MINISTRY OF FINANCE

Maldives Integrated National Financing Framework (INFF)

Gender-Responsive Climate Financing Strategy

March 2023

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List of Abbreviations

AGO	Auditor General's Office
CMDA	Capital Market Development Association
COP	Conference of the Parties
CSRD	Corporate Sustainability Reporting Directive
DAE	Direct Access Entity
DFA	Development Finance Assessment
ECB	European Central Bank
e-GP	Electronic Government Procurement
ESG	Environmental Social and Governance
ETS	Emission Trading System
FDI	Foreign Direct Investment
FI	Financial Institution
FSAP	Financial Sector Assessment Program
GBV	Gender-based violence
GDP	Gross Domestic Product
GEAP	Gender Equality Action Plan
GHG	Greenhouse Gas
GRMA	Global Risk Modelling Alliance
GST	Goods and Service Tax
IFRS	International Financial Reporting Standards
INFF	Integrated National Financing Framework
LACs	Local Authority Companies
LCOEs	Levelized Costs of Energy
LGA	Local Government Authority

M&E	Monitoring and Evaluation
MAPS	Methodology for Assessing Procurement Systems
MCFH	Maldives Climate Finance Hub
MoECCT	Ministry of Environment, Climate Change and Technology
MoED	Ministry of Economic Development
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoGFSS	Ministry of Gender, Family and Social Services
MoHE	Ministry of Higher Education
MoNPHI	Ministry of National Planning, Housing and Infrastructure
MoU	Memorandum of Understanding
MPA	Marine Protection Area
MPAO	Maldives Retirement Pension Scheme
MTFS	Medium Term Fiscal Strategy
MVR	Maldivian Rufiyaa
NBS	National Bureau of Statistics
NDC	Nationally Determined Contribution
NPI	New Policy Initiatives
NRRP	National Resilience and Recovery Plan
NSPA	National Social Protection Agency
NZE	Net Zero Emissions
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PACTA	Paris Agreement Capital Transition Assessment
PBB	Program-based budgeting
PCAF	Partnership for Carbon Accounting Financials
PCB	Privatization and Corporatization Board
PFA	Public Finance Act
PO	President's Office
PPP	Public-Private-Partnership
PSIP	Public Sector Investment Programme
RMD	Resource Mobilization Division
SAP	Strategic Action Plan
SDFC	Development Finance Corporation
SDG	Sustainable Development Goals
SFDR	Sustainable Financial Disclosure Regulation
SIDs	Small Islands Developing States
SME	Small and Medium Enterprises
SOE	State Owned Enterprises
SPV	Special Purpose Vehicles
TCFD	Taskforce on Climate-related Financial Disclosures
TNFD	Taskforce on Nature-related Financial Disclosures
ToC	Theory of/for Change
UN	United Nations
UNDP	United Nations Development Program
USD	United States Dollar
WDC	Women Development Committee

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I. Preface

The launch of the Maldives Integrated National Financing Framework (INFF) is a bold first step towards raising the financing required to achieve the Maldives' ambitious international commitments including the net-zero commitment for 2030, as announced by His Excellency, President Ibrahim Mohamed Solih in 2020. The ongoing climate emergency poses a very real and urgent existential threat to the Maldives, and we cannot afford to wait without action. We are at a critical juncture in the Maldives' development journey to recover from the longstanding impacts of the COVID-19 pandemic to build back better and greener and achieve more inclusive growth.

The Maldives' development financing needs currently outpace our budgetary capacity to generate savings and requires tapping into alternative sources of both domestic and external resources to bridge the financing gap. Climate vulnerabilities, from both slow and rapid onset events pose a tremendous challenge to all sectors of the Maldivian economy including tourism, fisheries and agriculture. Given our budgetary constraints, Small Island Developing States (SIDs) such as the Maldives require concessional financing terms, and easier access to international climate finance mechanisms. Greater involvement from the domestic private sector is equally as important in unlocking new sources of climate finance, as well as the realignment of existing sources of private finance with climate actions.

The Government of Maldives is fully committed to make necessary changes domestically to ease the bottlenecks for financing. To this end, the INFF is an important tool for not only mobilizing the domestic and international resources required to finance the Sustainable Development Goals (SDGs), but also for ensuring the appropriate governance framework, partnerships, and monitoring framework to ensure its success.

On behalf of the INFF Steering Committee, I would like to thank all national stakeholders who generously contributed to the development of the Maldives INFF over a period of more than two years. I also acknowledge and thank all other stakeholders, including representatives from the private sector, International Financial Institutions (IFIs) and our esteemed partners from the United Nations Resident Coordinators Office (UNRCO), United Nations Development Programme (UNDP) and to all the donors of the Joint SDG Fund. Let me also express my gratitude to my fellow Steering Committee members for their generous contributions to the INFF development process.

The Maldives has now become the first SIDS country to launch an INFF and it is my great honour to formally endorse this gender-responsive climate financing strategy document.

Ibrahim Ameer
Minister of Finance
Republic of Maldives

II. Executive Summary

The Strategic Action Plan (SAP, 2019-2023) of the Government of Maldives provides the Government's development policy direction and is complemented by the National Resilience and Recovery Plan (NRRP) to address the economic, environmental, and social challenges considering COVID-19 pandemic. Many of the priorities remain valid in light of the global turbulence of the post-COVID recovery phase such as the war in Ukraine, significant monetary tightening in the United States (US), both with knock on impacts for Maldives and other countries, further aggravated by the longer-term threats facing the Small Islands Developing States (SIDs). The Government of Maldives recognises climate action and the delivery of quality social services as particularly important strategies in building back better after the severe socioeconomic impact of the COVID-19 pandemic. Climate change has already been declared as an existential threat for the Maldives and if not addressed as an urgent priority, will disproportionately affect more marginalized groups of society including women, children, the elderly, and the poor in Maldives and will worsen spatial inequalities particularly for Maldivians living in the outer atolls. The Government of Maldives is fully committed to preserving the country's rich biodiversity and natural ecosystems, its people and way of life from the adverse impacts of climate change and has unveiled a robust plan for embedding gender equality as a strong cross-cutting strategy in its Gender Equality Action Plan (GEAP) in achieving national development. The SAP pledges to designate vast swathes of Maldivian waters as Marine Protected Areas (MPAs) while the Nationally Determined Contributions (NDCs) pledges to commit to increasing share of national renewable energy to 15%, to reduce environmental emissions by 26% and to achieve net-zero emissions by 2030 with the availability of adequate financial resources. Both strategies have embedded climate change at the policy, strategy, and action level and takes a people-centric view at the core of the climate change planning. The Climate Emergency Act (9/2021) stipulates actions to address the climate emergency resulting from the swift acceleration of the severity of the repercussions from climate change, introducing the legal structure and guidelines for addressing issues and concerns related to climate change, including reporting, ensuring the sustainability of natural resources, overcoming negative impacts and allocation of funds for renewable energy sources. The upcoming integrated disaster risk reduction and climate change adaptation strategy, while complementing the existing policy framework, will provide strategies on building resilience, establishing a comprehensive disaster and climate risk management, incorporating risk consideration in budgetary processes.

With a view to identifying both public and private financing options as well as policy constraints, synergies and trade-offs that need to be addressed to unleash these, an Integrated National Financing Framework (INFF) was initiated with support from the United Nations (UN) with a focus on two key SAP priorities: financing for climate action and the delivery quality social services. The INFF is informed by the diagnostic study on the climate financing landscape, the Development Finance Assessment (DFA) and recommends an action-oriented Financing Strategy with a monitoring and evaluation framework and a governance/coordination framework embedded in it. These were developed as two complementary strategies – a climate-focused financing strategy and social sector financing strategy (see Chapter III for more details).

Climate Finance Strategy: This gender-responsive INFF provides a holistic approach for mobilising climate finance for the Maldives under three strategic goals, using 16 specific financing objectives and more than 100 activities. For the Maldives, it is important to approach mobilising climate finance both on the domestic front and from external sources. As such this Financing Strategy highlights reforms targeting the integration of Maldives' climate crisis reality across public finance and financial and capital markets to align and direct commercial private capital towards climate adaptation and mitigation efforts while at the same time, strengthening the resiliency of the financing system against possible negative impacts of climate shocks. For instance, the Maldives has a well-established resource of public climate trust funds with significant potential for increasing its use of proceeds. This Financing Strategy recommends expanding this potential through blended financing with a dual objective of mainstreaming gender considerations into climate adaptation and mitigation measures in all forms of development projects across all sectors of the economy. Ensuring the principle of leaving no-one behind is key to the success of this integration, which is why implementation must reinforce, incorporate, and support other core agendas, in particular gender mainstreaming. The Government of Maldives has also started fiscally empowering the Local Councils of Maldives and this financing strategy outlines actions for laying the foundations for implementing such local level fiscal policies. The INFF approach to climate financing considers the disproportionate impact that climate change has on vulnerable groups, in particular for a small island state. It proposes measures to ensure that livelihood opportunities are safeguarded through financing actions at all levels.

All finance is climate finance: The Maldives considers all forms of development financing as essentially climate finance given its fragile ecosystems and hard infrastructure lying within meters of a coastline anywhere in the country. As such the Financing Strategy encapsulates reforms to the country's foreign direct investment (FDI) regimes to maximise the attraction of funding from international impact-oriented capital and enhance the climate alignment and boosting the efficiency of public expenditure. These reforms would strengthen existing markets and foster new ones, such as with the development of insurance services to transfer disaster risk financing from public accounts to the private sector. The Maldives also requires the development of its sustainable finance ecosystem to ensure markets understand what constitutes sustainable economic activities, and this Financing Strategy envisages to develop a sustainable finance taxonomy, which are applicable to a diverse set of actors both from the public and private sector.

Coordination mechanism: In order for the Maldives to leverage new opportunities presented by the advancements in recent climate finance negotiations at the United Nations (UN) Conference of the Parties (COP) with significant progress being made on agreements related to loss and damage and biodiversity recognition and the funding attached to these issues for vulnerable countries, the strategy recognizes that there is clear benefit from coordination mechanisms within the Government being streamlined and strengthened across all relevant sectoral Ministries to ensure that expertise can be pooled on finance and environmental issues. Thereby, ensuring that the country is well prepared for future climate finance resource mobilisation initiatives and negotiations. Thus, for a climate vulnerable country such as the Maldives that considers all forms of future financing (including FDI, loans) as climate finance, it is important for the Government to establish a robust internal coordination mechanism to exchange knowledge and networks within various Ministries as well as measures in terms of accountability, budget-sharing and institutional incentives to ensure that intra/inter-ministerial coordination is prioritised.

In particular, the strategy proposes that a special coordination mechanism within the Government be created to coordinate all aspects of climate financing including better coordination and coherence among national, regional and sectoral plans. In addition, coordination of mobilising financing such as issuance of thematic debt, accessing climate vertical funds and supporting negotiations with international actors will also fall under the mandate of this coordination mechanism. This approach will bring a whole of government approach and pool resources such as the extensive network of diplomatic corps, financial expertise, and knowledge of environmental issues into a common structure for collective decision making. Consequently, such a structure also allows an appropriate integration of cross-cutting issues especially climate change and gender. Finally, this Financing Strategy also brings together a robust set of indicators to monitor the progress in implementing, which will become operational following the endorsement of this Strategy.

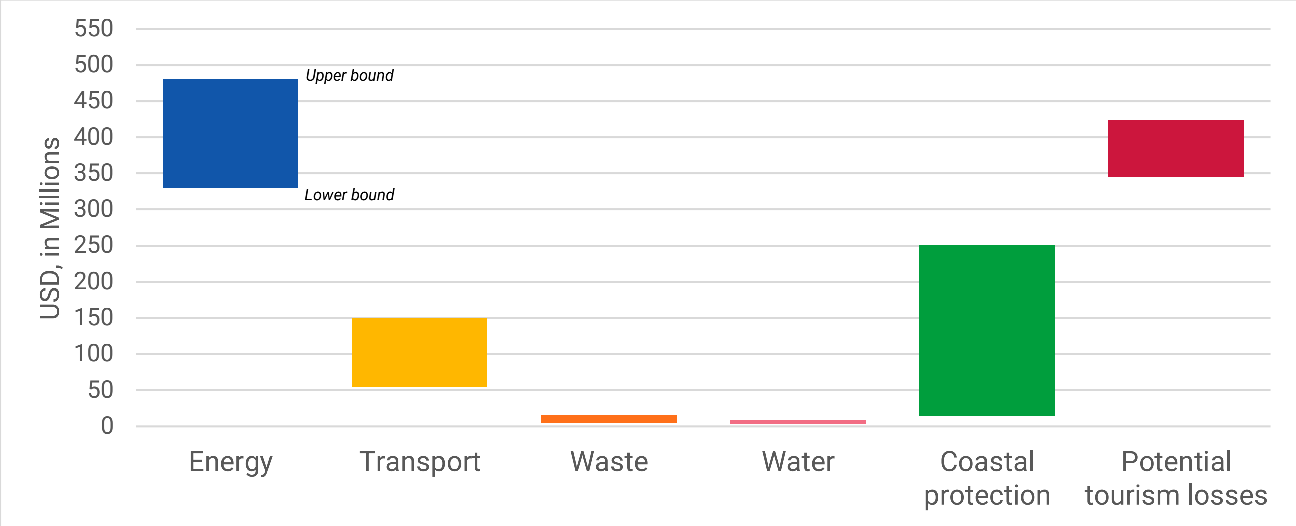
III. Introduction

The gender-responsive climate Financing Strategy of the INFF is informed by the recommendations of a climate-focused DFA jointly conducted by the Ministry of Finance and the United Nations Development Program (UNDP). The two documents have been developed following extensive rounds of consultations under the stewardship of the INFF Oversight Committee, consisting of 13 Government agencies and co-chaired by the Minister of Finance (MoF) and UN Resident Coordinator in the Maldives. This document outlines a comprehensive Financing Strategy with a diverse set of policies to align, leverage and unlock public and private sources of capital for financing the Maldives climate agenda and its sister document outlines a robust plan for financing the delivery of social sector services in the country, with a focus on vulnerable groups of the society.

This Financing Strategy specifically focuses on coherence between social and green policies. For instance, it is crucial for the development of the Maldives, that redistribution does not negatively affect social objectives. However, it has been observed that climate change and gender are traditionally often practised as stand-alone issues, although both issues are widely understood to be cross-cutting issues in Maldives. Typically, decisions are made based on institutional or sectorial strategies, hence, lacking a connected approach across sustainable national development priorities. This hinders broad integration of climate change within the private sector as well. It is essential to practise climate and gender as cross-cutting issues and integrate such criteria in all financing flows of Maldives' development actions.

Financing needs Implementing this Financing Strategy requires both significant financial resources as well as enablers such as new financing policies, reforms, tools and instruments. In quantitative terms, to achieve the Nationally Determined Contributions (NDC) and pursing the announced conditional net zero emission target (NZE) by 2030, massive annual investments are required in key sectors, especially to deploy clean energy technologies (solar, wind, and also hydrogen fuel cells) and clean transport (land, and sea transportation) as highlighted in figure 1 (blue bars).

Figure 1 - Lower and upper bound quantitative investment requirements per sector and per year



Note: Bars are representing lower and upper bounds. For coastal protection, the timeframe is assumed at 35 years considering the type of activity and its long-term effect. For mitigation sectors, timeframe is considered until 2030. Rescaled to yearly investments needs in USD millions. Source: Based on UNDP calculations, including the Second National Communications of the Maldives to the United Nations Framework (2016); Maldives Investment Plan for Net Zero Final Maldives' 2030 Net-Zero Roadmap Document. ARISE Maldives; UNFCCC (2022): Needs-based climate finance project. Technical Assessment of Climate Finance for Island States in the Indian Ocean; ADB (2020): A Brighter Future for Maldives Powered by Renewables: Road Map for the Energy Sector 2020–2030; GoM (2010): National Economic Environment Development Studies. Ministry of Housing and Environment. "Potential tourism losses" are calculated based on Bigano et al. (2007) in the Tourism Adaptation Project (TAP, 2015). Calculation: Deducting potential % loss in tourism revenue under climate change scenario multiplied (lower and upper bound) with average tourism recipients in 2030, by projecting average 2014-19 numbers with 4% growth of receipts per year. Investments to protect coral reefs, other biodiversity related services as well as other adaptation areas such as water, agriculture and fishery are not shown in this figure.

In addition, looking at the scope of mitigation investment needs aligned with a potential net zero decarbonization pathway, the investment needs for climate adaptation and resiliency finance loom large in the Maldives. As one of the lowest-lying and most geographically dispersed country in the world, the Maldives is extremely vulnerable to climate hazards posed by climate change even today. The country requires large scale socio-economic resilient investments in the near term to support communities in adapting to and becoming more resilient to the effects of climate change. Especially in the context of sea level rise, the likely increase of wave height and coastal flooding fosters coastal erosion to accelerate, resulting in the loss of land and exposing most residential areas and important infrastructure. Annual funding needs for necessary coastal protection of most infrastructure services and facilities are beyond the current capacity of public finance and fiscal headspace (figure 1, green bar). In addition, not quantified here, are the coral reefs for the Maldives. Coral reefs support the major economic sectors (tourism and fishery) in the Maldives, protect coastlines by reducing destructive wave energy, and contributes to climate resilient communities. However, the effects of climate change pose a serious threat to coral reefs. More than 60% of Maldives' coral reefs are affected by bleaching due to increased sea surface temperatures, with up to 90% of bleached coral reefs in some areas.

The required annual investments, go far beyond current finance flows available in the Maldives. For instance, in 2021, the Government spent more than USD 300 million under its Public Sector Investment Programme (PSIP), allocating more than three-quarters on the critical sectors like transport (USD 76.4 million), water, including sewerage systems (USD 82 million), and housing and infrastructure such as land and roads (USD 48 million). Further, investments on environmental protection, including climate mitigation and climate adaptation amounts to around USD 40 million in 2021. Hence, the financing objectives proposed in this financing strategy will reinforce the proposition that all forms of future finance flows such as public investments, foreign direct investments, loans, and national budgets are climate-consistent finance flows. In addition to policies and strategies to re-orient and leverage new climate finance opportunities for the Maldives to channel required investments from domestic and international sources, there are also qualitative investment needs and gaps to be addressed. Specifically:

- the integration of proper climate risk management by public and private financial market actors,
- the development of climate and gender-responsive fiscal policy measures, including fossil fuel subsidies reforms,
- a more pronounced focus on educating and sensitizing market actors,
- the development of risk-transfer instruments, and
- the climate consistent amendments of procurement policies to effectively re-direct finance flows

The developed financing objectives and underlying activities are aligned with Article 2 of the Paris Agreement, specifically with Article 2.1.c by "making finance flows consistent towards a low carbon and climate resilient development pathway". This Financing Strategy supports public policy makers (legislators and regulators) to set the rules according to which other (private) actors pursue their commercial interests in such a way that long term and sustainable profitability can be maintained.

Gender-responsiveness Gender is a key component of this finance strategy, as its implementation must ensure there is not only awareness about how gender impacts its various activities but also include specific measures to respond to it. From a causal perspective, climate policy and gender are indissociable. Women have been consistently reported to be the most affected in cases of climate hazards, with impacts for years to come. Therefore, ensuring gender responsiveness in climate policies reflects a specific need for social policy but also links centrally to the guarantee that such policies will deliver the appropriate impact in terms of climate risk management. For instance, this applies by developing resource mobilization strategies, applying for climate finance instruments, and ensuring equal participation in the deployment of financial resources, particularly at the local level.

In addition, this is true not only for public programmes but also private ones since responses to gender represent themselves a strong business case and opportunity to strengthen Maldivian economic sustainability. That is the case because responsiveness to women's participation in the economy and financing-related activities maximises the poll of protected economic agents, including in the increasing cases of climate hazards, but also expands the basis of specialised workers and business entrepreneurs prospering in the most diverse activities, including the ones with higher value-added and relevance for effecting a climate transition.

Gender-responsive climate financing instruments and funding allocations are needed to ensure that scarce public funding is used in an equitable, efficient, and effective way. This acknowledges that climate finance decisions are not made within a normative vacuum but must be guided by the acknowledgment of women's rights as unalienable. A just transition to a low-carbon economies requires gender equity, which means, that a gender-responsive just transition looks beyond traditional "green jobs" within the (e.g., yet male dominated) energy sector to consider low-carbon jobs that contribute to broader societal resilience.

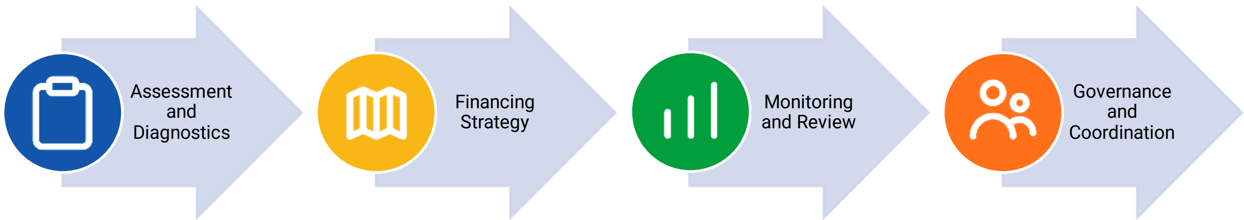
On a different – procedural – approach, both climate and gender must be implemented cross-cuttingly, facing similar issues of siloed action and misaligned incentives. Implementing the two agendas together brings opportunities for cross-fertilisation and also the potential for gains in terms of institutional efficiency. In practice, it is important that the comprehensive national Gender Equality Action Plan (GEAP) is taken as an early consideration for the activities of this finance strategy, including consultation activities and the further development and fine-tuning of indicators. Meanwhile, the GEAP may serve as lessons learned for the implementation of integrative policies in the context of the Maldives.

Structure of this document This Financing Strategy is organized as follows. Section IV highlights each of the four Building Blocks within the INFF. Building Block 1 gives background information outlining the assessment and diagnostics that identified challenges and opportunities across all types of financial sources, covering public actors, such as national, sub-national government, state-owned enterprises, or financial regulators, as well as private actors, including financial institutions, institutional investors, or companies. It concludes by clustering the identified challenges into three undesirable future outcomes (remaining a fossil fuel dependent economy, negative impacts of climate change, and lack of investments in climate change) and provides three strategic goals to address those risks properly. Building Block 2 is the core and determines the financing objectives in context, including a table-based action plan with more than 100 action-oriented activities, aiming to achieve the strategic goals. The detailed action plans to be carried out in the framework, with planned timeframes, and responsible lead and partner agencies are presented in Section V. In Building Block 3 the monitoring and evaluation mechanisms for the implementation of this Financing Strategy is defined. Indicators to monitor the implementation of the Financing Strategy are directly provided in the Action Plan. To achieve the strategic goals, a full Theory of/for Change (ToC) has been developed, including immediate outputs, short- to medium- term outcomes, and long-term impacts. The ToC articulates the logic and rationale behind the strategic goals made and identifies all the expected deliverables and intended results pursuing in this Financing Strategy. Finally, Building Block 4 sets up the governance and coordination arrangements of this Financing Strategy, the Ministry of Finance proposes to establish a Maldives Climate Finance Hub (MCFH), which will serve as the coordination and knowledge hub on climate financing for development in the Maldives and dealing with internal (Ministries and departments, Financial regulators, Local government authorities) and external (Private sector, Development partners) sources of climate finance. Section V delivers the full Financing Strategy across the three Pillars and Section VI concludes with a summary for the way forward.

IV. Integrated National Finance Framework development in the Maldives

The Financing Strategy is at the core of the INFF, which consists of four process-oriented building blocks. The technical work related to the development of this INFF started in 2020 with the preliminary work on the Development Finance Assessment (Building Block 1) in Figure 2. In this sense, the most recent developments of the finance landscape on climate and gender were taken into account

Figure 2 - Development process of this integrated national finance framework



Building Block 1	Building Block 2	Building Block 3	Building Block 4
Key challenges and opportunities identified	16 Financing objectives with more than 100 activities	Trackable indicators to measure progress against targets	Maldives Climate Finance Hub created to ensure multi-stakeholder integration
Existing key government documents were consulted to ensure consistency with national priorities. Investment gap assessment and calibration of needs conducted.	Financing strategy developed in an iterative way based on stakeholder consultations from 13 ministries and multiple validation sessions	Theory of/for Change (ToC) and the problem statement as well as reporting and evaluation measures developed.	Institutionalization of strategy and the monitoring and review process.

Building Block 1: Assessment and Diagnostics

The INFF assessment and diagnostics identified challenges and opportunities across all types of financial sources, covering public actors, such as national, sub-national government, state-owned enterprises, or financial regulators, as well as private actors, including financial institutions, institutional investors, or companies. Amendments and other developments related to certain laws and regulations, such as the pension law and the insurance law (which is currently in preparation), can facilitate and mobilize new financing flows into climate projects and opportunities. Building on the comprehensive finance stocktake, the Development Finance Assessment (DFA) provides key recommendations for public actors to increase efficiency in national and sub-national budgeting, to develop adequate fiscal policy levers, including carbon pricing mechanisms, structuring, and designing sovereign climate debt financing, and leverage the potential of the Green Fund and other climate trusts. Further recommendations towards private financial market actors, are referring to a more pronounced capital market development, private banking, and the insurance market. Overall, integrating future climate physical risks (for instance coastal erosion due to the impacts of chronic and acute climate hazards) and climate transition risks (for instance, market barriers and stakeholders demands, climate litigation,) into risk categories, such as credit, operational, market, and strategic risks in governance and management mechanisms supports the achievement of the high-level plans and is aligned with many Acts, including the constitution.[1]

The DFA concludes, that across agencies, institutions, and project level activities, there is a desire for a sound financing strategy to integrate climate and gender considerations on all financing policies and decisions. The components of the financing strategy requires both short- and medium term (around 1 to 4 years) objectives, and long-term objectives towards 2030 and beyond. The short-medium term is required to guide the government with concrete steps for harnessing easier outcomes and unlocking the transition from business as usual towards strategic longer-term objectives. The projection of climate and gender challenges and opportunities over longer timeframes supports resource allocation efficiency, diminishes the negative impact of climate change, and will be key to achieving cross-fertilisation (co-benefits) and relevant international commitments such as the National Determined Contributions (NDC) under the Paris Agreement, and the Sustainable Development Goals (SDG) targets by 2030. Figure 3 (red part on the left) clusters three challenges that Maldives faces, if required changes in the short and long term remain unaddressed. This could result in an enormous pressure on national accounts due to its high dependency on fossil fuel imports, escalating negative impacts of chronic and acute climate hazards, due to limited physical and transitional climate risk considerations in public and private decision making, and finally the lack climate consistent investments hindering new sources invested in the climate resiliency of the economy.

Figure 3 - Transforming challenges into opportunities

Fossil fuel economy: Increased pressure on national accounts from a fossil fuel dependent economy with impacts on financial stability

Negative impacts of climate change: Increased negative impact of climate change and environmental hazards on the financial sector, the economy, and the natural resources base.

Lack of investments in climate change: Limited resources invested by public and private sector actors to mitigate and tackle climate change hazards, and their associated economic and financial risks.

A. **Better aligning finance flows towards a sustainable agenda:** Direct public and private sustainable investments to achieve inclusive growth in line with Government priorities.

B. **Mainstreaming sustainability into risk management and transparency:** Addressing systemic underpricing of future risks for decision making by incorporating sustainability in prudential and financial regulatory requirements and fiscal policy levers.

C. **Mobilizing new sources of sustainable finance:** Tapping into un-touched sources of finance from public and private sources via new financing policies, reforms, tools and instruments.

Based on the identified challenges, figure 3 (green part on the right) summarizes, ways and opportunities how this Financing Strategy can achieve a low carbon and climate resilient economic base, including sufficient fiscal headspace and an active private sector in the next decade. Pillar A of

[1] Protection of the environment (Art. 22 of the Constitution) and Maldivians constitutional right to a healthy and ecologically balanced environment (Art. 23, d).

this Financing Strategy fosters on a re-orientation of finance flows towards the sustainable agenda, including the Paris Agreement. The financing objectives will enable a redirection of capital to climate action by improved spending efficiency in procurement and budgeting process, accompanied by a shift from high to low carbon energy investments as highlighted in table 1 below (left column). Pillar B of this financing strategy focuses on the creation of appropriate conditions so risks can be identified, priced and managed accordingly while ensuring the Maldives will maintain its long-term ability to control such risks and associated costs by avoiding the lock-in of any detrimental processes as highlighted in table 1 (middle column). Pillar C seeks to ensure the maximization of sources of public finance through the mobilization of private co-finance, also functioning to engage the private sector in the direction set by the government as highlighted in table 1 (right column). In sum, the three pillars comprise the strategic goals of this Financing Strategy. Key results and expected outcomes of the underlying activities are highlighted in table 1, and further explained in detail in the next sub-section.

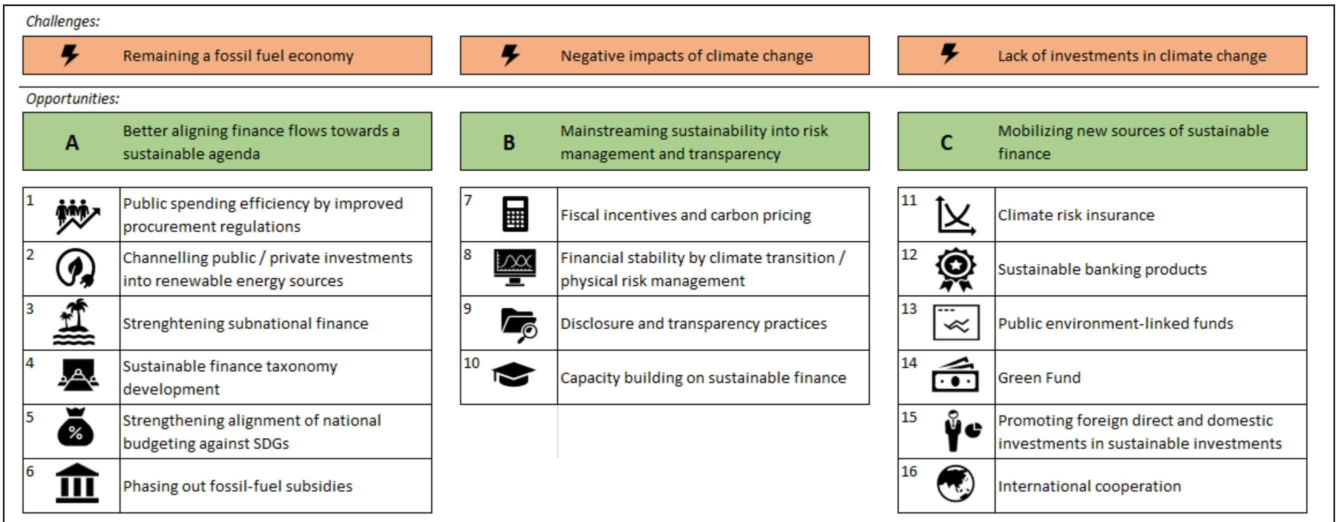
Table 1 - Key results and recommendations

A. Better aligning finance flows towards a sustainable agenda	**B. Mainstreaming sustainability into risk management and transparency**	**C. Mobilizing new sources of sustainable finance**
✓ 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 fluctuations, and incentivise and invest in low carbon energy deployment.	✓ 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 transparency standards across the economy, to address under-pricing and avoiding physical asset destruction. ✓ Integrate capacity building and literacy on sustainability-linked issues in national curricula.	✓ 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 100% contribution - for climate mitigation and/or adaptation projects.

Building Block 2: Financing Strategy

Building on the findings of the assessment and diagnostics of the climate finance landscape, this Financing Strategy expands across the three overarching pillars (from figure 3), with 16 financing objectives and more than 100+ action points as illustrated below in figure 4.

Figure 4 - Overview of the financing strategies – 3 pillars and 16 financing objectives



Source: UNDP Illustrations

Each of the 16 financing objectives consist of a high-level objective – describing the "What?", a clear narrative and rationale for the financing objective – describing the "Why?" and highlighting key impediments (Constraints and Challenges) that have hindered achieving the objective so far, and overview of the planned policies – describing the "How?". This is followed by a table-based action plan as illustrated in table 1 below.

Table 2 - Description of the action plan

Description	Timeframe	Type of Policy	Lead Agency	Partner Agency	Indicator	Baseline / Target
Activity to be under-taken to contribute to the delivery of the desired outputs	"Short": 1-2 years from en-dorsement, typically con-tains "Supporting Activities" (defined below) "Medium": 2-4 years, typi-cally contains (but not limited to) planning opera-tions such as creating schedules, metrics or pro-cesses to implement longer-term actions. "Long": longer than 4 years, contains activities that are more strategic in nature such as building entirely new systems.	"Supporting Activity": Relates to executing or operationalizing actions, that are already in the pipeline and can be achieved relatively easy. A supporting activity supports the implementation of a policy. It is an activity that is designed to help achieve the goals of a policy. "Policy": Relates to important principles and setting the direction, via e.g., guide-lines that influences day to day decision-making. Typically, they allow for some flexibility. "Key Policy": Relates to a policy that is considered to be of particular importance or significance for relevant agencies to achieve respective outcomes in this financing strategy.	The proposed lead agency for implementation of the activity and Partner Agency that will support the Lead Agency in im-plementing the activity/ task		SMART[2] indicator approach to meas-ure pro-gress and outcomes for moni-toring and review - usually de-fined as an intermedi-ary output	Selected starting points (Base-line) and desired state or condi-tion after comple-tion (Target)

Note: The meaning of the timeframe and type of policy can be individually different, depending on the activity. For the detailed action plan see the next section.

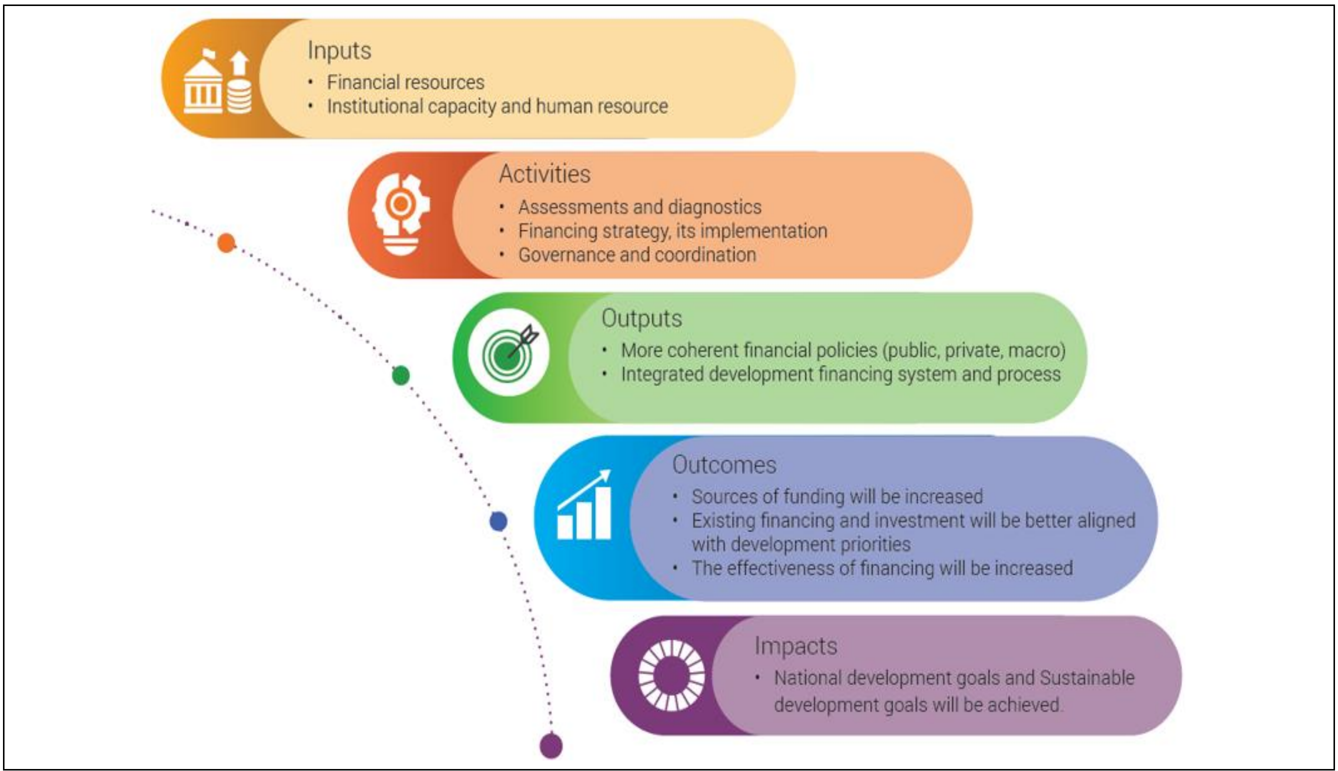
[2] Specific; Measurable; Achievable; Relevant and; Time-Bound

Building Block 3: Monitoring and Review

In the context of this INFF, the monitoring and review process consists of multiple layers, including monitoring the progress of different financing flows and policy areas, strengthening coherence among already existing tracking and monitoring systems and closing gaps in the architecture, and assessing whether the financing strategy itself is succeeding in increasing overall coordination and alignment of financing and related policies.

This Financing Strategy follows the narrative as outlined in figure 5, that based on the required resources, a comprehensive system for efficient development financing will be established through regular assessments and diagnostics of financing gaps, risks, and binding constraints, articulation, implementation, and regular monitoring financing strategy; and establishment of required governance arrangements resulting accelerated progress of achieving national development goals and objectives.

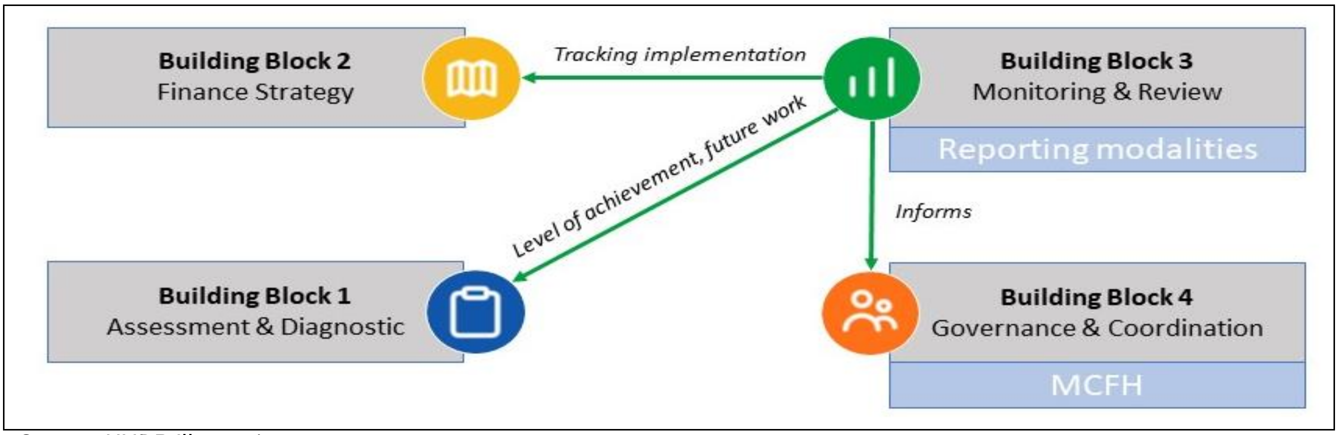
Figure 5 - From inputs to impacts – Baseline understanding of a Theory of Change



Source: INFF (2021). Note: Generic details, for country specific details see Theory of Change in Figure 7 and Annex.

Figure 6 illustrates the interlinkages between the monitoring and review (Building Block 3) and others. In sum, it tracks the progress and implementation of the financing strategy (Building Block 2), it informs the newly formed governance and coordination mechanisms (Building Block 4), and it provides information on the level of achievements for future work (Building Block 1).

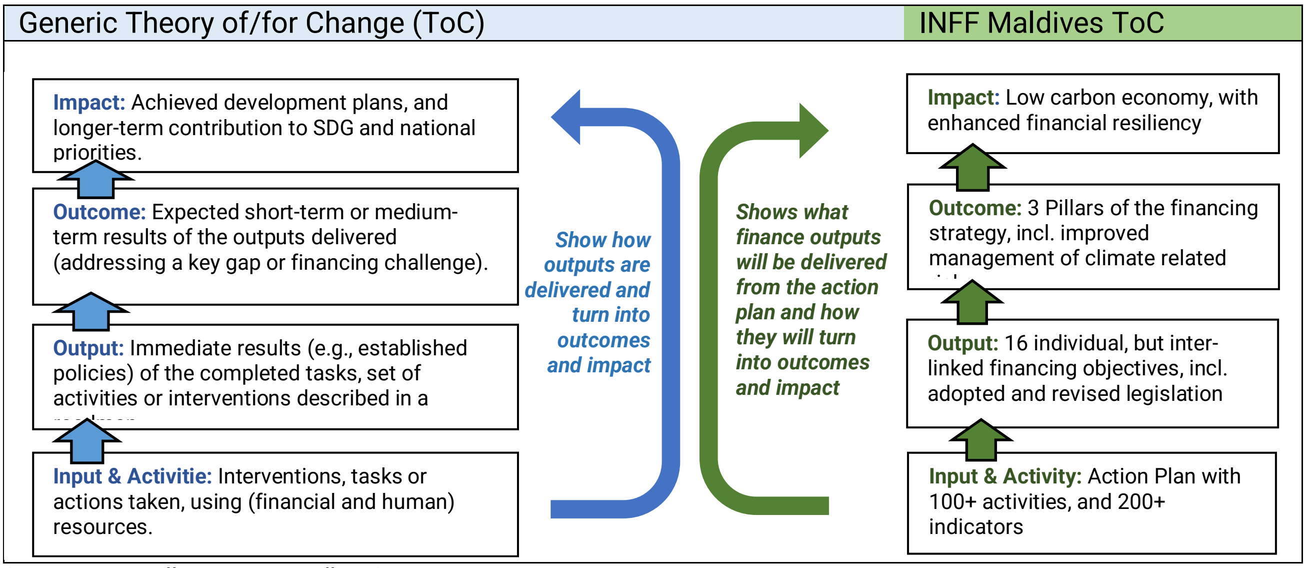
Figure 6 - Building Block 3 integration of the monitoring and review



Source: UNDP Illustrations

To achieve the strategic goals from the Financing Strategy (figure 4), a Theory of Change (ToC) has been developed. The ToC articulates the logic and rationale behind the strategic choices made and identifies all the expected deliverables and intended results in pursuit of these strategic objectives. To this end, the ToC spells out the activities identified in the INFF roadmap and related outputs, the expected outcomes, and the ultimate results contributing to the national sustainable development priorities, along with key assumptions/risk factors. Figure 7 illustrates the generic rationale of a ToC (blue part) and outlines the key milestones of the INFF ToC in the Maldives (green part).

Figure 7 - Theory of/for Change



Source: UNDP Illustrations. Full ToC see Annex.

Based on the financing objectives and the developed ToC, a comprehensive monitoring and review system of efficient development financing has been established, including:

(i) regular assessments and diagnostics of financing gaps, risks, and binding constraints,
(ii) articulation, implementation, and regular monitoring of the strategy, and
(iii) establishment of required governance arrangements (see below in Building Block 4).

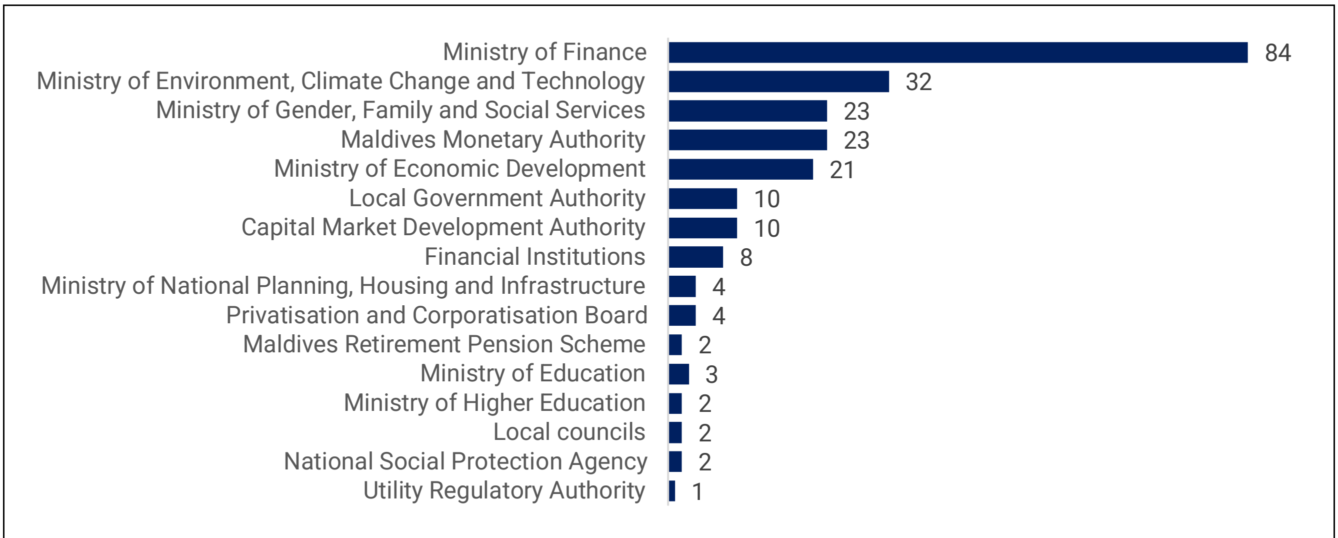
The ToC was also the basis to identify, for each of the 16 financing objectives, a high-level objective – describing the "What?", a clear narrative and rationale for the financing objective – describing the "Why?", and key impediments (Constraints) that have hindered achieving the objective so far. This is followed by a table-based action showing what are the key immediate, short-term and long-term expected results (or impact), on the one hand, and what are the key activities or tasks that are necessary to achieve these expected results on the other hand, as illustrated in the next table.

Table 3 – Financing objectives and its role from activities to long term-outcomes

<table>
<tr><td colspan="8">Financing Objective: #</td></tr>
<tr><td colspan="2">Key final outputs to be delivered</td><td colspan="6">Immediate, tangible results of completed tasks or activities undertaken.</td></tr>
<tr><td colspan="2">Short-term outcomes</td><td colspan="6">Short-term (1-2 years) changes expected from use of delivered outputs.</td></tr>
<tr><td colspan="2">Medium-term outcomes</td><td colspan="6">Medium-term (2-4 years) changes expected in the behaviour of target groups</td></tr>
<tr><td colspan="2">Long-term outcomes (Impacts)</td><td colspan="6">Long-term (longer than 4 years) changes expected in the initial situation and that are the reason why expected outputs were delivered.</td></tr>
<tr><td colspan="8"></td></tr>
<tr><td>Action #</td><td>Description</td><td>Timeframe</td><td>Type of Policy</td><td>Lead Agency</td><td>Partner Agency</td><td>Indicator</td><td>Baseline / Target</td></tr>
<tr><td colspan="8">See table 2 (Description of the action plan) for details.</td></tr>
</table>

For each level of results (outputs, short-term, medium-term outcome, and long-term outcome/ impact) key indicators were identified to help track progress in the implementation of the financing strategy action plan, and help measure overall effectiveness and results at regular intervals. For the implementation of the financing strategy, Table 2 highlights cross-cutting integration of the several ministries as lead agencies in the driving roles, which highlights the integrative nature of this financing strategy.

Figure 8 – Number of activities for this Financing Strategy action plan by proposed lead and / or partner agency



A reporting template has been developed for the use by the various entities (lead agencies) involved in the implementation of the action plan (see Annex 3). Ideally, reporting on completed tasks and activities should be semi-annual[3] and annual. Using the standard template and based on the main action plan, it is expected that reporting on completed tasks and activities will be conducted regularly (e.g., annually) at the beginning of the fiscal year.

It is further expected that each concerned entity will integrate the INFF action items into their own work plan, with the definition of specific tasks, activities, targets, deadlines, and responsible departments or staff, while the governance structure under Building Block 4 (see below) will serve as the key hub for coordination and high-level monitoring. The template also provides the opportunity to report on any additional information deemed important, such as contextual information or a discussion on progress or challenges faced.

Building Block 4: Governance and Coordination

The identified INFF financing strategy (Building Block 2) and the related monitoring and review mechanism (Building Block 3) requires a dedicated governance structure to be set up bringing together different stakeholders to coordinate their efforts towards greater mobilization and alignment of financing resources for Maldives.

Therefore, the Ministry of Finance proposes to establish a **"Maldives Climate Finance Hub" (MCFH)**, which will serve as the coordination and knowledge hub on financing for development with specific focus on climate finance matters in Maldives. The MCFH's specific functions will include providing specialist advisory services to the Government on climate finance matters, providing inter-ministerial coordination support on climate finance initiatives, implementation of the financing strategy, identification of international climate funding opportunities and providing technical assistance and expert advice on the development of innovative disaster risk finance mechanisms.

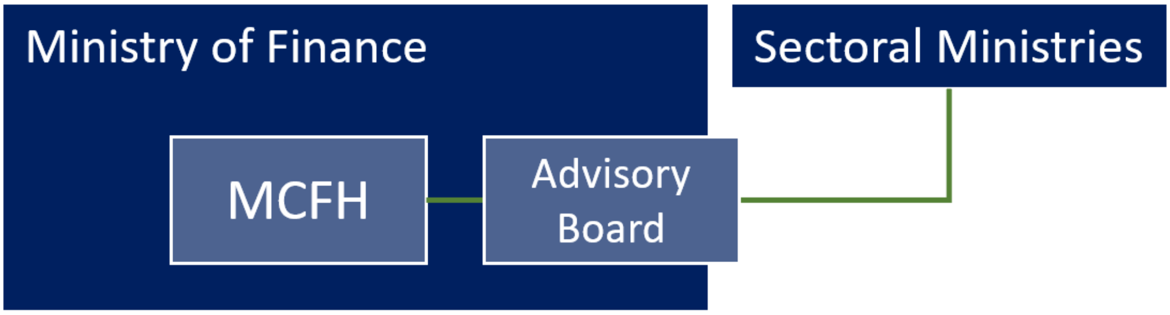
It will offer expertise to the Government and provide inputs relevant for climate change negotiations, including the crucial UN COP debates on loss and damage and biodiversity financing. The establishment of a formal coordination mechanism around climate finance comes right in time to consolidate emerging and overlapping processes on climate financing affairs on the international, national and sub-national level. The MCFH will be a light, but well-resourced unit that is flexible to work closely with multiple internal departments and coordinate closely with key ministries involved in climate finance discussions including the Ministry of Environment, Climate Change and Technology (MoECCT).

In addition to the MCFH, as line ministries have an important part to play in governance and coordination, an **"Advisory Board"** will provide guidance for the MCHF to enhance their technical and operational level works through a multistakeholder approach. As illustrated in figure 9, a two-tier structure will be established, consisting of a high-level Advisory Board (tier-one), and a technical MCFH (tier-two) by building knowledge, capacity, and further technical work streams. To foster the exchange of knowledge, secondment options will also be facilitated for staff members within the relevant ministries to come and work on special assignments so that knowledge can be shared more

[3] While semi-annual reporting is optional, although useful for internal management purposes – e.g., ensuring that remedial or mitigation actions are timely taken in case of implementation challenges – annual reporting is advised to be made mandatory to ensure proper monitoring of the INFF strategy implementation.

effectively across members. Further, a pool of local climate finance experts will also be identified and sought nationally to advise on critical matters.

Figure 9 - Planned organizational structure of the MCFH and Advisory Board under the MoF



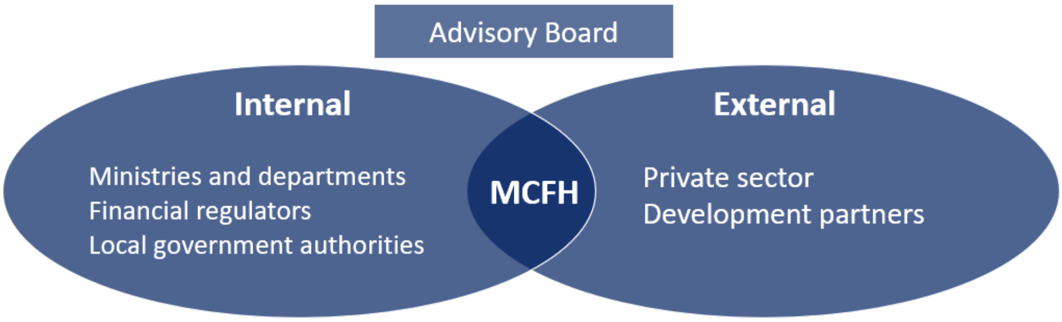
The **MCFH** is the node point for climate finance related issues in the MoF

- ✓ Staffed with technical experts.
- ✓ Supports all international public and private climate financing affairs.
- ✓ Supports key MoF divisions (e.g., RMD) and financial regulators to build adequate capacity for analytical work, incl. regular financing gaps and other research studies.
- ✓ Develops results-based policy advice.

The **Advisory Board** reviews performance of implementation

- ✓ Leads respective sectors in implementation
- ✓ Convenes quarterly progress review meetings
- ✓ Reviews agencies' results-oriented work plans and annual reports

Figure 10 - MCFH within internal and external sources of climate finance



The planned governing structure will oversee the INFF financing strategy implementation, review and approve policy recommendations, and prepares progress reports on the implementation of the INFF. The management and process structure of the MCFH will serve as intersecting set with required capacities and competencies to deal with internal and external sources of climate finance.

At the onset of the implementation, the MCFH will sign a Memorandum of Understanding (MoU) or exchange letters of intent with each implementation partner, describing how they intend to implement, or contribute to, specific actions of the INFF financing strategy action, together with agreed timeframes, and targets. These MoUs will drive the preparation of a detailed work plan that will describe, for each relevant indicator, the planned activities, targets, responsibilities, and timeframes. Annual work plans will be an integral part of the MoU as exemplified in table 4 and will be submitted to the Advisory Board, which will endorse them.

Table 4 - MoU with agreed activities, targets and timeline

Financing Objective #	**Output #**	**Action #**	**Description**	**Lead Agency**	**Time frame**	**Partner Agencies**	**Indicator**	**Baseline and Target**
			Activity/task that the Agency will implement	The specific Unit or Department, within the lead agency, that will be responsible to implement the action.	Estimated timeframe by which the tasks will be completed.	One or more agencies to support the Lead Agency in implementing the activity/ task	The concrete result (usually an intermediary output) of the completed tasks	The baseline and target values of each indicator.

Towards the end of the fiscal year, each implementing partner will prepare a short progress report, which will be the basis for the preparation by the MCFH of an annual progress report on the status of implementation of the INFF financing strategy to be presented to the Advisory Board (See Building Block 3).

Overall progress in implementing the INFF strategy will be monitored by the Advisory Board (see Building Block 4), based on the submission of individual annual progress reports by each responsible entity. To this end, it is suggested that each responsible partner entity appoints an INFF M&E focal point who will be responsible to monitor the implementation of the individual agencies' work plans and prepare the agencies' progress reports that will describe achievements against set targets, indicators, and activities, using the agreed template, for submission to Advisory Board. These reports will be reviewed by the Advisory Board, before their submission to the MCFH, and they will be the basis for the preparation of the report on the status of implementation of the INFF financing strategy. The Advisory Board will also serve as a platform for inter-institutional and public-private dialogue. The MCFH and the Advisory board shall meet at least twice a year to review overall implementation performance and results and review and approve policy recommendations.

V. Integrated National Financing Strategy

A. Better aligning finance flows towards a sustainable agenda

Figure 11 - Pillar A: Transforming challenges into opportunities

Fossil fuel economy: Increased pressure on national accounts from a fossil fuel dependent economy with impacts on financial stability	➜	**Better aligning finance flows towards a sustainable agenda:** Direct public and private sustainable investments to achieve inclusive growth in line with Government priorities.
Negative impacts of climate change: Increased negative impact of climate change and environmental hazards on the financial sector, the economy and the natural resources base.	➜	**Mainstreaming sustainability into risk management and transparency:** Addressing systemic under-pricing of future risks for decision making by incorporating sustainability in prudential and financial regulatory requirements and fiscal policy levers.
Lack of investments in climate change: Limited resources invested by public and private sector actors to mitigate and tackle climate change hazards and their associated economic and financial risks.	➜	**Mobilizing new sources of sustainable finance:** Tapping into un-touched sources of finance from public and private sources via new financing policies, reforms, tools and instruments.

The Government of Maldives has stated its intention to phase out fossil fuel subsidies, and this provides an opportunity to re-orient public investment program with clean energy solutions and accelerate Maldives transition towards achieving net-zero emissions by 2030. This orientation of financing towards clean energy sources are supported by aligning public and private financing policies towards greener methods of procurement and spending guidelines. All sectors of the Maldives economy will need clarity about the meaning of climate consistency for their specific contexts, while structures must be in place and continuously updated to ensure the availability of sufficient funding, both by improving the efficiency of existing finance and by expanding options and access to new sources.

In this regard, Pillar I of the financing strategy proposes activities that foster a re-orientation of finance flows towards the sustainable agenda, including the Paris Agreement. The financing objects are enabling a redirection of capital to climate action by improved spending efficiency in procurement and budgeting process, accompanied by a shift from high to low carbon energy investments. That will trigger the transition by providing signals, incentives and clarity about government priorities and long-term strategies. In essence, Pillar A aims for:

✓ The **upgrade of procurement regulations** to tip spending **towards low-carbon** products and services, while incorporating systematically the **identification and management of climate-related risks** and integrate climate and gender in budget processes to mitigate climate and social risks, and increase public, and private investments in low carbon and resilient economy.

- ✓ The **boost in public spending and development of business models for funding the deployment of renewable energy** generation, linking it to a long-term low-carbon strategy that can lower the country's reliance on international fossil fuel markets' fluctuations, while releasing the national budget from burdensome subsidies.

- ✓ Progressive shift of energy spending via a **phasing out of fossil fuel subsidies to reduce fiscal burden and the existing financial risks from international shocks and fluctuations** and incentivise and invest in low carbon energy deployment.

- ✓ The **strengthening of climate considerations in financial decision-making at the subnational level**, going from capacitation on how to reflect climate, environment, and gender consistently in projects in all sectors, to actions to leverage public resources with the engagement of the private sector.

- ✓ The **development of a sustainable finance taxonomy or classification system**, aimed at providing clarity about policy directions, confidence by investors about the sustainability aspects and financial risks associated with different types of assets, and the opportunity to better monitor and act upon the efficient generation and maintenance of such sustainable finance flows.

1. Public spending efficiency by improved procurement regulations

Financing Objective: Increase the public spending efficiency and climate-responsive impact of the public procurement process of the Government by ensuring the implementation of adequate procurement regulations in alignment with sustainable development principles in accordance with the Strategic Action Plan of the Government of Maldives which targeted green procurement in the Public Finance Act (PFA).

Rationale: When inserted in a broader and longer-term strategy, national public procurement becomes a strong policy tool for the Government to articulate its intention to align public spending to a sustainable development trajectory, while also signalling the private sector to embrace similar strategies. This does not only improve public spending efficiency but, potentially serving to trigger the local production and offer sustainable products and services.

Challenge: Currently, public procurement does not consider sustainability criteria, hence it misses out on the use of its market power to drive sustainable energy and investments. The country faces limitations in financing sustainable projects such as for renewable energy solutions due to fiscal constraints and difficulties in structuring financing models for renewable energy projects. In addition, manual processes and lack of digitization hamper the speed of the procurement process greatly.

Policy: In line with SAP target 5.2, develop and implement the general part and the sectoral-specific parts of a green and gender-sensitive procurement policy for the public sector. In addition, an improvement and simplification in the application of procurement and tendering processes can be achieved through a digital system uptake.

Theory of Change - Public spending efficiency

Output to be delivered	Revised procurement guidelines and tendering processes for ministries, agencies and public institutions.
Immediate change required (short-term outcome)	Procurement practices and tendering that include climate and gender considerations and measurable criteria are adopted.
Medium-term outcome	Enhanced public spending efficiency and relevance to mitigate climate and social risks.
Long-term outcome	Improved resource allocation efficiency in support of climate action and transition to low carbon economy.

Action	Description	Time-frame	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
1.1	Develop a cost-efficient approach and method to integrate life cycle costing in the public procurement process.	Short	Policy	MoECCT	MoF	1.1.a. Cost-efficient life cycle costing approach developed	0/1
1.2	Starting the "Methodology for Assessing Procurement Systems" (MAPS) assessment on procurement systems, including best practices in green, blue, sustainable and gender-responsive procurement methods. Assessments include identification of current gaps (including data), and opportunities for green private sector development in the Maldives.	Medium	Supporting Action	MoF	MoECCT, MoGFSS, MoED	1.2.a. Assessments undertaken (others), with at least 1 best practice identified	0/1
1.3	Based on above, develop and operate a (e.g., green/blue) procurement circular (e.g., guideline), covering all procurement and tendering requests across the government, including integrating and managing climate-related	Medium	Key Policy	MoF	MoECCT, MoGFSS	1.3.a. Procurement circular developed	0/1

	physical and transition risks and gender responsiveness.						
1.4	Create specific parameters for the (e.g., green/blue) adequate procurement circular (see activity above), by focusing on climate, biodiversity and gender mainstreaming for all procurement and tendering requests, and specific protocols for relevant sectors - e.g., energy, transport, construction, conservation, or ecosystem services (cross-cutting).	Medium	Key Policy	MoF	MoECCT, MoNPHI, MoED (with regard to FDI Policy)	1.4.a. Parameters for the procurement circular developed	0/1
1.5	For gender-mainstreaming (see activity above) in the context of SAP Strategy action 5.3b, specifically, add specific procurement parameters for considering women-owned businesses (and gender-responsive firms) in the procurement templates. Some examples include, but not limited to: a) Gender-responsive policies for hiring and remuneration frameworks, b) policies on preventing on gender-based violence (GBV), and sexual harassment, and c) other gender sensitive policies including parental leave, flexible hours.	Medium	Policy	MoF, MoGFSS		1.5.a. Gender-related parameters developed	0/1
1.6	Develop and operate a comprehensive and user-friendly Electronic Government Procurement (e-GP) system for procurement and tendering with bidder/vendor services.	Medium	Supporting Action	MoF		1.6.a. E-procurement system developed	0/1
1.7	Plan and develop an orientation strategy/guideline for SOEs to foster the development of business practices aligned with green, climate, and gender responsive business practices.	Medium	Policy	PCB	MoF, MoECCT	1.7.a. Strategy developed 1.7.b. # of action/strategic points fostering gendered private initiatives	0/1 0/#
1.8	Revise the Privatization and Corporatization Board (PCB) procurement guidelines for SOEs and integrate climate and gender considerations levels.	Medium	Policy	PCB	MoF, MoGFSS	1.8.a. Guidelines revised	0/1
1.9	Developing capacities of all civil servants working in public procurement system on how to integrate green procurement criteria into the procurement evaluation process.	Medium	Policy	MoF		1.9.a. # of public sector staff trained 1.9.b. # of women staff trained 1.9.c. # of public institutions with trained staff	0/# 0/# 0/#

Note: B=Baseline; T=Target. “Short”: 1-2 years from endorsement. “Medium”: 2-4 years. “Long”: longer than 4 years.

2. Channelling public and private investments into renewable energy sources

Financing Objective: Boost public and private investments in low carbon development, while reducing pressure on national accounts from a fossil fuel-based economy.

Rationale: Maldives has no proven fossil fuel reserves, but it has abundant renewable energy sources, including solar, wind, and oceanic energy sources such as tidal, wave, and thermal. The country is dependent on fossil fuel imports for electricity generation and shifting this reliance to domestic energy (on-grid and off-grid), can decrease risk of economic fluctuations on oil prices and help lighten fiscal burden from subsidizing energy prices. The Levelized Costs of Energy (LCOEs) generation from renewable sources is likely to further decrease due to global technology advancement, positively affecting the transition to a renewable energy generation. Therefore, leveraging the momentum of the Government's net zero pledge can prove to be a catalyst in promotion of renewable energy in the country.

Challenge: The country faces limitations in financing the renewable energy solutions due to fiscal constraints and difficulties in structuring financing models for renewable energy projects. As a result, Maldives often relies on grants and soft loans from development organisations to leverage private investments in the power sector. As the sector is capital intensive, boosting private sector participation is necessary for achieving the 2030 targets (Net Zero Pledge by the President at COP26), yet the incentives and promotions for private investment in power sector is limited. There is also a lack of trained personnel to keep up with the technical know-how required for a smooth shift to renewable energy. Finally, from an aesthetical perspective, solar PV is sometimes perceived as unappealing from the sky. Specific attention for renewable energy update must be spent on gender issues and the risk that inequalities are increasing.

Policy: Develop a strategy on how to encourage investments into low carbon technologies. In addition, introducing polluter-pay policies and incentivize domestic uptake of renewable energy. Support campaigns for sensibilization of low carbon economy, including focus on air pollution and increase awareness of direct consequences on vulnerable groups.

Theory of Change – Channelling public and private investments

Output to be delivered	A long-term strategy for low-carbon development is prepared and the general public and private sector are sensitized on the benefits of renewable energy.
Immediate change required (short-term outcome)	Enhanced public awareness and strategies for the uptake of renewable energy.
Medium-term outcome	Public and private resources are increasingly directed towards a renewable energy agenda.
Long-term outcome	The required resources are invested by public and private sectors to mitigate and tackle climate change hazards and their associated livelihood challenges.

Action	Description	Time-frame	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
2.1	Consider conducting a baseline assessment to identify easy to achieve targets in terms of incentives to increase air, water, and soil quality, and update existing energy legislation, with the focus on investments in renewable energy sources and how to nudge an increase of domestic supply in clean energy market.	Short	Supporting Action	MoECCT	MoF	2.1.a. Assessment undertaken	0/1
2.2	Consider conducting baseline assessment to identify short-term strategies in terms of penalties to	Short	Supporting Action	MoECCT	MoF	2.2.a. Assessment undertaken	0/1

	reduce air, water and soil pollutions, and gaps in existing legislation.						
2.3	Develop a long-term strategy for low-carbon development (e.g., Paris Agreement under Article 4.19, Long-Term-Strategy under the UNFCCC), with focus on renewable energy sources.	Medium	Key Policy	MoECCT	MoF	2.3.a. New strategy developed	0/1
2.4	Develop and implement awareness programmes and sensitizing the people for the required energy transformation and seeking greater alignment with sectoral plans of key sectors such as the tourism Master Plan.	Medium	Supporting Action	MoECCT	MoF	2.4.a. # of awareness programmes organized 2.4.b. # of awareness programmes implemented 2.4.c. # of people sensitized (reached out) 2.4.d. # women / total of people sensitized (reached out) 2.4.e. # of didactic materials, knowledge products developed	0/# 0/# 0/# 0/# 0/#
2.5	Develop and implement awareness on gender sensitive low carbon deployment in education and higher education programmes for the required transformation to reduce inequalities in the long term. Invest in vocational and other training for women and other marginalized groups to enter the sector, and support companies to create pathways for entry and retention for women, work with organizations that actively work to remove social norms preventing women and girls from working/entering the sector).	Medium	Supporting Action	MoE, MoHE	MoF, MoGFSS	2.5.a. # of didactic materials developed, including gender sensitive knowledge products 2.5.b. # of awareness campaigns organized 2.5.c. # of (primary, secondary, higher education) students reached out 2.5.d. # of (primary, secondary, higher education) students outside Male reached out	0/# 0/# 0/# 0/#
2.6	Develop sectoral strategies to uptake renewable energy in construction,	Medium	Policy	MoNPHI	MoF, MoGFSS	2.6.a. # of sectoral	0/#

	transport, fishing, waste management, and tourism sector.					strategies developed 2.6.b. # of gendered-sensitive actions part of each sectorial strategy	0/#
2.7	Assess options, including reverse auctions to procure and support its target for solar power installation. Implement a certificate trading Programme to increase cost efficiency of energy efficiency Programme (Perform-Achieve-Trade Programme).	Short	Policy	MoF		2.7.a. Assessment undertaken 2.7.b. New Programme started	0/1 0/1
2.8	Assess options, to increase private sector financing via Public-Private Partnerships (PPP) and blended finance opportunities, including devising the business models and scaling them up.	Short	Policy	MoF		2.8.a. Assessment undertaken	0/1
2.9	Strengthen integration of renewable energy considerations into public investment programmes (PSIP, social housing program, airport infrastructure, waste management, water and sewage) including cost recovery mechanisms.	Short	Policy	MoF	MoGFSS	2.9.a. Budget proposal criteria revised	0/1
2.10	Assess options to introduce investment of de-risking instruments (guarantee funds)	Medium	Policy	MoF		2.10.a. Feasibility study undertaken	0/1
2.11	Assess options to develop a set of financial and fiscal policy incentives to promote investments in clean energy generation and transmission.	Short	Policy	MoF		2.11.a. G Assessments undertaken	0/1
2.12	Ensure policy coherence by making renewable energy generation part of a long-term energy production strategy	Short	Policy	MoECCT		2.12.a. Strategic component developed	0/1
2.13	Assess options to introduce incentives to the private sector for investing in renewable energy by corporate sustainable bonds and loans, and equity financing.	Short	Policy	MoECCT	MoF, CMDA	2.13.a. Assessments undertaken	0/1

Note: B=Baseline; T=Target. “Short”: 1-2 years from endorsement. “Medium”: 2-4 years. “Long”: longer than 4 years.

3. Strengthening subnational finance

Financing Objective: Enhance the implementation of the Decentralization Act and fiscal reforms introduced by the 8th Amendment to the Decentralization Act in 2019 which aim to improve fiscal empowerment of local councils by mandating the central government to allocate block grants for three main purposes: to cover the administrative costs of running the local council office; expenses incurred in the provision of services under the mandate of the local councils; and for development projects undertaken by the council.

Rationale: Under a concerted effort to fiscally empower the Local Councils in the Maldives, the Government of Maldives has been giving fiscal policy powers to the councils through a series of legislative changes since 2018. As part of these legislative changes, the local councils are also given the mandate to implement disaster risk reduction and climate change mitigation frameworks. The Decentralization Act offers legal ground on how local councils can engage in business activities and implement local-level fiscal policy tools such as powers to levy taxes and fees for provision of public services as well as issue debt instruments to finance its regional development plans. Hence there is an opportunity to enhance the implementation of adaptation measures and promote a low carbon transition by leveraging various types of subnational financing.

Challenge: Decentralization Act (2010) require local governments to manage their jurisdictional natural resources such as lagoons, coral reefs, and vegetation on land. However, the capacity and awareness to manage natural resources effectively and sustainably has been limited. Performance-based grants relating to resilience/adaptation and mitigation can provide a means for central authorities to reward local government practices. However, currently local councils are expected to report to the regulator using traditional performance documents and specific financial indicators on climate or gender topics are not incorporated at present. More importantly, despite the fiscal autonomy granted under new legislative amendments, local councils are not yet capacitated to identify how they can also raise funds for local priority projects from other sources.

Policy: The Government of Maldives prioritises strengthening gender (e.g., access and usage data disaggregated by sex), climate and environmental (e.g., biodiversity) considerations in local councils' assessments of needs and reporting requirements. This would help to set the foundations for a climate and gender responsive developmental planning at the regional level in the country. To do so, more incentives for improving climate and gender-related performance will be required. Further, a timely opportunity exists to expand the capacity for peer learning and also gain insights of possibilities of access to other sources of financing. Capacity development at local council level will support the implementation of the Decentralization Act (2010).

Theory of Change – Strengthening subnational finance

Output to be delivered	Capacity building of local governments on financing for sustainable development and enhanced management of climate risks, are undertaken. A central database of climate related data will be established.
Immediate change required (short-term outcome)	Enhanced local Government authorities' capacities in climate risk mitigation and management and financing for development.
Medium-term outcome	Improved mitigation and management of climate-related and environmental risks at the local and national level and increased mobilisation and alignment of financing for sustainable development priorities at a local level.
Long-term outcome	Reduced negative impact of climate change and environmental hazards on the economy. Accelerated achievement of SDGs at the local, regional and national level.

Action	Description	Time-frame	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
3.1	Conduct needs assessment for building capacity at the local level on financing for development and climate risk management by e.g., assessing the needs to enhance local governments' skills to directly access funding from climate vehicles (such as government trust funds or accessing non-banking finance such as the local pension fund).	Short	Supporting Action	LGA	MoF	3.1.a. Assessment undertaken	0/1
3.2	Develop a capacity development plan and undertake capacity building measures, including capacity development on how to conduct gender impact assessments, produce, collect, and evaluate sex-disaggregated data to inform policy and intervention design.	Short	Supporting Action	LGA	MoF, MoGFSS	3.2.a. Capacity development plan developed 3.2.b. # of capacity building measures undertaken	0/1 0/#
3.3	Develop best-practices, standardized templates, and guidelines for the local assessment of climate risks, needs and opportunities related to decarbonization and resilience building/disaster reduction, as well as the continued assessment of gender responsiveness.	Short	Policy	LGA	MoF	3.3.a. # of guidelines adopted 3.3.b. # of processes and/or tools adopted (evaluation of these by users)	0/1 0/#
3.4	Create a central database to collect bottom-up and comparable climate-related data (e.g., climate related) from local governments and listed subnational actors' reporting.	Medium	Key Policy	LGA	MoF	3.4.a. Central database developed and operating	0/1
3.5	Based on the activity above (3.4), pilot the use of the climate database for deciding on the disbursement of international funding sources such as the Green Climate Fund (GCF) and Multilateral Development Banks (MDB).	Medium	Supporting Action	MoECCT	MoF	3.5.a. Assessment undertaken 3.5.b. # of approved funding proposals developed using the central database	0/1 0/#
3.6	Develop sectoral guidelines/toolkits for the financing and management of natural resources in sectors that can potentially harm these natural resources.	Medium	Policy	LGA	MoF	3.6.a. Harmeful sectors defined and agreed upon 3.6.b. Guidelines and toolkits adopted	0/1 0/1
3.7	Support the development of clear guidance of the mandate of Local Authority Companies (LACs), their climate and gender mandate and how they can access climate-finance.	Medium	Policy	LGA	MoF, MoGFSS	3.7.a. Guidelines developed 3.7.b. # of LACs mainstreaming climate and gender in their operations 3.7.c. # of LACs that accessed climate finance	0/1 0/# 0/#
3.8	Develop capacity building and trainings on how to write proposals, conduct feasibility studies, develop pipeline of investable projects, manage funding and implement	Medium	Supporting Action	LGA	MoF	3.8.a. # of capacity building modules developed	0/# 0/#

	projects for Local Authority Companies (LACs)					3.8.b. # of trained LACs 3.8.c. # of trained staff	
3.9	Development of specific guidelines for issuance of municipal sustainable debt instruments.	Medium	Policy	MoF	LGA	3.10.a. Green/Sustainable bond frameworks developed 3.10.b. % of sustainable debt instruments in ordinary issuances	0/1 0/%
3.10	Build capacity of local authorities to identify investment opportunity areas and bottlenecks and how to address them.	Short	Policy	LGA	Local councils, MoECCT	3.11.a. # of trained LACs 3.11.b. # of trained staff	0/# 0/#
3.11	Review local budgets and identify opportunities to transfer spendings from public to Public-Private-Partnerships (PPP) or blended finance domain (e.g., blended finance in waste management).	Short	Policy	LGA	Local councils, MoECCT, MoF	3.12.a. Analytical paper produced	0/1

Note: B=Baseline; T=Target. “Short”: 1-2 years from endorsement. “Medium”: 2-4 years. “Long”: longer than 4 years.

4. Sustainable finance taxonomy development

Financing Objective: Expand the sustainable economic base via a development of a sustainable finance taxonomy, to tap into new domestic and international sources, with investors looking to expand their sustainability investments.

Rationale: The Government of Maldives is committed to accelerating its net-zero transition by signalling the market about clear categorisation of economic activities by its sustainability impact, through an adoption of a national sustainable finance taxonomy. Currently, around half of the global Gross Domestic Product (GDP) is touched by sustainable finance taxonomies, and more and more countries are taking up speed in taxonomy development. A sustainable finance taxonomy can enable investors to identify assets with sustainability benefits, increase the credibility of sustainable economic activities to investors, enable monitoring and tracking of financing flows and investments according to the taxonomies, create specific incentives and promote certain economic activities and investments, and avoid the risk of 'greenwashing' or 'SDG washing'. Taking into consideration the Government's climate agenda and recognising the need to align national practices with international trends and best practices on sustainable finance, the Ministry of Finance took already the important step of drafting an Environmental Social and Governance (ESG) Framework[4], for sovereign bond issuances, which will be applicable to public sector financing and not for private financing.

Challenge: The Maldives does not have a national sustainable finance taxonomy at the moment, in as many other Governments in Asia Pacific region, who are embarking on similar journeys. One of the main challenges in the development of finance taxonomies is the identification of a common mindset aligned with ambitions plans on what the finance taxonomy should achieve.

Policy: The Ministry of Finance considers to expand the scope of ESG framework of sovereign debt issuances in terms of content and actors, while specifically incorporating climate and gender into it. Under a national and encompassing process, the Ministry of Finance, will bring together several national actors to develop a national sustainable finance taxonomy. For example, the Ministry of Economic Development as regulator for private businesses under the Companies Act (1996), can play a vital role in disclosure requirements from private companies. Consider, the OECD UNDP Impact Standards for Financing Sustainable Development, or the SDG Impact Standards to integrate impact strategy, impact management approach, transparency and accountability, and context and governance to prescribe practices for developing respective guidelines. Furthermore, introducing incentives like fast-track pipeline for "sustainable projects" for accessing funding can further signal the increased importance of green/sustainable companies from "he government.

Theory of Change – Sustainable finance taxonomy development

Output to be delivered	The sustainable finance taxonomy is approved and a public database of "sustainable" activities and/or projects is created.
Immediate change required (short-term outcome)	Enhanced ability of national stakeholders to understand the sustainability impact of economic activities and distinguish between sustainable and unsustainable economic activities.
Medium-term outcome	Enhanced attractiveness of increased investments into sustainable projects and activities.
Long-term outcome	The required resources are invested by public and private sectors to mitigate and tackle climate change hazards and their associated livelihood challenges to accelerate the achievement of the NDCs and other climate, gender and sustainability objectives.

[4] ESG (Environmental, Social and Governance) is broader than climate or environmental. For instance, the EU defines sustainable finance as 'the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector'.

Action	Description	Time-frame	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
4.1	Review best practices on how to develop sustainable (e.g., green, transition, SDG) finance taxonomies, including an assessment on existing finance taxonomies to adapt best practices and foster harmonization in the global taxonomy landscape. Afterwards, review the Environmental, Social and Governance (ESG) framework in terms of fit for purpose for private actor applicability.	Short	Supporting Action	MoED/ MMA / CMDA		4.1.a. # of taxonomies assessed and evaluated 4.1.a. ESG framework reviewed 4.1.b. # of actors identified (diversification of target groups)	0/# 0/1 0/#
4.2	Once available, build on the public ESG Framework, create a sustainable finance taxonomy, with a sector-specific classification system with minimum criteria for labelling activities and assets as "sustainable". Such a 'taxonomy' could be aligned with green criteria already used in the country, and be interoperable with major taxonomies of partners and investors, e.g., EU Sustainable Finance Taxonomy.[5] Incorporate transition activities in the taxonomy that would stimulate technological transformation in energy-intensive sectors.	Medium	Key Policy	MoF	MoECCT MoGFSS	4.2.a. Sustainable finance taxonomy created and implemented 4.2.b. % of financial assets labelled as sustainable according to the taxonomy 4.2.c. # of options identified to include gender responsiveness in the taxonomy design 4.2.d. Options identified to include transition activities in the taxonomy design	0/1 0/ % 0/# 0/#
4.3	Building on the "excluded projects" list under the existing ESG Framework. Create and approve an "exclusion list" of unsustainable, or ESG-negative activities and assets, such as those with high shares of electricity produced from fossil fuel.	Short	Policy	MoECCT		4.3.a. Exclusion list developed 4.3.b. Exclusion list communicated to relevant actors	0/1 0/1
4.4	Apply to Green Climate Fund's (GCF) Readiness Programme Support for the creation of a national classification system or taxonomy.	Short	Supporting Action	MoECCT		4.4.a. Application approved for readiness programme support	0/1
4.5	Create an accessible public database of "sustainable" companies in the country, as well as "transition" ones[6]. Transition companies are firms that do not reach minimum pre-defined thresholds but demonstrate	Medium to Long	Policy	MoED (non-SOE), PCB (SOE)		4.5.a. Central database developed 4.5.b. # of incentives for firms to submit	0/1 0/#

[5] See EU taxonomy for sustainable activities
[6] Transition companies are firms that do not reach minimum pre-defined thresholds but demonstrate commitment to become sustainable with clear strategies and that have reported levels of improvement in failing criteria for at least two years in a row.

	commitment to become sustainable with clear strategies and that have reported levels of improvement in failing criteria for at least two years in a row. Considering incentives for firms to submit information to the database accordingly. Ensure national and international visibility for the initiative, including by engaging in dialogue with importing markets for the possibility of preferential access for "sustainable" Maldivian companies.					information to the database developed and communicated 4.5.c. Communication to markets, companies, and international partners delivered	 0/1
4.6	Provide guidelines, including sectoral-specific training for public authorities (e.g., Company Directors Training Programs) and for companies interested in becoming "sustainable and gender-responsive", and provide capacity building to move on to the "transition" path or away from the "negative list" (see activity above)	Short	Supporting Action	MoED (non-SOE), PCB (SOE)	MMA, CMDA	4.6.a. Guidelines developed 4.6.b. # of public sector staff trained 4.6.c. # of women staff trained / total staff trained (or %)	0/1 0/# 0/#
4.7	Assess the opportunities to develop a "fast track" mechanism (e.g., lower requirements, faster procedures) for public co-financing, including "sustainable" activities, assets and companies in the "fast track" ["prioritized"] pipeline for accessing concessional types of funding from the Green Fund, commercial banks or other investors.	Medium	Policy	MoF		4.7.a. Assessment undertaken	0/1
4.8	Assess the opportunities to develop a "fast track" mechanism (e.g. lower requirements, faster procedures) for public co-financing, with "sustainable" and /or gender-responsive / women-owned SMEs in the "prioritized" pipeline for accessing funding with better terms in the SME Development Finance Corporation (SDFC).	Medium	Policy	MoED		4.8.a. Assessment undertaken	0/1
4.9	Increase engagement with other island states, regional partners and like-minded countries for the exchange of experiences in developing finance taxonomies. For example the establishment of an "Annual Blue Economy Forum" or "Sustainable Finance Forum" to foster South-South and Triangular Cooperation exchanges with SIDS or regional peers. Consider alignment with Activity 12.5. to initiate "Sustainable Finance Conferences" for corporates.	Long	Supporting Action	MoF		4.9.a. # of opportunities identified 4.9.b. Collaborators contacted 4.9.c. Regional Climate Finance Forum initiated	0/# 0/1 0/1 0/1

Note: B=Baseline; T=Target. "Short": 1-2 years from endorsement. "Medium": 2-4 years. "Long": longer than 4 years.

5. Strengthening alignment of national budgeting against SDGs

Financing Objectives: Strengthen the alignment of national budgetary practices against the SDGs and strengthen participatory budgeting, with gender-based and climate-smart approaches.

Rationale: Recent review of Maldives budgetary practices such as the PEFA and PIMA assessments suggest the Maldives has undergone significant improvements in the planning and execution of national budgeting practices. Despite these improvements there is no framework to fully monitor the budgetary allocations against the SDGs and to systemically integrate gender-based approaches and climate resiliency as a cross-cutting component of the current budgetary practices. Hence integrating these pillars into existing budgetary process will strengthen the monitoring of SDGs and align fiscal policy to gender-sensitive and climate-smart approaches at all levels.

Challenges: Despite strong advances in upgrading the budget monitoring mechanisms there is a strong need to build systems for data collection to establish baselines for measuring the delivery and effectiveness of budget implementations, particularly against the SDGs. In particular, the collection of climate relevant data and gender-disaggregated data are likely to pose challenges given such data are not easily accessible or exists in parallel systems within different government branches. Capacity building will be required to effectively collect data, and to conduct monitoring and evaluation for budget across all Ministries.

Policy: The development of methodology for the classification of public expenditure informed by UNDP's SDG budgeting practices, and the development of detailed guidelines, manuals combined with capacity building on gender-based budgeting and climate-smart approaches to inclusive budget preparation, planning and reporting.

Theory of Change – Strengthening alignment of national budgeting and expenditure practices

Output to be delivered	Gender-based and climate-smart budgeting approaches are mainstreamed and national and subnational budgets are reported against all SDGs.
Immediate change required (short-term outcome)	Strengthened reporting of public expenditures against the SDGs.
Medium-term outcome	Gender-based and climate-smart budgeting approaches incorporated in national budgeting processes and increased financial resources are directed towards a sustainable agenda.
Long-term outcome	Participatory budgeting and public expenditure reviews are conducted in the normal budgeting cycle and an improved resource allocation efficiency in support of climate action.

Action	Description	Time-frame	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
5.1	Consider developing methodology for tagging the national budget against the SDG framework building on the UNDP SAP-SDG tagging exercise and commence reporting budgetary expenditures against the SDGs.	Short	Policy	MoF		5.1.a. SDG tagging method developed	0/1
5.2	Publish detailed guidelines and conduct capacity building for line ministries to classify expenditure against the SDGs and update budget circulars to incorporate instructions on SDG tagging.	Short	Supporting Action	MoF		5.2.a. SDG tagging guidelines developed 5.2.b. SDG tagging capacity building conducted	0/1 0/1
5.3	Establish mechanisms to synthesize or collect new data on SDG indicators and	Short	Supporting Action	MoF		5.3.a. % of SDG indicators for	40% /

	relevant information for climate and gender-based budgeting to establish baselines for effective monitoring of national and subnational budgets.					which data is available	100 %
5.4	Build on the current Program-based budgeting (PBB) exercise and consider Introducing SDG indicators (or localized SDG indicators) into the budget monitoring and evaluation framework	Short	Supporting Action	MoF		5.4.a # of SDGs for which indicator sets are developed	0/#
5.5	Consider revising relevant legislation (such as Public Finance Act) to integrate gender-equality and climate resiliency as an underlying principle for Maldives Fiscal Policy to mainstream gender and climate-based approaches into budgetary practices	Long	Supporting Action	MoF		5.5.a..Draft a revision to relevant legislation	0/1
5.6	Consider introducing dedicated gender and climate analysis chapters into the budget handbook prepared by the government, specifically looking at how the proposed budgetary allocations will strengthen climate resiliency and affect women, persons with disabilities and vulnerable groups.	Short	Supporting Action	MoF		5.6.a. Dedicated gender- and climate chapters or analysis produced on budget booklet	0/#
5.7	Introduce dedicated gender-based budgeting guidelines and capacity building programs to mainstream gender-sensitive budgeting practices for national, subnational level actors (such as WDCs) and the Parliament.	Short	Supporting Action	MoF		5.7.a. Gender-based budgeting guidelines developed	0/2
5.8	Consider commencing sectoral Public Expenditure Reviews (PER) as standard process of reporting the effectiveness and efficiency of budgetary practices. Develop in-house capacities to conduct PER on key sectors building on existing PER exercises conducted with IFIs.	Medium	Supporting Action	MoF		5.8.a. # of sectoral PERs published	0/3
5.9	Consider Introducing citizen budgetary practices into current budgetary cycle through introducing dedicated public consultations sessions on key revenue and expenditure plans.	Medium	Supporting Action	MoF		5.9.a. # of public consultations held	0/5
5.10	Assess opportunities to update the New Policy initiatives (NPI) template by adding SDG and climate markers (e.g., climate and SDG budget tagging), so that the budget allocations and actual expenditures can be tracked and reported against. Consider learnings and best practices from other Asian countries, such as the Climate Budget Coding in Indonesia[7]	Medium	Supporting Action	MoF		5.10.a. Assessment undertaken, including options how NPI template can consider climate and gender	0/1
5.11	Develop and incorporate sustainable and gender-responsive investment principles into the Public Sector Investment Program (PSIP), that supports a shift towards more environmentally friendly investments, including green public housing program, which is highly gender sensitive	Medium	Policy	MoF	MoGFSS	5.11.a. # of sustainable principles developed / incorporated into PSIP	0/#

Note: B=Baseline; T=Target. “Short”: 1-2 years from endorsement. “Medium”: 2-4 years. “Long”: longer than 4 years.

[7] Ministry of Finance (2019): Public Finance for Climate Change in Indonesia, Republic of Indonesia

6. Phasing out fossil-fuel subsidies

Financing Objective: Phase out fossil fuel subsidies to lift fiscal burden with a focus on avoiding negative effects for vulnerable populations.

Rationale: The primary energy consumption in Maldives is currently heavily reliant on fossil fuel and is greatly dependent on imported diesel and petroleum. However, the Government has pledged to raise its share of renewable energy mix to 15% and reduce its emissions by 26% by 2030, and to strive towards achieving net-zero emissions supported and enabled by the availability of financial resources as its NDC targets presented to UNFCCC in 2020. Given this ambitious agenda, an approach to phase out direct and indirect fossil fuel subsidies is needed. Fiscal constraints due to high subsidy spendings can be addressed by systematically phasing out fossil fuel subsidies as this subsidy currently represents one of the largest bills in the economy.

Challenge: The Government of Maldives is cognizant of the fact that, fossil fuel subsidies, if not phased out well, can potentially increase social inequality due to higher fuel prices in the short run. Currently, there are ongoing investments in fossil fuel infrastructure, e.g., expanding operations by new facilities. This leads to lock-in effects for energy imports needed such as petroleum for transport and diesel for gensets. Without concurrent development of renewable energy solutions and effective targeting mechanisms, the phase-out of fossil-fuel subsidy will have adverse impact on households and small businesses.

Policy: Phase-out fossil fuel subsidies with a focus on the minimization of negative consequences for vulnerable population via fiscal policies. In addition, the promotion of divestments in fossil fuel infrastructure by engaging and incentivising financial market actors, such as asset managers to shift away from high-carbon and into low and zero-carbon opportunities via risk-taking measures such as adjusted interest rates to greenhouse gas (GHG) emissions, or public guarantees.

Theory of Change – Phasing out fossil-fuel subsidies

Output to be delivered	A fossil fuel phase-out strategy, including targets is developed and implemented.
Immediate change required (short-term outcome)	Enhanced fiscal policies aiming at the reduction of fossil fuel subsidies and supporting a fossil fuel phase-out strategy, taking into account social impact.
Medium-term outcome	More effective fiscal policies to deter from fossil fuel investments taking into account social risks.
Long-term outcome	Improved resource allocation efficiency in support of climate action and transition to low carbon economy.

Action	Description	Timeframe	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
6.1	Consider setting targets for fossil fuel subsidies and deadlines to transition away from fossil fuels by ensuring social safety (e.g., social displacements) and minimizing any negative distribution effects.	Short	Key Policy	MoF	NSPA, MoGFSS	6.1.a. Assessment undertaken 6.1.b. # of social displacements identified 6.1.c. # of social displacements avoided / total social displacements 6.1.d. # of social safety net measures identified	0/1 0/# 0/# 0/#
6.2	Develop a fossil fuel subsidy phase-out strategy, including a subsidy targeting mechanism,	Short (strategy)	Policy	MoF	NSPA, MoECCT, Utility	6.2.a. Strategy developed and adopted	0/1

	consider the introduction of fossil fuel taxes and implement polluter-pay principles. Align the strategy with the targets in Action 6.1.	Medium (approval)			Regulatory Authority	6.2.b. Implementation rate (% of action items completed) of the strategy 6.2.c. % and absolute value reduction in fossil fuel subsidies provided 6.2.d. % and absolute value change in fiscal incentives provided for renewable energy	0/% 0/% 0/%

Note: B=Baseline; T=Target. "Short": 1-2 years from endorsement. "Medium": 2-4 years. "Long": longer than 4 years.

B. Mainstreaming sustainability into risk management & transparency

Figure 12 - Pillar B: Transforming challenges into opportunities

Fossil fuel economy: Increased pressure on national accounts from a fossil fuel dependent economy with impacts on financial stability	**Better aligning finance flows towards a sustainable agenda:** Direct public and private sustainable investments to achieve inclusive growth in line with Government priorities.
Negative impacts of climate change: Increased negative impact of climate change and environmental hazards on the financial sector, the economy and the natural resources base.	**Mainstreaming sustainability into risk management and transparency:** Addressing systemic underpricing of future risks for decision making by incorporating sustainability in prudential and financial regulatory requirements and fiscal policy levers.
Lack of investments in climate change: Limited resources invested by public and private sector actors to mitigate and tackle climate change hazards and their associated economic and financial risks.	**Mobilizing new sources of sustainable finance:** Tapping into un-touched sources of finance from public and private sources via new financing policies, reforms, tools and instruments.

The materiality of climate-related risks exposes the Maldives to growing economic challenges in terms of both dimension and complexity if left unaddressed. The country's high levels of vulnerability to climate impacts make the understanding and integration of those risks a necessity for the long-term protection of public goods, the national financial sector, the real economy, and its natural wealth and resources. However, when done early and comprehensively, this mainstreaming of financial and environmental sustainability will grant more time to implement monitored solutions and adjust them accordingly. That yields a safer and more efficient pathway to manage and mitigate climate-related risks, while also enabling the public sector and the private initiative to harness existing opportunities and build the conditions for developing new ones.

Pillar B of this financing strategy focuses on the creation of appropriate conditions so risks can be identified, priced and managed accordingly while ensuring the Maldives will maintain its long-term ability to control such risks and associated costs by avoiding any detrimental processes of lock-in. Financing objectives and related activities include:

- ✓ The **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. Carbon pricing, together with other innovative fiscal incentives that benefit sustainable and climate-consistent activities create a fiscally healthy environment that is conducive to shifting investments away from carbon-intensive activities and towards low-carbon and climate-resilient ones.
- ✓ The **improved ability of financial actors to identify and address the materiality of climate-related risks**, through capacity building and strengthening of institutional frameworks. The understanding and integration of those risks can refine the pricing of assets, strengthening regulatory oversight and related activities such as stress tests, while improving investors' risk profiles and enabling the definition of better greening indicators and targets to steer the market.

- ✓ The **upgrade and mainstreaming of disclosure and transparency standards** across the economy, including simplified protocols for SMEs. This objective ensures sufficient data for a climate-risk-based comparison across assets, improving oversight by financial regulators, addressing under-pricing and avoiding stranded assets and physical asset destruction.
- ✓ The **financial literacy on sustainability-linked issues** in national curricula, including not only future entrants into the labour market but also vocational training for today's professionals.

7. Fiscal incentives and carbon pricing

Financing Objective: Transition the economic base via fiscal policy levers towards a low-carbon and climate resilient economy.

Rationale: The Government of Maldives has pledged to increase its share of renewable energy to 15% and to reduce carbon emissions by 26% in its Nationally Determined Contribution (NDC) submissions for 2020. The role of national policy to achieve transition towards a low carbon and climate resilient economy is critical for the Maldives, given the need to self-generate financing for development as the country moves towards achieving high-income status. A mix of policy instruments including carbon pricing and other fiscal incentives can be assessed for use in the Maldives context and implemented to address existing market imperfections and constraints which hinders low-emissions and resilient investments to date. Notably, credible commitment by (sub-)national actors, towards fiscal policy levers is needed to accelerate the transition towards low-carbon, climate-resilient economy.

Challenge: Despite the government's target to increase the share of renewables in the country's energy mix to 70 by the year 2030, private and public investment for climate action remains limited due to fiscal constraints. This misalignment in environmental and fiscal objectives of the government can be addressed by reviewing the current fiscal policies. Gender and climate considerations could be made explicit in current frameworks. Notably, large parts of public and private assets are exposed via a significant portion of investments or loans in sectors, which are vulnerable to changing carbon prices, either directly or indirectly. Thus, the impact of carbon is potentially high to re-orient capital, but distribution effects must be carefully considered in the design of the carbon pricing mechanism.

Policy: Actions included in this section builds on and complements the Medium-Term Fiscal Strategy (MTFS, 2023-2025) by introducing major fiscal measures. Review existing legislations on fiscal policies, the introduction of specific revenue and expenditure policies to encourage private sector engagement in climate-resilient and low-emissions investment opportunities, that can effectively steer the economy towards the direction of sustainable economic development. Assess options for digitalization of the tax system in line with the needs for users with limited digital literacy.

Theory of Change – Fiscal incentives and carbon pricing

Output to be delivered	Revising and updating fiscal policies and legislations, to provide the right incentives to promote climate-resilient and sustainable economic activities.
Immediate change required (short-term outcome)	The legislation on taxes includes specific reference to climate-consistent projects and includes incentives for low-emissions and resilient investments.
Medium-term outcome	Evidence based, more effective fiscal policies providing incentives to invest in low carbon and climate resilient economy.
Long-term outcome	Improved resource allocation efficiency in support of climate action and transition to low carbon economy.

Action	Description	Timeframe	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
7.1	Consider reviewing fiscal policy guidelines, including the legislations on revenue and expenditures, assess the impact of current fiscal policies on sustainable development and produce recommendations on reforming the revenue and expenditure policies, including explicit reference to climate-consistent projects in the policy documents.	Medium	Supporting Action	MoF		7.1.a. Existing legislation reviewed, and recommendations developed 7.1.b. # of explicit reference to climate-consistent projects	0/1 0/#

						7.1.c. Revised legislation approved 7.1.d. # of needs verified to align fiscal policy with SDGs	0/1 0/#
7.2	Assess options for climate and gender-responsive fiscal policy tools, including tax incidence analysis, and tax administration diagnostic (e.g., sectoral feebates as new resource for the government to finance its programs and services). A special focus could be an annual undertaking of fiscal policy on economic equality by gender, such as the issues around tax evasion and avoidance to align tax and fiscal policies with the SDGs for sustainable growth.	Short	Supporting Activity	MoF	MoGFSS	7.2.a. # of tax policy tools identified 7.2.b. # of tax options identified 7.2.c. # of initiatives for potential collaborations identified	0/# 0/# 0/#
7.3	Consider including references to the list of sustainable activities as defined by the sustainable finance taxonomy (see financing objective 4) as eligible for fiscal incentives in the legislation. Subsequently, develop/modify a “sustainable assets list”, with “sustainable” assets, and products eligible for fiscal incentives.	Medium	Policy	MoF		7.3.a. References included for economic activities in alignment with the sustainable finance taxonomy 7.3.b. Sustainable assets list developed 7.3.c. Existing legislations revised	0/1 0/1 0/1
7.4	Develop/modify an “exclusion list”, for unsustainable activities and assets, which may be required to comply with additional liabilities, such as the payment of a carbon tax, or specific fiscal-based penalties. Align activity with exclusion list from financing objective 4.	Medium	Policy	MoF		7.4.a. “Exclusion list” developed	0/1
7.5	Assess opportunities to set up carbon pricing mechanisms, such as Emission Trading System (ETS) or carbon taxes, including the mechanism design and potential implementation modalities.	Medium	Supporting Action	MoF		7.5.a. Assessment undertaken 7.5.b. # of carbon pricing mechanisms identified 7.5.c. Carbon pricing design created and mechanism implemented 7.5.c. % and absolute value of income generated by carbon pricing in the total revenues	0/1 0/# 0/1 0/%

7.6	Assess opportunities to diversify the tax base and mobilize more domestic sources of revenue for achievement of SDG objectives.	Medium	Policy	MoF		7.6.a. Assessment undertaken 7.6.b. # of Opportunities identifed	0/1 #/0

Note: B=Baseline; T=Target. “Short”: 1-2 years from endorsement. “Medium”: 2-4 years. “Long”: longer than 4 years.

8. Financial stability via climate transition and physical risk management

Financing Objective: Enhance financial stability via improved climate, physical and transition-related risk management.

Rationale: The Maldives is one of the most climate vulnerable countries in the world. Observed climate trends for Maldives indicate that temperature has been warming up since the 1970s, accompanied by a sea level rise between 2.9 – 3.7mm per year (1991 – 2012)[8]. Future climate change modelling for Maldives[9] shows a trend of consistent warming and the likelihood of more frequent and intense extreme weather events. Given the above, if climate-related risks are not managed effectively, it can have a material adverse impact on the financial sector stability in the Maldives as all major investments in the country (such as airports, resorts) are prone to such risks. To foster sustainable development, strengthening good practices and building on key recommendations on incorporating sustainability (climate and social) risks into supervisory practice of financial institutions will be needed as a first step to mainstream these risks into the management and operation of financial institutions. The Government recognises the importance of increasing the readiness of various financial actors, to take-up a more proactive role in preserving the financing system from material effects of climate change facing the Maldives.

Challenge: The Government recognises the importance of increasing the readiness of various financial actors, to take-up a more proactive role in preserving the financing system from material effects of climate change facing the Maldives. Sustainability is not mainstreamed in the operations of the financial actors at the moment, and there is a need to build their capacity on integrating sustainability into their operations, including the regulators incorporating these requirements into their regulatory policies.

Policy: Build financial regulation capacity and institutional frameworks for the identification and management of climate-related financial risks. Foster transparency in financial sector development via guidance which can leverage new financing streams from international and domestic private sources. Financial regulators in Maldives already monitor the resilience of the financial sector by conducting stress tests and scenario analyses based on regular reporting data[10] and expand this practice to include climate stress testing. Integrate climate risk metrics into the regular monitoring of the resilience of the financial sector. Provide financing institutions with incentives and risk sharing mechanisms (e.g., credit guarantee mechanisms) to incentivise them to direct, and align their lending and investment practices towards climate adaptation and mitigation measures in projects across all sectors of the economy. These policy options will be implemented with alignment to the outcomes of Financial Sector Assessment Program (FSAP) currently ongoing in Maldives.

Theory of Change – Financial stability via climate transition and physical risk management

Output to be delivered	Capacity building activities are undertaken for financial regulators and the prudential regulation and regulatory policies are revised.
Immediate change required (short-term outcome)	Strengthened institutional frameworks and capacities of financial regulators for the management of climate-related financial risks.
Medium-term outcome	Improved mitigation and management of climate-related and environmental risks at the local and national level.
Long-term outcome	Reduced negative impact of climate change and environmental hazards on the economy.

[8] IPCC (2021) Full report. Sixth Assessment Report, WG1 report to IPCC.
[9] Climate Risk Country Profile: Maldives (2021): The World Bank Group and the Asian Development Bank
[10] Maldives Fiscal Risk Statement 2021

Action	Description	Timeframe	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
8.1	Building capacity of financial regulators on climate-related risks, with a particular focus on already established international climate risk frameworks such as Task Force on Climate-Related Financial Disclosures (TCFD) and in alignment with outcomes of the Financial Sector Assessment Program (FSAP).	Medium	Supporting Action	MMA	FIs	8.1.a. Capacity building programme developed 8.1.b. # of staff trained 8.1.c. % of staff trained and tested on the subject 8.1.d. # of climate-related risks frameworks/tools trained as part of capacity building	0/1 0/# 0/% 0/#
8.2	In alignment with the outcomes of the FSAP, add climate component to the stress test exercises conducted by financial regulators and financial institutions by developing climate-stress testing models using international methodologies/toolkits such as e.g., Paris Agreement Capital Transition Assessment (PACTA), and the European Central Bank (ECB) guidelines on climate-related and environmental risks, or some different method.	Medium	Policy	MMA	FIs	8.2.a. Methodology developed and validated with key stakeholders 8.2.b. # of staff trained on the new methodology 8.2.c. Climate component added to the stress testing models 8.2.d. Climate stress test for financial stability conducted 8.2.e. Findings consolidated and reported on an annual base	0/1 0/# 0/1 0/1 0/1
8.3	Incorporation of climate risks into financial supervision frameworks and strengthening existing legal frameworks (such as the prudential banking regulations) and specifying targets for (large) financial institutions to establish risk-profiles and greening targets.	Medium	Key Policy	MMA	FIs	8.3.a. # of legal frameworks revised 8.3.b. # of financing institutions that have established risk profiles and sustainability targets	0/# 0/#
8.4	Strengthen the assessment and monitoring of climate and gender-related risks in the fiscal risk assessment and monitoring framework.	Short	Key Policy	MoF		8.4.a. # of climate change and gender risks reported and monitored in the framework	0/#

Note: B=Baseline; T=Target. “Short”: 1-2 years from endorsement. “Medium”: 2-4 years. “Long”: longer than 4 years.

9. Disclosure and transparency practices

Financing Objectives: Improve financial and non-financial disclosure practices to overcome systematic under-pricing of climate-related financial risk, by following international trends and best-practices on the regulatory and firm level.

Rationale: Financial regulators can be a market enabler with a greater and swifter disclosure and transparency practices of information about rising climate risks faced by financial institutions in projects and portfolios and the attention to systemic climate risk problems is one possible route of policy action (see also Financing objective 8). The Government recognises the need for national financial Institutions to gradually and consistently acquire capacities to measure, manage and report their exposure to climate risks to avoid large transition risks such as stranded assets (such as diesel gensets) and physical asset destruction. An aggregation of such risks is important from a macro-prudential perspective, and financial institutions in Maldives can also consider consultative approaches to support the identification of risks at the level of corporates, while also helping the entities design the content of such disclosures. The Maldives is already set to begin mandating sustainable reporting for its listed companies from 2023[11] and can extend such practices to additional segments of the financial system to accelerate sustainability-linked finance. In terms of nudging resources, consistent and comparable climate data on different types and sizes of corporates enable a better planning and allocation of risks by financial intermediaries. This bottom-up identification of risks can also provide a better picture for an economy-wide prioritisation of adaptation solutions.

Challenge: Financial institutions don't have comparable data from corporates to be able to allocate and report on its own risks. This requires consistent disclosure of risks and risk management strategies by companies in the real economy. Absence of climate-related data in relation to corporates makes it difficult to understand concretely the ongoing challenges in the real economy regarding climate risks, awareness and strategies. The current Corporate Governance Code needs stronger environmental or climate focus, and compliance with the international practices and standards for clearer and more targeted to climate-related metrics. There is a need for the financial regulatory bodies to promote sustainable finance among the financial market participants to "nudge" them towards green and sustainable transition.

Policy: Integration of comparable climate and gender indicators in financial and non-financial reporting by financial institutions and subsequent implementation of mandatory reporting on climate and gender-related issues by listed and non-listed corporates, with particular attention to the need of simplified protocols for SMEs. This can be designed in the form of setting up of a framework to make climate related disclosure a regulatory requirement – which should be consistent with international standards like the Taskforce on Nature-related Financial Disclosures (TNFD), Taskforce on Climate-related Financial Disclosures (TCFD), Partnership for Carbon Accounting Financials (PCAF). These policy options will be implemented with alignment to the outcomes of Financial Sector Assessment Program (FSAP) currently ongoing in Maldives.

Theory of Change – Disclosure and transparency practices

Output to be delivered	Capacity building activities on financial and non-financial disclosure practices are undertaken for improved financial reporting.
Immediate change required (short-term outcome)	Adjusted reporting requirements for climate-related information Enhanced financial institutions' capacities to manage and report on exposure to climate risks.
Medium-term outcome	Improved mitigation and management of climate-related and environmental risks at the local and national level.

[11] CMDA Corporate Governance Code mandates sustainability reporting for all listed entities in Maldives by 1 Jan 2023

Long-term outcome	Reduced negative impact of climate change and environmental hazards on the economy.

Action	Description	Timeframe	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
9.1	For supervisory practice, review Taskforce on Nature-related Financial Disclosures (TNFD) framework, Taskforce on Climate-related Financial Disclosures (TCFD) framework - and integrate climate (transition/physical risks) and gender indicators in financial and non-financial reporting by financial institutions.	Short	Supporting Action	MMA	MoGFSS	9.1.a. Assessment undertaken 9.1.b. Sustainability reporting adopted	0/1 0/1
9.2	For supervisory practice, review and implement best practices of sustainable finance frameworks, such as the EU's Sustainable Financial Disclosure Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD), aimed at providing information to investors for informed sustainable decisions to overcome the systematic underestimation of climate risks in investment decision making.	Medium	Policy	MMA		9.2.a. # of best practices reviewed 9.2.a. Existing guidelines revised	0/# 0/1
9.3	For supervisory practice, develop technical assistance modules to train staff for a.) real economy actors, and b.) financial intuitions on reporting practices for e.g., non-financial disclosures. (see financing objective 10 on capacity building on sustainable finance).	Medium	Supporting Action	MMA		9.3.a. Capacity development tools developed 9.3.b. # of staff trained and tested on the subject	0/1 0/#
9.4	For supervisory practice, show the Maldives' case internationally via knowledge dissemination to other SIDS. Consider the development of alliances with other SIDS on supervisory practices.	Long	Supporting Action	MoF		9.4.a. Knowledge exchange events organized	0/1 (per year)
9.5	For firm level integration, design a strategy for progressing the country towards climate and gender disclosure and reporting, first by State Owned Enterprises (SOE), listed companies, and later (and potentially simplified) by non-listed companies. The disclosure reporting will start with voluntary in nature and after a grace and review period, progress into mandatory disclosure reporting.	Short	Supporting Action	CMDA	MMA, MoED, MoF, MoGFSS	9.5.a. Strategy developed 9.5.b. Voluntary test phase of disclosure reporting started 9.5.c. Evaluation of disclosure reporting	0/1 0/1 0/1
9.6	For firm level integration, develop specific considerations, with broad consultations, of simplified reporting and standard protocols for SMEs. For example, through application of international best-practices, such as the SME Climate Disclosure Framework.	Short	Policy	MoED		9.6.a. # of consultations undertaken 9.6.b. # existing reporting	0/# 0/#

						protocols revised	
9.7	For firm level integration, develop specific and simplified reporting template on gender mainstreaming for SMEs and corporates (Examples to be used could be EDGE Certification, Bloomberg Gender-Equality Index).	Short	Policy	MoED	MoGFSS	9.7.a. Existing reporting protocols revised 9.7.b. Gender reporting template developed	0/1 0/1
9.8	For firm level integration, present for parliamentary approval (reporting template, see Action 7 above) and implement the packages, with SMEs possibly supported with an active backstop role by the SME development Finance Corporation (SDFC).	Medium	Key Policy	MoED		9.8.a. Revised reporting protocol adopted	0/1
9.9	For firm level integration, review relevant policies for reporting requirements, gather lessons learned and adjust accordingly to ensure data usability and appropriate information for financial institutions and investors / shareholders.	Long	Policy	MMA	CMDA	9.9.a. Assessment undertaken	0/1
9.10	Validate the options to add a section in the Maldives Securities Act on annual report on climate, gender and human rights related operations and business practices, extending the current scope of Corporate Governance Code's Sustainability Reporting requirements.	Short	Policy	CMDA		9.10.a. Existing reporting template reviewed 9.10.b. Draft issued to make mandatory reporting on climate-related operations	0/1 0/1
9.11	Adopt the SDG impact measurement and management framework for public and private institutions.	Medium	Policy	MoED, CMDA	UNDP	9.11.a. # of companies that adopted the SDG IMM standards	0/#

Note: B=Baseline; T=Target. "Short": 1-2 years from endorsement. "Medium": 2-4 years. "Long": longer than 4 years.

10. Capacity building on sustainable finance

Financing Objectives: Build capacity of national actors on sustainable finance.

Rationale: Building national capacities and skills enhancement in the finance sector for transition finance through the delivery of structured educational programmes and trainings are an important enabling policy for the Maldives to mainstream sustainable finance.

Challenge: Limited human and financial capacities, and the dispersed geographic nature of the country may pose challenges in delivering sustainable finance education in a systemic manner and training large number of public and private sector stakeholders.

Policy: Develop sustainable finance capacity building and training programmes and incorporate it as part of the national vocational training / university courses for finance and banking – e.g., reflecting latest international standards and developments concerning sustainable finance in vocational training/university curriculars for finance / banking. Identify most important stakeholders that are involved in and shaping the capacity building of the financial sector in the Maldives (including CMDA and educational institutions, universities, central banks, etc.) – differentiate entities that offer education for new staff and existing staff.

Theory of Change – Capacity building on sustainable finance

Output to be delivered	A training programme focused on sustainable finance are developed and implemented.
Immediate change required (short-term outcome)	Enhanced sustainable financial education in the finance and private sector.
Medium-term outcome	More sustainable sources of sustainable financing with improved mitigation and management of climate-related and environmental risks at the local and national level.
Long-term outcome	The required resources are invested by public and private sectors to mitigate and tackle climate change hazards and their associated livelihood challenges.

Action	Description	Timeframe	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
10.1	Assess existing gaps in environmental, climate and gender, inequality, sustainability and sustainable finance education for all levels of education	Short	Supporting Action	MoE, MoHE		10.1.a. Assessments undertaken	0/2
10.2	Develop a training programme for inclusion of environmental, climate, gender and sustainable finance (sustainable) financial literacy topics throughout primary and secondary education, higher education and professional certification programmes.	Medium	Policy	MoE	MoGFSS	10.2.a. New strategy on taining programmes developed 10.2.b. Inclusion of the sustainable finance topics in higher education and professional certification programmes 10.2.c. # of primary institutions identified as part of strategy implementation providing the training	0/1 0/# 0/#

Note: B=Baseline; T=Target. “Short”: 1-2 years from endorsement. “Medium”: 2-4 years. “Long”: longer than 4 years.

C. Mobilizing new sources of sustainable finance

Figure 13 - Pillar C: Transforming challenges into opportunities

Fossil fuel economy: Increased pressure on national accounts from a fossil fuel dependent economy with impacts on financial stability	**Better aligning finance flows towards a sustainable agenda:** Direct public and private sustainable investments to achieve inclusive growth in line with Government priorities.
Negative impacts of climate change: Increased negative impact of climate change and environmental hazards on the financial sector, the economy and the natural resources base.	**Mainstreaming sustainability into risk management and transparency:** Addressing systemic underpricing of future risks for decision making by incorporating sustainability in prudential and financial regulatory requirements and fiscal policy levers.
Lack of investments in climate change: Limited resources invested by public and private sector actors to mitigate and tackle climate change hazards and their associated economic and financial risks.	**Mobilizing new sources of sustainable finance:** Tapping into un-touched sources of finance from public and private sources via new financing policies, reforms, tools and instruments.

The Maldives has been successfully advancing in terms of development and income, graduating from lower income levels and moving consistently up to higher ones. This is likely to accompany a reduction in overall Official Development Assistance (ODA) and concessional financing, with potentially large impacts to a few sectors such as social ones. Meanwhile, the importance of the country's natural resources for its economy, as well as its high levels of vulnerability to climate impacts make climate and sustainable finance two strategic avenues to ensure that existing and new sources of finance are leveraged and diversified to supply future funding needs in all sectors.

Through different types of blended finance, Pillar C seeks to ensure the maximization of diversified sources of public finance through the mobilization of private co-finance, also functioning to engage the private sector in the direction set by the Government. This guarantees that the needed integration of climate, environmental and gender considerations across finance flowing to national assets will not rely exclusively on norms. Instead, a systematized use of private engagement allows for a more organic and dynamic progress with greater ownership and participation of private actors, with the potential to improve the feasibility and long-term financial sustainability of projects while leaving room for demonstration and learning by doing. The upgrade of public and private funding sources in line with international best practices and standards also reduce systemically reduces the risks associated with climate change, while elevating domestic actors and projects in terms of attractiveness as partners and destination of international investments. Proposed financing objectives include:

- ✓ The **public focus on strengthening the insurance market and supporting the private development of targeted insurance products**. A diversified insurance sector allows for broader and multi-sectoral coverage of the entire economy and reduces the burden of weather-related disasters and environmental hazards on future public budgets.

- ✓ The **advance of sustainability-linked credit products for households, SMEs and large-cap business**. This incentivizes green financial products to fund climate-consistent and gender-responsive activities and has the potential to trigger behavioural change in the population and the private sector population towards activities that are conducive to a climate-resilient and net-zero economy.

- ✓ The **improvement of the utility, scale, number, reach and efficiency of climate and environmental trust funds**. Funds can work better for sustainability through the upgrade of rules on climate, environment and gender, targeted guidelines focusing on innovation and funding of smaller projects, and improved flexibility and systematization on how to leverage public funds through the private sector's co-financing.

- ✓ The **increase in efficiency of and scaling up of Green Fund financing activities to support national development objectives**. Opportunities exist to maximize the Green Fund's impact by vesting it with autonomy and more flexibility to design projects and partner with external investors, with the potential to turn it into a Green National Development Bank.

- ✓ The **update of the FDI policy to include screening against sustainability safeguards and attract funding to climate-related sectors and sub-sectors**, allowing for higher contribution – up to 100% - for climate mitigation and/or adaptation projects.

- ✓ The **continued prioritization of international cooperation** to maintain and refine existing donor mechanisms and ensure participation and leadership in the shaping of and benefit-sharing with new sources, such as carbon markets and the loss & damage related financing.

11. Climate risk insurance

Financing Objective: Development of an inclusive insurance market with focus on insurance-based risk finance products in response to increased climate-hazard events.

Rationale: The Government of Maldives, in its NDC (2020) submissions has pledged to strengthen its adaptation capacities through enhancing agricultural and food security, building resilience infrastructure, beefing-up coastal defence systems and safeguarding coral reef biodiversity in the country and mainstreaming climate change risks into economic mainstays such as tourism and fisheries sectors. Insurance layering is seen as a key strategy to create counter-cyclical buffers against disaster risk reduction and climate change and to reduce the reliance on budgetary financing to finance unexpected disasters. The insurance sector is growing in the Maldives, but still offers only a very limited or no coverage in certain sectors such as fisheries and agricultural sectors. Nature-based insurance might be a effective way to foster healthy coral reefs as they are connected with expenditures of international inbound visitors.

Challenge: There is currently no nature-based insurance solutions offered, which would require an expansion of current insurance legal frameworks and a structured approach to build human capacities within the regulatory authorities, insurance providers to design and roll-out innovative insurance products fit-for-purpose in the context of the Maldives. To create demand for such products, potential buyers of insurance such as farmers and fisherman also needs to be informed of the application of insurance products. The smaller population size of the Maldives, and the inherent small size of the market is a challenge, but that can be addressed by pooling of multiple risk hazards.

Policy: Government support for private sector development of targeted insurance. Database of natural, public and agricultural assets for financial instrument development and development of a dedicated Insurance Act which is inclusive of natural capital (e.g., coral reefs) are needed to foster market development.

Theory of Change – Climate risk insurance

Output to be delivered	Capacity building and awareness raising are undertaken in the insurance industry and an enabled environment is set up, including the development of a centralized database.
Immediate change required (short-term outcome)	Enhanced legal and institutional framework for the development of climate and disaster insurance products and finance.
Medium-term outcome	Emergence of an insurance-based risk finance market and reduced exposure of the economy to climate.
Long-term outcome	Reduced negative impact of climate change and environmental hazards on the economy.

Action	Description	Time-frame	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
11.1	Establish the connection to global risk insurance modelling platform, such as Global Risk Modelling Alliance (GRMA) to develop insurance capacities of regulators and insurance companies.	Short	Supporting Action	MoF	MoECCT, MMA, CMDA	11.1.a. International partnership established	0/1
11.2	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.	Short	Policy	MMA		11.2.a. # of insurance products developed	0/#

11.3	Engage in climate-focused capacity building of the insurance sector at all levels including regulatory framework development, supervisory support, and product development. To do so, assess options to collaborate with industry actors, in developing guidance, tools, methodologies, and networks to strengthen country and community resilience to socio-economic, health, climate and other shocks. An entry point for this can specifically be offered by the UNDP Insurance and Risk Financing Facility.	Medium	Supporting Action	MMA		11.3.a. # of capacity building events organized 11.3.b. # of persons trained and to be tested 11.3.c. # options identified	0/# 0/# 0/#
11.4	Assess options to classify natural assets and revise the appropriate legal framework to define coral reefs and other natural capital as public assets.	Short	Supporting Action	MoECCT		11.4.a. # of options identified 14.4.b. # of natural capital assets classified 11.4.c. Resolution adopted	0/1 0/# 0/1
11.5	Development of a comprehensive centralized database of public assets, their values, risk profiles including quantitative values to determine the exposure, insurance premium and insurability of these assets.	Medium	Supporting Action	MoF	MoNPHI	11.5.a. Central database developed 11.5.b. # of assets registered in the database	0/1 0/#
11.6	Develop a public asset insurance program outlining gradual transition to mandatory climate and disaster insurance for public assets and infrastructure.	Short	Policy	MoNPHI		11.6.a. Program undertaken	0/1
11.7	Awareness raising of consumers on innovative insurance products (for e.g., weather index insurance and weather derivatives for agricultural risk, insurance products for renewable energy, global risk fund pool, green insurance, micro insurance of inclusive finance).	Medium	Supporting action	MMA		11.7.a. # of awareness campaigns organized	0/#
11.8	Asses and revise insurance regulations to incorporate nature-based solutions that can support development of insurance policies for natural assets and risks such as coral reef insurance policy.	Medium	Policy	MMA		11.8.a. Assessment undertaken 11.8.b. Insurance reulation revised	0/1 0/1
11.9	Assess options to develop agricultural crop, and fishery insurance schemes, a unified agriculture risk database, and evaluate the use of smart subsidy mechanisms to foster the creation of new insurance markets.	Medium	Policy	MMA		11.9.a. Feasibility study conducted 11.9.b. Database developed 11.9.c. Crop and fishery insurance solutions piloted 11.9.d. Resolution on crop insurance adopted	0/1 0/1 0/1 0/1

Note: B=Baseline; T=Target. “Short”: 1-2 years from endorsement. “Medium”: 2-4 years. “Long”: longer than 4 years.

12. Sustainable banking products

Financing Objective: Develop gender-responsive sustainable banking products that cater to the needs of individual and corporate clients to create a commercially viable and strong sustainable finance sector for a climate- and gender-responsive national economy.

Rationale: Bank lending is the most common source of external finance for firms, especially for small and medium enterprises and in emerging markets. The development of sustainable (e.g., green, blue, sustainability-linked, transition…) financial products can facilitate a behaviour change and set the scene for a Net Zero economy. An SDG finance taxonomy is needed to streamline commercial banks' assessment of projects that have sustainability impact as well as monitoring requirements. That can be applicable to not only the private sector but also the government (e.g., particularly if such labels are attached to other incentives as tax deductions of preferential access to procurement and tendering).

Challenge: The market for green credit products is currently at nascent stages although bigger banks in Maldives have begun introducing some climate criteria into lending portfolios. The criteria in use differ greatly and are largely used internally and hence are not standardized and available publicly to strengthen transparency of the lending process. Some of the factors contributing to limited market movement may include the absence of specific legal requirements for credit providers to issue such products and limited development of umbrella frameworks (such as finance taxonomies) defining sustainable activities, and incentive regimes (such as taxes) which guides the behaviour of market participants. The development of sustainable banking products provided by financial institutions is hindered due to lack of price and political signals due to the existence of market failure. In this regard, the achievements of Pillar B are essential for the creation of a vital sustainable banking landscape. In addition, the scarcity of 'bankable' or implementable projects is also sometimes mentioned and impedes market uptake.

Policy: Incentivise the offer and attractiveness of sustainable banking products, by linking to other incentive programmes, capacity building to private actors and "Sustainability Forum" for corporate and household recipients.

Theory of Change – Sustainable banking products

Output to be delivered	Sustainable financial products and sustainability reporting standards are developed and promoted and a Sustainability forum is established.
Immediate change required (short-term outcome)	Enhanced institutional framework, capacities and public awareness for the development and uptake of sustainable banking products.
Medium-term outcome	More sustainable sources of green and gender-responsive financing.
Long-term outcome	The required resources are invested by public and private sectors to mitigate and tackle climate change hazards and their associated livelihood challenges.

Action	Description	Timeframe	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
12.1	Review and evaluate the current Maldives prudential regulations against sustainable banking products and provide specific recommendations necessary to foster banking investments in climate, gender and sustainability projects, with potentially amending prudential regulation.	Short	Policy	MMA		12.1.a. Existing regulation reviewed, with clear evaluation criteria identified 12.1.b. Options to amend prudential regulation identified. 12.1.c. Develop draft amendment for adoption	0/1 0/# 0/1

12.2	Consider issuing specific guidelines on lending instruments to ensure credit products effectively finance climate mitigation and adaptation activities across all key sectors in Maldives to mainstream climate resiliency.	Medium	Key Policy	MMA	FIs	12.2.a. # of regulatory guidelines issued	0/#
12.3	Consider establishing a national level credit guarantee scheme to pool risks related to increasing lending to climate adaptation and mitigation activities by all Maldivian lending institutions, including doing a feasibility study to determine funding sources (such as catalytical funding from budget, and cost-sharing mechanism between lending institutions). In addition, establish a mechanism to link financial market and supervisory reporting data with global climate databases to foster collaboration with global financial actors	Medium	Key Policy	MMA	FIs, MoED	12.3.a. # of feasibility studies done on credit guarantee schemes for climate and sustainability projects 12.3.b. Link to global climate databases established	0/# 0/1
12.4	Create awareness campaigns to expanding the demand for sustainable financial products (promote the green/sustainable loan programme) and ensure that awareness campaigns reach women, and marginalized groups (using local language etc).	Medium	Supporting Action	MoED	MMA	12.4.a. # of awareness campaigns organized 12.4.b. # of people the campaigns reached 12.4.c. # of awareness campaigns organized specifically to vulnerable groups/ total of awareness campaigns organized 12.4.d. # of women and vulnerable groups people reached 12.4.e. # of didactic materials, knowledge products developed	0/# 0/# 0/# 0/# 0/#
12.5	Create a regular dialogue platform through a “Sustainable Finance Forum” or other events such as “Sustainable Finance Conferences” for corporates including users of sustainable banking products and the financial institutions providing such services for exchange of information and best-practices. While the focus in this activity targets national actors, very options to align it with the proposed activity in Action 4.9. to foster South-South and Triangular Cooperation exchanges with other SIDS or regional peers.	Medium	Supporting Action	MoED	MMA, FIs	12.5.a. # of knowledge exchange events/meetings organized 12.5.b. # of participants and institutions in such events/meetings 12.5.c. # of women participants in such events/meetings /total participants 12.5.d. Opportunity verified to align this activity with Action 4.9	0/# 0/# 0/#

12.6	Conduct consultations with the banking sector and business community to understand the main factors (e.g. low awareness, artificial barriers) for the low uptake of sustainable loans and develop and pilot sustainable banking products.	Short	Policy	MoF, MMA, FIs	MoED	12.6.a. # of consultations undertaken 12.6.b. # of institutions consulted 12.6.c. # of institutions consulted that already work with green products / total of institutions consulted 12.6.d. # of sustainable banking products developed and introduced 12.6.d. USD value of the sustainable banking products provided 12.6.e. % change in the value of the sustainable banking products provided	0/# 0/# 0/# 0/# #/USD 0/%
12.7	Discuss and critically examine the phenomena of a potential "crowding out" of local private banking sector if Government increases concessional credit lines to private sector for climate and gender activities.	Short	Policy	MoED	MMA, FIs	12.7.a. Assessment undertaken	0/1

Note: B=Baseline; T=Target. "Short": 1-2 years from endorsement. "Medium": 2-4 years. "Long": longer than 4 years.

13. Public environment-linked funds

Financing Objective (What?) Improve utility, scale, number, reach and efficiency of climate (or environmental) trust funds operating under the public finance law.

Narrative / Rational (Why?): The Government of Maldives has established several climate trusts including the national Green Fund, and several sub-national funds such as the Baa Atoll Biosphere Reserve Fund. During 2021, the Government further reaffirmed its commitment to create local revenue streams for financing climate action by passing the Maldives Climate Emergency Act, which also envisions creating a national-level climate fund, as a statutory body by law, that has the trust of the local and international community to strengthen the management of funds received locally and internationally in connection with controlling climate change, climate change adaptation, achieving carbon neutrality targets, and protecting and preserving the environment. Given the extensive network of trusts already existing and the desire to create high-level climate funding mechanisms in the near future, it is important to consider how existing structures could be redesigned or merged to generate scale and sustainability. It is also important to consider how existing trusts can be leveraged to unlock financing from the private sector through blended finance arrangements linking climate trusts with commercial and institutional investors domestically and internationally. Government issued guidelines can support specific financing streams with a focus on innovation, funding of smaller projects and foresee the possibility of scaling-up and replicability of successful pilot or smaller programmes to e.g., other islands.

Constraint / Challenge: Currently, all public trusts set-up under the Maldives Public Finance Act (PFA) are not legal entities and hence typically operate as revolving funds by disbursing revenue collected. Most of the local trusts are currently 100% capitalized from state budget and do not have co-finance components. The lack of human resources (e.g., asset managers) and operational flexibility for private sector participation in the fund also means that an important opportunity maybe missed on blending finance to generate scale. At present there are different trust funds under local level and central government level, which are not linked to each other to generate scale and collaborate on larger projects. A greater integration of existing sectoral funds under a uniform umbrella structure with formal rules for collaborating with private sector projects can help climate trusts to generate scale and discover quality pipelines.

Policy (How?): Facilitate the redesign and integration of sustainability-linked trust funds. Improvement in the operating environment for trust funds and expansion of ownership and reach of trust funds by enabling private sector participation in financial structure and management of grant and blended financing solutions. However, the importance of grants should not be undermined – especially their role for co-financing, and serving as e.g., first-loss equity. The local capacity of asset managers specialised in managing green trusts will be enhanced by training existing investment houses, as well as creating a favourable legislation for e.g., domestic and foreign Asset Management Companies (AMCs) to set-up operations in Maldives. Independent AMC structures will improve operational efficiency of providing fund to projects and encourage private sector engagement. Further legislation such a special trust law may be required to license and regulate the green trust management industry in Maldives.

Theory of Change – Public environment-linked funds

Output to be delivered	The rules for public trust funds' establishment and management are revised, and policies for private sector participation in fund structure and asset management are developed.
Immediate change required (short-term outcome)	Enhanced operating efficiency of the fund.
Medium-term outcome	increased investment portfolio available for green financing projects.

Long-term outcome	The required resources are invested by the public and private sectors to mitigate and tackle climate change hazards and their associated livelihood challenges.

Action	Description	Time-frame	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
13.1	Review existing acts, including (public finance regulation 13.06 and draft trust act by CMDA) for trust funds, and rules, standards and practices for management and creation of new ones, particularly focusing on incentives for climate, gender, disaster risk, green or sustainable investments, , as well as blending public and private national/international funds.	Short	Supporting Action	MoF	CMDA	13.1.a. Existing regulation reviewed 13.1.b. # of recommendation s/ incentives developed	0/1 0/#
13.2	Develop options for trust fund design in a participatory process (based on 13.1) to facilitate transfer of funds to projects, as well as guidelines to ensure cooperation and peer-learning. As an example, the formation of an "Umbrella Trust" to provide a structure for similar trust funds under one sector (e.g., tourism, environment, or health trust funds) can be coordinated under one roof. The design should include defined criteria to fund gender-responsive projects and inclusion of women's voices in the design process of the trust funds. The sectoral trusts can act as feeder funds to the 'Umbrella Trust', and a block grant modality with specific criteria can be formulated to distribute funds to regional projects to ensure distributional equity.	Short	Key Policy	MoF	MoGFSS	13.2.a. # of options for trust fund design developed 13.2.b. Trust fund design created	0/# 0/1
13.3	Recommend new amendments to existing regulations / restructure trust funds as appropriate. Explore ways to include private sector organizations to participate in the trust funds, clearly defining the role of recipients, fund manager, investors/donors. Recommend changes in existing regulations and/or on trust funds' bylaws as appropriate after review.	Short	Key Policy	MoF		13.3.a. Existing regulation reviewed 13.3.b. # of recommendation s developed	0/1 #0
13.4	Assess opportunities to increase private sector engagement: via production of a normative basis for participation of private sector in use of proceeds, management and capital formation as shareholders/ trustees of trust funds (trustee can be government agencies or private sector organizations). To do so, a mapping of financing sources and mechanisms that go beyond the traditional mechanisms will be done, such as risk-sharing Special Purpose Vehicles (SPVs)	Medium	Policy	MoF		13.4.a. Assessment undertaken 13.4.b. Mapping of traditional and innovative financing sources	0/1 0/1
13.5	Evaluate existing legislations or consider issuing new legislation to license and regulate climate trust/fund managers in the Maldives, including	Medium	Policy	MoF		13.5.a. Assessment undertaken	0/1

	specific provisions to attract foreign trust fund managers into the Maldives (e.g., establishing international climate trusts in Maldives).					13.5.b. Legislation amended/ newly issued	0/1
13.6	Mapping out climate andenvironmental finance project opportunities where the pension funds can finance, (e.g., matching the national pension fund's risk appetite - line with the upcoming Statement of Investment Principles (SOIP).	Short	Supporting Action	MoF	MPAO	13.6.a. Mapping of climate-environmental projects	
13.7	Develop a non-bankable and bankable project pipeline (e.g., projects beyond disaster response such as renewable energy generation) by consultations and further analysis.	Medium	Policy	MoF		13.7.a. # of consultations conducted 13.7.b. Pipeline developed	0/1
13.8	Review pension law for potential amendments to promote investing into climate/environment focused investments as the law in its current form makes climate-targeted investments difficult, as it does not correspond to eligible assets ready for investments (e.g., government securities and T-Bills).	Short	Policy	MPAO		13.8.a. Existing pension law reviewed 13.8.b. # of potential amendments identified	0/1 0/1

Note: B=Baseline; T=Target. "Short": 1-2 years from endorsement. "Medium": 2-4 years. "Long": longer than 4 years.

14. Green Fund

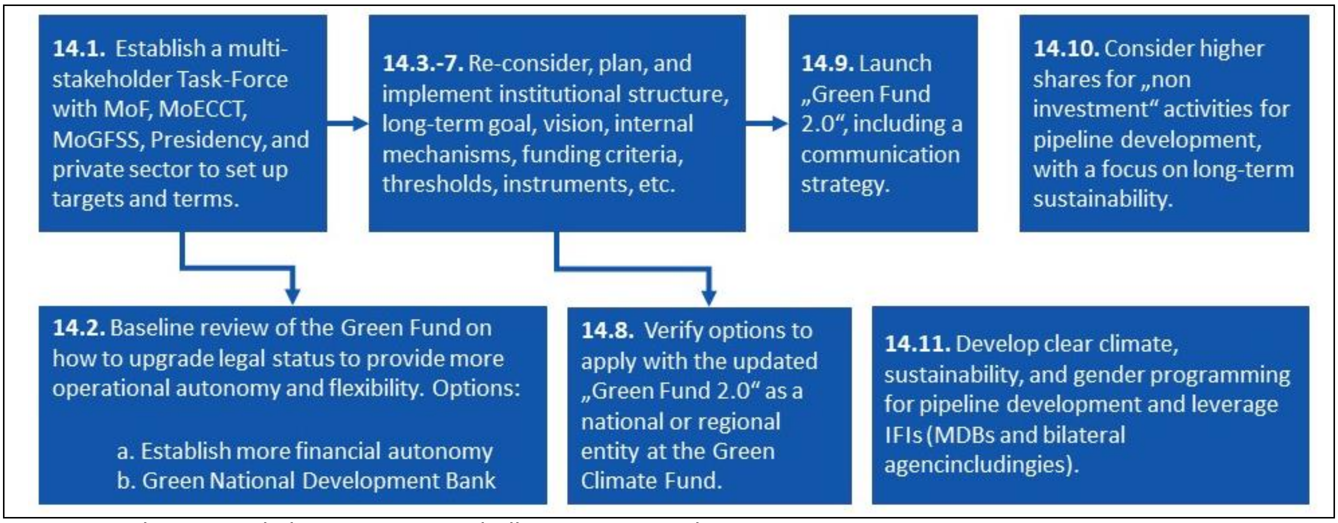
Financing Objective (What?): Increase Green Fund efficiency and scale up funding activities for national development consistent with climate and gender mainstreaming.

Narrative / Rational (Why?): The Government of Maldives established the Maldives Green Fund in 2015, as a revolving public trust to finance environmental protection and directs green taxes collected in Maldives to this fund. Data show that between 2015-21 the Government collected USD 38 million per annum (USD 266 million during the period) as Green Taxes showing the tremendous success of the fund. The Green Fund holds enormous potential for a joint venture partnership with an external private equity partner, as funding streams for the fund are already well established. Repurposing the Green Fund to become a legal entity (e.g., Green National Development Bank) to increase the fund's functions as an arm for the promotion of sustainable, low carbon, climate-proof, and gender-responsive projects in the country can be a catalyst for green growth in the Maldives. More autonomy of the Green Fund from the central budget can confer higher flexibility to projects. Such a legal structure has the potential to diversify a range of financial instruments it can issue (beyond grants) including debt, equity and guarantee products, potentially opening opportunities for private sector partnerships and co-investments.

Constraint / Challenge: Attracting private equity investors under a joint venture model is likely to take time as feasibility studies, and subsequent legal changes are required to repurpose the existing Green Fund model. Additionally, it is also expected to require dedicated staff who are well-versed in green lending and financing operations to manage the entity.

Policy Option (How?): Forecast relevance and (potential) yearly turnover of the Green Fund to ensure project pipeline. Consider opportunities to turn the Green Fund into a legal entity (Green National Development Bank or a non-profit private institution) and foster a diversification of financial instruments used by the fund. The entity can project Maldivian know-how and credit to the region and other SIDS in the future.

Figure 14 - Visualization of proposed activities



Note: Visualization, including arrows are only illustrative, non-exhaustive.

Theory of Change – Green fund

Output to be delivered	A more efficient Green Fund is established with the possibility of creating a new institution – the Green National Development Bank, as the fund manager.
Immediate change required (short-term outcome)	Enhanced operating and legal environment for the expansion of the Green Fund / green bank consistent with climate, sustainability and gender green principles.
Medium-term outcome	Increased sustainable financing flows.
Long-term outcome	The required resources are invested by public and private sectors to mitigate and tackle climate change hazards and their associated livelihood challenges.

Action	Description	Timeframe	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
14.1	Assess opportunities to reform the structure with the aim to increase the efficiency of the Green Fund through either existing (e.g.,Trust fund committee) or new committee (e.g., Task-Force) with MoF, MoECCT, MoGFSS, President's Office and representatives of the private sector.	Short	Supporting Action	MoECCT	MoF	14.1.a. Assessment undertaken 14.1.b. Structure reformed	0/1 0/1
14.2	Conduct a baseline review and assessment of the Green Fund (especially the recent Green Fund - National Strategy Framework), to better align with the stated objective (Green Fund Trust statement). Conduct feasibility studies (including projection of its relevance and yearly turnover) for revising the existing Green Fund structure with options including: (a) making it autonomous from central budget and decision-making, or (b) creating a new independent legal entity to become a Green National Development Bank, with climate and gender considerations strongly integrated in all its development activities. The Assessment should consider diversifying the range of financial instruments used (beyond grants and loans, to include equity, guarantees, concessional loans etc.) and the scope of partner agencies (private sector as co-implementer, co-financier and focus on capacity building and other private-development strategies).	Medium	Supporting Action	MoF, MEoCCT		14.2.a. Assessment undertaken 14.2.b. # of new financial sources/ instruments identified that go beyond the existing ones developed 14.2.c. # new private partnerships established identified that go beyond the existing ones 14.2.d. # options to provide more operational autonomy and flexibility	0/1 0/# 0/# 0/#
14.3	Following on from action 14.2, develop a concept note to mobilize external support to assist in redesigning and restructuring the Green Fund.	Medium	Key Policy	MoECCT, MoF		14.3.a. Design and structure of Green Fund 2.0 developed	0/1
14.4	Revise and amend regulations and current Green Fund Trust statement, including new institutional structure, long-term climate/green vision, mandate for development of internal protocols such as sustainability/climate/green/gender criteria thresholds and sectoral priorities, eligible financial instruments for investment)	Medium	Key Policy	MoECCT, MoF	MoGFSS	14.4.a. Existing regulation revised	0/1
14.5	Capacity building and amendment of bylaws, internal policies, best-practices and	Medium to Long	Policy	MoECCT, MoF	MoGFSS	14.5.a. # of capacity	0/#

	guidelines, covering different goals depending on actions 14.1-14.4 (e.g., decarbonization, climate resilience building, environmental protection, green sector development), safeguards (environmental & social, gender), financial instruments (e.g., grants, loans, equity, guarantees), partnerships (e.g., bilateral and multilateral climate finance, MDBs, foreign investors) and target-clients and beneficiaries (e.g., national governments, local councils, national private sector). Stakeholders' engagement and consultation should be a continuous process for all the amendment to be implemented.					building events organized 14.5.b. # of persons trained	0/#
14.6	Review the opportunities to include gender-responsive funding guidelines, allocation criteria for each thematic area and inclusion of a set of defined minimum gender criteria defined in the Green Fund Trust statement.	Short	Policy	MoECCT, MoF	MoGFSS	14.6.a. Guidelines and allocation criteria amended	0/1
14.7	Improve disclosure and transparency on the fund's performance by adopting international reporting standards Fund needs to have a clear results and performance framework, linked with SDGs and climate markers/indicators of national development plan, sectorial plans or INFF action plan.	Short	Policy	MoECCT, MoF		14.7.a. Adoption of disclosure and reporting standards for funds	0/1
14.8	Apply with the amended Green Fund (called for instance "Green Fund 2.0") for accreditation as a direct national or regional entity ('Accredited Entity') at the Green Climate Fund, Adaptation Fund and other accreditation-based institutions to increase number of locally accredited institutions (SDFC has commenced accreditation process). This should include capacity building provisions to Direct Access Entity (DAE) through the GCF Readiness Programme.	Medium	Policy	MoECCT, MoF		14.8.a. Proposal - the GCF Readiness Programme submitted and approved	0/1
14.9	Launch the amended Green Fund, with a nationwide communication strategy, including sectoral and regional roundtables for promoting it across different stakeholders' groups.	Medium	Key Policy	MoECCT, MoF		14.9.a. Amended Green Fund launched	0/1
14.10	Verify the need to allocate more resources to non-investment activities for "pipeline" development, capacity building, and promotion/roadshows, and feed in the non-investment activities into the next Triennial Strategy of the Green Fund with a specific focus on ensuring long-term sustainability, and self-sufficiency	Medium		MoECCT, MoF		14.10.a. Resource needs estimated for non-investment activities	0/1
14.11	Develop a clear climate, sustainability and gender programming –with an initial project pipeline - to present the amended Green Fund to other international financing institutions, including MDBs, climate funds, bilateral agencies, for capitalization.	Medium to Long	Policy	MoECCT, MoF	MoGFSS	14.11.a. Project pipeline developed	0/1

Note: Note: B=Baseline; T=Target. "Short": 1-2 years from endorsement. "Medium": 2-4 years. "Long": longer than 4 years.

15. Promoting foreign direct and domestic investments in sustainable investment areas

Financing Objective: Promoting and attracting domestic and foreign direct investment into sustainable investment opportunity areas and aligning the existing investments with climate and sustainable development priorities and portfolio investment through capital markets development.

Rationale: Foreign direct investment (FDI) has a role to play in limiting climate change by backing projects that reduce CO2 emissions, as well as green projects that promote sustainable development in the Maldives. The current FDI policy issued by the Government include critical sectors and sub-sectors related to climate change. Based on the FDI policy, foreign investors can invest up without limits (e.g., up to 100%) in all sectors (mostly energy related) related to climate change mitigation and adaptation. In addition, there is a need to ensure equality in access to markets and potential measures for domestic market protection from significant foreign investment influence.

In addition, there is a trend that an increasing number of private equity funds are buying properties in the Maldives with low cost of capital. Domestic Maldivian market actors are facing high competition from large global private equity funds which invest in the Maldives with lower cost of capital on a larger scale. This price competition pushes local investors with higher rates out of the market. Local companies will no longer be able to compete (cost of capital is around double). Notably, FDI inflows investments are not reported against SDGs. Yet, there is a great potential, as IFC estimates a total climate-smart investment opportunity of USD 2 billion in the Maldives from 2018 to 2030.

Challenge: Nascent private sector dominated by the tourism sector is skewing FDIs into this sector, with other industries facing underinvestment. Business environment remains to be one of the major constraints, as the SOEs continue to dominate the markets and act as implicit barrier for the entry of the private players. Capital market development is at early stages, with only over a handful of listed companies and the need to align with international best market practices.

Policy: Mapping sustainable investment opportunity areas via SDG investor mapping, implementation of accelerator programmes, providing incentives to private investors, strengthening business environment, strategic promotion of sustainable investment opportunities by Invest Maldives investment promotion agency, capital markets development, and piloting of sustainable financial instruments.

Theory of Change – Promoting foreign direct and domestic investments

Output to be delivered	Sustainable investment opportunity areas are identified, incentives for foreign and domestic investment towards climate and sustainability projects are provided, start-ups with sustainable projects are scaled up, and a pipeline of climate/sustainable projects is developed.
Immediate change required (short-term outcome)	Enhanced legal and institutional framework for the promotion of FDI, portfolio investments and domestic investments.
Medium-term outcome	Increased sustainable financing flows.
Long-term outcome	The required resources are invested by public and private sectors to mitigate and tackle climate change hazards and their associated livelihood challenges.

Action	Description	Timeframe	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
15.1	Build on the Maldives SDG investor Mapping report (forthcoming) identifying sustainable investment opportunity areas, including potential sectoral deep dives and develop pipeline of projects in the Investment areas of Interest, finally design PPP-based bankable projects that will attract foreign capital.	Medium	Supporting Action	MoED	MoF	15.1.a # of deep-dives assessments conducted 15.1.b. Project pipeline developed 15.1.c. # of climate change projects in the pipeline	0/# 0/1 0/#
15.2	Implement an accelerator Programme to nurture start-ups and SMEs in sustainable investment opportunity areas	Medium	Policy	MoED	MoF	15.2.a. Accelerator Programme developed 15.2.b. # of SMEs included in the accelerator	0/1 0/#
15.3	Integrate sustainable investment opportunities in the "Invest Maldives"[12] strategies and communication policies to attract impact-oriented investors and international capital.	Short	Policy	MoED		15.3.a. Sustainable investment promotion reflected in Invest Maldives's strategies and policies	0/1
15.5	Conduct assessment on the specific provisions and incentives to promote foreign investment into climate change mitigation and adaption sectors and subsectors and include specific provisions and incentives in the FDI policy,	Short	Supporting Action	MoED		15.5.a. Assessment undertaken 15.5.b. # of incentives and policy measures included in the FDI policy	0/1 0/#
15.6	Develop capacity building for asset managers to integrate assessment for climate risk and opportunities in their investment decisions and redirect investments into climate change mitigation and adaptation sectors.	Short	Supporting Action	CMDA	MoED	15.6.a. # of capacity building events organized 15.6.b. # of persons trained 15.6.c. # of women staff trained / total staff trained (or %) 15.6.d. # of climate-related risks frameworks/ tools used as part of capacity building 15.6.e. # of financial institutions part of capacity building 15.6.f. # of financial subsectors covered by capacity building activities	0/# 0/# 0/# 0/# 0/# 0/#
15.8	Develop a set of policy responses to protect domestic market contingent on foreign investment trend, while ensuring that guarantees and investor protection provisions are not distorted. Based on the recommendations, verify options to update the FDI policy and announce and updated FDI policy.	Medium	Policy	MoED	MoF	15.8.a. Assessment undertaken 15.8.b. # of options identified 15.8.c. FDI policy updated	0/1 0/# 0/1

15.9	Sustainable Capital Market Development strategy to be developed, including regulatory changes, creation of pipeline of potential products, e.g., a standardized reporting and SDG Impact Management and Measurement (SDG IMM) framework and financial instruments development.	Medium	Supporting Action	CMDA		15.9.a. Sustainable Capital Markets Development strategy developed and approved 15.9.b. # of green/sustainable projects identified in the pipeline 15.9.c. # of sustainability reporting standards such as IMM standards are identified 15.9.d. # of new regulations developed/existing regulation amended	0/1 0/# 0/# 0/#

Note: B=Baseline; T=Target. "Short": 1-2 years from endorsement. "Medium": 2-4 years. "Long": longer than 4 years.

[12] Agency introduced with the aim of promoting and facilitating inward investments into the Maldives.

16. International cooperation to mobilize and re-orient finance flows.

Financing Objectives: Ensure stable international support by strengthening existing donor mechanisms and tap into new sources via e.g., participation in international carbon markets.

Rationale: Donor funds through Official Development Assistance (ODA) programs have traditionally played an important role in Maldives national development. The Government recognizes that the traditional non-climate ODA envelope for the Maldives will decrease in the next years as the Maldives further makes transition from an upper-middle-income country to a high-income country. The sectors exposed to and dependent on ODA funding (for example, the social sectors) are likely to be most affected. The recent advancements in international climate finance negotiations at the UN COPs are presenting opportunities for the Maldives such as the recent announcement to establish a global loss and damage mechanism, to tackle the long-standing issue of transitional climate justice. For a climate vulnerable country such as the Maldives, all forms of future financing (including FDI, loans) are climate finance, and as such it is important for the Government to establish a robust internal coordination mechanism to exchange knowledge and networks within various Ministries to leverage new climate finance opportunities for the Maldives. Such a coordination structure will help the Government to adopt a whole of government approach to prepare for future climate finance negotiations which are likely to be complex, exacerbated by the novelty of financing instruments being established under new partnerships and international debt restructuring treaty obligations such as the G20 Common Framework.

Challenge: The donor financing flows into the Maldives has been declining following the Maldives graduation from LDC status and as traditional donors shifts priorities. However, the Maldives retains a priority position in climate finance negotiations being one of the most climate vulnerable countries and hence a concerted strategy focusing of climate finance resource mobilization can support the government to position the Maldives as a net receiver of a mix of concessional and commercial climate finance to help accelerate Maldives transition towards carbon neutrality. However, this would require restructuring existing internal coordination mechanism across several line ministries, formalize such processes and build capacities for staffers involved in climate finance endeavours.

Policy: Create internal mechanisms for effective donor coordination for both climate and non-climate sectors. Develop clear narratives that justifies sectorial and sub sectorial priorities for climate investment for ODA.

Theory of Change – International cooperation to mobilize and re-orient financial flows

Output to be delivered	Current processes for ODA planning and reporting are reviewed; and a regional or SIDs climate-focused fund/bank is created.
Immediate change required (short-term outcome)	Improved oversight and ownership of ODA resources for climate-related initiatives and more effective aid.
Medium-term outcome	Increased sustainable financing flows.
Long-term outcome	The required resources are invested by public and private sectors to mitigate and tackle climate change hazards and their associated livelihood challenges.

Action	Description	Timeframe	Type of Policy	Lead Agency	Partner Agency	Indicator	B/T
16.1	Reviewing existing project implementation structures (Project Management Units) and include stronger weight on climate and gender impact performances on the overall performance evaluation of these units improve performance evaluation of these units for climate change and gender.	Short	Supporting Action	MoF		16.1.a. # of Project Management Units reviewed 16.1.b. # of Project Management Units with higher	0/# 0/#

						emphasis on climate and gender outcomes	
16.2	Develop clear, justified and targeted narratives on sectorial and sub sectorial priorities for climate investment for ODA and communicate these narratives to the international community.	Medium	Policy	MoF		16.2.a. # of narratives developed 16.2.b. Narrative communicated to ODA community	0/# 0/1
16.3	Establish a national monitoring and reporting mechanism for more transparency on the usage of ODA that meets the needs of donors and ensure that it is aligned with national priorities. In addition, develop mechanisms to coordinate all climate finance flows that either come from private or public as well as local, national and international sources within MoF.	Medium	Policy	MoF		16.3.a. New monitoring mechanism established 16.3.b. New reporting mechanism established	0/1 0/1
16.4	Strengthen participation of the Clean Development Mechanism (CDM), by commissioning necessary studies on options for biodiversity finance and carbon credit mechanisms (carbon sinks) by interfacing the Maldives domestic markets with established international carbon markets.	Medium	Policy	MoECCT		16.4.a. # of options identified	0/#
16.5	Assess and communicate climate loss and damage issues and pro-actively positioning Maldives as a net-receiver of climate finance inflows.	Medium	Supporting Action	MoF		16.5.a. Assessment undertaken 16.5.b. # of options identified	0/1 0/#
16.6	Assess opportunities to develop guidelines and protocols (including trainings) for post-disasters events to ensure that gender is a responsive component in agencies activities.	Medium	Policy	MoF	MoGFSS	16.6.a. Assessment undertaken 16.6.b. Guidelines developed	0/1 0/1

Note: B=Baseline; T=Target. “Short”: 1-2 years from endorsement. “Medium”: 2-4 years. “Long”: longer than 4 years.

VI. Conclusion and way forward

In spite of the ongoing global crises, the Maldives has maintained an ascending growth trajectory and has been consistently moving up in terms of income. This is not only good news in terms of improved standard of living within the country, but also points to the overall success of its development model. However, this model can face challenges through two key exogenous factors that will slowly but surely push long-term changes to the national economy.

The first factor links to its development. As the economy grows, the Maldives moves closer to a high-income level, which will be likely followed by a decrease in incoming flows through international cooperation for development, such as ODA finance. As some sectors currently heavily rely on those concessional flows, it is important to ensure that key activities will not end up de- or underfunded in the future. Meanwhile, the Maldives faces a second factor, climate change, which poses an even deeper challenge to its economy. As a highly vulnerable country[13] to shifting climatic impacts, the Maldives has two important key interests at stake. First, collective action on climate mitigation needs to succeed in order to keep global average warming below 1.5°C. Second, the national economy, to the level of its natural resources and its most vulnerable households should be prepared against adverse climate-related impacts, including increased access to financial means or and access to avoid or remedy losses and damages.

This financing strategy was designed based on identified challenges and more to present a phased approach with 16 financing objectives, more than 100 action-oriented activities, and more than 200 measurable indicators. The development process included several on-site consultations and the active involvement of different ministries and agencies (see Annex 1). Activities target short, medium and long-term timeframes, and range from the improvement of norms that are currently under active discussion – e.g., with the capacitation on sustainable finance issues and the inclusion of climate and gender components – to the development of entirely new frameworks through supporting actions, policies and key policies. Zooming in on the national financial system supported the Financing Strategy to find solutions for public and private finance will increase their positive impact in terms of decarbonisation and gender responsiveness while gearing towards an economy-wide inclusion and management of climate-related risks.

For the Maldives, all forms of financing are climate finance. The proposed Maldives Climate Finance Hub (MCFH) will be a key structure for the Maldives to mobilise the resources it needs to shore-up its climate defences and provide the much-needed expertise, guidance and coordination support to galvanise a national effort to mainstream climate finance across all sectors.

[13] Vulnerability Index ranks at 143 out of 182 assessed countries (ND-GAIN Index, July 2022)

Annex

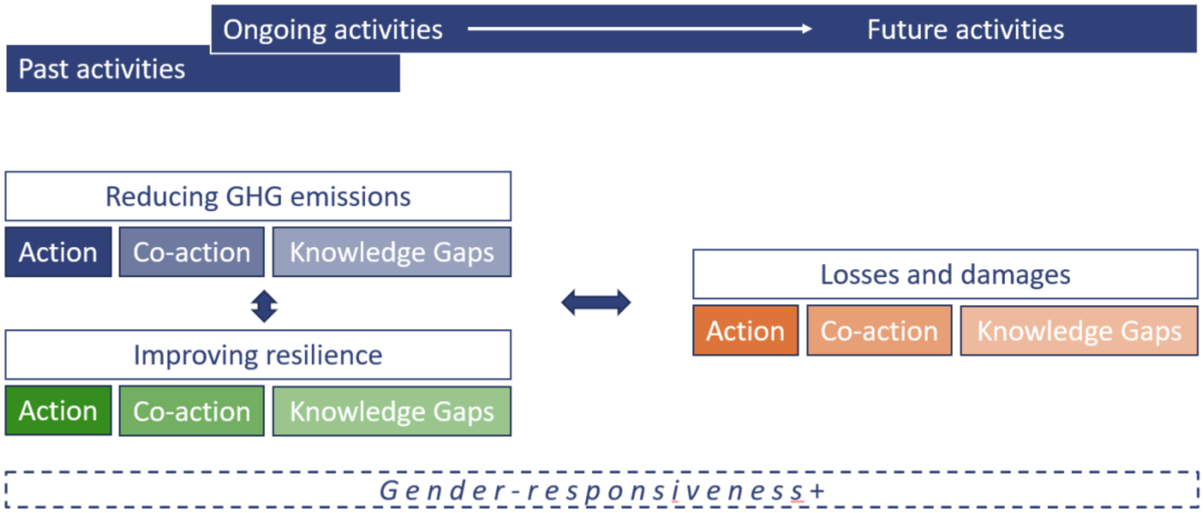
1. Development process of this Financing Strategy

The process started with a comprehensive stakeholder consultation where all relevant Ministries and other Government agencies participated. Based on the consultation and stock-take of the current financing landscape, the main needs, challenges and recommendations were identified. The draft gender-responsive integrated financing framework was shared with all Ministries and other Government Agencies for review. The comments were integrated in the updated gender-responsive integrated financing framework.

Figure 15 - INFF development process

Specifically, on the data assessment for the 1st Draft of the Financing Strategy, each participant during the consultations got a printed overview sheet as shown in the figure above to visualize the strong need of alignment between ongoing and future activities and avoiding inconsistencies (e.g., leading to fragmentation) with past activities. On the content level, the main idea is the triangular relationship between reducing GHG emissions (mitigation), improving resilience (adaptation) and losses and damages. Each block is expected to contribute via direct "actions" (e.g., solar panels to reduce GFH emissions) and via indirect "co-actions" (e.g., more resilient eco-systems to reduce GHG emissions) towards a climate-consistent economy. In addition, there are Knowledge Gaps in each building block that need to be overcome through e.g., climate education and knowledge dissemination. Finally, all activities should be designed in a gender-responsive manner from an early stage.

Figure 16 - Consultation style – visualizing interaction between emissions, resilience, and losses and damages



In this regard, the semi-structured consultations considered the following three areas of interest:

1. Opportunities and bottlenecks for unlocking domestic (banking, insurance, local trust funds) and international sources of financing for climate action
2. Mainstreaming climate finance in national and subnational decision making and bringing together private sector, government, and other relevant stakeholders into an integrated decision-making process
3. Specific actions policy makers can undertake to ensure financing strategies (including climate finance) considers gender-sensitive decision making

A subsequent validation workshop was carried out to verify the 1st Draft of the Financing Strategy with the identified financing objectives and underlying activities. This validation workshop was set up with multiple sessions with different clustered stakeholders per session. The workshops followed a decision by consensus approach after discussing and agreeing on each activity. The resulting 2nd Draft of the Financing Strategy was circulated afterwards to all stakeholders for final comments.

Table 5 - Clustered topics in the validation workshops for the finalization of the Financing Strategy

Validation Working Session 1: Capital Market Development, Financial Stability, Data Disclosure Practices, FDIs and international engagement, Financial Product Development	*Session invitations including financing strategy draft sent to:* Ministry of Finance (MoF) ˣ, Ministry of Economic Development (MoED) ˣ, Ministry of Environment, Climate Change and Technology (MoECCT) ˣ, Ministry of Gender, Family and Social Services (MoGFSS) ˣ, Ministry of Foreign Affairs (MoFA) ˣ, Ministry of National Planning, Housing and Infrastructure (MoNPHI) ˣ, Attorney General's Office (AGO), Capital Market Development Authority (CMDA) ˣ, Maldives Monetary Authority (MMA) ˣ, Business Centre Corporation (BCC), SME Development Finance Corporation (SDFC), Maldives Stock Exchange (MSE). Maldives Association of Tourism Industry (MATI) ˣ, World Bank and IMF FSAP missions.
Validation Working Session 2: Fiscal Policy, Subsidies, Subnational Finance, Green Fund, Trust Funds	*Session invitations including financing strategy draft sent to:* MoF ˣ, MoECCT, MoGFSS ˣ, Ministry of Higher Education (MoHE), Maldives Inland Revenue Authority (MIRA), Maldives National Skills Development Authority (MNSDA), Local Government Authority (LGA) ˣ, National Social Protectional Agency (NSPA) ˣ, Capital Market Development Authority (CMDA), Maldives Pension Administration Office (MPAO) ˣ

Validation Working Session 3: Financial Literacy, Public Spending Efficiency, Cross-Cutting integration	*Session invitations including financing strategy draft sent to:* MoF [x], MoECCT [x], MoGFSS [x], MoHE, Ministry of Education (MoE), MoFA [x], MNSDA, CMDA [x], Maldives Immigration

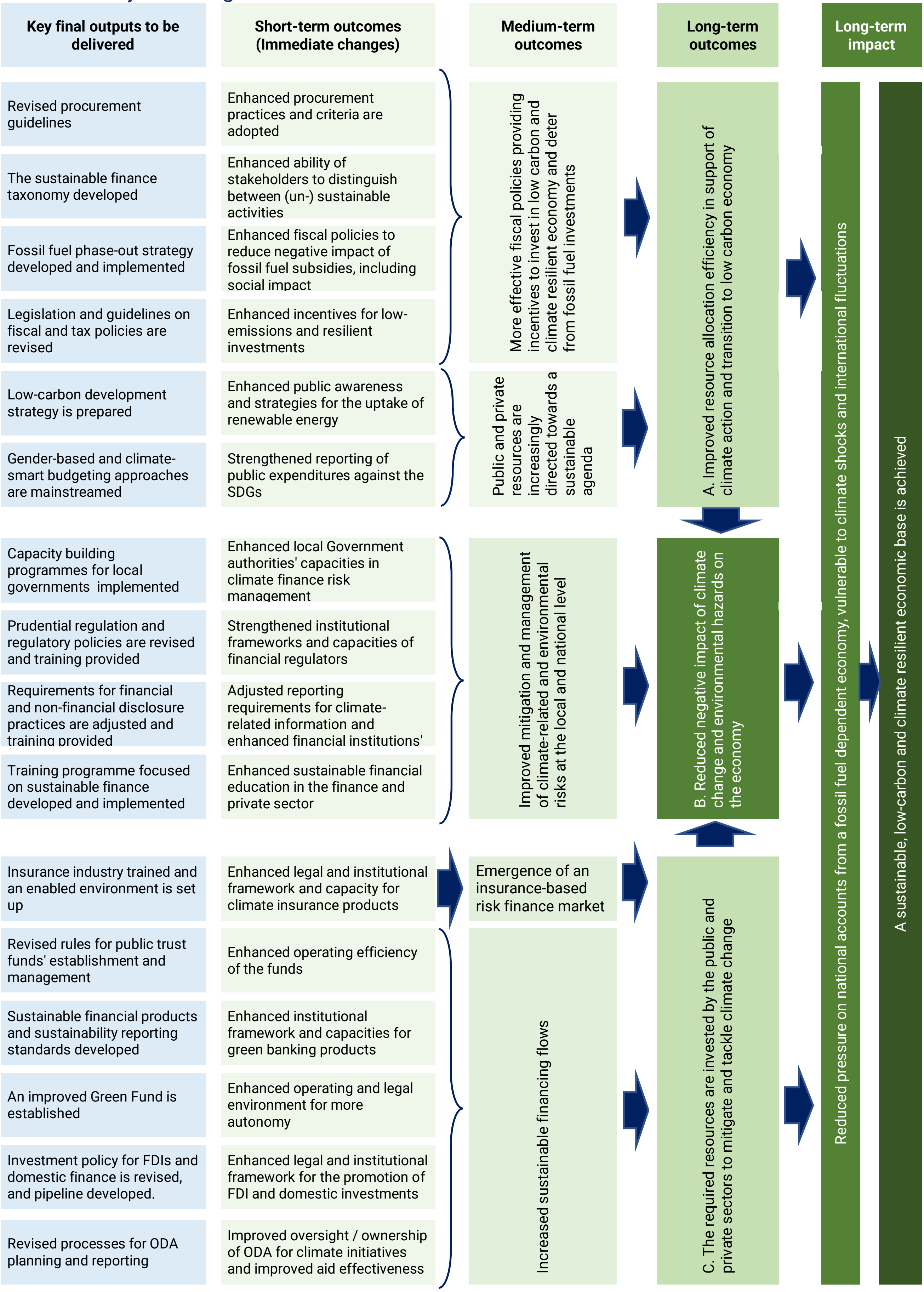
[x]: at least one in-person consultations during the Financing Strategy development process.

Each draft stage of the Financing Strategy was accompanied by an INFF Oversight Committee meeting (see members in table below) to update on the progress of the INFF development, including signatories' decisions on key questions.

Table 6 - INFF Oversight committee

#	Name / Alternate members	Organization
Program signatories		
1	Hon. Ibrahim Ameer (co-chair)	Ministry of Finance
2	Ms. Catherine Haswell (co-chair)	United Nations
3	Mr. Enrico Gaveglia	United Nations Development Programme
4	Ms. Shadiya Ibrahim	United Nations Population Fund
5	Ms. Marjan Montazemi	United Nations International Children's Emergency Fund
6	Dr. Nazneen Anwar	World Health Organization
Supporting agencies		
7	Dr. Hala Hameed	Ministry of Foreign Affairs, Secretary, Multilateral
8	Mr. Mohamed Nashiz	Chair, Public Finance Committee, People’s Majlis
9	Mr. Ahmed Hamdhaan	President’s Office
10	Ms. Idhuham Hussein	Maldives Monetary Authority
11	Mr. Ahmed Salih	Auditor General’s Office
12	Ms Khadheeja Naseem	Ministry of Environment
13	Ms Neeza Imad	Ministry of Economic Development
14	Ms Fathimath Niuma	Ministry of National Planning and Infrastructure
15	Ms Aishath Hassan	National Bureau of Statistics
16	Mr Mohamed Zuhair	Ministry of Health
17	Mr Ibrahim Naushad	Ministry of Education
18	Mr Akram Hussain	Ministry of Gender, Family and Social Services
Programme Management		
19	Mr. Mohamed Shahudh	UNDP, Country Economist
20	Ms. Khadheeja Majidha Hassan	UNDP, Climate Finance Analyst

2. Theory of Change



Under each of the three pillars of the finance strategy, the key final outputs, once delivered through the implementation of the action plan, are expected to lead to a series of short-term, medium-term and long-term outcomes that will all contribute to the overall objective of achieving a sustainable, low-carbon and climate resilient economic base in the Maldives.

3. Reporting template for the monitoring and evaluation framework

A simple reporting template was developed for use by the various entities involved in the implementation of the action plan. Ideally, reporting on completed tasks and activities should be semi-annual[14] and annual. At the beginning of the fiscal year, and based on the main action plan, it is expected that each concerned entity will develop its own work plan, with the definition of specific tasks, activities, targets, deadlines and responsible Departments or staff. Progress reporting will be made using the proposed excel-based template, with each responsible entity submitting at least once a year to the MCFH. The use of an excel-based template with pre-defined top-down menus for certain fields ("action[15]"; "action status") to choose from, as well as the automatic population of the data for other fields ("original time-frame" and "responsible entity"), will help minimize data entry and ensure that the reporting process is more user-friendly.

Actual reporting and data entry will only concern the following fields: (i) "revised time-frame", if a new time-frame has been approved; (ii) "activities implemented", with a short description of the activities or tasks undertaken for each approved action[16]; and (iii) the "action status" column, with a drop-down menu allowing for the selection of the current work status of related action *(Completed/In progress/Not started/ Postponed/Cancelled).* The template also provides the opportunity to report on any additional information deemed important, such as contextual information or a discussion on progress or challenges faced.

Table 7 - Proposed reporting template

<table>
<tr><td colspan="10">Financing Objective X:</td></tr>
<tr><td colspan="10">Output X.X:</td></tr>
<tr><td colspan="4">Key indicators</td><td>Unit</td><td>Planned target</td><td>Achieved target</td><td>Status (on track/ not on track)</td><td colspan="2">Remarks</td></tr>
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<tr><td colspan="10">Actions (see Action Plan)</td></tr>
<tr><td>Action</td><td>Indicator</td><td>Original timeframe</td><td>Revised timeframe</td><td>Lead Agency</td><td colspan="4">Activities implemented</td><td>Action status (Completed/In progress/Not started/ Postponed/Cancelled)</td></tr>
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[14] While 6-monthly reporting may be optional, although useful for internal management purposes – e.g., ensuring that remedial or mitigation actions are timely taken in case of implementation challenges – annual reporting shall be mandatory to ensure proper monitoring of the INFF strategy implementation.

[15] The drop-down menu will only show the Action number.

[16] Many "actions" of the INFF Strategy Action Plan may actually be defined as intermediary outputs required for the achievement of individual key final outputs of the strategy and will therefore be completed in an iterative way involving various steps. Some actions are also of a more complex nature and will require the planning and implementation of a number of specific tasks or sub-activities. The field "activities implemented" will thus be useful to track intermediary steps reached until the action can be reported as fully completed.

Financing Objective 1: *Public spending efficiency by improved procurement regulations*

Output X.X.X: *The procurement guidelines and tendering processes for public institutions and SOEs are revised*

Key indicators	Unit	Planned target	Achieved target	Status	Remarks
Assessments completed	Number	10	5	*on track*	
Existing guidelines revised	Number	1	0	*on track*	
Institutions with revised tendering processes	Number	10	0	*not on track*	

Actions (see Execution Modality / Action Plan)

Action	Indicator	Original timeframe	Revised timeframe	Responsible entity	Activities implemented	Action status
1.1	1.1.a	2023		MoECCT	TOR prepared and tender started	*In progress*
1.2	1.2.a	2023		MoF (PPD)	Gender assessment started. Expected completion by X/X/XX	*In progress*
1.2	1.2.b	2023-2025	2026	MoF (PPD)	Activity not yet started pending completion of the gender assessment.	*Postponed*
		2024		MOF		

Step 1: Select relevant action and indicators' numbers from the

The original timeframe and responsible entity will be automatically populated once the indicator is selected.

If a revised timeframe was approved, new timeframe should be indicated here

Step 2: Describe tasks and activities started or completed.

Step 3: Select action status from drop-down menu.

MINISTRY OF FINANCE