

**POVERTY REDUCTION PARTNERSHIP AGREEMENT**  
**between**  
**The Government of the Republic of Maldives and the Asian Development Bank**

**A. Introduction**

1. The Government and the Asian Development Bank (ADB) have worked together to develop a new country strategy and program (CSP) for the Maldives. The CSP places an overriding emphasis on achieving the goal of poverty reduction. This goal has been a longstanding objective of both the Government and ADB, but it has been given an important new emphasis in the Maldives' Sixth National Development Plan for 2001-2005, and in ADB's long-term strategic framework for 2001-2015 (2001) and poverty reduction strategy (1999).

2. The Maldives' record in reducing poverty during the past three decades has been exceptional. In the 1970s, the Maldives was the poorest nation in South Asia. Three decades later, its per capita gross national product (GNP) and social indicators rank it at the top of the region. Despite tremendous progress, a large number of Maldivians remain poor, and poverty is found to be closely related to inequality and vulnerability.

3. Approximately 43 percent of the population subsist on incomes below the poverty line of Rf15 (US\$1.3) per day as of 1998 while income distribution is highly skewed—a small group of very wealthy entrepreneurs is linked to the tourism sector. More than 90 percent of those households below the poverty line reside in the atolls. Income poverty incidence disparities between Malé and the atolls were found to be in the order of 2.5:1. In addition, inequalities between Malé and the atolls in access to social and physical infrastructure and services were found to be far more pronounced, averaging 4:1 on the composite vulnerability index computed by the Government and the United Nations Development Programme (UNDP) in 1998.

4. Poverty is not just a lack of income. Poverty in the Maldives is a matter of physical and information isolation; limited institutional capacity to foster socioeconomic development in the atolls; skill shortages; quality deficiencies in basic education; limited capacity in secondary and postsecondary education; the high costs and poor quality of electricity, transport, and telecommunications services in the atolls; limited access to curative emergency care services outside of Malé; urban overcrowding in Malé, a lack of access to term lending and savings facilities; limited product diversification and efficient marketing services in the fisheries sector; and high rates of infant malnutrition.

5. In May 2001, the Government organized a high-level forum on poverty reduction and country strategy in which senior officials, nongovernment and community-based organizations, the private sector, and ADB and other development partners participated. A common understanding has been reached regarding the causes and consequences of poverty, and the need for a multifaceted approach to reduce poverty and vulnerability. The understanding was incorporated into the CSP and this poverty reduction partnership agreement (the Agreement). The Agreement defines a long-term vision and sets out short-, medium- and long-term priorities and targets for poverty reduction. It reflects the specific areas in which the Government and ADB will cooperate, highlights key indicators and institutional milestones, and incorporates mechanisms necessary to monitor progress.

## **B. Poverty Reduction Goals and Targets**

### **1. Long-Term Vision and Targets (2002-2020)**

6. In the long term, the Vision 2020 affirms that the Maldives will be one of top-ranking nations among middle-income nations in less than two decades. It envisions that the Maldives will become a more urbanized and equitable society, with a highly educated population engaged in an increasingly diverse array of productive activities. Gender equality is to be achieved; good quality medical care and 10 years of formal schooling will be available to all; and protective measures will be taken to combat global environmental threats and environmentally-friendly lifestyles will be adopted.

7. The Agreement endorses the analysis and focus of the Vision 2020 and the CSP. Based on the inputs of the Government, civil society, and funding agencies, the Agreement formalizes a sustainable partnership setting out a long-term vision and agreed targets for poverty reduction. The vision provides for (i) pro-poor growth and regional equity; (ii) human resource development enabling Maldivian youth to develop their capacities while continuing to improve public health and access to curative care; (iii) developing a system of governance that is multipolar, transparent, and accountable; and thereby (iv) reducing poverty to minimum levels.

8. To facilitate monitoring of the implementation of the Agreement, long-term indicators and targets have been selected. These are

- (i) an average of 6 percent per annum economic growth and a decline in the population growth rate to about 1 percent per annum;
- (ii) a reduction in poverty incidence and relative income gap between Malé and the atolls;
- (iii) a reduction in economic vulnerability by diversifying economic activity both within the tourism and fisheries sectors and into other sectors of the economy, by increasing access to investment finance, and by nurturing new sources of employment and growth;
- (iv) progress in human resource development which will be marked by achievement of the International Development Goals related to human development;<sup>1</sup>
- (v) good governance to be indicated by measures such as adoption of improved public sector accounting, budgeting, auditing and debt management systems; an increase in the number of providers of public utilities; a reduction in public utilities tariff; a reduction in the share of the state enterprises in the output of the commercial sectors of the economy; an increase in the volume and number of institutional savings and term-finance instruments; greater ease of access by the population in remote islands to public sector information; and greater involvement of local communities, the private sector and regional/local authorities in decision making and in the delivery of public services; and thereby
- (vi) reduction of poverty incidence from 43 percent in 1998 to 25 percent by 2015 in line with the International Development Goal.

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<sup>1</sup> Enroll all children in primary school by 2015; make progress toward gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005; reduce infant and child mortality rates by two thirds between 1990 and 2015; reduce maternal mortality ratios by three quarters between 1990 and 2015; and provide access for all that need reproductive health services by 2015.

## **2. Short- and Medium-Term Objectives and Targets (2002-2006)**

9. The Government's short- and medium-term development objectives have been formulated in a consultative manner to achieve the long-term Vision 2020. They are defined in the Sixth National Development Plan (2001-2005) as follows: (i) eradicating poverty and ensuring equitable distribution of benefits from economic development; (ii) ensuring macroeconomic stability and promoting further economic diversification and growth; (iii) enhancing and strengthening private sector participation in national development; (iv) accelerating regional and atoll development to remove disparities in employment opportunities, economic benefits, and basic social services; (v) ensuring good governance through land, legal, and judicial reforms, and efficient public administration; and (vi) strengthening social harmony and fortifying national unity and religious values.

10. The Government will continue to undertake key short- and medium-term efforts to reduce poverty. Efforts to reduce the fiscal deficit and consolidate macroeconomic stability will help provide an investment environment conducive to sustained pro-poor growth. Increasing access to economic infrastructure while strengthening autonomous institutions in the atolls can spread the benefits of growth more widely. Toward this end, timely implementation of the first regional development project and an effective start-up of the outer islands electrification project are important initiatives.

11. Opportunities exist for making substantial progress in social development in the near term. Continued expansion of the Maldives College of Higher Education should bring postsecondary training within reach of increasing poor students. Quality improvement of primary schools and expansion of secondary schools in the atolls, with the support of the World Bank and other funding agencies, will also help augment human resources. To enable men and women to participate fully in the poverty reduction process, gender equity will be mainstreamed. The Government will stimulate expansion and improvement of the quality of key basic services such as health, education, water supply, and sanitation through public and private investment.

12. New innovations in governance will be needed to ensure that the fiscal consolidation process is credible and that efforts to expand access to economic infrastructure and quality social services in the atolls are productive. The results of the public expenditure review, a joint effort of the International Monetary Fund and ADB under a World Bank initiative, will highlight ways of enhancing the effectiveness and efficiency of public expenditures. It is anticipated that recommendations from this review will be implemented during the next two years. To utilize public resources effectively, the public sector accounting system is to be modernized. A start will be made toward implementing a new public sector accounting system within the next two years.

13. To foster sustainable development, the second National Environmental Action Plan (1999-2004) and the Biodiversity Action Plan will be vigorously implemented. To enhance the complementarity and synergy of resources mobilized from the international community, the Government will play an active role in coordinating bilateral and multilateral assistance programs.

14. The medium-term strategic objectives of ADB's operations are contained in the CSP, which was developed based on ADB's poverty analysis (2001) and consultations with the Government, civil society, and other funding agencies. It is cognizant of the comparative advantages of ADB and other funding agencies in the support of the poverty reduction thrust of the Vision 2020 and the Sixth National Development Plan. ADB's future assistance to the Maldives will aim at poverty reduction through a combination of pro-poor growth, social

development, and building capacity for good governance. To foster pro-poor growth, ADB will assist in (i) fostering regional development including the provision of basic infrastructure and capacity building; (ii) creating an enabling environment for private sector development, including reform of the financial sector and the legal system; and (iii) developing an information and communication network in the atolls. To raise the level of social development, ADB will provide assistance for postsecondary education and skills development. To support good governance, ADB will (i) develop improved information access and public sector connectivity, and build the capacity of key public institutions with the aim of improving public sector management efficiency; and (ii) assist the Government to enable private sector activities and to prepare for the likely exigencies posed by eventual graduation from least developed country status.

15. Progress toward the long-term vision will be measured through the achievement of a number of short- and medium-term poverty reduction indicators and targets.

- (i) Pro-poor growth will be indicated by achieving an average GDP growth rate of more than 6 percent with fisheries growth in excess of 2 percent per annum;
- (ii) Improved social development will be achieved by increasing access to electricity in the atolls to provide for an average level of service of at least 12 hours a day; improving quality and reliability of electricity supply in the atolls; protecting of a minimum level of food security by maintaining at least the current level of per capita fish production; reducing the number of primary schools without minimum basic facilities from 80 percent to at no more than 50 percent; increasing net secondary school enrollment from 36 percent to 50 percent; increasing the number of students receiving postsecondary training in the atolls; reducing low birth-weight births (under 2,500 grams) from 10 percent in 2001 to 5 percent; and doubling the level of telecommunications penetration from 9 per 100, with a higher growth in penetration in the atolls; and
- (iii) Progress in governance will be marked by improvements in the measures for governance indicated in the long-term targets, containment of the fiscal deficit to less than 5 percent of GDP on average, introduction of new tax and nontax revenue measures to broaden the domestic revenue base, extension of the financial markets to reach the atolls, and introduction of relevant policies, laws, and decrees to facilitate competition in fisheries marketing and provision of public utilities.

### **C. Monitoring and Evaluation Process and Plan**

16. The Agreement also incorporates mechanisms to review performance, highlighting key indicators and institutional milestones necessary to monitor progress. ADB will contribute to the realization of the Agreement through specific activities defined annually as part of the CSP update. The annual CSP update will identify, on a three-year rolling basis, the program of loans and technical assistances. The Government's plans, annual budget submissions, and rolling investment program will establish priorities for allocating external resources provided by funding agencies including ADB.

17. The Government and ADB will monitor the poverty reduction indicators and targets each year and will jointly undertake consultations with stakeholders and civil society organizations on progress in reducing poverty. The review will capture changes in public policy and new information regarding poverty reduction indicators. A set of selected indicators and targets are indicated in the attached Appendix. In addition, the CSP update will take stock of measures needed by the Government and ADB to ensure progress toward achieving a long-term poverty reduction vision and medium-term objectives. The Government will make an effort to monitor poverty incidence regularly, with the assistance of ADB or other funding agencies, if necessary.

18. Since there is no ADB resident mission in the Maldives, monitoring of project implementation will be carried out by project review missions and country portfolio review missions from ADB headquarters. The shift of ADB's focus to the atolls for poverty reduction will necessitate greater efforts to monitor and evaluate poverty reduction interventions including, among others, a thorough assessment at project formulation stage of the institutional capacity to implement projects in remote islands.

Signed in Malé on 12 March 2002 by:

On Behalf of the Government of the  
Republic of Maldives



Ismail Shafeeu  
Minister of Home Affairs, Housing and Environment

On Behalf of the Asian Development  
Bank



Tadao Chino  
President

### Selected Indicators and Targets for Poverty Reduction

Indicator	Target	Time Frame	Primary Monitoring Source	Monitoring Frequency
<b>A. Pro-Poor Growth</b>				
Absolute poverty*	From 43% to 25%	2015	Consumer Expenditure Survey	Every 5 years
Income gap between Malé and the atolls	From 2:1 to 1.5:1	2015	Consumer Expenditure Survey	Every 5 years
Economic vulnerability and diversification	Share of GDP from fisheries and tourism from 40% to 25%	2015	National Accounts	Annually
Financial markets in the atolls	Lending ratio to the atolls from less than 10% to more than 20%	2015	Maldives Monetary Authority Report	Annually
<b>B. Social Development</b>				
Postsecondary education in the atolls	From 1,400 in 2000 to 3,000	2006	Ministry of Education Annual Reports	Annually
Gender equality	Girls' enrollment in secondary schools from 24% to 50% of the total	2006	Ministry of Education Annual Statistics	Annually
Child malnutrition	From 39% to 20% of children under age 5	2015	Ministry of Health Reports	Every 5 years
Reproductive health services	Contraceptive prevalence from 30% to 60%	2015	Ministry of Health Statistics	Annually
Telecommunications penetration	Raise from 9 to 18 per 100, with a higher penetration growth in the atolls	2006	Ministry of Communication, Science and Technology Annual Reports	Annually
<b>C. Good Governance</b>				
Revenue system	Direct tax from 11% of total revenues to at least 25%	2010	Ministry of Finance and Treasury Public Finance Reports	Annually
Public utilities tariff	Telecommunications tariff reduction in real terms	2010	Ministry of Communication, Science and Technology Annual Reports	Annually
Involvement of local communities in public sector decision making	Share of public investment under local atoll authority from 50% to 80%	2010	Ministry of Finance and Treasury Public Finance Reports	Annually

\* Poverty line is defined as the proportion of the population with per capita expenditures below Rf15 per day.