

COUNTRY CASE STUDY

Maldives Case Study

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Key messages:

- With “all finance is climate finance” as the core idea, the Maldives’ INFF delivers a cross-sectoral gender-responsive financing strategy on climate action;
- Strategic planning for short, medium, and long-term goals is developed to realize step-by-step changes that transform challenges into opportunities;
- Based on comprehensive financing landscape analysis and stakeholder consultations, priorities around de-risking, resilience, inclusiveness, and gender-responsiveness are identified.

Preparing for climate change – The Maldives is a Small Island Developing State (SIDS) with a chain of 1,190 small islands and a population of 515,000 dispersed across 191 islands¹. In 2011, the country officially graduated from the Least-Developed Country (LDC) category². Tourism, General Trade, and Real Estate are the three major contributors to the Maldivian economy, with tourism being the major driver³. As the Maldives steers towards sustainability, the country faces unique environmental, fiscal, and financial challenges due to its economic and geographical conditions.

First, climate emergencies and environmental fragility pose urgent and tremendous existential threats to all sectors of the economy, and the subsequent disproportionate impact on marginalized groups adds to social inequalities. Second, as a fossil fuel dependent economy, increasing pressure on national accounts further impacts financial stability. Third, significant sustainable financing gaps exist despite the need for large scale socio-economic resilient investments, which have roots in budgetary constraints, insufficient private finance involvement, and declining and less concessional sources of finance such as grants from donors as the Maldives is now an Upper-Middle-Income country. It is estimated that between \$400-\$800 million annual investments are needed to attain key climate pledges such as NDC targets, including achieving net-zero and converting energy mix into cleaner forms of energy by 2030. And finally, the economic shock of the pandemic has created longstanding socioeconomic impacts.

A connected, integrated, and strategic approach to financing is therefore urgently needed to foster coordinated efforts across the many sustainable national development priorities. With two prominent interests at stake, i.e., collective action on climate

¹ <https://census.gov.mv/2022/provisional-results/>

² UN. (2022). Graduation from LDC status: trade preference and development financing implications for Asia-Pacific countries. Bangkok: UNDP Bangkok Regional Hub.

³ <https://statisticsmaldives.gov.mv/yearbook/2023>

mitigation and protection of the most vulnerable households against adverse climate-related impacts, an Integrated National Financing Framework (INFF) has been put in place to help to finance the country's national sustainable development objectives and the Sustainable Development Goals (SDGs). It is an important tool that helps Maldives mobilize all types of financing resources, boost alignment with sustainability, broaden participation, and ensure the appropriate governance framework, partnerships, and monitoring framework.

Developing an INFF – The development of the Maldives INFF began in June 2020 under the leadership of the Ministry of Finance (MOF) with support from international subject matter experts and local UNDP economists. Each stage of the INFF development benefitted from a broad engagement and consultative process with all stakeholders from public, private, NGOs, and industry bodies to IFIs. The INFF Oversight Committee, consisting of 13 Government agencies and co-chaired by the Minister of Finance and UN Resident Coordinator in the Maldives, provided strategic direction to the INFF development process.

During the Inception Phase, climate-focused consultations and diagnostic reports were conducted jointly by the Ministry of Finance and UNDP. As part of the diagnostic work, a stock-take of costings on Maldives' climate financing needs and key reforms required for unlocking private sources of finances were identified and validated with key stakeholders. These discussions also reaffirmed the importance of integrating climate and gender considerations into all financing policies and decisions at all levels.

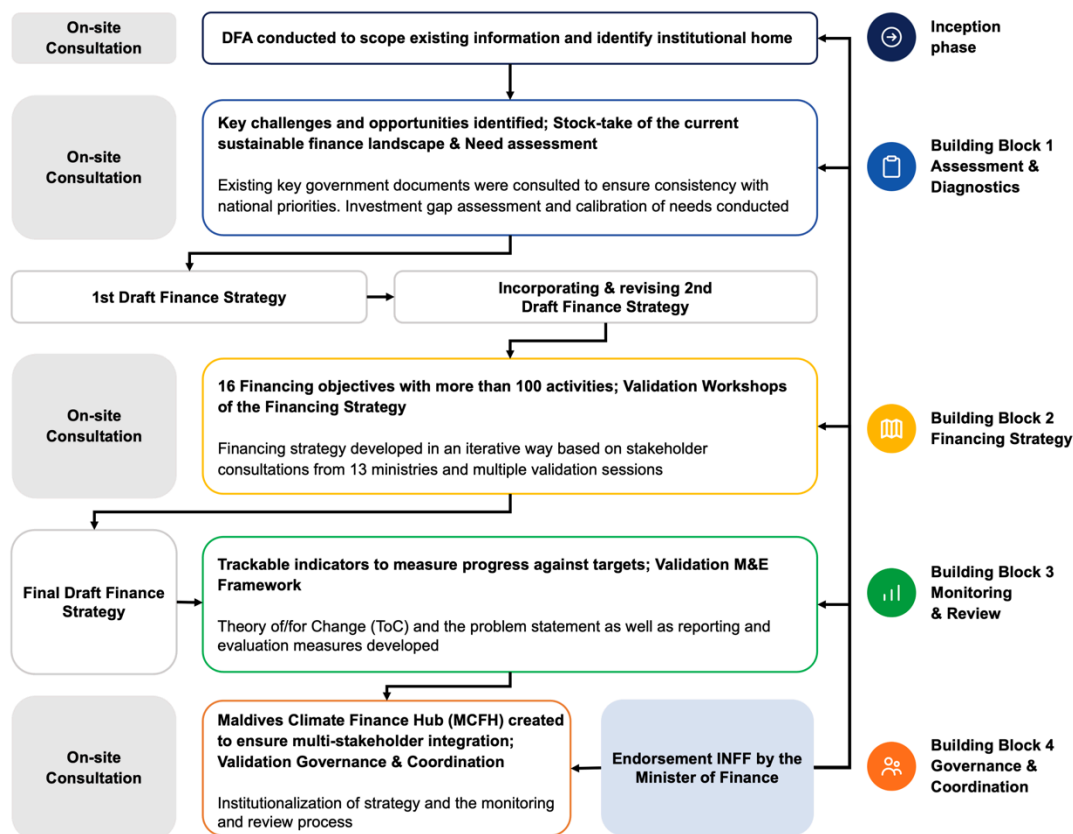
Informed by the results of INFF consultations and diagnostic reports, the Financing Strategy (INFF Building Block 2) was further developed to support the national development priorities, including the Maldives Strategic Action Plan (2019-2023) and Nationally Determined Contributions (NDCs). It also benefited from other countries' lessons like Mongolia and Nigeria. The Financing Strategy was further refined based on the written comments received from stakeholders as well as extensive rounds of consultations under the stewardship of the INFF Oversight Committee.

Following the launch of the INFF financing strategy in March 2023, the MOF proposed to create the Maldives Climate Finance Hub (MCFH) that enhances close governance and coordination, and envisaged it to act as the primary mechanism to implement the financing strategy and supplement climate finance knowledge, informed by the Advisory Board consisting of other stakeholders such as the private sector, development partners, CSOs etc. The decision to establish MCFH was made since the Maldives didn't have a central mechanism to coordinate all forms of climate finance resource mobilization taking place within the wider Government, and to ensure that climate

finance expertise and capacity building support can be readily available to the Government.

The Maldives INFF also provides a monitoring and evaluation framework (Building Block 3) and a range of key performance indicators which can be used for monitoring the financing strategy actions over the medium-long term. The Maldives is currently in the process of formulating Program-Based Budgets (PBB) and it is envisioned that once PBB is formulated, the MOF can use the proposed indicators to monitor the progress of finance strategy implementation as part of its Budget execution and reporting modalities.

Figure 1. Development process for the Maldives INFF



All finance is climate finance – The Financing Strategy, the heart of an INFF, aims to guide the design of financing policies and reforms that can mobilize financing in line with national priorities and all dimensions of sustainability. It is integrated into the existing planning processes and structures. The Maldives INFF delivers a cross-sectoral gender-responsive financing strategy on climate action, emphasizing the coherence

between social and green policies. It is composed of 3 strategic goals, 16 financing objectives, and over 100 activities targeting short, medium, and long-term timeframes⁴.

The three strategic goals, or three pillars, transform challenges into opportunities: (A) better aligning finance flows towards a sustainable agenda, (B) mainstreaming sustainability into risk management and transparency, and (C) mobilizing new sources of sustainable finance. Respectively, the three pillars focus on re-orienting finance flows towards the sustainable agenda, addressing systematic risks through financial and fiscal policies, and mobilizing all types of domestic public and private financial resources while elevating attractiveness to international investments. Table 1 shows the key results and expected outcomes of the three pillars.

Table 1. Key results and recommendations for the Maldives INFF Financing Strategy⁵

A. Better aligning finance flows towards a sustainable agenda	B. Mainstreaming sustainability into risk management and transparency	C. Mobilizing new sources of sustainable finance
<ul style="list-style-type: none"> ● Integrate climate and gender considerations into budget processes and procurement guidelines to mitigate climate and social risks, and increase public, and private investments in low carbon and resilient economy. ● Improve capacities and competencies on the island level to align spendings with SDGs and national priorities by improving and clarifying legal and regulatory grounds. ● Progressive shift of energy spending via a phase out of fossil fuel subsidies to reduce fiscal burden and existing financial risks from international shocks and 	<ul style="list-style-type: none"> ● Systematic incorporation of climate and gender considerations into national fiscal policy, with appropriate participation by relevant ministries in shaping and leveraging sustainability-related goods in a revised fiscal regime. ● Improve ability of financial actors to identify and address the materiality of climate-related risks, through capacity building and strengthening of institutional frameworks. ● Upgrade and mainstreaming disclosure and 	<ul style="list-style-type: none"> ● Strengthen insurance markets and the development of targeted insurance products, to reduce the burden of weather-related disasters on public budgets. ● Develop sustainability-linked credit products to incentivize climate-consistent activities and trigger behavioural change. ● Improve utility, scale, number, reach and efficiency of climate and environmental trust funds, including the Green Fund. ● Update FDI policy to include screening against sustainability safeguards and attract funding to climate-related (sub-) sectors, allowing for up to

⁴<https://inff.org/resource/maldives-integrated-national-financing-framework-inff-gender-responsive-climate-financing-strategy>

⁵ <https://www.finance.gov.mv/public/attachments/lzyzZHIHy0ZWB7Y117aw16YkFhE5o8DfVxThmruO.pdf>

<p>fluctuations, and incentivise and invest in low carbon energy deployment.</p>	<p>transparency standards across the economy, to address under-pricing and avoiding physical asset destruction.</p> <ul style="list-style-type: none"> ● Integrate capacity building and literacy on sustainability-linked issues in national curricula. 	<p>100% contribution - for climate mitigation and/or adaptation projects.</p>
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For example,

- Under Pillar A, “strengthen integration of renewable energy considerations into public investment programmes” is identified as a short-term action point under the lead of the MoF. The Maldives, heavily reliant on fossil fuel imports, is subject to fluctuation risks, so the policy aims at sensitizing public investments on the benefits of renewable energy and channeling them towards sustainability;
- Under Pillar B, opportunity exploration of fiscal policy levers is scheduled in parallel. One of the medium-term supporting actions, also in alignment with the NDC goals, assesses opportunities to set up carbon pricing mechanisms to transit towards a low-carbon, climate-resilient economic base;
- Under Pillar C, another short-term policy action point led by the Maldives Monetary Authority (MMA), “support insurance industry in developing targeted insurance products for different sectors of the economy, also beyond high-end tourism/resorts, but with a specific focus on concessional-based options for vulnerable groups” is identified as well to build resilience to climate hazards and expand the currently limited nature-based insurance solutions.

Ms. Mariyam Manarath Muneer, Deputy Minister of Finance of Maldives, stated that “The INFF approach has helped to develop a complete picture of the climate financing landscape in the Maldives and identify gaps that need to be filled in order to finalize the certain climate financing avenues.”⁶ The Maldives INFF financing strategy provides a coherent, action-oriented plan that brings together all stakeholders to solve national challenges and seize shared opportunities, with climate and gender considerations integrated into activities in every sector while strengthening the existing institutional structure.

⁶ <https://inff.org/news/scenes-from-2023-ffd-forum-roundtable-maldives-inff-experience>



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