

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Maldives	Project Title:	Strengthening Fiscal Management and Sustainability Program
Lending/Financing Modality:	Policy-based grant	Department/ Division:	Sectors Group/Public Sector Management and Governance Sector Office

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY
Poverty targeting: general intervention
<p>A. Links to the National Poverty Reduction and Inclusive Growth Strategy, and Country Partnership Strategy The Strengthening Fiscal Management and Sustainability Program supports the government’s structural reforms relating to domestic resource mobilization, and expenditure and debt management. These reforms envisage restoring public finances to a level that allows the government to reduce poverty and income disparity and promote gender equality. The program includes pro-poor policy measures as part of its overall fiscal consolidation objective, such as reforms to rationalize income tax exemptions and simplify the tax compliance framework for small and medium-sized enterprises, which are largely owned or operated by low-income households or individuals; they will only be subject to a single threshold combining all taxes. Similarly, reforms to improve beneficiary targeting by transitioning from indirect to direct transfers of benefits will help the poorer segments of the population.</p> <p>The program is aligned to the government’s medium-term fiscal and debt management strategies, and the Asian Development Bank (ADB) country partnership strategy, 2020–2024 for Maldives.^a It will contribute to four of seven operational priorities (OP1–OP7) of ADB’s Strategy 2030 by reducing remaining poverty and inequality (OP1); accelerating progress in gender equality and women’s empowerment (OP2); tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability (OP3); and strengthening governance and institutional capacity (OP6).</p>
<p>B. Results from the Poverty and Social Analysis during Transaction Technical Assistance or Due Diligence</p> <ol style="list-style-type: none"> 1. Key poverty and social issues. The national poverty rate in 2020 was 5.4%. There is a wide disparity in poverty rates between the atolls (9.5%) and the capital, Malé (0.9%). The atolls are home to 93.0% of the country’s poor. The economic disparity and the difference in opportunities between Malé and the atolls are a challenge and would require concerted policy efforts to ensure equitable essential services for all and, at times, subsidies to protect the vulnerable and poorest population. The atolls also have a higher multidimensional poverty incidence because of fewer years of schooling and lack of access to basic services and health care. This makes the population susceptible to falling back into poverty in case of economic shocks. In fact, if households’ annual expenditure were to be curtailed by 16.7% (about 2 months of average household expenditure), the poverty rate would double. 2. Beneficiaries. The expected beneficiaries will be the population at large because effective fiscal consolidation will enable the government to (i) restore fiscal stability, (ii) ensure secured and sustained funding of social protection programs, (iii) support growth through sustainable investments, and (iv) provide more equitable employment opportunities for women. 3. Impact channels. Subprogram 1 is providing budget support that allows the government to implement structural reforms to improve fiscal sustainability, which in turn will enable it to fund social protection schemes and step up efforts to reduce poverty and inequality. 4. Other social and poverty issues. For a middle-income country, malnutrition rates for children under 5 years of age are still high, and 1 in 4 children are stunted in some atolls.^b This will impact the health and quality of its future workforce. Youth unemployment is also prevalent—75% of the unemployed are 18–34 years old. 5. Design features. The program will create fiscal space with indirect transmission channels for reducing poverty and improving opportunities for women and vulnerable groups since the government plans to undertake broader institutional reforms via fiscal consolidation, better gender coverage strengthened by the adoption of gender-responsive budgeting, and targeted transfers. This is further explained in the program economic assessment.^c
<p>C. Poverty Impact Analysis for Policy-Based Lending</p> <ol style="list-style-type: none"> 1. Impact channels of the policy reforms. The expected benefits from this program include price stability through lower inflation, better social benefits thanks to fiscal consolidation, and equitable tax rates, which would be of particular benefit for women. 2. Impacts of the policy reforms on vulnerable groups. Not applicable. 3. Systemic changes expected from the policy reforms. The fiscal consolidation will provide a fiscal space for the government to step up efforts to tackle other poverty issues in the long term. The planned reforms will pave the way to improved service delivery and enable a targeted approach to supporting the poor and vulnerable groups.
II. PARTICIPATION AND EMPOWERING THE POOR
<ol style="list-style-type: none"> 1. Participatory approaches that will strengthen inclusiveness in project implementation. ADB consulted with the government and other development partners to ensure that the various facets of the fiscal consolidation reforms will promote inclusive economic recovery while achieving debt sustainability.

2.	Civil service participation. The participation of civil society organizations (CSOs) envisaged during program implementation consists of information generation and sharing. While formulating the energy policy framework and improving the targeting of subsidies, consultations will be held with all stakeholders to solicit feedback and to make the process inclusive.
3.	Approaches of CSO participation envisaged during project implementation: <input type="checkbox"/> Information generation and sharing <u>NA</u> Consultation <u>NA</u> Collaboration <u>NA</u> Partnership
4.	Participation plan. <input type="checkbox"/> Yes. <input checked="" type="checkbox"/> No. <input type="checkbox"/> Other plans and/or frameworks
No participation plan was prepared since CSOs will only be engaged for information generation and sharing.	
III. GENDER AND DEVELOPMENT	
Gender mainstreaming category: effective gender mainstreaming	
1.	Key issues. Maldives had a gender development index of 0.925 in 2021, ranking the country as having medium equality of men and women. The human development index was 0.709 for females and 0.766 for males. Life expectancy at birth was 81 years for females and 79.1 years for males. The estimated gross national income per capita (2017 purchasing power parity United States dollars) was \$6,359 for women and \$22,119 for men, suggesting low incomes as well as low labor force participation of women, which stands at about 34.3% against 67.5% for men. The share of women not in education, employment, or training in 2019 was 41.0% (18–35 years), compared with 15.0% for men (18–35 years), while 44.0% of women (36.0% of men) are in informal employment. Women account for 21.8% of registered taxpayers. According to the 2019 Household Income and Expenditure Survey, the proportion of women in managerial positions was 22.3%. Women’s share on government boards and in public corporations was 16% in 2021. Political representation is low—only 4.6% of the parliamentary seats are held by women. The share of households headed by women is 42.7%, and they are associated with a higher incidence of poverty (6% vs. 5% in the case of households headed by men). Maldives has a limited number of gender data and statistics so the information gaps constrain gender-informed and evidence-based policy and planning. The production of high-quality gender statistics with disaggregation by sex, age, and disability status is quite limited. Given the absence of comprehensive data, women and other vulnerable groups are not sufficiently captured and thus disproportionately omitted in terms of opportunities for income, benefits, and capacity to contribute to the economy.
2.	Key actions. The program is classified as <i>effective gender mainstreaming</i> and will produce some direct impacts on gender equality and women's empowerment. The program will facilitate (i) the approval of the medium-term National Gender Equality Action Plan (GEAP), (ii) the establishment of a high-level steering committee chaired by the President to monitor the progress, (iii) the approval of the Maldives Gender Equality Model, (iv) the approval of the National Gender-Responsive Budgeting Strategy and its pilot adoption in at least two ministries, and (v) an increase in the share of women on public boards and in public corporations from 16% to 33%. The program will enable the availability of data disaggregated by sex, age, and other social dimension, which will benefit future planning. In addition, the program will improve the design of the income tax regime to reduce implicit gender bias in tax exemptions or allowable deductions. Female employees, who are largely in informal employment, do not enjoy such exemptions. Similarly, receipts such as a pension and the employer's contribution to the employee's pension scheme are considered exempt income. It is likely to benefit men relatively more than women because a higher percentage of women work in the informal sector and they represent only 20.0% of those earning retirement pensions. ^d The program will also benefit women entrepreneurs in small and medium-sized enterprises by introducing a low and single rate for small and medium-sized enterprises, which will simplify tax compliance, broaden the tax net, and provide fairer tax rates for women entrepreneurs. <input type="checkbox"/> Gender action plan <input checked="" type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure
IV. ADDRESSING SOCIAL SAFEGUARD ISSUES	
A. Involuntary Resettlement	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1.	Key impacts. The policy actions do not involve land acquisition and physical works that may result in involuntary resettlement impacts. A matrix of potential environmental and social safeguard impacts of policy actions has been prepared, however, to assess possible impacts of policy actions and recommended mitigating measures. ^e
2.	Strategy to address the impacts. Not applicable.
3.	Plan or other actions. <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Combined resettlement and indigenous peoples plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> Social impact matrix <input type="checkbox"/> No action
B. Indigenous Peoples	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1.	Key impacts. The program does not affect any indigenous peoples and their dignity, human rights, livelihood systems, or their culture and territories. Maldives has no officially defined indigenous peoples—and no groups that

<p>can be said to be 'indigenous people' as defined in ADB's Safeguard Policy Statement (2009)—that will be impacted by the project. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<p>2. Strategy to address the impacts. Not applicable.</p>
<p>3. Plan or other actions.</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</p> <p><input type="checkbox"/> Indigenous peoples planning framework</p> <p><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement</p> <p><input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary</p> <p><input checked="" type="checkbox"/> Social impact matrix <input type="checkbox"/> No action</p>
<p>V. ADDRESSING OTHER SOCIAL RISKS</p>
<p>A. Risks in the Labor Market</p> <p>1. Relevance of the project for the country's or region's or sector's labor market. Medium.</p> <p><input checked="" type="checkbox"/> Unemployment <input type="checkbox"/> Underemployment <input type="checkbox"/> Retrenchment <input type="checkbox"/> Core labor standards</p> <p>2. Labor market impact. The program-supported reforms under the GEAP will allow more women to participate in the labor force, reduce unemployment among women, absorb more women into formal employment, ensure equal share of time spent on unpaid domestic work, and provide better access to leadership positions and opportunities. The reforms will help empower women and reduce the poverty incidence, especially among households led by women.</p>
<p>B. Affordability. Not applicable.</p>
<p>C. Communicable Diseases and Other Social Risks</p> <p>1. The impact of the following risks is rated as high (H), medium (M), low (L), or not applicable (NA): NA Communicable diseases <input type="checkbox"/> NA Human trafficking <input type="checkbox"/> Others (please specify) _____</p> <p>2. Risks to people in project area. Not applicable.</p>
<p>VI. MONITORING AND EVALUATION</p>
<p>1. Targets and indicators. Under subprogram 1, the approval of the Maldives Gender Equality Model and the pilot adoption of the National Gender-Responsive Budgeting Strategy will pave the way for the Government of Maldives to have sex-disaggregated data when budgeting social protection programs and to establish monitorable indicators for the targeted health care subsidies, which will benefit women and other vulnerable groups.</p> <p>2. Required human resources. Attached technical assistance in subprogram 2 will support the government through various capacity building activities in monitoring, evaluation, compliance, and digitalization.</p> <p>3. Information in the project administration manual. Not applicable.</p> <p>4. Monitoring tools. There are no monitoring tools that will be administered specifically to subprogram 1. However, ADB will conduct regular policy dialogue with the government executing and implementing agencies to review the progress and ensure the achievement of the outcomes.</p>

^a Ministry of Finance (MOF). 2022. [Medium-Term Fiscal Strategy 2023–2025](#). Malé; MOF. 2022. [Medium-Term Debt Management Strategy 2023–2025](#). Malé; and ADB. 2020. [Maldives: Country Partnership Strategy 2020-2024—Resilient and Sustainable Island Life for all Maldivians](#). Manila.

^b United Nations Children's Fund (UNICEF). 2019. [What We Do](#). Maldives.

^c Program Economic Assessment (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).

^d In 2021, 44.0% of women were informally employed, compared with 36.0% of men, and the target reduction by 2026 is to 35.0%, as stated in the National Gender Equality Action Plan 2022-2026 policy statement 2.5.

^e Matrix of Potential Environmental and Social Impacts and Measures (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).

Source: Asian Development Bank.