a more sustainable fiscal policy and transforming the government from provider of services into enabler of private initiative are central to the challenge of good governance. To these ends, specific Seventh NDP objectives include (i) ensuring fiscal responsibility by having a balanced budget by the end of 2011; (ii) reducing public borrowing to gradually reduce external	ADB support through a TA loan for capacity development in economic and financial management (internal audit, tax administration, fiscal framework, debt management, and project management).  Phase I TA support for strengthening the private sector through a review of SME constraints; support for PPPs; assistance in pilot privatizations of SOEs; and support to establish the credit information bureau.  ADB capacity development support in transport for developing a master plan and asset	Economic Recovery Program – a program loan of \$35 million, a TA loan of \$1.5 million, and a TA grant of \$3 million. (including existing TA for restructuring and privatization of state-owned enterprises).	Moderate-to-balanced fiscal stance  Reduction in overall public debt and improved debt management capacities  Budget formulation effectively anchored in MTFF  Internal audit unit of MOFT operational  Improved project management capabilities in core ministries established  PPP needs assessed and pilot experiences reviewed	ADB's focus on the revenue side has contributed to the introduction and administration of the 3.5% ad-valorem goods and service tax on tourism in January 2011 and a 15% business profit tax to be administered from mid-2011.  Maldives Inland Revenue Authority raised \$7.2 million from the tourism goods and services tax through January 2011.  New rent structure charged to hotels and guesthouses after amendments to the Tourism Act.  Creation of the National Strategy for Development of Statistics and a 10-year action plan  MTFF introduced in the budget formulation sine 2009 revised budget.	Primary budget deficit under 5% of GDP by 2010  Public debt-to-GDP below 50% by 2010  MTFF established and used in budget formulation by 2009  Pilot internal audits undertaken by 2009  Core PMUs operational in 4–5 key ministries by 2010  PPP assessment undertaken by MOFT and MOED by 2009	Contribution to decreases in the fiscal deficit from 26.2% in 2009 to 18.7% in 2010, with the current account balance at 38.9% of GDP and net foreign debt at 63.7% of GDP.  Progress in developing a medium-term fiscal framework (through the TA grant on Strengthening Economic Management TA covers fiscal management, debt management, and cash flow projections).

Country Development Goals	Key Areas of ADB's Intervention (Planned)	Key Areas of ADB's Intervention (Actual)	Country Partnership Strategies Outcomes (Planned)	Country Assistance Program Evaluation Outcomes (Actual)	Country Partnership Strategy Outcome Indicators (Planned)	Country Assistance Program Evaluation Outcome Indicators (Actual)
debt to below 40% of GDP; (iii) promoting transparent, accountable, and efficient public administration; and (iv) maximizing the potential of PPPs with a view to increasing private investment in the national economy.	management capacity and, in the power sector, to strengthen regulatory framework and facilitate PPPs.					

ADB = Asian Development Bank, CDTA = Capacity Development for Maldives Energy Authority, GDP = gross domestic product, HDFC = Housing Development Finance Corporation, IED = Independent Evaluation Department, NDP = national development plan, MFLC = Maldives Finance Leasing Company, MIFCO = Maldives Industrial Fisheries Company Limited, MMA = Maldives Monetary Authority, MNSC = Maldives National Shipping Corporation, MOED= Ministry of Economic Development, MOFT = Ministry of Finance and Treasury, MTFF = Medium Term Fiscal Framework, NPH = Nasandhura Palace Hotel, PPP = public-private partnership, SME = small and medium-sized enterprises, SOE = state-owned enterprise, TA = technical assistance.  
Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

## EVALUATION RATINGS

**Table A5.1: Rating Score for Each Evaluation Criterion**

<b>Evaluation Criteria</b>									
1. Strategic Positioning	Highly satisfactory	= 3	Satisfactory	= 2	Partly satisfactory	= 1	Unsatisfactory	= 0	
2. Program Relevance	Highly relevant	= 3	Relevant	= 2	Less relevant	= 1	Irrelevant	= 0	
3. Efficiency	Highly efficient	= 3	Efficient	= 2	Less efficient	= 1	Inefficient	= 0	
4. Effectiveness	Highly effective	= 3	Effective	= 2	Less effective	= 1	Ineffective	= 0	
5. Sustainability	Most likely	= 3	Likely	= 2	Less likely	= 1	Unlikely	= 0	
6. Development Impacts	Highly satisfactory	= 3	Satisfactory	= 2	Partly satisfactory	= 1	Unsatisfactory	= 0	
<b>All Criteria Combined</b>	<b>Highly successful (HS)</b>	<b>= 3</b>	<b>Successful (S)</b>	<b>= 2</b>	<b>Partly successful (PS)</b>	<b>= 1</b>	<b>Unsuccessful (US)</b>	<b>= 0</b>	

Source: Asian Development Bank. 2010. *Revised Guidelines for the Preparation of Country Assistance Program Evaluations*. Manila.

**Table A5.2: Summary Rating by Sector and Overall**

Evaluation Criteria and Subcriteria	Criteria Weights	Sector/Thematic Percentage Shares														All Sectors Combined	
		PSM 29%		T&I 18%		Energy 17%		TEAP 13%		MUL 9%		EDU 8%		I&T 6%		100%	
		Rating	WAS	Rating	WAS	Rating	WAS	Rating	WAS	Rating	WAS	Rating	WAS	Rating	WAS	Rating	WAS
1. Strategic Positioning	0.10	2.22	0.22	1.56	0.16	2.11	0.21	1.75	0.18	2.00	0.20	2.38	0.24	1.67	0.17	<b>1.98</b>	<b>0.20</b>
2. Program Relevance	0.10	2.00	0.20	2.00	0.20	2.00	0.20	1.33	0.13	1.67	0.17	1.67	0.17	1.67	0.17	<b>1.84</b>	<b>0.18</b>
3. Efficiency	0.20	1.00	0.20	1.33	0.27	1.33	0.27	1.67	0.33	1.33	0.27	2.00	0.40	1.67	0.44	<b>1.35</b>	<b>0.27</b>
4. Effectiveness	0.20	1.67	0.33	1.67	0.33	2.00	0.40	1.00	0.20	1.33	0.27	1.67	0.33	1.67	0.44	<b>1.61</b>	<b>0.32</b>
5. Sustainability	0.20	1.14	0.23	1.71	0.34	1.71	0.34	1.33	0.27	1.38	0.28	1.63	0.33	1.14	0.30	<b>1.43</b>	<b>0.29</b>
6. Development Impacts	0.20	1.33	0.27	1.67	0.33	1.67	0.33	1.00	0.20	1.00	0.20	1.67	0.33	NR	NR	<b>1.41</b>	<b>0.28</b>
<b>All Criteria Combined</b>	<b>1.00</b>	<b>1.45</b>		<b>1.63</b>		<b>1.75</b>		<b>1.31</b>		<b>1.38</b>		<b>1.80</b>		<b>1.53</b>		<b>1.54</b> <sup>a</sup>	

EDU = education, ENE = energy, FIN = finance, HS = highly successful, I&T = industry and trade, MUL = multisector, NR = not rated, PS = partly successful, PSM = public sector management, S = successful, T&I = transport and information and communications technology, TEAP = tsunami emergency assistance project, US = unsuccessful, WAS = weighted average score.

Note: The total WAS for all sectors and all criteria combined is 3. The scaling and scoring system applied are as follows: WAS = weighted average score (Highly Successful = 2.7–3.0; Successful = 1.6–2.6; Partly Successful = 0.8–1.5; and Unsuccessful = 0.0–0.7).

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

## SECTOR ASSESSEMENTS AND PERFORMANCE RATINGS<sup>1</sup>

### A. By Sector

#### 1. Public Sector Management<sup>2</sup>

##### a. Program and Activities

1. The lending portfolio of the Asian Development Bank (ADB) for public sector management (PSM) consists of the Economic Recovery Program (ERP) for \$39.5 million and 18 technical assistance (TA) activities for \$7.96 million. This resource envelope represents 23.4% of the total loan and 53.2% of the total TA activities programmed for the country during 1978–2010. The ERP was provided in conjunction with \$86.89 million through an International Monetary Fund (IMF) stand-by arrangement for \$74.48 million, an arrangement under the IMF Exogenous Shocks Facility for \$12.41 million, and \$13.7 million from the World Bank for its economic stabilization and recovery program.

2. The ERP was approved in November 2009, signed in March 2010, and became effective in June 2010. It comprises a program loan of \$35 million, a TA loan of \$1.5 million, and a TA grant of \$3 million. ADB's 18 TA activities were approved during 1978–2006 to strengthen government efforts in formulating its national development plans (NDPs), creating a system of national income accounts, developing national statistics, in addition to conducting analytical work that has informed ADB operations and policy dialogue with the government.

##### b. Evaluation of Program and Activities

3. **Strategic positioning.** The positioning of ADB's strategy for PSM is rated *satisfactory* and aligned with government priorities. ADB has had a well-sequenced PSM program that has anticipated underlying structural issues in the economy.<sup>3</sup> These include the country's narrow economic base dependent on tourism that directly contributed an average of 31% to the gross domestic product (GDP) in the last 15 years; fiscal deficit that increased after the tsunami restructuring from 2005, increasing from 13.8% of GDP in 2008 to 26.3% in 2009, and 26.5% in 2010; falling revenues from reduced tourist arrivals combined with increases in global food and fuel prices, and financial crisis from 2007; doubling of government expenditure as a share of GDP during 2004–2008 due to rapid expansion of civil services; and increasing public debt.

<sup>1</sup> Detailed sector assessments are available in the supplementary appendixes.

<sup>2</sup> The sector assessment covers public sector management in totality, taking into account not only the ongoing Economic Recovery Program (ERP) with over half the total weightage to arrive at the sector rating, but also the 18 advisory TA projects and the canceled Strengthening Public Accounting System Project loan. The CAPE report highlights ADB's continued efforts for fiscal consolidation and reforms since the time of the Public Resource Management Reform Program in 2006. This continued engagement in sector efforts from 2006 to approval of the ERP in 2009 has translated to a favorable rating for strategic positioning. Given the relevance to the macroeconomic environment, the ERP also scores favorably for program relevance. The ERP is rated *likely effective* based on measures taken to enhance revenues and the expectation of further tax reforms and the implementation of a plan to reduce government expenditure over time. While giving more importance to recent projects (with over 50% of the total weight been given to the ERP), performance during the earlier parts of the coverage period, specifically 18 advisory TA projects in capacity development and the canceled Strengthening Public Accounting System Project loan were included to arrive at the overall rating for the PSM sector *partly successful*.

<sup>3</sup> One more PSM loan for Strengthening of the Public Accounting System was prepared in August 2002 but had to be canceled in November 2005 due to noncompliance with the loan effectiveness condition on preparation and promulgation of the Public Finance Act, Public Enterprises (Accountability) Act, and amendments to the Public Audit Act. The project design had identified these as a potential risk at the outset.

Prior to the ERP, which was undertaken by the new government that took office in November 2008, ADB had initiated policy dialogue with the previous government in 2006 as part of the Public Resource Management Reform Program (PRMRP); just before program approval the government withdrew.

4. The 18 TA projects can be categorized into three clusters in terms of objectives. The first cluster of 4 helped the government prioritize its development objectives and development targets, and helped strengthen the capacity of the planning agency. The second cluster of 6 sought to create a system of national income accounts, develop national statistics, strengthen audit and accounting functions, and improve project management and monitoring functions for the Ministry of Finance and Treasury (MOFT). The third cluster of 8 contributed in varying degrees to ongoing operations under regional development and social protection, in addition to the ERP. The most recent TA was approved in 2006. ADB also initiated collaboration with the IMF and the World Bank in 1994, when the government sought assistance to develop a medium-term macroeconomic strategy and undertake structural reforms to rationalize public expenditure, deregulate the financial system, and limit the direct role of the government in the economy. ADB, IMF, and the World Bank also collaborated in 2002 to develop the country's first public expenditure review with objectives to assess the effectiveness and efficiency of government expenditure and recommend reforms for improved public sector spending.

5. **Relevance.** Support for PSM activities is rated *relevant* and on the whole was consistent with the sector strategies. The country partnership strategy (CPS), 2007–2011 adopted a two-phased sequential approach. The first phase was to focus on capacity development and increase capabilities of ministries in a holistic manner, strengthen government capacity to efficiently manage public expenditure, and achieve debt sustainability through a medium-term fiscal framework. The ERP focuses on both revenue enhancement and expenditure contraction. Although more than half of the ERP's policy matrix is different from the earlier proposed PRMRP, it was front-loaded with 39 first-tranche policy conditions that the government complied with. ADB's focus on the revenue side contributed to the introduction and administration of the 3.5% ad-valorem goods and service tax on tourism in January 2011 and a 15% business profit tax to be administered from mid-2011. The TA grant within the ERP for Institutional Strengthening for Economic Management includes a 3-year work program (2011–2013) that covers fiscal management issues including preparation of a medium-term fiscal framework, medium-term expenditure framework, increasing synchronization of budget preparation processes with macroeconomic and fiscal frameworks, and improving monitoring and management of internal and external debt. A second PSM-related loan for Strengthening of the Public Accounting System was programmed in August 2002, but was canceled in November 2005 due to noncompliance with the loan effectiveness condition.

6. **Efficiency.** The PSM program is rated *less efficient* in implementation as part of its assistance to PSM. The ERP was the result of more than 3 years of policy dialogue with the government, first through the PRMRP and then through Strengthening the Economic and Financial Management Program. The second tranche of the ERP is scheduled for 2012, although the medium term adjustment strategy is dependent on political economy issues with respect to the wage bill for civil servants and the redundancy package. Feedback from government counterparts specifically included the point that the results of advisory TA (ADTA) activities are not visible. Capacity development through the supply of consultants has not worked well and has led to a scenario of capacity substitution.

7. **Effectiveness.** The PSM program is rated *likely effective* in achieving outputs and outcomes as part of its assistance to PSM. The effectiveness of the ERP needs to be viewed

primarily in the context of two major changes in the country's tax regime in 2011 that have been advocated by ADB, the IMF, and the World Bank. Parliament passed a tourist goods and service tax in August 2010; it was introduced in January 2011. It charges a levy of 3.5% on tourism-related goods and services, eventually replacing the pre-existing flat per unit bed tax of \$8 per night. The pre-existing bed tax is to exist simultaneously with the new ad-valorem tax until 2013. In 2014, the bed tax is to be abolished and the tourism goods and services tax is to be increased proportionately to offset any losses. The Maldives Inland Revenue Authority has raised \$7.2 million with the new tax through January 2011. The government has amended the Tourism Act with a new rent structure charged to hotels and guesthouses. This has been a contentious issue as tourist lease rentals averaged about 20% of total revenues. Further, a business profit tax, approved by Parliament in December 2010, is to be administered from mid-2011 onward at a maximum rate of 15% of the annual profits of companies and individuals. On the expenditure side, although MOFT undertook a 15% cut to the wage bill of civil servants, the Civil Service Commission contested this in court and restored the September 2009 rates earlier than anticipated. The government undertook wage cuts for its civil servants as part of the World Bank-sponsored expenditure contraction measures. The Decentralization Act is expected to result in an increase in the headcount and salaries of civil servants. The only other PSM-related loan was the Strengthening of Public Accounting System Project,<sup>4</sup> which was programmed in August 2002 but canceled in November 2005 due to noncompliance with loan effectiveness conditions.

8. ADB has contributed to the development of statistics in the country through three ADTA activities totaling \$1.5 million and a regional TA (RETA) project on Statistical Capacity Building in the Asia and Pacific Region, which covered Cambodia, Lao PDR, the Maldives Mongolia, Nepal, and Timor-Leste.<sup>5</sup> The results were most promising for the Maldives as it undertook a systematic diagnosis of the country's statistical priorities, identified binding constraints, and prepared a national strategy for development of statistics and a 10-year action plan. This RETA is rated *successful*. For 17 completed PSM-related TA activities as of August 2010, 12 TA completion reports are available, of which 11 were self-assessed *highly successful, generally successful, or successful*, and 1 *partly successful*.

9. However, although most ADB-supported TA activities, prior to the ERP, have been able to achieve stated outputs, despite delays in implementation, success in terms of achieving outcomes has been limited. For the first cluster of TA projects, except for the TA for Developing a Results-Oriented 7th National Development Plan (which did prepare the committed outputs), no costing or prioritization activities were undertaken for the required actions to translate core elements of the NDP into results, given the context of the then existing budgetary deficit in 2007. For the second TA cluster, the IMF's 2010 Action Plan for Public Financial Management (PFM) Reforms notes that although ADB through its Strengthening of the Public Accounting System Project, (which most of the second cluster TA fed into), supported the preparation of a strategic management plan for the creation of an independent internal audit function, this was hardly developed in the country at the time of the 2010 assessment. For the third TA cluster, the IMF's 2010 assessment adds that although ADB supported debt sustainability analysis in 2006 through TA for Strengthening of Debt Management, the TA was not prepared with the direct involvement of MOFT's external resources management staff and hence findings from the analyses were not used to influence policy. The ongoing ADB TA grant under the ERP, as part

<sup>4</sup> Details of these loans and TA projects are in Appendix 2. They are not footnoted when they are referred to in the text.

<sup>5</sup> ADB. 2006. *Technical Assistance for Statistical Capacity Building in the Asia and Pacific Region*. Manila (TA 6333-REG, \$600,000, approved on 31 July).

of its debt management-related work, includes an item to revisit earlier recommendations and reconsider them for implementation.

10. **Sustainability.** The ERP reforms have moved forward and contributed to a decrease in the fiscal deficit from 26.2% in 2009 to 18.7% in 2010. The tourist goods and services tax and business profit tax were introduced after years of consideration. The Maldives Inland Revenue Authority was established in March 2010. The second tranche release is dependent on several policy actions, especially on the expenditure contraction side to rationalize the civil service and the wage bill. Although a cluster of TA activities were undertaken to improve accounting and audit functions, the recent IMF PFM report assesses the internal audit functions as continuing to be weak. Despite support for PSM being anticipatory, cumulative development impact of the completed activities within the PSM portfolio consisting of the advisory TA projects, Strengthening Public Accounting System Project that was cancelled in 2005 (and excluding the ongoing Economic Recovery Program) has been limited. The completed PSM program is rated *less likely sustainable*.

11. **Development impact.** ADB's impact is rated *partly satisfactory*. ADB's PSM program has been anticipatory, which is reflected in the opening statement at the management review meeting for the earlier Public Resource Management Reforms Program, (eventually dropped by the government) which summarized the overall scenario as "close to a knife edge situation." It stated that unless prompt action by the government was taken to address the then fiscal correction measures (increase in fiscal deficit from 1.7% in 2004 to 12.2% of GDP in 2005; and external debt from 41% in 2004 to 59% in 2005), the result would verge on an outright crisis, which eventually was triggered by the increases in global food and fuel prices, and the financial crisis starting from 2007. The country was among the few that already had a fiscal deficit in 2007 and lacked the fiscal space to adopt countercyclical policy measures.

12. **Overall assessment.** The overall sector assessment rates ADB's contribution to PSM *partly successful*.

**Table A6.1: Overall Rating of Public Sector Management Portfolio**

Strategic Positioning	Relevance	Efficiency	Effectiveness	Sustainability	Development Impacts	Overall Assessment
Satisfactory	Relevant	Less Efficient	Likely Effective	Less Likely Sustainable	Partly Satisfactory	Partly Successful

ADB = Asian Development Bank.

Source: Independent Evaluation Department's country assistance program evaluation team.

### c. Issues

13. The PSM program and policy dialogue has been on track and anticipated the economic and financial developments of the country. ADB's proposed Public Resource Management Reform Program in 2006 and the subsequent Strengthening Economic and Financial Management Program that covered fiscal management and planning, tax reforms, management of public expenditures, and profitability of state-owned enterprises, were dropped by the previous government after extended deliberations. ADB also had sustained engagement in the sector despite pushbacks from the government that resulted in the cancellation of Strengthening of the Public Accounting System Project due to noncompliance with conditions for loan effectiveness, and inaction on the findings from the ADTA activity for Revenue Diversification (introduction of a business tax and property rental value tax). Through the 1990s and 2000s, the

government adopted a wait-and-watch approach postponing the implementation of reforms instead of addressing long-standing structural issues.

14. Implementation capacity of the Maldives has remained weak and little evidence is available to indicate that the ADB TA portfolio significantly contributed to improvements. Weak capacity is still identified as a binding constraint. Most of the TA projects achieved the planned outputs; few have progressed to achieve intermediate outcomes.

15. Little information is available on how the ERP reforms would affect the poor. The program includes components to reduce the wage bill of the country's civil servants, eliminate electricity subsidies, and disinvest selected state-owned enterprises to create fiscal space for eventual increased social sector spending in the medium to longer term. While ADB has focused on revenue enhancement through the years, it is not clear how the rationalization and redundancy components would affect the delivery of basic services. While the new tariff program based on the targeted subsidies to lower-income households (life-line tariffs) is under implementation, and is one of the second tranche conditions, little information is available on this. Apparently, a broad consensus about the depth of the planned reforms in the country is lacking, not only at the political level, but also across different state institutions such as MOFT and the Civil Service Commission, especially over the reduction of salaries of public servants.

16. Given the weak capacity across implementing agencies as a binding constraint, greater emphasis is needed on tools and diagnostics for concerned agencies to measure progress over time. This monitoring and evaluation needs to be readily managed and repeated periodically despite limited financial and human resources. For example, the Public Enterprises Monitoring and Evaluation Board within MOFT does not have any monitoring and reporting tool to gather periodic information from the 21 state-owned enterprises to assess either the width or depth of reforms under the ERP. Results frameworks to monitor and assess the contribution of ADB programs and lending activities need to be managed and followed closely. They need to be kept separate from the policy matrixes and other conditions of program loans.

## **2. Transport and Information and Communication Technology**

### **a. Program and Activities**

17. The transport and information and communication technology (ICT) sector has been a focus area for ADB operations in the Maldives. ADB's first project loan was for a transport project. ADB has in all provided \$32.6 million, including \$31.0 million for four transport projects and one ICT project and \$1.60 million for seven ADTA activities. It has also provided \$1.8 million for transport projects under the \$2.4 million Multiproject loan, a grant and loan of \$2.9 million for the reconstruction of three island harbors under the Tsunami Emergency Assistance Project and \$1.26 million for five project preparatory TA projects.

18. Three of the projects were for improving ports on Malé, critical for its international and interisland maritime operations. One, the very first loan to the Maldives, was for an interisland ferry service, and one was for setting up a government network and improving access and affordability of internet services. The TA projects were largely for institutional development of sector ministries and the port operator, as well as for promoting private sector participation in the transport sector and preparing a transport sector master plan.

## b. Evaluation of Program and Activities

19. **Strategic positioning.** The positioning of ADB's strategy for the transport and ICT sector was *satisfactory* and aligned with government priorities. The transport strategy had continuity and broad internal coherence, though the assistance itself tended to be in response to specific constraints rather than part of a forward-looking strategic framework. Partly as a result of this, as well as the limited overall resource envelope for the Maldives, intervals between sector projects were long, for example between the Second Malé Port Development Project approved in 1993 and the Domestic Maritime Transport Project approved in 2007. Further, as shown by experience with the Interisland Transport Project, a strategy to develop interisland transport needs to be thought through and integrated with complementary efforts in other sectors.

20. **Relevance.** Assistance for the transport and ICT sector overall was *relevant* and consistent with country needs. Three of the four transport projects were approved prior to formulation of the first country assistance strategy in 1995 (the country operational strategy [COS], 1995) and were consistent with sector needs. The Information Technology Development Project, approved in 2001, went beyond the scope of COS, 1995 though the development of an information and communication network was subsequently included in the country strategy and program (CSP), 2002. The design quality of most interventions was satisfactory, with the exception of the Interisland Transport Project, which sought to lead outer island development and had significant design and other shortcomings.

21. The Information Technology Development Project was formulated on the basis of related work done by international agencies such as the United Nations Development Programme (UNDP) and the International Telecommunications Union for a government network in the Maldives and preparation of a telecommunications sector policy. It was in keeping with global trends to make effective use of developing ICT technology and broadly consistent with the theme of improving governance. It was appropriately designed at entry. However, it was, and remains, the only intervention by ADB in the ICT subsector, and experienced several problems during implementation.

22. TA for developing a national transport master plan and the Maritime Transport Development Project was approved during the periods covered by the CSP, 2002 and the CPS, 2007. The national transport master plan TA was undertaken partly in response to observations in evaluation reports, the project performance audit report (PPAR) prepared for the Malé Port Development Project and the Second Malé Port Development Project, about the need for a more strategic approach for investments in the transport sector and the fact that ADB's own lending to the sector had principally focused on improvements to facilities in Malé and contributed to increased disparity between the capital and the outer islands. The TA for developing a Master Plan for the Maritime Sector, taking into account existing facilities and constraints as well as long-term needs, seemed to have been highly relevant considering the need for further investments in transport. However, inadequate time and resources provided in the project design for research, consultation, analysis, and preparation of the TA were two of the reasons contributing to subsequent shortcomings in the TA report.<sup>6</sup>

23. While the Maritime Transport Development Project in 2007 can in itself be considered as a needed response to growing bottlenecks and constraints at Malé North Harbor, it did not

---

<sup>6</sup> Lack of agreement among different government agencies on the proposed recommendations also contributed to the government's decision not to adopt the document.

adequately consider alternatives, for example if the project as formulated was strategically the best long-term option. Similarly, while the project rightly included TA for institutional development and capacity building, this assistance was directed at the ministries then involved in policy making or operating the harbor; these were subsequently reorganized and changed. The opportunity does not appear to have been taken during project appraisal to examine the distribution of responsibilities among government ministries and possible port operators, and to suggest a more optimal allocation of responsibilities, prior to providing assistance for capacity building.

24. Several other TA projects were also provided. They were generally relevant to the need for institutional development and other objectives. As the results for the series of TAs provided for the institutional development of the Maldives Ports Authority show, such benefits take time and accrue incrementally, and thus benefit from a sequential approach. The TA for private sector participation was highly relevant and consistent with the theme of private sector development, though the recommendations were not immediately put to use.

25. **Efficiency.** The program was *less efficient*. Positive economic internal rates of return (EIRRs)<sup>7</sup> for most projects were offset by the failure of the Interisland Transport Project, the extended 5.5-year delay in the implementation of the Information Technology Development Project, and the average delay of 18 months for transport projects. As the capacity development TA projects were not able to fully achieve their objectives, some capacity building exercises had to be revisited.

26. **Effectiveness.** ADB interventions in the transport and ICT sector have had mixed results, but are assessed as being *effective* overall. While most of the physical facilities are well-constructed and have delivered or are likely to deliver the desired outcomes, one project and a TA project failed completely, while the other TA projects were not always successful in inducing changes in policy or delivered only limited improvements in capacity. The relative success of such efforts for information technology compared with those for transport demonstrates the difference that the degree of commitment by government institutions can make.

27. **Sustainability.** Overall, the program and activities in the transport and ICT sector is rated *likely sustainable*. The likely technical and operating sustainability of physical projects (excluding the Interisland Transport Project), is partially offset by concerns about the sustainability of institutional development efforts, partly due to the lack of adequate government commitment, partly to frequent changes in government structures and responsibilities, and partly because of the possible departure of key trained personnel because of salary differentials with the private sector. Many organizations have only a few staff, and as a result, the exit of just a handful of key staff can adversely impact institutional capacity.

28. **Development impact.** The contribution of support to the transport and ICT sector to development impacts is rated *satisfactory*. This is based on an assessment of the contribution made by ADB's cumulative interventions in transport to reducing capacity constraints in support of the goal of maintaining economic growth and, to some extent, promoting interisland movement of passengers and cargo in support of the goal of reducing disparities between Malé and the outer islands. The considerable transport developments that have taken place, including a 10-fold increase in international and interisland cargo-handling capacity, reflects the impact of ADB operations. In ICT, the implementation of the reforms under the TA component of the

---

<sup>7</sup> In several cases, the reestimated EIRRs at completion were higher than at approval due to a substantial unanticipated increase in cargo and passenger traffic over the extended implementation period.

Information Technology Development Project has had a positive impact on increasing competition, improving connectivity, and reducing internet charges to support greater regional integration, better business communications, and, indirectly, improving the enabling environment for investment. The network component of the project, when fully complete, is expected to provide further benefits in terms of improved governance, and easier and more cost-effective public access to information and online services. The impact in transport would have been greater if related policy measures had been adopted and capacity development had been more effective.

29. **Overall assessment.** On the basis of the six criteria, ADB's overall sector assistance program is assessed *successful* in having contributed to the development of the transport and ICT sector. In particular, it has been consistent with country needs and government priorities. Project implementation, capacity development, and sustainability of institutional capacity could have been improved.

**Table A6.2: Overall Rating of Transport and ICT Sector Portfolio**

Strategic Positioning	Relevance	Efficiency	Effectiveness	Sustainability	Development Impacts	Overall Assessment
Satisfactory	Relevant	Less Efficient	Effective	Likely Sustainable	Satisfactory	Successful

ADB = Asian Development Bank, ICT = information and communication technology.

Source: Independent Evaluation Department's country assistance program evaluation team.

### c. Issues

30. In the Maldives, ADB has been involved in the transport subsector for many years and the latest country assistance strategy (the CPS, 2007) identifies it as one of only three areas for continued assistance. However, the lack of a long-term strategic plan for transport and limited funding available for the Maldives have meant that ADB interventions have been largely in response to urgent current needs and the interventions themselves tend to be tactical rather than strategic. Future assistance to transport should be developed only in the context of a carefully crafted long-term development strategy.

31. ADB's experience with the Interisland Transport Project clearly shows that project selection and design should be based not simply on an assessment of apparent need, but a more rigorous analysis of what the binding constraints are and an appreciation of other complementary development efforts that may be required.

32. The implementation of projects has been marred by delays. Delays are likely to increase as more complex projects are taken up and development efforts spread beyond Malé to include the outer islands. Projects where a sector modality is adopted with individual subprojects being identified and appraised after loan approval are also likely to be prone to delays. Taking account of the country context and adopting a more realistic time frame for TA and project completion are recommended.

33. Another area of concern has been that too often efforts at capacity building have had limited outcomes and those that are achieved are unlikely to be sustained. Effective capacity building has many dimensions beyond a simple appreciation that capacity is limited and the provision of training and manuals. It requires recognition of the availability, or otherwise, of suitable staff for training and of absorptive capacity, and incorporating these realities into TA design, for example, by providing assistance for institutional development in a series of

incremental steps instead of as one-off assistance. The institutionalization of capacity development efforts is also conditional on the continuity of government structures and ministry and agency responsibility and on the retention of trained staff. Not all these factors are within ADB control, but need to be considered when designing and approving capacity building or institutional development assistance.

34. Given the government's plan to seek private sector participation in the development of maritime infrastructure and the limits on overall ADB lending to the Maldives, ADB's role in transport will both change and be less central than it was in the past. ADB therefore needs to leverage its assistance better and coordinate its activities more closely with those of other development partners.

### 3. Energy

#### a. Program and Activities

35. ADB has provided a total of \$31.1 million to the energy sector, including \$30.3 million for four power generation and distribution projects and \$0.8 million for two stand-alone ADB activities since the inception of ADB operations in the Maldives. ADB has also approved \$0.8 million for power projects under a \$2.4 million Multiproject loan and a grant of \$2.5 million to rehabilitate and restore damaged power systems on six islands under the Tsunami Emergency Assistance Project. Three of the four projects were for increasing generating capacity and related upgrading of the distribution network on Malé, while the fourth was for expanding and improving power systems on the outer islands.

36. Although modest in absolute terms, the assistance provided by ADB to the energy sector had, until 2001, been significant in the country context. However, no new loans or grants for the sector have been approved since—the most recent were approved during the COS, 1995 other than a limited amount for rehabilitation of a few small island power facilities under the Tsunami Emergency Assistance Project.

#### b. Evaluation of Program and Activities

37. **Strategic positioning.** ADB's positioning of the sector program was *satisfactory* in terms of the alignment of ADB strategies with government priorities (with the exception of the COS, 1995) and the sector context and internal coherence of sector operations. However, the gap between ADB strategies and its operations program has been widening. Country strategies continue to prioritize the energy sector, however no new assistance has been provided since 2001. In terms of geographic focus, much of the support had been for expansion and improvement of the power system on Malé, while the sector strategy has prioritized electrification of the outer islands. However, support for outer island electrification could be considered adequate when combined with the effort of the government itself and other development partners, since the electrification of all inhabited islands has been achieved.

38. **Relevance.** The program is rated *relevant* overall and appropriate to sector needs. However, the country sector strategies have inconsistencies. Two energy projects, including one for Malé, were approved during the COS, 1995, which focused on fiscal management, regional development through better education and health facilities, and environment management. On the other hand, no sector assistance was approved during the CSP, 2002 and the CPS, 2007, which specifically identified electrification of the outer islands as a priority to foster regional development and pro-poor growth. The design of the projects was also

appropriate in terms of selecting the most efficient and least-cost solution to increasing capacity and progressively encouraging the utility operator for Malé (STELCO) to finance investments in future without government support. The design of the projects did not, however, adequately allow for implementation delays, which had occurred in all earlier projects in the Maldives. The stand-alone and embedded TA projects for institutional development were relevant in terms of sector needs and priorities.

39. **Efficiency.** ADB's assistance for the energy sector has been *less efficient*. While the basic design of the projects was based on the least-cost approach and the EIRRs as computed were mostly satisfactory, all the projects experienced implementation delays. On average, sector projects were delayed by about 3 years, while the Outer Island Electrification (Sector) Project took nearly 9 years to be implemented. Further, as a result of a substantial underestimation of project costs at approval, increases in costs due to the delay in project completion and changes in subproject locations, only 19 of the planned 40 island power projects could be implemented within the funded project cost.

40. **Effectiveness.** The program was *effective* overall. While the projects, with the exception of the Outer Islands Electrification Project, largely achieved the expected outputs and desired outcomes, TA outcomes were mixed. STELCO has largely emerged (with the support of three TA projects) as a technically competent commercial organization, although with limited independence, while TA support provided to the agency responsible for sector regulation, policy-setting and planning, and other sector institutions was ineffective.

41. **Sustainability.** Support to the energy sector is assessed marginally *likely sustainable*. Overall, the technical sustainability of the electricity assets created is rated high, particularly with respect to the assets operated by STELCO. The prospects for the operations of the island power utilities are also expected to be satisfactory following the takeover of these assets by regional utility companies from small island operators. Because of the high cost of power generation for small, diesel-based power plants and the already high tariffs for electricity compared with other countries in the region, the island utilities are unlikely to achieve breakeven and will have to continue to rely on financial subsidies from the government.

42. However, the prospects for sustainability of institutional capacity provided through ADB TA are less satisfactory. While STELCO has been able to internalize capacity building, the capacity of other sector institutions remains extremely limited. Government commitment to the development of sector institutions was weak in many cases. Changes in the institutional context, staff turnover, and the unavailability of suitable personnel are other factors that make the sustainability of institutional capacity in these organizations less likely.

43. **Development impact.** The actual and projected development impact is likely to be *satisfactory*. ADB support to the energy sector has helped to meet the shortfall in electricity supply on Malé (which has resulted in shortages and restrictions on electricity use) and contributed to providing reliable power supply on all outlying islands. This increase in generating capacity and geographic coverage has undoubtedly helped to improve the quality of life across the country and contributed to improving the environment for economic development. An analysis shows that during 2002–2008, the country's nontourism GDP grew at a compound annual growth rate of 8.5%. Since tourist resorts have their own captive power supply, this growth in nontourism GDP can be partly attributed to the increase in the general electricity supply. It can thus be postulated that the expansion in power supply enabled the Maldivian economy to grow at a rapid pace, or at the very least, did not inhibit growth.

44. Along with this, the relocation of the power plant on Malé and the installation of equipment to control emissions and noise have had environmental benefits. The sector activities have also helped, albeit in a more limited way, to improve the capacity of sector institutions.

45. **Overall assessment.** The overall rating of the energy sector is *successful*, but the composite score could easily have been higher if project implementation was improved. Of particular concern is the less satisfactory performance of recent projects. TA projects were only partially successful in achieving their purpose.

**Table A6.3: Overall Rating of the Energy Sector Portfolio**

Strategic Positioning	Relevance	Efficiency	Effectiveness	Sustainability	Development Impact	Overall
Satisfactory	Relevant	Less Efficient	Effective	Likely Sustainable	Satisfactory	Successful

ADB = Asian Development Bank.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

### c. Issues

46. Over the years, the Maldives has been able to achieve its goal of providing electricity on all inhabited islands. Its focus now is on improving the reliability, efficiency, and affordability of supply; developing renewable energy to reduce its oil import bill and increase energy security; and increasing private sector participation in the energy sector.

47. The sector evaluation highlights the need to improve project implementation. ADB needs to ensure a quicker response to borrower requests and more intensive project supervision. Greater continuity of sector staff assigned to supervise a project wherever possible would also help. Evidence also points to the need for closer monitoring of project implementation consultants as their quality can vary.

48. On the part of the government, delays in bid preparation, evaluation, and procurement are the result of unfamiliarity with the process and lack of capacity in line ministries. To address this, the government has centralized such activities under the Office of Programs and Projects in the Ministry of Finance and Treasury since 2008, to act as a central project management unit for all foreign-funded projects. Ensuring that the unit is adequately staffed and has the capacity to carry out its functions competently and in a timely manner will be important.

49. The effectiveness and sustainability of ADB efforts to build capacity have been limited. Institutional capacity and staffing of the sector regulator and line ministries remains inadequate. The approach to capacity building therefore needs to change. First, adequate borrower commitment must be ensured, along with the availability of sufficient qualified staff and organizational continuity. Frequent reorganizations and high staff turnover have meant that institutionalization of knowledge acquired under TA or during the implementation of ADB-funded projects (on-the-job training) has been minimal. Second, capacity building has sometimes been attached to project loans to address likely project risks. A more structured and sequenced approach with follow-on support would provide improved and more sustainable outcomes.

50. The gap between ADB priorities in the energy sector and its operations program needs to be addressed. If ADB wishes to continue to be involved in the energy sector, it needs to support greater private sector participation and look to expand the funding allocation for the Maldives to beyond the extremely limited amount currently available under the Asian

Development Fund (ADF), to include ordinary capital resources lending and, particularly, to leverage its access to global renewable energy and climate change trust funds.

#### 4. Multisector

##### a. Program and Activities

51. Support under multisector comprised three projects<sup>8</sup> and one TA project provided to appraise the first multisector project. Most of the development interventions in the sector have been small and discrete. From the early 1980s, ADB followed a fairly simple, but robust approach of packaging different sectors into a single loan for the country. The criteria for designing such multisector projects included that each subproject individually received high priority by the government, in addition to being economically viable and qualified for ADB financing. Given that investments in each subproject tended to be small, subprojects with a short gestation period were usually preferred, and detailed time-consuming feasibility studies were not needed. Further, subprojects with positive externalities for the outer atolls were preferred, as these were expected to help deepen balanced economic development across different regions. ADB-supported multisector projects have covered ports and water transport, energy (power), water, sanitation and public hygiene, infrastructure for regional development, and environment conservation and management.

52. The Multiproject loan consisted of five subprojects that initially included developing a new commercial harbor in Malé, deepening priority island harbors, upgrading Malé' power supply system, generating and supplying electricity to two atolls, and providing meteorological equipment. Based on the findings of the TA grant included as part of the Multiproject loan, the first component on developing a new commercial harbor was dropped, but deepening of the priority island harbors was expanded in scope. The Ministry of Foreign Affairs (MOFA) was the executing agency for the project with three departments as the implementing agencies. The project took longer to complete, and was delayed by 2 years. The PPAR prepared in December 1990 rated the project *generally successful*, and gave credit to ADB staff for backstopping implementation at critical stages. However, project management had not submitted any progress reports. The government did not address cost-recovery issues identified under the project. The PPAR notes that MOFA did not include information on the financial viability of the subprojects, as the focus was on getting them implemented. The PPAR also endorsed the assessment of the project completion report in its entirety and noted that the success of such projects was strongly dependent on the continuous involvement and coordinating role played by ADB staff.

53. The Regional Development Project was designed to promote equitable development through focused regional efforts in the Northern Development Region and the Southern Development Region. The project covered 13 focus islands and supported investments in water supply and sanitation, construction of roads and bridges, and environmental management. Such an approach marked a shift from the existing trend, one where most development assistance was focused on the capital city, to the islands across the northern and southern development regions. MOFT, the executing agency, had coordination issues with the then Ministry of Atoll Development (responsible for development in the atolls and functioning of the regional development management offices).

---

<sup>8</sup> The three projects are (i) Loan 681-MLD: Multiproject, \$2.38 million, approved on 29 March 1984; (ii) Loan 1695-MLD: Regional Development, \$8.0 million, approved on 2 September 1999; and (iii) Loan 2170-MLD: Regional Development Phase II—Environmental Infrastructure and Management, \$6.0 million, approved on 28 April 2005.

54. The ongoing Regional Development Project, Phase II—Environmental Infrastructure and Management has focused on three focus islands and targeted improvements in sanitation, sewage treatment, solid waste management, land management, and community development. MOFT is the executing agency and the Ministry of Housing and Environment the implementing agency. The project is still under implementation, with the original loan closing date of 31 March 2011. By December 2010, however, the contract awards had reached only 52% and disbursement was only 30%.

#### **b. Evaluation of Program and Activities**

55. **Strategic positioning.** ADB positioning is rated *satisfactory*. All three loan projects were consistent with the government's NDPs and strategies. Emphasis was on infrastructure, inclusive development, and environment, which are consistent with ADB's Strategy 2020.<sup>9</sup> ADB's loan funds were sourced from ADF resources, and their size was in line with the absorptive capacity of the country. ADB utilized its experience with the Pacific island small economies. Projects sought to widen the geographic focus in the Maldives. ADB maintained active cooperation with other development partners, especially the Islamic Development Bank, which cofinanced the Regional Development Project. Finally, continuity of ADB efforts was utilized across the three loan projects. Such integrated programming approaches undertaken for atolls and islands reflect ADB efforts to increase resilience of communities and their ecosystems.

56. **Relevance.** The program and activities have been *relevant*. All the three loan projects were consistent with ADB country strategies, its corporate goals, and respective sector strategies, including the Millennium Development Goals. The role of beneficiaries and stakeholders was clearly outlined in the preparation of projects. In terms of design, projects were rather underprepared, especially keeping in mind the limited capacity in the country. All three projects have had design issues with some changes to the scope of activities during implementation. The Multiproject loan component for the development of a commercial harbor in Malé was dropped, while the deepening of harbors of priority islands was expanded. In the Regional Development Project, the relevance of the design gradually decreased during implementation primarily due to delays on the part of the central government to collaborate and partner with regional development management offices in the focus islands. The initial designs of all three projects tended to include more components than could have been delivered and so all have had some changes to their scope and costs during implementation. Cost and financing plans were changed many times to accommodate changes in design.

57. **Efficiency.** Support to multisector is rated *less efficient*. Portfolio performance was marked by delays, disruptions, frequent changes in components, and consequent adjustments in costs and financing. Disbursements were slow and delayed. The Multiproject loan was delayed by 5 years; the PPAR concludes that the reasons were associated with the lack of preproject studies and emphasized the need for a more rigorous evaluation of subprojects to minimize uncertainties relating to design, cost estimates, and construction. The Regional Development Project, on the other hand, was delayed by 12 months due to suboptimal coordination between the executing agency and the regional development management offices. The closing date of the Regional Development Project, Phase II has been extended to March 2012, as during the midterm review in December 2010, only 52% of the contracts had been

---

<sup>9</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

awarded, and the disbursement rate stood at 30%.<sup>10</sup> Monitoring and reporting of projects have not been pursued rigorously.

58. **Effectiveness.** The sector portfolio is rated *less effective*. There is a shortage of skilled personnel, and institutions are generally weak and relatively ineffective institutions. This is compounded by the involvement of multiple departments and agencies in multisector projects. ADB investments, being very small, have not produced to substantive sector changes. All three projects succeeded in achieving their infrastructure objectives although at higher costs. The Independent Evaluation Mission in February 2011 visited Fonadhoo Island in Laamu Atoll, which is one of the three focus islands of the ongoing Regional Development Project, Phase II. The subproject involves setting up a sewerage network to cover about 450 households and a wastewater treatment plant. The key stakeholders for this subproject, in addition to the executing and implementing agencies, include the contracted private service provider (Shin Nippon Technologies), local project implementation unit, South Central Utility Company, elected members of the island council, Live and Learn nongovernmental organization (NGO), and island households. Key issues that emerged from stakeholder feedback include the need for greater consultations with local communities at the design stage of the sewerage network, need for regular flow of information with reference to technical specifications of the network to local communities during implementation, and the need to clarify ownership issues (whether community or south central utility company owned) once the network is installed. These issues were raised with the executing agency and are to be addressed during the remainder of the implementation period.

59. **Sustainability.** The sector portfolio is rated *less likely sustainable*. Infrastructure components are likely to be sustainable, although given the climatic conditions maintenance and supervision of infrastructure assets are critical. The available evidence on operation and maintenance (O&M) is presently scarce, partly because the financial and accounting data are weak. Financing recurrent costs may face severe difficulties in the context of the ongoing debt and financial crisis. The government's commitment to reforms and desire to bringing about organizational changes are, however, positive features.

60. **Development impact.** The development impact of these three projects is rated *partly satisfactory*. Infrastructure provision has resulted in reliable and safe means of communication and transport across atolls. Likewise provision of electricity has augmented opportunities for employment, economic ventures, and human development. However, the same cannot be said for the soft environment components, or capacity development. Shortage of skills and knowledge constitutes a constraint across the spectrum of development activities and sectors.

61. **Overall assessment.** The overall rating for the entire portfolio of loans and TA under multisector projects is *partly successful*.

**Table A6.4: Overall Rating of Multisector Portfolio**

Strategic Positioning	Relevance	Efficiency	Effectiveness	Sustainability	Development Impact	Overall
Satisfactory	Relevant	Less Efficient	Less Effective	Less Likely	Partly Satisfactory	Partly Successful

ADB = Asian Development Bank.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

<sup>10</sup> According to information received from South Asia Regional Department, the contract awards have increased to 90% of the total, while the disbursements rate stood at 38% as of 24 June 2011.

### c. Issues

62. Capacity constraint is a problem when conforming to the procedural requirements of project implementation. Beginning with the project implementation of Multiproject in the 1980s, few progress reports have been filed. The executing agency has attached more importance to getting the project completed than assessing financial or economic viability. Capacity development has not received its due priority. The government needs to be convinced about the full merit of these procedures. Likewise, there has been some difficulty in transmitting the development ethos of devolution to local stakeholders, officials, and functionaries. Low human resource capacity is a major limitation in this regard.

63. The reliance on sound macroeconomic policies alone is seldom adequate to yield beneficial outcomes if no matching micro prudential practices are being followed in project management, reporting, O&M, and capacity development. This needs to be pursued vigorously by the government and insisted upon by ADB.

64. Maldives needs to build its human resources with higher qualifications and skills so that they can enable higher value addition to the economy. In the context of the ongoing debt and financial crisis, financial management needs to be improved to be able to pursue sustained economic development.

## 5. Tsunami Emergency Assistance

### a. Program and Activities

65. Following the devastating December 2004 tsunami, ADB provided a grant of \$20.0 million under the specially established Asian Tsunami Trust Fund and \$1.8 million in loans (by reallocating and consolidating unutilized assistance from six ongoing projects). ADB also provided a Japan Fund for Poverty Reduction grant for \$1.0 million to help restore the livelihoods of affected farmers by providing inputs, training and extension services and small loans to farming families, to complement its interventions in the agriculture sector. An advisory TA grant of \$0.4 million was included to promote sound environmental management to complement its assistance for reconstruction of physical infrastructure in the water and sanitation sector. Further, \$0.25 million was also allocated for saving damaged fruit trees from a regional TA for a Poverty and Environment Program.<sup>11</sup> The assistance was divided into a quick-dispersing component of \$6.5 million to finance imports, from a list of pre-approved items, urgently needed for the government's recovery programs and a project component of \$15.3 million to fund rehabilitation of tsunami-damaged infrastructure and facilities. The project component was further divided into suballocations for five sectors: (i) water supply, sanitation, and solid waste management; (ii) transport; (iii) energy (power); (iv) fisheries; and (v) agriculture. Given the urgency of moving ahead, the government and ADB agreed that individual subprojects in each sector would be selected during implementation according to their priority. A provision was also included for consulting services to assist in the selection of subprojects, project design, implementation, monitoring, and financial oversight of outlays, in view of the limited and overstretched capacity of the national government.

66. ADB subsequently provided two TA grants for a total of \$1.40 million (i) to promote sound environmental management in the aftermath of the tsunami to complement assistance for

<sup>11</sup> ADB. 2003. *Technical Assistance to Maldives for the Poverty and Environment Program*. Manila (TA 6150-REG, \$3.92 million, approved on 16 December, cofinanced by the Poverty and Environment Fund).

reconstruction of physical infrastructure in the water and sanitation sector, and (ii) to help restore the livelihoods of affected farmers by providing inputs, training and extension services, and small loans to farmers, to complement interventions in the agriculture sector. It also allocated \$0.25 million for saving damaged fruit trees using funds from a RETA for a Poverty and Environment Program.

## b. Evaluation of Program and Activities

67. **Strategic positioning.** The positioning is rated *satisfactory*. It was consistent with the country's needs following the tsunami and the government's National Recovery Reconstruction Plan to deal with the aftermath of the tsunami, and was coordinated with interventions proposed by other development partners. However, it was not geographically focused, or entirely consistent with ADB core areas of operation or long-term focus areas in the Maldives.

68. **Relevance.** The sector activities were *less relevant*. It was very timely. The assistance was approved within approximately 3 months of the tsunami (and well within the 12 weeks from needs assessment stipulated in ADB's Disaster Emergency Assistance Policy (DEAP), and made effective the following month. It was also mostly in accordance with the guidelines for such assistance under the Asian Tsunami Fund and ADB's DEAP. However, the design had critical shortcomings, both at the aggregate level and in the design and selection of individual subprojects.

69. The shortcomings in the first instance relate to ADB's decision to include sectors in which it had very limited previous involvement. These included fisheries in which ADB's previous experience was limited to a single ADTA activity provided in 1990 for development of a sector strategy (which was not followed up by any project interventions), and agriculture, where again, ADB's experience was limited to a single TA project to study the commercialization of agriculture without any subsequent project interventions. Further, other development partners were already involved in each of these sectors (the World Bank in fisheries, and the Food and Agriculture Organization notably, but also the International Fund for Agricultural Development and UNDP in agriculture). In a third sector, namely the water supply, sanitation, and solid waste management sector (WSS), ADB participation up to that point had been limited to a modest component of \$1.51 million for water supply and sanitation in a \$8.00 million loan for the Regional Development Project. (The component was rated only *partly successful* and probably environmentally unsustainable.) In contrast, ADB had previously provided assistance for five projects and seven TA projects in the transport and ICT sector, and four project loans and several TA projects in the energy (power) sector. Support for the agriculture and fisheries sectors proved either unsuccessful or less successful, which supports the contention that these sectors should not have been included for assistance in the first place despite the arguments that might have been made at the time, because of the greater risk of poor selection, design, and implementation of subprojects in these sectors.

70. Further, because five sectors were selected for assistance and the total assistance had to be allocated across five different sectors, allocations for any one sector were limited. For example, of the \$15.3 million for the project component, suballocations ranged from \$2.5 million each for agriculture and power, to \$2.6 million for fisheries, \$2.9 million for transportation, and \$4.0 million for WSS. While these allocations were made prior to the selection, design, and costing of individual subprojects, the limited sector allocations greatly reduced flexibility in the subsequent selection of subprojects and in the number of interventions that could be taken up in any one sector. For example, in the WSS sector, the sector allocation was sufficient to fund the reconstruction of the sewerage system on just one island (of a planned two). Similarly, in the

transport sector, the support proved adequate to fund the reconstruction of just one of three harbors selected, as a result of the actual reconstruction costs being substantially higher than anticipated and the limited allocation made. In the energy sector, the results were better and six of the seven selected electrical power systems were rehabilitated, but only after reallocating funds from other sectors. As such the support lacked critical mass to make a significant difference in the selected sectors, to build effective relationships with all the concerned implementing agencies, and to make efficient use of consultant and other resources.

71. For subprojects, problems involved the selection and design of microcredit programs in agriculture and fisheries. Demand for such loans in both sectors was extremely low as microcredit was also offered by other sources and loans provided under ADB support had a lower limit and substantially shorter repayment period than loans from other sources. Both the design of the component and coordination with other institutions were thus unsatisfactory. In the agriculture sector, some needs were wrongly identified and assistance poorly targeted.

72. **Efficiency.** The Tsunami Emergency Assistance Project was *efficient* in achieving outputs and outcomes. The estimated EIRRs for subprojects implemented in the energy, transport, and WSS sectors were satisfactory and exceeded the cut-off rate of 12%,<sup>12</sup> while EIRRs were not computed for subprojects in agriculture and fisheries. Delays in the start of physical implementation led to a cumulative delay of about 11 months in the implementation of the overall project though given the circumstances under which the project was implemented, the overall implementation period of 3.25 years compares favorably with the time taken and delays to implement similar emergency projects in other countries.

73. **Effectiveness.** Since measurable performance indicators were not established at approval, effectiveness was evaluated largely in terms of outputs, i.e., whether or not the selected subprojects were implemented.

74. While reconstruction projects implemented in the transport, power, and WSS sectors with ADB support were reported to be well-designed, and functioning well, this was offset by the fact that fewer than planned projects were implemented in these sectors.

75. Even fewer subprojects were successfully implemented in the two other sectors. In agriculture, one selected project for rehabilitating facilities at a research station was not implemented due to the need to close the project within the time frame set by the Disaster Emergency Assistance Policy. A second project for establishing pilot demonstration farms organized around farmer cooperatives was abandoned after international consulting support ended, while a microcredit program was canceled due to lack of demand. Only the fourth subproject to develop a farmer's handbook on agricultural practices, provide training, and strengthen extension services succeeded in meeting most of its objectives. In the fisheries sector, the outputs were only slightly better. Overall, the assistance was thus *less effective*.

76. **Sustainability.** The sustainability of completed subprojects in the infrastructure sectors is likely; in the other sectors, subprojects like the development of pilot demonstration farms, which were quickly abandoned by members of the farming cooperatives running the farms, and the microcredit projects were canceled. Taken across all sectors, the project is, therefore, rated *less likely sustainable*.

---

<sup>12</sup> Higher than estimated costs for certain projects were mainly due to higher specifications with resultant lower life-cycle costs and higher capacity, the benefits of which offset higher capital costs in EIRR calculations. It might also be noted that EIRRs in general tend to be high for rehabilitation and reconstruction projects.

77. There are also some concerns regarding the funding of O&M expenses of infrastructure projects. In the energy sector, tariffs do not cover the full cost of power generation on the islands, while WSS and transport have no system for charging user fees. Thus while care was taken to try to ensure that adequate technical capacity for O&M was available (in some cases by providing detailed manuals for O&M), the continued functioning of these facilities will be dependent on government subsidy for the power utilities and overall financing of O&M expenditures for WSS and harbors. However, the government has taken some measures to try to reduce the extent of budgetary support needed in the longer term. It has recently set up seven regional utility companies to take care of the O&M of infrastructure assets on the islands. This arrangement is expected to help improve the efficiency and quality of the utility services and simultaneously permit the introduction of user charges for water supply, sanitation, and use of harbor facilities.

78. **Development impact.** Overall, the assistance provided by ADB and other development partners helped the Maldives to recover relatively quickly from the widespread devastation caused by the tsunami. The main industries, tourism and fisheries, recovered rapidly, helped by aid assistance to repair harbors, the international airport, and other infrastructure, and provide direct assistance to fish processors. At the aggregate level, real GDP growth, after declining by 4.7% in 2005, bounced back quite spectacularly in 2006 before resuming more normal growth in 2007. The sharp recovery in aggregate growth and in critical industries underlines the success of the government's and the international community's efforts in key economic areas. Indeed, one study commissioned by the government in 2005, 6 months after the disaster, suggested that people across the country felt that they were better off than they were a year earlier (before the tsunami). While the impact varied across groups, overall household incomes were about 7% higher in June 2005 than in September 2004, albeit helped by higher reconstruction expenditure and the inflow of funds in the short term.

79. On the other hand, the reconstruction of houses, reclamation of agricultural land, and rebuilding of island harbors, has taken place at a slower pace, but much of the built infrastructure is of better quality than before and meets higher environmental standards.

80. The country's relatively quick recovery was undoubtedly aided by the very substantial amount of aid (perhaps as much as 80% of the total cost of recovery and rebuilding), much of it in the form of grants that helped to greatly minimize the impact of rebuilding efforts on the economy and on the maintenance of macroeconomic stability.

81. While separately attributing the contribution made by ADB—which was just one of many development partners—is difficult, the impact of assistance provided by ADB was less than it could have been, for the reasons enumerated in the discussion of effectiveness and efficiency, and is therefore rated *partly satisfactory*.

82. **Overall assessment.** ADB responded quickly to the urgent needs for assistance following the tsunami. It correctly recognized capacity constraints and possible problems in implementation and provided for those factors. While the grant and loan from ADB provided timely and much needed assistance to the Maldives at a critical time, contributing to the restoration of infrastructure and livelihoods and the resumption of economic growth and development, the design, effectiveness, and efficiency of the Tsunami Emergency Assistance Project, particularly the selection of sectors and the choice of subprojects could have been better. This also impacted the ratings for sustainability and development impact of the assistance. For this reason, the project is assessed on balance to be *partly successful*.

**Table A6.5: Overall Rating of Tsunami Emergency Assistance Portfolio**

<b>Strategic Positioning</b>	<b>Relevance</b>	<b>Efficiency</b>	<b>Effectiveness</b>	<b>Sustainability</b>	<b>Development Impact</b>	<b>Overall</b>
Satisfactory	Less Relevant	Efficient	Less Effective	Less Likely	Partly Satisfactory	Partly Successful

ADB = Asian Development Bank.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

### **c. Issues**

83. The need to focus assistance on a few key sectors with which ADB is familiar in the concerned country and in which it does well, is no less relevant for emergency assistance than it is for determining priorities for regular lending. ADB also needs to make it easier and quicker to reallocate sector allocations in consultation with government as the scope and extent of assistance from other development partners becomes known and individual subprojects are identified and selected. Such reallocation should aim to support the sector focus, for example in the present case, the reallocation of funds originally allocated for agriculture to permit the funding of a second harbor or sewerage facility.

84. The government and development community agreed on a “build-back-better” policy requiring that facilities be built to current environmental and safety standards. This requirement should be incorporated into subproject design and cost estimates at the stage of subproject selection itself.

85. The project rightly adopted a sector approach, which allowed the grant and loan approval to go ahead expeditiously, while providing additional time and flexibility for the identification, design, and evaluation of individual subprojects. However, this takes time, delays the start of physical implementation of subprojects, and adds to the time required for completion. On the other hand, there is pressure to expedite disbursements and to close the project within the time frame required under the DEAP. The project could likely have been more effective overall if additional time was provided. Thus, while expeditious completion of reconstruction work following a disaster is highly desirable, the time frame should allow greater flexibility if needed.

86. Development of pilot demonstration farms, cooperatives, and other new approaches require time and are unsuited to emergency assistance programs with a limited time frame. Moreover, in this case, widespread displacement when the activity was being implemented added to the difficulty of sustaining cooperatives when participants went back to their original homes. Not enough information is available to confirm if the subproject was consistent with the terms of emergency assistance, which is not to provide either relief or fund medium and long-term development efforts.

87. The experience of ADB and other development partners point to several problems with the provision of microcredit in emergency assistance projects. While microfinance has been widely successful in supporting the development of microenterprises and livelihood activities, and the concept of providing small loans is fundamentally right, it is perhaps not best suited to post-disaster situations. One set of problems relates to the introduction or substantial scaling up of microlending in the absence of an established culture for such funding. This takes time to establish. A more immediate issue in this case was that obtaining acceptance for a microcredit program and imposing discipline among borrowers to fulfill their debt service obligations is difficult when cash grants are also being made, often for the very same purposes that loans

were being offered. While both cash grants and loans provide badly needed resources and inject liquidity into affected communities, they should not occupy the same space in the recovery time line.

88. On the positive side, a quick-dispersing component was useful in providing budgetary support for the government's urgent recovery and reconstruction efforts, and helped expedite the recovery process. The needs assessment correctly anticipated possible problems in implementation and capacity constraints, and provided for those constraints. Coordination with the government appears to have been reasonably good, helped by the decision to establish an extended mission in the Maldives for the duration of the project. The issue of whether or not cash transfers should be supported if beneficiaries can be properly identified, and drawing on the lessons from successful case studies, may be worth revisiting.

## 6. Education

### a. Program and Activities

89. ADB provided two loan projects to the education sector<sup>13</sup> for combined assistance of \$11.8 million. Both projects focused on the priority area of education's interface with the labor and employment markets of the Maldives.<sup>14</sup> ADB also provided four TA projects. All were implemented.

90. The Postsecondary Education Development Project (PEDP) was ADB's first project loan for the country's education sector. The main objectives of the project were to reduce the supply–demand gap of educated labor in key economic sectors, and to improve the quality of and upgrade access to postsecondary education. The Maldives College of Higher Education (MCHE) was established under the loan to consolidate and coordinate postsecondary administration and academic programs, including admissions, accreditation, budgeting, planning, monitoring, student affairs, foundation and atoll extension, and external linkages to out-of-country universities with the view to meeting international accreditation standards. Project implementation is now complete with the completion report (PCR) in 2009 and its validation done in 2010.

91. The Employment and Skills Training Project (ESTP) was the second project loan. Its objective was to increase the number of Maldivian men and women actively participating in the labor force and employed. The project sought to (i) increase access to quality employment-oriented skills training, (ii) improve career guidance and social marketing, and (iii) strengthen the capacity of the Ministry of Human Resources, Employment and Labor (MHREL). The project sought to create and market competency-based skills training opportunities for Maldivian young men and women, especially those from the outer atolls, to better prepare them to participate in

---

<sup>13</sup> ADB. 1998. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Maldives for the Postsecondary Education Development Project*. Manila (Loan 1637-MLD(SF), \$5.8 million, approved on 30 September); and ADB. 2003. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Maldives for the Employment Skills Training Project*. Manila (Loan 2028-MLD(SF), \$6.0 million, approved on 2 December).

<sup>14</sup> In terms of ADB's classification, both loans are under the education sector. However, strictly speaking, Loan 1637 pertained to main education, while Loan 2028 belonged to training, which interfaces broadly with a wide spectrum of the labor and employment markets. This makes the implementation of Loan 2028 more demanding than if it applied to purely education sector operations.

the labor force and employment market.<sup>15</sup> The project was physically completed in June 2010, but has yet to be closed financially.

92. Four TA projects were undertaken in the education sector. In 1995, ADB's involvement in the Maldives began with an ADTA activity for the Education Masterplan. It prepared a 10-year education development master plan for the country. A follow-on TA focused on postsecondary education management, and contributed to the PEDP. In 2000, TA for Preparing a Science and Technology Master Plan was approved; and in 2004, the final TA assisted in preparing a framework for education toward Vision 2020. No TA has been financed in the sector since 2004.

93. During 1995–2010, the entire portfolio was fully implemented, although progress under projects and disbursements were slow due to the limited capacity of the public service itself. Institutional changes, reorganizations, and the 2004 tsunami were the main sources of disruptions. Since 2007, the country has been facing rising food and fuel prices, and implications of the global financial downturn. All these have exacerbated the debt and financial crisis in the Maldives, which the IMF and other international financial institutions including ADB have been addressing. Presently, a minority government is in power, and that lends further to uncertainty and governance problems.

#### **b. Assessment of Program and Activities**

94. **Strategic positioning.** ADB's interventions are rated *satisfactory*, as they were appropriately positioned to promote postsecondary education and its linkages with the employment and job markets in the Maldives. They focused on regional development across atolls, while increasing the employability of young Maldivian entrants to the labor market. The interventions were consistent with the government's NDPs and sector strategies, as well as with ADB's country operation and education sector strategies. Assistance to the sector was well coordinated with other development partners. ADB displayed its continued commitment to the sector by financing four TA projects. Further, loans were sourced from ADF, while TA was provided on a grant basis.

95. **Relevance.** The support is rated *relevant*. Human resources in the Maldives are a major binding constraint for the country. They continue to preclude greater participation of Maldivian labor in the economic growth that the country has enjoyed over the decades. The designs of the loans and TA were consistent with these objectives. The design of the PEDP was simple and robust. The ESTP was a bit more complex as it sought to promote the active participation of Maldivian men and women in the labor force and the employment market. However, its design was more narrowly focused on training alone. Institutional changes required in wage and labor market regulations were not given adequate attention. The TA projects were well designed and appropriate to the sector.

96. **Efficiency.** The program and activities are rated *efficient*. The two loans in the sector were implemented by two different agencies, which had some familiarization issues initially. Despite delays, the PEDP was generally well implemented. Its EIRR exceeded appraisal estimates. Despite frequent changes in components, allocations, and implementation arrangements, the project was successful. The ESTP faced its own share of similar disruptions, reorganizations, and modifications. The implementing agency has been reorganized three times

---

<sup>15</sup> In the absence of natural resources, the Maldives needed to generate value-addition through its human resources, but workers lack skills and the knowledge base to be able to operate at higher levels of the value-chain. They were also not keen on undertaking low-paying and difficult jobs currently served by expatriate workers.

since the loan was approved. The delivery of training programs was delayed for about 2 years from the start of the project, due to delayed appointment of consultants. From late 2006, the delivery of training gathered momentum, but slowed again during and after the November 2008 elections. The ESTP is rated *partly efficient*. The limited implementation capacity of public service was essentially the main impediment in achieving more efficient implementation. The TA projects were, however, well implemented.

97. **Effectiveness.** The program and activities are rated *effective*. The PEDP achieved its main outputs, which exceeded appraisal estimates. By successfully establishing MCHE, it was able to lay the foundation for the future growth of postsecondary education in the country. However, in the ESTP, given the number of disruptions, changes, and modifications during project implementation, including in the implementing agency, it appears likely that the project is likely to be only less effective. This assessment might change once the project completion report is available. The TA projects, especially the Education Masterplan TA and the Science and Technology Masterplan TA, were very effective. In comparison, an important output of the TA for Strengthening the Framework of Education Toward Vision 2020, i.e., dealing with alternative financial arrangements for education financing, lacked depth and detail due to data deficiencies. Hence, it is assessed *partly effective*.

98. **Sustainability.** ADB interventions in the sector have had sustainable impact and are rated *likely sustainable*. The PEDP and all four TA projects have made significant contributions to this rating. Nevertheless, the ESTP, faces serious sustainability issues in terms of staffing and funding resources available after completion to the Technical, Vocational Education, and Training Division of the Ministry of Human Resource, Youth and Sports.

99. **Development impact.** ADB's sector interventions are rated *satisfactory*, as it has had a positive impact on the economic and social development of the Maldives, among them the improvement of education standards and employment opportunities for women. Thus, in terms of growth and poverty reduction, the impact meets expectations. The impact does not seem to have reached the critical threshold as yet in the case of the regional development of the outer atolls. The full impact of these investments and interventions could materialize further, once the institutional reforms vis-à-vis wages and labor market regulations are implemented in the country.

100. **Overall assessment.** The overall rating of for the education sector portfolio is *successful*.

**Table A6.6: Overall Rating of the Education Sector Portfolio**

Strategic Positioning	Relevance	Efficiency	Effectiveness	Sustainability	Development Impact	Overall
Satisfactory	Relevant	Efficient	Effective	Likely Sustainable	Satisfactory	Successful

ADB = Asian Development Bank.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

### c. Issues

101. ADB interventions were identified to relieve the Maldives of its acute shortage of human resources. Toward this end, ADB addressed both supply and demand aspects of the problem under its two loans and supporting TA. The analysis of the sector operations reveals that ADB succeeded in augmenting schooling opportunities and thus added to the supply of educated

personnel, especially from postsecondary. Similarly, ADB interventions have contributed to skill-augmenting training opportunities. The quality of education, as indicated by the low test scores, needs to be given more attention. Likewise, management of demand for skills through the analysis of such areas as the labor market, wage levels, and regulation of recruitment appears not to have been adequately factored into the design of interventions. This has limited the full impact of interventions from taking place. Some of the implementation problems (e.g., delays, changes in components, restructuring of implementing agencies) were beyond ADB control. These too reduced the effectiveness and efficiency of the outputs and outcomes. The limited role of the private sector and the limited involvement of stakeholders from the outer atolls are other aspects that need to be strengthened in future operations.

102. The lessons derived from this analysis include that without generating a locally relevant curriculum, and without trained teachers, improving the quality of education in the Maldives is difficult. Further, projects in the education sector beyond the universal basic education need to be designed in light of prevailing conditions in the labor and employment markets, preferably in close cooperation with the private sector and stakeholders. This is especially so given that the country is following open labor market policies and is hosting a large number of expatriate workers. ADTA should be used to review the functioning of the labor market, and propose ways to upgrade institutions, policies, and regulating mechanisms.

## **7. Finance**

### **a. Program and Activities**

103. Support to the financial sector has been limited. Direct assistance comprised three related ADTA activities during 1992–1995 (Table A6.7) for an aggregate of \$780,000. The objectives were to increase the availability of medium- and long-term funds for private sector investment and to promote the development of a more efficient and robust financial sector. In addition, ADB provided \$150,000 for small-scale TA to enhance the social security system.<sup>16</sup>

104. ADB recently indirectly provided additional assistance for the financial sector under a 2008 TA loan for private sector development. This project includes some components relating to the financial sector, including establishing a credit information bureau, studying the establishment of a central moveable assets registry, and developing a small line of credit to be operated through Bank of Maldives (BML) to pilot cash-flow-based lending to micro-, small-, and medium-sized enterprises. The project is currently being implemented and has been evaluated along with other assistance provided by ADB to the industry and trade sector.

---

<sup>16</sup> Though listed under assistance to the financial sector, this was developed as part of the program at the time to improve the government's financial management (and to expand and rationalize social security at the same time) and is considered along with other interventions to improve PSM.

**Table A6.7: Support to the Finance Sector**

TA No.	TA Name	Activities	Date of Approval	Month and Year of Closing	Delay in Completion	TCR	
						Date	Rating
1673	Study the Feasibility of Establishing a Long-Term Credit Bank in the Maldives	95,000	26-Feb-92	Dec-92	2 months	-	-
2265	Development of a Strategic Framework for Financial Sector Restructuring	300,000	27-Dec-94	Nov-96	5 months	Nov-98	PS
2311	Maldives Monetary Authority	385,000	13-Mar-95	Jul-97	5 months	July-98	PS
<b>Total</b>		<b>780,000</b>					

- = none, ADB = Asian Development Bank, PS = partly successful, TA = technical assistance, TCR = technical assistance completion report.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

### b. Evaluation of Program and Activities

105. **Strategic positioning.** While no formal sector strategy existed at the time ADB provided assistance for the financial sector, the positioning of ADB's program was *highly satisfactory* given the very basic and controlled financial sector that existed at the time and the limited availability of term financing. Assistance to the sector was also in line with related support to a number of countries to support their financial sectors. Much of this was focused on assistance to development finance institutions to promote industrialization and the growth of small and medium-sized enterprises (SMEs) for more rapid economic growth and job creation, and simultaneously to promote private sector development. The approach was timely and internally coherent, and interventions were coordinated with the IMF (which was processing a request for an enhanced structural adjustment facility at the time) and the World Bank. However, sector development was not pursued once the three TA projects were completed, even if the primary reason was the government's limited interest in pursuing further reform at the time.

106. **Relevance.** The TA projects provided for the financial sector were overall *relevant* and consistent with the country's needs. TA design was satisfactory. For example, the first TA project concluded that instead of establishing a new institution for providing long-term credit, it would be more appropriate to build capacity within BML for that purpose. However, that would not have been sufficient without changes in sector policies; the design of the next TA took into account the necessity for developing a strategic framework for financial sector development alongside institutional development of BML. At the time of TA approval, the expectation was that once a desired framework was drawn up, it would lead to and be followed by a financial sector program loan to help implement reforms and restructure the financial sector. There was, however, a mismatch between the objectives of this TA and government (subsequent) expectations, which turned out to be more limited and focused primarily on establishing a stock exchange.

107. **Efficiency.** The TA projects were completed within budget, though with delays of a few months for implementation. However, in the case of one, substantial reworking of the report was required as the interim report was found to be unsatisfactory. In addition, part of the training for Maldives Monetary Authority (MMA) staff in the MMA TA had to be repeated because all staff members were not available at the same time. Further, because of staff turnover, some training had to be provided again. Finally, only a few of the recommendations were accepted and implemented. Overall assistance is thus rated *inefficient*.

108. **Effectiveness.** The assistance is rated as *less effective*. While the outputs were delivered as planned (the overall analysis and recommendations were assessed satisfactory, and for some components outstanding), outcomes in terms of institutional development was uneven. Together, these led to limited strengthening of banking regulation and supervision. Further, the interventions did not enhance the availability of credit for investment, lead to a program of reforms to deregulate and liberalize the financial sector, or contribute to the development of a broader or more efficient financial sector.

109. **Sustainability.** While the outputs were delivered, key recommendations, other than a few relating to banking supervision, were not implemented and the desired outcomes were overall not achieved. ADB also did not pursue further development of the financial sector. The assistance is thus rated overall *unsustainable*.

110. **Development impact.** The support failed to achieve its overall goal of creating a deeper and more efficient financial sector to support investment and economic growth. However, the reports did create awareness among policy-makers about the need for reforms, and provide ideas and influence thinking about the lines along which reforms should take place in the future. Some of the ideas were later implemented. The impact of ADB's limited assistance for the financial sector is hence rated *partly satisfactory*.

111. **Overall assessment.** The TA projects were grounded in the need to develop what was a narrow and closely directed financial sector. They sought to strengthen the financial system and enhance the availability of term finance to facilitate private sector-led growth. The TA projects were sequenced and sought to address policy issues and provide a work plan for phased policy reform and institutional development. However, the program was overall not successful and ADB did not pursue the effort further. The TA projects did though appear to have influenced thinking and contributed to progressive, if limited, later reforms in the financial sector. The government recently revived the issue of developing a strategy for financial sector development with the World Bank, which has drafted a financial sector strategy paper. The program is overall assessed *partly successful*, verging on unsuccessful.

**Table A6.8: Overall Rating of the Finance Sector Portfolio**

Strategic Positioning	Relevance	Efficiency	Effectiveness	Sustainability	Development Impact	Overall
Highly Satisfactory	Relevant	Inefficient	Less Effective	Unlikely	Partly Satisfactory	Partly Successful

ADB = Asian Development Bank.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

### c. Issues

112. The experience highlights the importance of ensuring that the government is fully committed to the TA objectives at all times and is serious about implementing necessary follow-up actions. In addition, ADB needs to ensure that implementing agencies are committed to making available necessary staff and resources for training and institutional development. ADB too should be cognizant of possible problems with staff availability and suitability for training. In the case of MMA, ADB was aware during the design stage that the credit and bank supervision section had just five staff, most without the necessary educational background or experience to undergo specialized training and with day-to-day responsibilities that could interfere with their attending training sessions. Given the importance and relevance of financial sector development, ADB should have continued to pursue financial sector development, albeit after

an interval if needed, and included it as a priority in its subsequent country assistance strategies.

## 8. Nonsovereign Operations

113. ADB's private sector operations in the Maldives have been limited and consist of loans and an equity investment in two nonbank financial institutions in 2007 and 2008.

**Table A6.9: ADB Private Sector and Nonsovereign Operations in the Maldives**

Project Number	Project Name	Month and Year of Approval	Operations (\$ million)			Government Shareholding
			Approved	Disbursed	Outstanding	
40935	Maldives Finance Leasing Company	Mar-2007	Loan 4.50	Loan 1.50	Loan 0.00	25% (through SOEs)
41914	Housing Development Finance Corporation	Apr-2008	Equity 4.5 Loan 7.5	Equity 2.25 Loan 4.00	Equity 2.25 Loan 4.00	49%

ADB = Asian Development Bank, SOE = state-owned enterprise.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

114. **Maldives Finance Leasing Company (MFLC).** MFLC was established in 2001 and commenced operations in 2002.<sup>17</sup> It continues to be the sole lease financing institution in the Maldives. It lease finances fishing vessels, as well as a variety of boats, equipment, and other assets used by the fish processing industry, tourist resorts, and SMEs in transportation and construction.

115. Following strong asset growth during 2002–2007, and given the absence of long-term funding domestically, MFLC approached ADB for a loan of \$4.5 million to help meet a part of its projected funding requirements. ADB's loan was accordingly designed to be drawn down in three equal tranches, to give MFLC the flexibility to match funding with its requirements. By 2010, MFLC had drawn down only the first tranche of \$1.5 million.

116. The ADB investment was consistent with the 2001 ADB policy for private sector operations.<sup>18</sup> This reaffirmed the strategic focus in the 1995 policy on infrastructure and the financial sector, while also encouraging the extension of private sector operations to more countries and sectors (as more sectors became favorable for private investment), as well as partnerships with other international institutions. The loan was consistent with the relevant country assistance strategies in the CSP, 2002 and the CPS, 2007, as well as the government's priorities in the 6th and 7th NDPs.

117. The development impact of the loan to MFLC has, however, been mixed. ADB support allowed MFLC to provide additional resources to promote private sector development constrained by, among other things, collateral issues and lack of long-term financing; and to help improve the alignment of asset and liability maturities. MFLC itself contributed to financial

<sup>17</sup> The main sponsors of MFLC are the National Development Bank of Sri Lanka (NDB), which is also the company's technical advisor, and two government majority-owned and controlled Maldivian entities, namely the Maldives Transport and Contracting Company (MTCC) and Bank of Maldives (BML). The International Finance Corporation (IFC) also took a stake in the company's initial equity issue. The current shareholding pattern is as follows: NDB 35%, IFC 25%, MTCC 15%, BML 10%, and three private investors 15%. It has also obtained loans and revolving credit lines from several foreign institutions, including IFC (\$3.0 million), the OPEC Fund for International Development, NDB, and the Bank of Ceylon.

<sup>18</sup> As approved by the ADB Board of Directors on 3 September 2001. See ADB. 2004. *Private Sector Operations, Strategic Directions and Review*. Manila.

sector development by helping to broaden the financial system. It did not, however, lead to a deepening of the financial sector and mobilization of domestic term funds through the issue of bonds, placements, or securitization. Similarly, its contribution to private sector development was limited since the bulk of MFLC's leased assets were in the fisheries and tourism sectors, two sectors that were relatively well-served by commercial banks in the Maldives.

118. In terms of its business performance, after several years of good performance and strong asset growth<sup>19</sup> during 2002–2008, MFLC has faced a growing crisis since the latter part of 2008. This was partly due to the global financial crisis and general economic slowdown, but to a greater extent due to (i) the trend decline in the performance of fisheries, to which it had built up excessive exposure; and (ii) unexpected and unresolved legal issues that arose following efforts to repossess assets relating to nonperforming leases. Both these have adversely affected rental receipts, pushed nonperforming loans to over 27%, and MFLC has cut back on new business as a prudent measure.<sup>20</sup> As a result of this winding down of activities, MFLC had substantial cash balances (a large portion of which it had parked in dollars to cover the risk that ongoing foreign currency shortages would not prevent it from servicing its foreign currency obligations) and utilized it to prepay its entire outstanding dues to ADB (after taking into account a rebate on the interest payable).

119. Covenants for environmental and social safeguards were included in the loan documents. With support provided by the National Development Bank of Sri Lanka, MFLC's procedures and systems appear to have been satisfactory. Screening and structuring of the loan, and ADB's work quality overall also appear to have been satisfactory. The Independent Evaluation Department (IED) rates ADB work quality as *excellent*. This favorable assessment has been based on good transaction management through post-closing monitoring and communication with the client. Further, the operations department and Office of Risk Management collaborated well to bring about a mutually beneficial wind-down of the transaction while maintaining profitability for ADB. Since only a portion of the assistance was drawn and then repaid, the additionality provided by ADB support was limited.

120. **Housing Development Finance Corporation (HDFC).** HDFC was established in 2004 as a wholly government-owned institution to provide long-term mortgage loans to individuals for house construction and renovation. It continues to be the only housing finance institution in the Maldives and provides loans to nationals for construction of houses for their own use as well as partly or wholly for rental. HDFC also operates a social housing scheme on behalf of the government for low-cost housing on the reclaimed island of Hulhumalé, a few kilometers off Malé.

121. Due to the strong demand for housing finance, by 2007 HDFC was unable to extend new loans as it had exhausted the initial equity funding provided by the government. It was also unable to obtain long-term funds due to the lack of long-term finance domestically, or borrow internationally without government guarantee.<sup>21</sup> The government, therefore, decided to privatize HDFC by issuing additional capital. This provided HDFC with additional funds and also enabled it to raise commercial loans on its own as a privatized entity. Subsequent to the capital restructuring, the government holds 49% of its capital, International Finance Corporation (IFC)

---

<sup>19</sup> MFLC provided \$51 million in leases from 2002 to 2008.

<sup>20</sup> New leases increased by just \$3.7 million in 2009 and \$1.2 million in 2010.

<sup>21</sup> HDFC has a banking license and is authorized to take deposits. However, it currently only accepts deposits from home loan borrowers equal to three monthly installments due from them, which they are obliged to maintain to cover any temporary disruption of payments.

and ADB 18% each, and HDFC of India 15%. ADB and IFC have each provided loans of \$7.5 million.

122. Overall, HDFC has been able to achieve expected development impacts and maintain satisfactory business performance. ADB's assistance to HDFC has enabled it to increase the availability of finance for housing, including to lower- and middle-income groups, and simultaneously lowered the cost of borrowing. As a privatized institution, it has reduced the government's direct footprint in the financial sector, and with technical support from HDFC India; it is now better placed to become a self-sustaining institution. Increased home construction has in turn benefited the construction services and materials subsectors, and HDFC is one of the major contributors to national GDP, besides improving the quality of life for an increased number of homeowners. It has, however, not made much of contribution to the development of a domestic long-term debt market. Although expecting HDFC to have contributed by itself to this objective is perhaps unreasonable, it does mean that for the foreseeable future HDFC will have to continue to be dependent on funding from overseas lenders and government support<sup>22</sup> for obtaining long-term funds.

123. At the same time, unlike many other businesses and financial institutions in the Maldives, HDFC continued to perform well despite the economic impact of the global financial crisis. The return on equity and assets remains satisfactory. Demand for loans is strong, while nonperforming loans are just around 1.1%, reflecting HDFC's conservative lending policies and the institutional training and support provided by HDFC India, as well as the experience throughout South Asia of borrowers rarely defaulting on housing loans to forestall any possibility of their homes being repossessed.

124. **Comparison with other multilateral institutions.** By comparison, IFC has been active in the Maldives longer than ADB (since 1995) and has a portfolio of 10 investments. However, a 7 were in the tourism sector, which is not a focus for ADB's private sector operations. It has also provided fee-based advisory services for the Malé airport and the Malé waste management public-private partnerships (PPPs). Besides MFLC and HDFC, IFC has also assisted one infrastructure project in telecommunications. ADB's private sector operations have been largely constrained until now by the lack of suitable investment opportunities in the financial markets and infrastructure, and the absence of a suitable enabling environment for private investment. ADB is presently considering assistance for two private sector infrastructure projects alongside IFC.

125. **Assessment of private sector operations.** Overall, ADB's private sector operations in the Maldives are assessed *successful* (Table A6.10).

**Table A6.10: Overall Rating for ADB Private Sector and Nonsovereign Operations**

Investment	ADB			ADB Additionality	Rating
	Development Impact	Investment Profitability	ADB Work Quality		
	Partly			Partly	Partly
MFLC	Satisfactory	Satisfactory	Excellent	Satisfactory	Successful
HDFC	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Successful

ADB = Asian Development Bank, MFLC = Maldives Finance Leasing Company, HDFC = Housing Development Finance Corporation.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

<sup>22</sup> In the form of direct funding or by covering foreign exchange risk as at present.

## 9. Industry and Trade Sector

### a. Program and Activities

126. Support to the industry and trade sector has been limited and consists of \$0.7 million for the standalone Capacity Building for the Maldives Custom Service TA and \$7.5 million for the Private Sector Development Project. However, this is changing as private sector development, and the promotion of SMEs in particular, has been identified as one of the priority focus areas for not only in the current country assistance strategy (the CPS, 2007–2011) but also in the upcoming country operations business plan for 2011–2013.

127. ADB had provided an ADTA activity for the customs service in 2000, to help it adopt and comply with World Trade Organization rules for customs valuation and develop a legal framework, including changes to the customs law and import laws, to support the new valuation system and provide for a dispute settlement mechanism. The TA loan for private sector development was approved in 2008 and includes helping the government improve access to finance; and facilitate the development of micro-, small- and medium-sized enterprises and capacity development to enable the government to better assist small businesses and structure and sponsor PPP projects in infrastructure.

### b. Evaluation of Program and Activities

128. **Strategic positioning.** The positioning of the support to the industry and trade sector was *satisfactory* and consistent with national needs and government plans, and with ADB's own strategic priorities. A second loan for development of micro-, small- and medium-sized enterprises is proposed for 2011 or 2012, indicating likely continuity of efforts in the future. ADB is, in principle, well placed to provide assistance for private sector and SME development, having provided similar assistance to other developing member countries in recent years.

129. **Relevance.** The support is rated *relevant*. The TA for capacity building for the Customs Service was well designed and consistent with the need to amend valuation methods to align them with World Trade Organization (WTO) rules. While it was not specifically within the priorities set out in the relevant country assistance program, it was broadly in keeping with ADB efforts to improve the efficiency and operations of the public service.

130. The assistance to promote private sector development was consistent with the country's evolving needs and aligned with the government's NDPs and ADB's strategies for the period under the CSP, 2002 and the CPS, 2007. Moreover, the project design, which includes the use of pilot interventions to guide future interventions, identification of specific responsibilities, and provision of targeted support for capacity building,<sup>23</sup> seems appropriate, as is the plan to have a follow-up project. Such an approach provides scope for extended policy dialogue, deriving benefits from lessons identified during implementation of the earlier intervention, and improves the likely sustainability of the interventions.

131. **Efficiency.** The activities are rated *likely efficient* overall. The TA for the customs service was highly efficient with cost savings, which were utilized to establish the Customs Academy to help institutionalize capacity building and improve the sustainability of TA objectives. A delay of

<sup>23</sup> With the possible exception of capacity building assistance to BML. BML has considerable experience lending to small enterprises, with and without collateral, and is well-placed to develop new technologies, such as credit scoring, with its own resources. The constraint on increased lending to micro-, small- and medium-sized enterprises in the case of BML does not therefore appear to be a lack of capacity, but rather incentives.

about 6 months is currently anticipated in the completion of the Private Sector Development Project. However, the components that have been completed, e.g., establishment of a credit information bureau and training for PPP development and pilot PPP projects, have been implemented efficiently.

132. **Effectiveness.** The support is rated *likely effective*. The customs service TA was highly effective. The Private Sector Development Project is currently ongoing. While some components, such as the promotion of PPPs and development of the credit information bureau, have shown encouraging initial outcomes, other components are still being implemented. If these are implemented as originally planned, the outcomes are also likely to be successful. The effectiveness of the project is therefore rated *likely effective*.

133. **Sustainability.** The future sustainability of interventions under the Private Sector Development Project is uncertain and is rated likely *less sustainable* for two main reasons. First is the concern of whether the capacity building and institutional development support provided under the project will be sustained. The expectation is that those institutions that are able to offer market-based remuneration to their staff, such as BML, Credit Information Bureau (CIB), and MMA will be able to retain trained staff and in-house capacity. However, given past experience, there must be a concern that many government line ministries and subordinate organizations like the business development support centers will face high rates of staff turnover and over the medium term and lose people along with the skills provided to them.

134. The second issue relates to the future financial viability and/or funding of organizations and businesses. CIB is expected to operate under and be supported by MMA for 2–3 years. Thereafter it will be spun-off as an independent self-financing organization. While preparatory surveys indicated that it would be able to generate sufficient fees, this is not entirely certain. On the other hand, the business development support centers will be dependent on government funding. There is the risk too of political opposition and consumer resistance to paying full cost-recovery user charges for infrastructure projects under PPP (hence affecting the viability of the PPP approach) particularly since currently no user fees for harbors, sewerage, and secondary education are proposed to be provided under PPP. Operators of about seven regional interisland ferry services that started under earlier PPP contracts are reported to be facing considerable financial stress and may cease operation.

135. Further, the objective behind the line of credit facility was “to enhance access to finance for MSMEs without unduly increasing commercial lending risks.” This was proposed to be addressed by reducing collateral requirements for subloans provided under the line of credit, while simultaneously providing for a government guarantee for up to 80% of defaulting subloans. The purpose of the facility was to “provide BML an avenue to better understand MSME risks, strengthen its ability to mitigate risks, and appreciate the revenues and benefits of engaging in the development of the MSME sector.” In other words, demonstrate MSME lending as a viable and profitable activity. BML has in the past operated, through its Development Banking Cell, several lines of credit provided by foreign donors on behalf of government and is therefore familiar with MSME lending. What is really constraining lending to MSMEs is the lack of incentives. This might thus have been better addressed through legal reforms and freeing lending rates (as well as through better information on borrowers as through the establishment of CIB). Under the line of credit facility (LCF) proposal applications for subloans would be prepared with the help of business development services centers (BDSCs) and submitted first to the government, which will review the applications to see whether they meet its “policy priorities,” and then forward the application with its recommendations to BML. Experience throughout the world has shown that this can lead to governance issues. Overall, the line of

credit facility, instead of providing a strong demonstration effect, is unlikely lead to enhanced lending to MSMEs once the funds provided under it are exhausted.

136. **Development impact.** The support to promote private sector development and micro-, small-, and medium-sized enterprise development, in particular, is recent. Moreover, the impact of such interventions will be felt over the longer term and several risks to the project's ultimate success remain. The country's limited resource base, constraints of geography, and the small market, will continue to constrain profitable opportunities for private investment. Nevertheless, ADB's intervention can be considered useful, if a somewhat limited initial effort to improve enabling conditions. These issues need to be addressed during project implementation. At the same time, there is not much evidence to assess its long term consequences on small and medium enterprise development and because of this the criterion has not been rated. A more objective assessment of the project's impact will require more refined indicators and robust baseline data.

137. **Overall assessment.** The activities were designed to strengthen or create institutions to meet the needs of a contemporary middle-income country. These include creating a broader and more diversified financial sector, demand-driven organizations to support businesses, and support for public-private partnerships, focusing particularly on the regions. However, based on the five criteria, the support to industry and trade sector is assessed *likely partly successful*.

**Table A6.11: Overall Rating of the Industry and Trade Portfolio**

Strategic Positioning	Relevance	Efficiency	Effectiveness	Sustainability	Development Impact	Overall
Satisfactory	Relevant	Likely Efficient	Likely Effective	Less Likely Sustainable	Not Rated	Likely Partly Successful

ADB = Asian Development Bank.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

### c. Issues

138. The plan to follow up the present project with a second project in support of private sector development is appropriate—a sequenced step-by-step approach, learning from and building on earlier initiatives, provides opportunities for course correction, continued policy dialogue, and greater sustainability. However, the next intervention must not simply seek to expand these initiatives but focus on creating a coordinated strategy and policy framework to facilitate and encourage private investment, addressing issues of land ownership and land rights, registration and licensing of businesses, and enforcement of contracts. It is particularly important to get the design of the proposed project for micro-, small-, and medium-sized enterprise development right, since the project is expected to account for the entire ADF allocation for the Maldives for 2011–2012 and thus determine the overall effectiveness of ADB lending during this period.

139. On the other hand, it is not clear why programs for private sector development were not included in previous country assistance programs as an enhanced role for the private sector and SME promotion have been government priorities since the 3rd NDP (1991–1993) or even earlier. Moreover, ADB has provided assistance to several developing member countries for private sector development, which has been a key component of ADB's own corporate strategies.

## **B. Contribution of ADB Strategy and Program to Thematic Areas**

### **1. Regional Cooperation and Integration**

140. At the regional level, the Maldives has an open economy and is heavily dependent on foreign, mainly European and East Asian, tourists and fish exports, which together directly account for over 30% of GDP. It also depends on imports for most of its requirements of basic commodities and manufactured goods. Nevertheless the country's narrow resource base and remoteness limit the scope for its integration into regional supply chains, power grids, or other networks. However, while regional integration in terms of goods and services is limited, the Maldives is a major recipient of regional capital through the branches of regional banks located in Malé and labor, both skilled and semi-skilled, from other South Asian countries to meet domestic constraints.

141. Notwithstanding its openness and the effective and beneficial use made by the Maldives of imported factors of production, regional cooperation and integration, especially regional trade capacity challenges, has not been reflected in its national strategies and is not reflected in ADB's CSPs even though it is an important objective of ADB's Strategy 2020. A long-pending proposal of the government to develop the Maldives as a regional shipping and logistics hub is one such area that needs to be looked at in this connection. This could include a role for ADB in facilitating foreign direct investment from neighboring countries, technology transfer, and greater management and vocational training. Another possible area is cooperation with small Pacific Island economies, which share many of the same characteristics and challenges, to learn from experience, and to formulate suitable strategies and best practice for development, including climate change adaptation.

142. The government's present Strategic Action Plan includes regional development instead, in the context of decentralization. The focus here is to improve accountability relations and basic service delivery to the population spread across all 1,192 islands in 26 atolls that stretch over 860 kilometers north to south. This focus to cover all islands and atolls marked a shift from the previous government's efforts to encourage voluntary resettlement of the population to larger islands to reduce the number of inhabited islands from 181, achieve economies of scale in service delivery, and reduce unit costs for transport. ADB support through the two regional development projects have contributed to the government's efforts to achieve this and any future assistance needs to be viewed in the context of the three-tier governance structure created through the 2010 Decentralization Act. The first local council elections were conducted in February 2011 and candidates have been elected to two city councils (17 seats), 19 atoll councils (132 seats), and 181 island councils (942 seats).

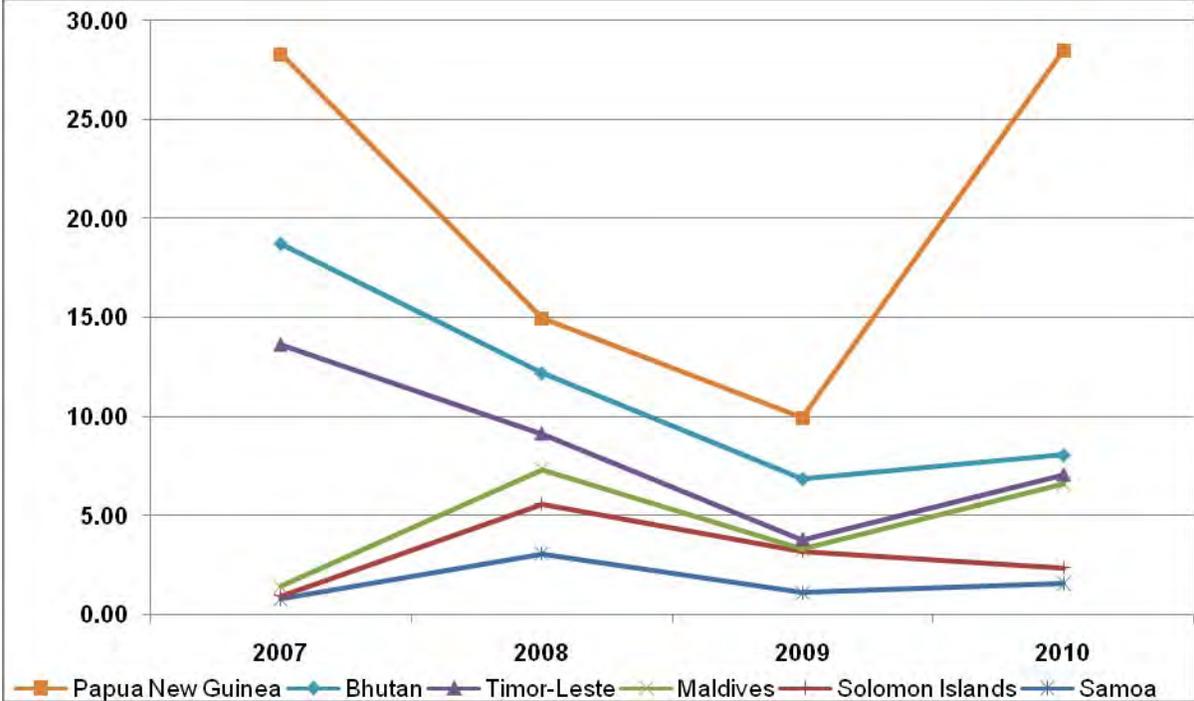
### **2. Capacity Development**

143. IED's 2007 CSP Completion Report Validation<sup>24</sup> covered the COS, 1995 and CSP, 2002–2004, and identified limited institutional capacity in government agencies as a major constraint. ADB's subsequent CPS, 2007–2011 formulated a sequential approach, with a pause for at least 2 years in lending activities during which time only capacity development and analytical work were to be undertaken. The focus of this first phase was to strengthen government's abilities to efficiently manage public expenditure and create an enabling environment for private sector development. Three projects have been programmed during the

<sup>24</sup> ADB. 2007. *Validation of the Country Strategy and Program Completion Report for Republic of the Maldives*. Manila.

present CPS cycle: a TA loan of \$7.5 million for the Private Sector Development Project in June 2008; a program loan of \$35 million for the ERP in December 2009, with a TA loan for \$1.5 million; and a nonsovereign operation of \$12 million investment in housing development finance in April 2008. Figure A6 illustrates the contracts awarded for consulting services for six countries including the Maldives that had comparable ADF approvals during 2007–2010. Evidence demonstrates that dependence on consultants has resulted in capacity substitution.

**Figure A6: Contract Awards for Consulting Services under ADB Loans and Technical Assistance Projects, 2007–2010**  
(\$ million)



ADB = Asian Development Bank.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.

144. One area where ADB has been successful is strengthening statistical capacity development through three ADTA activities totaling \$1.5 million and a RETA project (footnote 5). The RETA covers Cambodia, Lao People's Democratic Republic, Maldives, Mongolia, Nepal, and Timor-Leste. The results were most promising for the Maldives in that it undertook a systematic diagnosis of the country's statistical priorities, identified binding constraints, and prepared a national strategy for development of statistics and a 10-year action plan. The RETA was self-assessed *successful*. For 17 completed PSM-related TA activities as of August 2010, 12 TA completion reports are available of which 11 were self-assessed *highly successful*, *generally successful*, or *successful*, and 1 *partly successful*. Although outputs have been prepared, the evidence is especially weak for preparation of even intermediate outcomes and impact. Interventions for developing sector capacity incrementally have succeeded in strengthening and institutionalizing capacity, where a more ambitious single intervention has not. ADB-supported TA projects have, however, instead been linked to addressing project implementation risks or concerns at approval about sustainability rather than as part of a larger capacity development strategy for the sector, with the exception of certain TA projects in PSM.

### 3. Gender and Development

145. The country has been able to create conditions for parity between male and female enrollment in elementary education. Only a few South Asian countries, e.g., Sri Lanka, or the state of Kerala in India, have achieved this distinction. However, for postsecondary, as well as in terms of their participation in the labor force, women continue to lag. The role of women in the Maldivian economy has changed dramatically over the previous two decades and this trend is expected to continue as the economy modernizes. The female employment participation rate is estimated to have declined from 60% in 1978 to 21% in 1995, although it has since increased to 42.9% in 2008. The social pressure of managing households falls disproportionately on women. With the increasing male migration to Malé and the resorts, a high incidence of households temporarily headed by women has been noted. Women account for only 5% of the employees of the tourism sector. The social profile of the northern and southern atolls and islands is marked by a large absence of adult males who work as seamen, or in Malé or tourist resorts. Educated women are now a major unutilized resource in the Maldives, and given appropriate support could be an agency for sustaining the Maldives on its development trajectory.

146. ADB's area of emphasis since 2001 has been to increase the role and contribution of women to the country's labor force. ADB prepared a country gender assessment (CGA) in 2001<sup>25</sup> and a strategy assessment in 2007.<sup>26</sup> The 2001 CGA's main thrust was to strengthen the Ministry of Women's Affairs and Social Security responsible for gender mainstreaming across the whole of government, while priority sectors and themes identified for gender mainstreaming were reproductive health issues, access to higher education, and demand-driven vocational training for increased employment opportunities in high growth sectors. Findings from this CGA adequately informed the CSP, 2002–2004 and a separate gender strategy was prepared and included in the appendix of the CSP. The CSP identified human resource development through higher education and technical training, and access to finance for SMEs in the outer islands as two priority areas for gender issues. ADB programmed two gender and development (GAD) category II projects during this CSP period: Employment Skills Training Project and Regional Development Project, Phase II. Using IED's gender ratings framework, the gender-related activities of the Employment Skills Training Project have been rated *partly successful*, while the four standard evaluation criteria are *relevant*, *less effective*, *less efficient*, and *less likely sustainable*. The project documentation contains limited gender-related design features, especially in the design and monitoring framework of the report and recommendation of the President and included gender issues only in terms of monitoring coverage of training for women and girls. More recent supervision reports indicate limited delivery of gender-related outputs and the project suffered a delay of more about 3.5 years. The gender-related activities of the Regional Development Project, Phase II have been rated *successful*, and the standard evaluation criteria for it are rated *relevant*, *effective*, *efficient*, and *likely sustainable*. A detailed gender analysis was undertaken for each of the three project sites, findings from which formed the basis of site-specific economic and environmental action plans.

147. The 2007 Gender Strategy and Program Assessment identified three priorities that included equal access to resources and opportunities; equal capabilities in women, men, girls, and boys; and equality in decision-making and rights. The CPS, 2007–2011 identifies gender mainstreaming in SME development and decentralization, in addition to focusing on core ministries to have mainstreaming undertaken at sector levels. Although no GAD category I or II projects have been programmed through this CPS cycle, GAD components were added during

<sup>25</sup> ADB. 2001. Country Briefing Paper. Women in the Republic of Maldives. Manila.

<sup>26</sup> ADB. 2007. *Maldives: Gender and Development Assessment*. Manila.

implementation of the Private Sector Development Project, approved in 2008. The Ministry of Economic Development appointed the Women's Enterprise Council to partner on the creation of the business development support centers and focus on gender issues for access to credit, training, and business incubation issues.

148. ADB needs to focus on ways to improve preparation and use of sector- and project-specific analysis, including a stronger focus on country-specific sociocultural dimensions. Evidence further demonstrates the need to increase the number of gender-related indicators in design and monitoring frameworks and strengthen tracking of gender results in ADB's project performance monitoring systems.

#### **4. Environment**

149. ADB's focus in environment has been to help the government mainstream environmental considerations into policies, programs, projects, and TA work. ADB has developed and applied environmental and social safeguards from the early stages of the project cycle across the country portfolio. This has been ensured through strategic environment assessments for selected sectors such as transport and energy, program and project environmental management plans, and climate change adaptation. ADB programmed two projects, the regional development projects under multisector, as projects with environmental sustainability as a theme, during 1995–2010. Further, subprojects under the Tsunami Emergency Assistance Project and the earlier Multiproject have contributed to increasing the resilience of communities and ecosystems of selected islands. Lessons identified from regional development projects offer invaluable leads for ADB to strategically position itself to leverage its expertise in infrastructure and contribute to improve the resilience of island communities and ecosystems, and strengthen the capacity of selected atoll and island councils. ADB also funded an ADTA activity to promote sound environmental management in the aftermath of the tsunami in 2005. In the energy sector, ADB activities have included relocation of the power plant on Malé and the installation of equipment to control emissions and noise, which have had environmental benefits. Other than the environmental assessment in 2007 prepared to inform the CPS, 2007–2011 and the two environmental education-related handbooks prepared for community mobilization as part of the ongoing Regional Development Project, Phase II, there is little evidence on how support elsewhere has contributed to the environment theme.

150. UNDP and the World Bank are the other active development partners in the environment theme. UNDP is presently creating a program to scale-up (from the existing pilot projects) a mode of delivering basic services such as water supply, sanitation, solid-waste management using more holistic integrated programming for atolls and islands. This offers an opportunity to be involved, for example, in creating standards that cover policy, regulation, technology solutions, expansion of services, and sustainability of services postcompletion. The World Bank and ADB have started collaboration and consultations recently through global trust funds for renewable energy and climate change.

#### **5. Private Sector Development**

151. ADB's private sector operations in the Maldives so far have been limited and consist of loans and an equity investment in two nonbank financial institutions in 2007 and 2008. The contribution of the support to private sector operations has been largely constrained by the lack of suitable investment opportunities in the financial markets and infrastructure and the absence of a suitable enabling environment for private investment.

152. ADB's assistance in the finance sector in the mid-1990s was unsuccessful in achieving its goal of creating a deeper and more efficient financial sector to support investment and economic growth due to a lack of continuity or whole-hearted government commitment to reforms. The TA activities in the financial sector were grounded in the need to develop what was a narrow and closely directed financial sector. They sought to strengthen the financial system and enhance availability of term finance to facilitate private sector-led growth. The TA projects were sequenced and sought to address policy issues and provide a work plan for phased policy reform and institutional development. However, overall the program was not successful and ADB did not pursue the effort further. The TA projects did, though, appear to have influenced thinking and contributed to progressive, if limited, later reforms in the financial sector. The government recently revived the notion of developing a strategy for the financial sector with the World Bank, which has drafted a financial sector strategy paper.

153. ADB's assistance in the industry and trade sector in 2008 through the Private Sector Development Project was consistent with the country's evolving needs. The project design included the use of pilot interventions to guide future interventions, identification of specific responsibilities, and provision of targeted support for capacity building, which were appropriate, as was the plan to have a follow-up project. Such an approach would provide scope for extended policy dialogue, deriving benefits from lessons identified during the implementation of the earlier intervention, and improving the likely sustainability of the interventions.

## SECTOR RESULTS FRAMEWORK

Contribution to Development Impacts through ADB's Achievement of Sector Outcomes	Achievement of Sector Outcomes (or Effectiveness) Resulting Mainly from Outputs of ADB's Cumulative Interventions in the Sector	Outputs of ADB's Cumulative Interventions in the Sector	Inputs of ADB's Cumulative Project/Program/TA Interventions in the Sector	List of Key DPs in the Sector
<p><b>Public Sector Management (PSM)</b></p> <p>ADB's Economic Recovery Program (ERP) reforms have contributed to decreases in the fiscal deficit from 26.2% in 2009 to 18.7% in 2010.</p>	<p>Maldives Inland Revenue Authority raised \$7.2 million from the tourism goods and services tax through January 2011.</p> <p>New rent structure charged to hotels and guesthouses after amendments to the Tourism Act.</p> <p>Creation of the National Strategy for Development of Statistics and a 10-year action plan</p>	<p>ADB's focus on the revenue side has contributed to the introduction and administration of the 3.5% ad-valorem goods and service tax on tourism in January 2011 and a 15% business profit tax to be administered from mid-2011.</p> <p>Likely outputs from the TA grant within the ERP on Institutional Strengthening for Economic Management includes (i) preparation of a medium-term fiscal framework and a medium-term expenditure framework; (ii) increased synchronization of budget preparation processes with macroeconomic and fiscal frameworks; and (iii) improved monitoring and management of internal and external debt.</p> <p>ADB, World Bank, and IMF jointly completed the country's first public expenditure review (2002).</p>	<p>ADB's portfolio consists of the ERP for \$39.5 million and 18 TA activities for \$7.96 million. This translates into 27.2% of the total loan and 52.5% of the total TA activities programmed during 1978–2010.</p> <p>The 18 TA projects can be categorized into three clusters in terms of their functional focus: (i) 4 assisted the government prioritize its development objectives, in addition to strengthening the capacity of the planning agency; (ii) 6 sought to create a system of national income accounts, develop national statistics, strengthen audit and accounting functions, and improve project management and monitoring functions for the Ministry of Finance and Treasury (MOFT); and (iii) 8 contributed in varying degrees to ongoing operations under regional development, social protection, in addition to the ERP.</p>	<p>International Monetary Fund (IMF), The World Bank</p>
<p><b>Transport and Information and Communication Technology (ICT)</b></p> <p>Transport reforms contributed to 10-fold increase in international and interisland cargo-handling capacity Reforms for ICT have contributed to greater</p>	<p>Reduction in capacity constraints in support of the goal of maintaining economic growth and, to some extent, promoting interisland movement of passengers and cargo in support of the goal of reducing disparities between Malé and the outer islands.</p> <p>In ICT, the implementation of the reforms under the TA</p>	<p>While most of the physical facilities are well-constructed and have delivered or are likely to deliver the desired outcomes, one project and a TA failed completely, while the other TA projects were not always successful in inducing changes in policy or delivered only limited improvements in capacity.</p>	<p>ADB has in all provided \$32.6 million, including \$31.0 million for four transport projects and one Information Technology Development Project (ITDP) approved in 2001 and \$1.6 million for seven advisory TA projects.</p> <p>It has also provided \$1.8 million for transport projects under the \$2.4 million Multiproject loan, a grant and loan of \$2.9 million for the reconstruction of planned three island harbors under the</p>	<p>Kuwait Fund, Saudi Fund, Islamic Development Bank, Agence Française de Développement</p> <p>The ITDP was formulated on the basis of related work done by international agencies such as UNDP and the International</p>

Contribution to Development Impacts through ADB's Achievement of Sector Outcomes	Achievement of Sector Outcomes (or Effectiveness) Resulting Mainly from Outputs of ADB's Cumulative Interventions in the Sector	Outputs of ADB's Cumulative Interventions in the Sector	Inputs of ADB's Cumulative Project/Program/TA Interventions in the Sector	List of Key DPs in the Sector
regional integration, better business communications, and, indirectly, improving the enabling environment for investment.	component of the Information Technology Development Project, have had a positive impact on increasing competition, improving connectivity, and reducing internet charges.		Tsunami Emergency Assistance Project and \$1.26 million for five project preparatory TA projects.	Telecommunications Union for a government network in the Maldives and preparation of a telecommunications sector policy
<p><b>Energy</b></p> <p>Improved quality and reliability of electricity supply</p> <p>Increase in the country's no-tourism GDP at a compound annual growth rate of 8.5% during 2002–2008</p>	<p>Meeting the shortfall in electricity supply on Malé (which has resulted in shortages and restrictions on electricity use) and contributed to providing reliable power supply on all outlying islands.</p> <p>Emergence of utility operator for Malé (STELCO) as a technically competent commercial organization, although with limited independence, while TA support provided to the agency responsible for sector regulation, policy-setting and planning, and other sector institutions was ineffective</p>	<p>While all of ADB's projects in the energy sector, up to and including the Third Power Sector Development Project had been delayed, their overall performance can be considered satisfactory.</p> <p>Emergence of seven regional utility companies although with weak institutional capacities.</p> <p>The Outer Islands Electrification (Sector) Project has had a troubled implementation with its completion taking 9, instead of the projected 4, years. Nineteen of the 40 planned subprojects were completed.</p>	<p>ADB has so far provided a total of \$31 million for energy projects through the Multiproject loan (with an energy sector component) and four project loans for electricity generation and distribution projects.</p> <p>ADB has provided \$1.36 million for two advisory TA projects and four project preparatory TA projects. In addition, the Tsunami Emergency Assistance Project included a component for the energy sector, which was used to rehabilitate and restore damaged power systems on six islands.</p> <p>All these loans and TA projects for the energy sector were approved prior to 2002 and no new loans or grants were approved for the energy sector during 2002–2010 under the CSP, 2002 or the CPS, 2007.</p>	Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development.
<p><b>Multisector</b></p> <p>Infrastructure provision has resulted in reliable and safe means of communication and transport across atolls.</p> <p>Provision of electricity</p>	Infrastructure components are likely to be sustainable, although given the climatic conditions, maintenance and supervision of infrastructure assets is critical.	<p>ADB's investments being small have not added up to substantive changes at the sector level. All three projects succeeded in achieving their infrastructure objectives although at higher costs.</p> <p>Given shortage of skilled personnel, institutions in general are weak and</p>	<p>Activities include three projects totaling \$18.3 million and one TA project for \$215,000 that was provided to appraise the first multisector project for the country.</p> <p>The Multiproject loan consisted of five subprojects: to deepen priority island harbors, upgrade the Malé power supply system, generate and supply electricity to</p>	Japan Bank for International Cooperation, The World Bank, United Nations Development Programme

<b>Contribution to Development Impacts through ADB's Achievement of Sector Outcomes</b>	<b>Achievement of Sector Outcomes (or Effectiveness) Resulting Mainly from Outputs of ADB's Cumulative Interventions in the Sector</b>	<b>Outputs of ADB's Cumulative Interventions in the Sector</b>	<b>Inputs of ADB's Cumulative Project/Program/TA Interventions in the Sector</b>	<b>List of Key DPs in the Sector</b>
<p>has augmented opportunities for employment, economic ventures, and human development. However, results in the environment thematic area are limited.</p>		<p>much less effective. And this is compounded by the involvement of multiple departments and agencies in multisector projects.</p> <p>The available evidence on operation and maintenance is presently scarce, partly because the financial and accounting data are weak.</p>	<p>two atolls, and provide meteorological equipment.</p> <p>The Regional Development Project promoted equitable development through focused regional efforts in the Northern Development Region and the Southern Development Region.</p> <p>The ongoing Regional Development Project Phase II—Environmental Infrastructure and Management (RDP II) focuses on three islands and targeted improvements in sanitation, sewage treatment, solid waste management, and community development.</p>	
<p><b>Tsunami Emergency Assistance Program</b></p> <p>Quick recovery of tourism and fisheries sectors of the country aided by development partner assistance to repair harbors and other infrastructure.</p>	<p>Enabled government's and development communities' "build-back-better" policy requiring that facilities be built to current environmental and safety standards</p>	<p>Reconstruction projects implemented in transport, power, and water supply and sanitation sectors were reported to be well designed, robust, and functioning well.</p> <p>Fewer than planned projects were implemented in these sectors. Performance was weak in agriculture and fisheries sectors.</p> <p>Performance reduced due to suboptimal selection of sectors and the choice of subprojects.</p>	<p>ADB provided a grant of \$20.0 million under the specially established Asian Tsunami Trust Fund and \$1.8 million in loans (by reallocating and consolidating unutilized assistance from six ongoing projects).</p> <p>The assistance was divided into a quick-dispersing component of \$6.5 million to finance imports urgently needed for the government's recovery programs and a project component of \$15.3 million, to fund rehabilitation of tsunami-damaged infrastructure and facilities. The project component had five sectors: water supply and sanitation, transport, energy (power), fisheries, and agriculture. Two TA grants aggregating \$1.40 million were provided to promote sound environmental management, in addition to \$0.25 million for saving damaged fruit trees from a regional TA.</p>	<p>Six Red Cross societies contributed more than \$120 million for the Tsunami Recovery and Reconstruction since 2005.</p>

Contribution to Development Impacts through ADB's Achievement of Sector Outcomes	Achievement of Sector Outcomes (or Effectiveness) Resulting Mainly from Outputs of ADB's Cumulative Interventions in the Sector	Outputs of ADB's Cumulative Interventions in the Sector	Inputs of ADB's Cumulative Project/Program/TA Interventions in the Sector	List of Key DPs in the Sector
<p><b>Education</b></p> <p>Creation of the foundation for postsecondary education.</p> <p>Positive impact on economic and social development, among them the improvement of education standards and employment opportunities for women.</p>	<p>While design of one project was simple and robust, the employment skills training project was more narrowly focused on training alone. Institutional changes required in wage and labor market regulations were not given adequate attention.</p>	<p>Establishment of the Maldives College of Higher Education (MCHE) to consolidate and coordinate postsecondary administration and academic programs, including admissions, accreditation, budgeting, planning, monitoring, student affairs, foundation and atoll extension, and external linkages to out-of-country universities with the view to meet international accreditation standards.</p> <p>Increase the number of men and women actively participating in the labor force and employed. Create and market competency-based skills training opportunities, especially to those from the outer atolls.</p>	<p>Two loan projects for combined assistance of \$11.8 million. The first was for postsecondary education and the second was for employment skills training. Both loans focused on the priority area of education's interface with the labor and employment markets of the Maldives. The sector also received four TA projects.</p>	<p>The World Bank</p>
<p><b>Finance</b></p> <p>Anticipated impact of ADB support was to strengthen the financial system and enhance the availability of term finance to facilitate private sector-led growth.</p>	<p>Activities failed to achieve its overall goal of creating a deeper and more efficient financial sector to support investment and economic growth. However, the reports did create awareness among policy-makers about the need for reforms and provide ideas and influence thinking about the lines along which reforms should take place in the future.</p> <p>Development of a strategy and action plan for financial sector development was revived by the government with the World Bank, which has drafted a financial sector strategy paper.</p>	<p>Development finance institutions to promote industrialization and the growth of small and medium-sized enterprises (SMEs) for more rapid economic growth and job creation, and simultaneously to promote private sector development.</p> <p>Sector development, however, was not pursued further once the three TA projects were completed, even if the primary reason was the government's limited interest in pursuing further reform at the time.</p>	<p>Direct assistance consisted of three related advisory TA projects during 1992 –1995 for an aggregate of \$0.78 million. The objectives included to increase the availability of medium- and long-term funds for private sector investment and to promote the development of a more efficient and robust financial sector.</p> <p>In addition, ADB provided \$150,000 for a small-scale TA for enhancing the social security system</p>	<p>International Monetary Fund, International Finance Corporation , The World Bank, United Nations Development Programme,</p>

Contribution to Development Impacts through ADB's Achievement of Sector Outcomes	Achievement of Sector Outcomes (or Effectiveness) Resulting Mainly from Outputs of ADB's Cumulative Interventions in the Sector	Outputs of ADB's Cumulative Interventions in the Sector	Inputs of ADB's Cumulative Project/Program/TA Interventions in the Sector	List of Key DPs in the Sector
<p><b>Industry and Trade</b></p> <p>Increasing competitiveness of Maldivian businesses, including SMEs</p>	<p>Integrated SME model to be likely established, however, there have been changes to the project concept that the government has made recently. For example, individual proposals for assistance under the line of credit will have to pass through the Ministry of Economic Development, which will check if they meet certain criteria and filters and on approval forward them to Bank of Maldives (BML) for financing.</p>	<p>The Private Sector Development Project (PSDP) is currently ongoing and scheduled for closure in August 2011.</p> <p>Two to three self-sustaining SME development centers to be likely operating in 2011</p> <p>Credit Information Bureau to likely be established and include coverage of SMEs</p> <p>Innovative financing modalities (e.g., guarantees) to likely be established in two atolls and operating by 2011</p> <p>TA for the customs service was highly efficient, as cost savings were utilized to establish a customs academy to help institutionalize capacity building and improve the sustainability of TA objectives.</p>	<p>Activities have been limited and consist of \$0.7 million for a stand-alone TA for Capacity Building for Maldives Custom Service and \$7.5 million for Private Sector Development Project.</p> <p>The PSDP loan, the only project approved during the pause in lending, as provided in the CPS, 2007–2011. A new project for Micro-SME development is under consideration for 2011–2012, which is likely to pre-empt the ADF allocation for the year.</p> <p>ADB's assistance to the sector included TA for preparing a project to support SME development, followed by a TA loan for SME/Micro-SME development. ADB's involvement in this sector is growing.</p>	<p>International Finance Corporation, The World Bank, United Nations Development Programme, International Fund for Agricultural Development, and Food and Agriculture Organization</p>

ADB = Asian Development Bank, BML = Bank of Maldives, DP = development partner, ERP = Economic Recovery Program, GDP = gross domestic product, ICT = information and communication technology, IMF = International Monetary Fund, ITDP = Information Technology Development Project, MCHE = Maldives College of Higher Education, MOFT = Ministry of Finance and Treasury, OPEC = Organization of the Petroleum Exporting Countries, PSDP = Private Sector Development Project, PSM = Public Sector Management, RDP = Regional Development Project Phase II, SME = small- and medium-sized enterprises, TA = technical assistance.

Source: Independent Evaluation Department's Country Assistance Program Evaluation team.