



Strategy and Program Assessment

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Maldives: Poverty Assessment

1. The 1,190 islands that make up the Republic of the Maldives are grouped into 20 natural atolls that together form a chain 820 kilometers in length and 130 kilometers at its widest point, set in an area of more than 90,000 square kilometers of the Indian Ocean. No fewer than 197 of the islands are inhabited, and all are very small. Only 33 inhabited islands have a land area of more than 1 square km and no fewer than 75 islands—more than one-third of the total—have less than 500 inhabitants, while 100 islands—50% of the total—have less than 1,000 inhabitants. This gives the Maldives a geography that is challenging, even by the standards of small archipelagic states.

2. Many characteristics of poverty found in other parts of South Asia are not in evidence in the Maldives. During the past two decades, the development of the tourism and fisheries sectors, favorable external conditions, large inflows of external aid, and generally prudent economic management contributed to a steady rise in GDP of 7% per annum. Two decades of strong growth has led to some of the best economic, social and health indicators in South Asia—average per capita income of the Maldives is around \$2,600; the adult literacy rate is 98%; average life expectancy is 73 years; infant mortality is 21 per 1,000 live births; and maternal mortality is 141 per 100,000. The Maldives' Human Development Index (HDI), at 0.75, is the highest in South Asia.

A. Poverty Surveys and the Poverty Line

3. Formal surveys of poverty in the Maldives are less than a decade old. In 1997, the Government undertook the first Vulnerability and Poverty Assessment (VPA-1). Seven years later, in 2004, this was followed by a second vulnerability survey (VPA-2). A few months later, on 26 December 2004, the Maldives was struck by the tsunami. To gauge the island-specific impacts of the tsunami at household level, the Ministry of Planning and National Development (MPND) undertook a Tsunami Impact Assessment (TIA), with support from United Nations Development Programme (UNDP) and United Nations Population Fund (UNFPA). The TIA had a similar coverage and methodology as VPA-2 but focused more on regions and data relevant for the Tsunami.

4. There were modest differences in sampling amongst the three surveys. The VPA surveys both covered a minimum of ten households on each inhabited islands, though used larger samples in the more heavily populated islands. In total, in the atolls they enumerated about 2,400 households and about 300 households in Malé. The TIA focused on the effects of the tsunami on households. For this purpose, it increased the sample size in the most-affected islands and reduced it in the islands not directly affected.

5. These three successive surveys are the main source of income and non-income poverty data in the Maldives. The quality of the data is high. Not only was the sample size large, but detailed checks for consistency were also carried out during data entry, data editing and data cleaning, and also in the data processing stage.

6. **Poverty Lines.** There is no single, nationally accepted poverty line in the Maldives. The VPA-1, VPA-2 and TIA surveys draw on the theory of poverty dominance, which considers a continuum of all possible poverty lines. In this approach, various possible poverty lines are considered, and the distribution of the population under a reasonable “range” of poverty lines is examined. Moreover, perceptions of poverty vary across the country—to capture hardship in Malé as well as in the outer islands, different poverty lines have been calculated. For practical purposes, a “low” poverty line of Rf10 (\$0.78) per person per day, and a high poverty line of Rf15 (\$1.17) per person per day are commonly used to characterize the income poor.

B. A Poverty Profile

7. Despite the tsunami and the 2005 economic downturn, there is practically no abject poverty or severe malnutrition in the Maldives. According to the 2004 VPA-2, between 1997 and 2004, poverty declined significantly in all regions of the country. Table 1 presents the headcount ratios for the Maldives, Malé and the Atolls for the years 1997, 2004 and 2005 for four different “possible” poverty lines. It shows that income poverty is declining rapidly both in Malé and in the atolls.

Table 1: Headcount Ratios According to Various Poverty Lines in Malé and Atolls (1997–2005)

Poverty Line	Maldives (%)			Malé (%)			Atolls (%)		
	1997	2004	2005	1997	2004	2005	1997	2004	2005
Rf7.5	21	12	6	10	10	0	25	13	8
Rf10	26	17	8	12	11	0	31	20	11
Rf15	40	28	16	18	15	7	50	34	20
Rf21	55	41	26	27	20	13	64	50	32

Source: ADB. 2007. *Country Poverty Assessment*. Manila.

8. An analysis of the cumulative frequency of income distribution shows that the poverty headcount ratio is declining for all reasonable poverty lines both in Malé and in the atolls. This implies, by extension, that either the poverty gap or the depth of poverty is decreasing, and that the progress in poverty reduction is reaching the poorest segments of society.

9. **Geographical Distribution of Poverty.** In 2005, poverty incidence was highest in the two northern regions: North and Central North and lowest in Malé and in the Central Region. While in 1997, the headcount ratios in the South were practically the same as in the North for various poverty lines, in 2004 and 2005 the headcount ratios in the South were significantly lower than those in the North. The Central South Region has made much progress in poverty reduction in 2005, and is now catching up with the South Region.

10. **Income Inequality.** Income disparities between Malé and the atolls are large and increasing over time. The Gini coefficients¹ for the Maldives for 1997 and 2004 were 0.42 and 0.41 respectively—levels similar to those in a number of other countries: Trinidad and Tobago, 0.40 and Saint Lucia, 0.43. However the Maldives’ figure is notably higher than those in neighbouring countries: Bangladesh, 0.32; India, 0.33; Pakistan, 0.33; and Sri Lanka, 0.34. During the period 1997–2004 there was a decline in inequality within Malé, within the atolls and within all regions. However, over the same period, there was an increase in inequality between Malé and the atolls.

Table 2: Headcount Ratios According to Various Poverty Lines by Region (1997–2005)

Poverty Line	North			Central North			Central			Central South			South		
	1997	2004	2005	1997	2004	2005	1997	2004	2005	1997	2004	2005	1997	2004	2005
Rf7.5	30	19	11	25	13	10	12	12	4	20	15	5	29	8	7
Rf10	39	28	14	33	20	14	15	15	7	26	21	9	35	13	10
Rf15	52	44	25	53	35	24	30	28	11	44	33	15	51	27	18
Rf21	67	58	40	67	50	37	51	42	19	60	52	27	70	44	28

Sources: Calculations based on the VPA-1, VPA-2, and TIA databases.

¹ There are no other decomposition indexes, such as the Theil index, available for the Maldives.

11. Over the 1997–2004 period, in Malé the lower-income classes managed to roughly double their incomes while the upper income classes saw their incomes rise more slowly. A similar pattern can be observed in the atolls where the lower-income classes increased their incomes by about half while the upper-income classes did so by only about one-third.

12. **Vulnerability.** Despite progress in poverty reduction, the population continues to exhibit a high degree of vulnerability. There is a high degree of transient income poverty, with individuals moving in-and-out of poverty status, rather than exiting, once and for all, from income poverty. Over the period of the three surveys, only 7% of the original 44% poor remained so throughout and only 2 out of 3 nonpoor in 1997 remained so throughout. Taken together, this means that during the period 1997–2005 more than half of the island population moved between poverty classes at least once.

13. **Intrnational Poverty Line Comparisons.** Poverty lines of PPP\$1 and PPP\$2 per person per day are widely used for international comparisons. Using the international poverty lines, the poverty incidence in Maldives was 4% and 7% respectively, by far the lowest proportions in the South Asia region.

14. **Characteristics of the Poor.** Compared to the nonpoor, the poor live in larger households. They are also likely to have a higher proportion of people with bad health, and a larger share of women, and household members are likely to have less education. They are also far more likely to be poor if the households are female headed. Regional factors were also important; people are more likely to fall into poverty if they lived in the two Northern regions.

15. The poorest households tend to be those in which fewer household members are employed and which do not receive remittances from family members working in resorts or in Malé. The probability of belonging to the poorest households is higher when engaged in agriculture, fishing and local manufacturing and lower when working in tourism, trade and transport, or government.

16. Households that fell into income poverty after the tsunami generally had a higher percentage of people injured by the tsunami. Their adult members were also more likely to be working in the sectors of agriculture and manufacturing both before and after the tsunami. Agricultural fields were destroyed on many islands while manufacturing equipment and tools were damaged or lost. Places of work were often also damaged or destroyed.

17. Important characteristics of households that prevented them from falling into income poverty after the tsunami include (i) residing on host islands; (ii) receiving remittances from family members working in resorts or in Malé; (iii) having a high percentage of wage income earners in the household; (iv) having a higher percentage of employers or employees. The change from agriculture to another activity also reduced chances of falling back into poverty.

18. Many of the characteristics that prevent households falling into poverty also helped poor households escape from poverty. Those are (i) having a high percentage of income earners in the household; (ii) having a higher percentage of employers; (iii) shifting from agriculture to another activity and (iv) changing from self-employment to be an employee. Households where most workers were engaged in fisheries, trade and transport, or construction were also most likely to escape poverty, while households with a large proportion of workers in manufacturing and agriculture were least likely to escape from poverty. The most important determinant of escaping from poverty is the level of education.

C. Non-Income Poverty

19. The HDI provides a global assessment of country achievements in different areas of human development. For 2004, the HDI for the Maldives is 0.739, which gives the Maldives a rank of 98th out of 177 countries and a UN-classification of “medium human development.”²

20. The Maldives is on track to achieve 5 out of the 7 millennium development goals (MDGs) by 2015. There is no evidence of hunger in the country and less than 4% of the population lives on less than a dollar a day. Primary education is already practically universal implying no gender disparities in enrolments and literacy rates are close to 100% for the age-group 15-24 years. Child mortality rates and maternal mortality rates are declining rapidly both in Malé and in the atolls. The incidence of HIV/AIDS is very low and malaria has been eradicated.

21. In two areas, gender equality and environmental sustainability, the gap between the existing situation and the MDG goals is larger than in other areas. Although there is no gender disparity in primary and lower secondary education, disparity exists in higher secondary and tertiary education. There is also a significant gender disparity in labour force participation, primarily due to the tendency for men in the islands to undertake jobs which require extended absence, and which oblige the women to undertake childcare and other household duties.

22. **The Tsunami and Poverty.** The tsunami had a limited impact on either income poverty or the various social indicators that are included within the MDGs. Although people’s incomes initially fell after the tsunami, they subsequently recovered very quickly with a rapid inflow of aid and investments. As a result, there was a significant reduction in poverty, according to the results of the TIA-2.³ Between June 2004 and June 2005, the proportion of the island population with an income less than Rf15 per day fell from over 30% to around 20%. Moreover, after the tsunami the people from the most-affected islands perceived that education and health facilities had actually improved. For the displaced population this was because they had moved to islands with facilities that were already better, or that were upgraded to meet the needs of the expanded population.

D. Causes of Poverty

23. **Remoteness.** Distances between the inhabited islands are great, with the majority served only on a weekly or biweekly basis by ferry from Malé. Small size, insularity and population dispersal translate directly into severe diseconomies of scale in production, transport and the provision of essential infrastructure and services, with the unit costs of schools, clinics and other social infrastructure typically 4-5 times those common in continental developing countries. Living standards tend to be higher on islands with a larger population size, but only if these islands are not overcrowded. Improving the connectivity of the small, scattered island population to major markets is central to poverty reduction, to reducing income disparities and to widening participation in the growth process.

24. **Lack of Natural Resources.** There is an extreme paucity of land-based natural resources. The Maldives possesses neither rivers nor streams, is without land-based building materials, while the soils that do exist are hypercalcic and ill-suited for all but the most basic forms of agricultural production.

² UNDP. 2006. *Human Development Report*. New York.

³ UNDP and Ministry of Planning. 2006. *Second Tsunami Impact Assessment*. Malé.

25. **Skills Mismatch.** Formal employment, although increasing in size, is still relatively small. Between 1985 and 2005 the proportion of foreigners in the workforce increased from under 2% to almost one-third. In 2005, the labour force comprised around 100,000 Maldivians and more than 40,000 foreign labourers. The immigrant workforce is employed at both the top and bottom ends of the labour market, doing work that local people are either unable or unwilling to do.

26. **Low Female Labour Force Participation.** Men have much higher labour force participation rates than women. In 2004, the participation rates of men and women were, respectively, 70 and 35%. In 2005, some 28% of all women in the labour force were reported to be unemployed. The low participation rate and high unemployment rate for women reflects a structural decline in household artisanal industries traditionally undertaken by women, such as fish processing, an increasing trend towards occupations that oblige men to spend long periods away from home (i.e. multi-day fishing boats, merchant shipping, tourist resorts), and cultural traditions which assign household and child care responsibilities to women.

27. **Youth Unemployment.** There is a shortage of employment opportunities for young Maldivians. In 2005, some 22% of all men and 41% of all women aged 15 to 24 were reported to be unemployed. Many young Maldivians leave school but choose to stay out of the labour force because they cannot find work for which they have the necessary skills, or because the work available does not match their aspirations, in terms of either career choice or remuneration. A double mismatch between skills required and available in the domestic labour market, and between the aspirations of young people and the realities of the labour market appears both in Malé and in the atolls.

28. **Access to Basic Services.** The provision of health and education services poses enormous challenges because of the small, disbursed communities and the difficult transport conditions. Providing even basic services can be four or five times more expensive than in other countries in the region. On the smallest islands, providing more specialized services, such as secondary schools and hospitals, is prohibitively expensive and unsustainable due to diseconomies of scale. Despite this, the Government is prioritizing provision of these services which paradoxically acts as a disincentive to encouraging those in small, sparsely populated islands to relocate to larger islands.

29. **Education and the Poor.** All inhabited islands have at least one primary school—a major achievement for a country with such a widely dispersed population. Lower secondary education, grade 8-10, is now provided on 160 islands, and 4 atolls provide teaching up to grade 12. However, one-third of the teachers on the islands are untrained and 80% of the trained teachers of the secondary schools are expatriates, with high turnover rates. The majority of the island children have to leave their island for education in Malé or one of the Atoll centers, from grade 11 onwards. Most of them can stay with relatives, but some of them have to “rent” a place in exchange for light housekeeping work.

30. **Access to Health Care.** Almost all islands provide basic health care services. About 40 percent of the island population live on islands without a resident doctor or nurse and around one-third of the atoll population do not have access to a pharmacy. As a result, more than 20% of the island population report problems in getting access to basic drugs. It is extremely hard to ensure that in case of emergencies, or the need for specialist services, the whole of the island population can reach the nearest health centre or hospital in less than two hours because of the difficulties presented by bad weather conditions, or because of the lack of transportation, and especially at night.

31. **Overcrowding in Malé.** Continuing migration from the islands is creating high population densities and crowded living conditions in Malé. Air pollution levels have deteriorated substantially in Malé over the past two decades, and are linked to respiratory health problems. There are signs that overcrowding on Malé, combined with large numbers of unemployed youth, is contributing to rising drug abuse and urban crime.

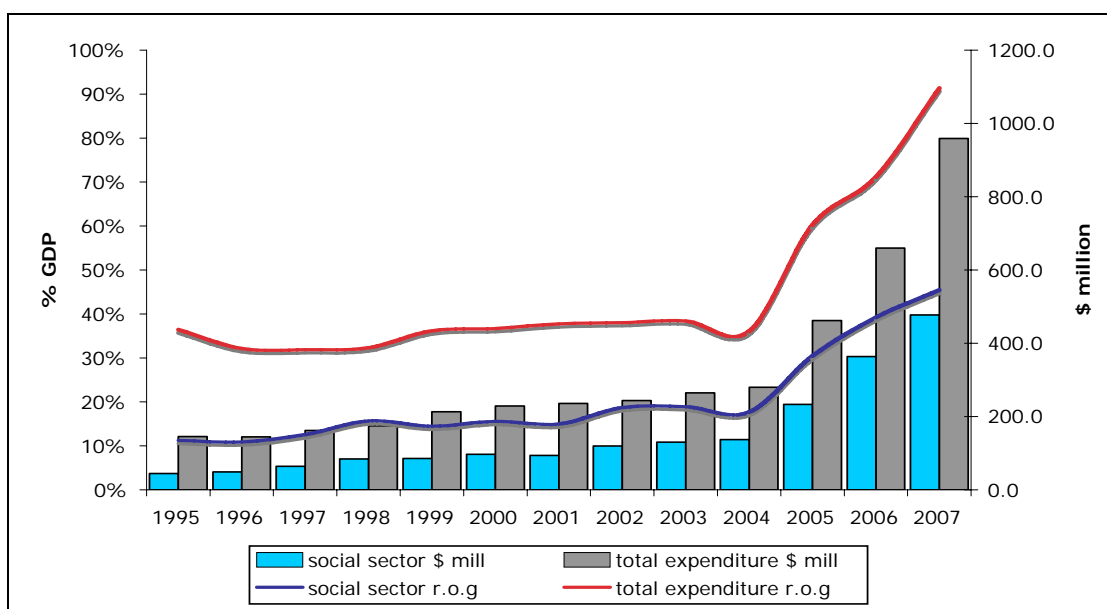
E. Public Policies and Poverty Reduction

32. Over the past 20 years the economy of the Maldives has grown rapidly, with an annual average rate of growth of more than 7%. Per capita GDP increased on average by about 5.55% annually—from less than \$800 in 1984 to around \$3,000 in 2006.⁴ A combination of political stability, prudent macroeconomic management, liberal trade, labour and foreign investment policies, and a strategic focus on advancing joint-ventures to develop a modern tourism industry have underpinned the strong growth performance.

33. Public spending has been largely pro-poor. The share of social expenditures increased from about one-quarter of the total in 1995 to roughly one-third of public expenditures in 2006 (Figure 1). While expenditures on health care have been constant as a share of GDP over this period at around 10%, education sector expenditures have increased from 8% to 14% of public expenditures between 1995 and 2006. Spending on social security was less than 1% of the recurrent budget in the mid-1990s, but is estimated to have risen to some 4% in 2006, with much higher expenditures in the past two years due to tsunami-related support programs.

34. A key policy concern is the erosion of fiscal discipline since 2002. Public debt levels have risen sharply since 2002, as the Government turned to private sources of finance to meet its growing deficit requirements. The budget deficit increased mainly due to large public sector wage awards, tax exemption granted in 2004 and 2005, and increase in civil service employment, and due to increased expenditures on tsunami relief operations. The tsunami added to the fiscal pressures, both by reducing government revenues, and by generating demands to finance relief and to a lesser extent, reconstruction activities. With an estimated \$75 million gap on reconstruction requirements, government is likely to face great pressure to maintain high levels of public spending. But unless fiscal discipline is restored, there is the risk that government spending will crowd-out private initiative, and that public debt could become unsustainable.

⁴ Per capita incomes are lower, at approximately \$2,600 per capita, due to the net outflow of resources to finance expatriate labor and other services.

Figure 1: Social Sector and Total Expenditures (1995–2007)

Source: Ministry of Finance and Treasury. *Maldives Monetary Authority Monthly Reports*. 1995-2006.

F. The National Poverty Reduction Strategy

35. The Seventh National Development Plan (7NDP), which is also the country's NPRS is a medium-term plan with a timeframe of 5 years, 2007–2011. The overriding objective of the 7NDP is to eliminate poverty and disparities (between Malé and the outer Atolls), and enhance the living standards of all Maldivians. It provides a platform for launching the policy framework for the realization of the long-term goals of the *Vision 2020*, the MDGs and the government's political reform agenda. In order to achieve its objectives, the 7NDP emphasizes 8 goals and has a series of performance targets for each that are to be achieved by 2011.

36. The 7NDP envisions a sustainable development path anchored in four strategic clusters, namely: (i) economic growth by diversifying the economic base and providing the enabling environment for private sector development and minimizing the current high unemployment rate; (ii) infrastructure development and environment management by addressing issues of land and sea transportation, land use planning, water resource management, regional development, population development consolidation/safer islands, and environment management; (iii) social development by addressing issues of secondary and tertiary education, health, housing, gender, child protection and family services; and (iv) good governance comprising the rule of law and access to justice, promoting democratization and political rights, enhancing transparency and accountability, and improving efficiency of public administration.

37. The 7NDP notes that population and development consolidation is essential because it is increasingly difficult to justify the high costs of providing and maintaining infrastructure and services for a highly dispersed population and because the current distribution of population is not consistent with the promotion of development that is economically, socially and

environmentally sustainable.⁵ Commencing in 2002, the Government initiated a program of providing incentives for voluntary migration to the larger islands with the long-term aim of reducing the number of inhabited islands to achieve scale economies in the provision of services, reductions in the units costs of services particularly transport and reduced isolation by sharing of facilities. This is also linked to the concept of safe islands to develop measures to mitigate ecological disasters and enable the communities to sustain social and economic development in times of emergencies and disasters.

38. The 7NDP will continue to support regional development through a framework that was initially implemented during the Sixth National Development Plan (6NDP), whereby the Government established two development regions: the Northern Development Region and the Southern Development Region. During the 7NDP period the Government will establish three new development regions with emphasis on (i) land use planning; (ii) economic development and poverty alleviation; (iii) infrastructure development; (iv) improving access and transport linkages; (v) water resource management; (vi) improving sanitation facilities; and (vii) solid waste management.

39. Public investment levels are to remain high, both to sustain rapid growth and to accelerate development of human resource and institutional capacity. A key strategic plank of the 7NDP will be to (i) target specific investments at both national and island levels to build capacity in public management, human resources, and infrastructure (hospitals, health centers, schools, harbors, etc); (ii) create a critical mass of doctors, teachers, community health workers, and social workers, and (iii) modernize and broad-base the ICT system in the country through training, technology transfer, and strategic public and private sector investment. A massive build-up of human resource capacity is thus a key strategy of the 7NDP.

40. The 7NDP acknowledges that its primary challenge lies in financing and implementing the large number of proposed policy interventions. This challenge is based on the tremendous array of policy interventions that should be implemented simultaneously and the need to reach out to 197 island communities. Government's institutional capacity is already over-stretched in managing the tsunami-reconstruction effort. The new policies that are slated to go into effect will create new demands for institutional capacity—in addition to the existing constraints—that will require considerable time and resources to develop. The 7NDP currently does not have a clearly defined and dedicated resource envelope, which is needed to set priorities and to inject a measure of fiscal realism into what can be accomplished in so short a period of time.

41. Reducing regional disparities is, quite appropriately, the key objective of the 7NDP. This implies according priority to those in the more remote atolls while defining the pace and extent of the population consolidation program. If government is not able to prioritize outer atoll development, then the Maldives risks becoming two societies—a richer well resourced centre in Malé (home to some 30% of the Maldivian population) and a disadvantaged hinterland in the

⁵ The current population consolidation policy is that any relocation should be voluntary and only be facilitated when the whole community formally lodges the decision to move. Another prerequisite is the explicit agreement and cooperation between the relocating community and the potential host community. Each relocating family receives a new house (cost of \$42,500 in 2007) in exchange for their own (occupied) house plus Rf50,000 (\$3,891) as relocation compensation. The first island relocation took place in January 2005. Since then, three more islands communities have been relocated, five islands are in partial relocation, four communities are on their original islands awaiting housing construction elsewhere, and five more are anticipating relocation. (Ministry of Planning and National Development. 2007. *Population and Development Consolidation*. Malé.)

outer atolls. Widening disparity of income and opportunity could, over time, trigger a far more disruptive pattern of change.

42. The reform agenda anticipates nothing less than a paradigm change in the way in which the Maldives is governed. This ambitious political agenda must be implemented by a bureaucracy that is already stretched thin by the tsunami reconstruction effort, is highly fragmented, and faces a dearth of skilled and experienced staff. Although there is no question that capacities must be built and governance must be reformed, there is also a need to pace and sequence reforms in a manner that is consistent with the capacity of the public service to manage the reform process.

G. Development Partner Support for Poverty Reduction

43. Poverty reduction has been the overarching goal of all of the bilateral and multilateral agencies, including ADB, and the development partners have provided generous support to the Government's efforts to reduce poverty. Prior to the tsunami, grant inflows had been steadily decreasing in importance as a financing source, in recognition of the fact that the Maldives was quickly reaching middle-income country (MIC) status. In 2000 and 2001, grant inflows averaged 2.6% of GDP, declining between 2001 and 2004 to reach just 0.7% of GDP. In 2005, grant inflows rose sharply, to 9% of GDP, due to the large inflows of tsunami relief and reconstruction support. Once reconstruction efforts have been completed, it is anticipated that the current levels of foreign assistance will drop to much lower levels, and the number of development partners assisting the Maldives is expected to decline substantially. The Government, therefore, has been especially careful to define sector and thematic priorities for the aid it receives from each development partner to reduce the risk of duplication and overlap.

H. Options for ADB Assistance to Reduce Poverty

44. **Prioritizing Capacity Development.** The Maldives is making the transition from post-tsunami reconstruction to an ambitious development agenda. New sources of growth need to be nurtured, democratic processes introduced, and the rule of law established. There is an urgent need to help build the institutional capacity that is required to guide public policy making, to assist in the reform of the state, and to meet demands for delivery of better quality public services. Given the rising unit costs, the Government cannot continue to service the 197 inhabited islands. Nor can it continue its expansive role in the economy. Successful transition to MIC status requires changing the role of government from a provider of basic services to more of a regulatory and policy setting role, establishing a level playing field for the private sector, fostering investment beyond the traditional domains of the tourism and fisheries sectors, and establishing a credible, transparent framework for formulating and implementing public policy including attracting higher inflows of foreign direct investments.

45. **Focusing to Deliver Results.** ADB cannot work in all sectors and areas of the Maldives, and expect to do well, especially when faced with a wide-ranging reconstruction agenda, substantial institutional capacity constraints, and demands for fundamental governance reform. The development agenda is demanding, and if ADB is to make a meaningful contribution, it should be in areas where Government is clearly demanding reform, where ADB has core competence, and where effective partnerships can be struck with other development assistance providers.

46. **Nurturing a Regionally Balanced Growth Process.** While tourism and fisheries will continue to remain robust engines of economic growth, special efforts are needed to ensure that

those in the more remote islands, and those less advantaged economically, are able to participate in the growth process. Towards these ends, ADB should continue its support for improving connectivity and to ensuring that reliable sources of electrical power are provided, on a sustainable basis, in the atolls. Support should also be provided to help foster development of micro- and small enterprises in the atolls to boost opportunities for income generation.

47. **Social Development in the Atolls.** ADB's support for eco-friendly island electrification, and SME development would have the indirect benefit of improving access to health and education facilities in selected islands. The ongoing ADB-assisted Regional Development Project-II would be completed in 2009 (i.e. in the third year of the new CPS), and with its focus on water supply, sanitation and waste management, would also directly affect health outcomes. Moreover, with ADB's continued engagement in the transport sector, the ensuing benefits from improved connectivity would enhance livelihood opportunities and improve access to basic health and education services which are integral to reducing the high incidence of regional disparities in the Maldives.